

PART – II PANCHAYATI RAJ INSTITUTIONS

CHAPTER - VIII

The Structure and Finances of the Panchayati Raj Institutions

8.1 Introduction

8.1.1 Constitutional background

To promote greater autonomy at the grass root level and to involve people in identification and implementation of development programmes involving gram sabhas, the Seventy-third Constitutional Amendment Act, 1992 was promulgated (April 1993). According to the provisions of Article 243 G of the constitution, the legislature of a state may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibility upon Panchayat at the appropriate level, subject to such conditions as may be specified therein with respect to --

- (a) the preparation of plans for economic development and social justice;
- (b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule¹;

Similarly according to provisions of Article 243 H of constitution, the legislature of state may

- (c) authorise a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits and
- (d) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits.

Consequently, a three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh Panchayat Raj Avam Gram Swaraj Adhiniyam (Act.) 1993. (MPPRGSA) which came into force from January 1994.

- Zila Panchayat (ZP) for a district.
- Janpad Panchayat (JP) for a block; and
- Gram Panchayat (GP) for a village;

¹ Article 243 G and H of the Constitution (Seventy - third Amendment) Act. 1992.

At present there are 48 ZPs, 313 JPs and 23051 GPs in the state. The last general elections for the Gram Panchayats were held during 2004-05.

8.2 Area and Population

Total areas (3,08,000 sq. km.) of the state was covered by 4.51 crore of rural population being 75 per cent of the total population of 6.03 crore as per 2001 census. Of this, 0.90 crore (15 per cent) and 1.21 crore (20 per cent) were Schedule Caste and Schedule Tribe.

8.3 Administrative arrangements

The over all administration of PRIs vests with the Principal Secretary to Government of Madhya Pradesh, Panchayat and Rural Development Department at Government level. The organisational structure of the Department, at District, Block and Village level is given in **Appendix - XXII**.

8.4 Accounting arrangements

8.4.1 Amendment in the Act not carried out

According to the recommendations of the Eleventh Finance Commission (EFC) the Government of Madhya Pradesh, Finance Department (FD) decided (November 2001) that the Commissioner, Local Funds Audit (CLFA) shall be responsible for audit of accounts of local bodies and shall work under the Technical Guidance and Supervision (TGS) of the Comptroller and Auditor General of India (CAG). But PRIs' Act was neither amended to empower the CAG nor any response was given even after regular correspondence with the State Government (February 2008). On being pointed out, the Commissioner, Panchayati Raj Directorate (PRD) Bhopal Stated (April 2008) that amendment in the Act was not required as the consent on the role of CAG was given by the FD (November 2001). The reply was not acceptable as this was required to empower the CAG by making amendment in the relevant Act.

8.4.2 "Pancha Lekha" Software lying idle

The development of "Pancha Lekha" Software was required through National Information Science Centre (NISC) by adopting the format of budgets and accounts. Rs. 12.03 crore⁸ was released to NISC MP Bhopal unit by the PRD under the recommendation of the EFC. NISC provided Computers² embodied with above software (including UPS and Printers etc.) in all JPs (313). According to instructions of the PRD (November 2005) GPs were required to make available data to JPs for feeding in JPs Computers and JPs would send data to PRI/NISC through E-mail for monitoring. It was however noticed that 41 GPs test checked of Bhopal, Jabalpur and Rewa not provided the information to JPs. This resulted unfruitful expenditure in these districts on Computers provided in JPs. On being pointed out, the Commissioner, PRD stated (April 2008) that the action for monitoring would be taken in future and instructions would be issued to JPs/ZPs for e-mailing (website: priasoft@mp.

² Five multimedia computers, five UPS, two dot matrix printers, one Switch and seven Patch Card (For networking) were provided to each JPs.

nic.in) required informations/ data. During test-check of records (April-June 2008) of JP Bhopal, Jabalpur and Rewa, it was found that the data pertaining to “Pancha Lekha” Software was not being e-mailed to the PRD through prescribed website.

8.4.3 Database in the formats on finances of PRIs not developed

According to recommendations of EFC the data on finances of PRIs need to be collected, compiled and maintained in standard formats as prescribed by CAG. However database formats have not so far been developed. On being pointed out, the Commissioner, PRD stated (April 2008) that the action was being taken in this regard.

8.5 Audit arrangements

The audit of PRIs was entrusted to the CLFA vide section 4 (i) (Notification dated 30th June 1975) under Madhya Pradesh Sthaniya Nidhi Sampariksha Adhiniyam, (Act) 1973. The CAG was entrusted to conduct the audit of units which have already been audited by the CLFA. The Act was further modified (December 2001) to include the audit of Gram Panchayats. But the audit of 47 GPs (Out of 23051) only could be conducted by CLFA due to lack of staff and facilities. However Finance Department issued orders (January 2007) for providing additional staff from Panchayat Department for audit of GPs from 2008-09.

Some other important points of audit arrangements are given below:

8.6 Approval of PAG on audit plans not obtained by CLFA

The CLFA was required to prepare the audit plan in consultation with the Principal Accountant General (PAG) as a part of the TGS assignment. However, in spite of request to the Government (April 2007 and February 2008) the audit plans of CLFA were never got approved by the PAG.

8.7 Non constitution of State Legislature Committee

The FD informed (December 2001) that the XIth Finance Commission recommended that the report of CAG relating to audit of accounts of PRIs was to be placed before a Committee of the State Legislature constituted on the same lines as Public Accounts Committee. In spite of request by the Principal Accountant General to the Government (up to February 2008) the Committee was yet to be constituted (October 2008).

8.8 Source of revenue

There were mainly two sources of funds for Local Bodies (i) Government grants (ii) own revenues. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them. Other resources comprise (a) funds released by the State Government and Government of India (GOI) based on the recommendation of SFC, Eleventh & Twelfth Finance Commission (EFC & TFC) etc. (b) GOI's share released for various central sector schemes.

8.9 Receipts and expenditure of PRIs

8.9.1 Funds (Share of tax revenue of the state, schemes and grants etc.) allocated to PRIs by the State Government through budget including GOI's share of the schemes and grants recommended by EFC & TFC were as under:-

(Rs. in crore)

Sl. No.	Year	Head of Accounts Grant Nos.	Items of Budget provisions and expenditure	Total Grant ³ (Budget Provisions)	**Actual Expenditure	Excess (+)/ Saving (-)
1.	2004-05	15,62,68,80 and 82 (Complete grant), 64 (2515) Financial Assistance to three tier Panchayati Raj Institutions.	State government and GOI's Share of schemes, grants and own tax revenue (Assigned revenue) etc collected by the State Government.	1576.30	1437.45	(-) 138.85
2.	2005-06	15,62,80 and 82 (Complete grant), 64 (2515) Financial Assistance to three tier Panchayati Raj Institutions.	--do--	1957.96	1839.30	(-) 118.66
3.	2006-07	15,52,62 and 80 (Complete grant), 64 (2515) Financial Assistance to three tier Panchayati Raj Institutions.	--do--	2720.40	2241.77	(-) 478.63

** 2004-05 Actual Expenditure: Rs. 1437.45 crore (Revenue: Rs. 1430.82 and Capital Rs. 6.63 crore)

2005-06 Actual Expenditure: Rs. 1839.30 crore (Revenue: Rs. 1832.67 and Capital Rs. 6.63 crore)

2006-07 Actual Expenditure: Rs. 2241.77 crore (Revenue: Rs. 2241.73 and Capital Rs. 0.04 crore)

The above figures indicate that the budget provisions increased by 42 per cent in PRIs sectors during the year 2006-07 with reference to the year 2004-05. The details of receipts of own revenue and expenditure there against in all PRIs were not being maintained at the PRD level. On being enquired, PRD replied (April 2008) that the same would be collected and furnished to audit. The details of schemes of PRIs sectors implemented through the Commissioner, Rural Development (including GOI's share) were given in **Appendix -XXIII**.

8.9.2 State Finance Commission (SFC)

The FD accepted (March 2005) the recommendation of IInd SFC for devolution of 2.93 per cent of 90 per cent state own tax revenue to PRIs. The position of grants devolved to PRIs through state budget during 2004-05 to 2006-07 were as under:

³ The figures of budget provisions and actual expenditure were worked out on the basis of the Appropriation Accounts of State Government.

(Rs. in crore)

Year	Head of Accounts	Amount of own tax revenue of the state		Amount of share of own tax revenue to be allocated as per prescribed percentage (i.e. 2.93%)	Amount of share of own tax revenue (SFC grants) released to PRIs	Short fall (with percentage)
		Total ⁴	Net (After deduction of 10%)			
1	2	3	4	5	6	7
2004-05	15,64,68,80 and 82-2515/3604-5185 and 7668- Financial Assistance to three tier Panchayati Raj Institutions (Lump sum grant to PRIs for basic services under recommendations of SFC).	7773	6995.70	204.97	185.16	19.81 (10)
2005-06	--do--	9115	8203.50	240.36	207.91	32.45 (13)
2006-07	--do--	10473	9425.70	276.13	208.70	67.43 (24)

Reasons for shortfall were called for. FD replied (October 2008) that the required information would be furnished soon.

The devolution of funds under recommendations of SFC was meant to cover the tasks of basic services, vis-à-vis development of water supply and sanitation and mid-day-meals programme etc. The utilisation of SFC grants in three districts (Bhopal, Jabalpur and Rewa) was reviewed and some important points noticed during test-check are given below:

8.9.3 Non submission of utilisation certificates (UCs):

According to guidelines of basic services (issued by Government of Madhya Pradesh, Panchayat Department), UCs of SFC grants of basic services made available to GPs during the year 2004-05 to 2006-07 were to be sent to the PRD by each CEO of ZP. Test-check (April-June 2008) of records of ZP Bhopal and Rewa revealed that UCs⁵ (Rs. 28.51 crore) were not sent to PRD. On being pointed out, the CEO (ZP) Bhopal and Rewa stated (April-June 2008) that the UCs would be prepared.

8.9.4 Delay in release of grants

Budget of SFC grants for basic services was allocated to CEO ZPs for drawing and disbursing to GPs as required in the guidelines. Such grants were to be released by ZP within 10 days of allocation. Scrutiny of records of ZP Bhopal, Jabalpur and Rewa revealed that the grants amounting to Rs. 31.38 crore were released with delay ranging between 67 and 375 days as shown in **Appendix - XXIV**. On being pointed out, the CEOs (ZP) Bhopal, Jabalpur and Rewa stated (April-June 2008) that delay in release of such grants was due to non receipt of progress report/UCs from GPs and rush of works etc. The replies were not acceptable in audit because releasing of grants within the prescribed time limit was mandatory.

⁴ Figures of own tax revenue taken out from the CAG's Audit Report (Civil) for the year ended 31 March 2007.

⁵ Bhopal: Rs. 8.57 crore, Rewa: Rs. 19.94 crore.

8.9.5 SFC grants lying undisbursed

SFC grants for basic services were to be allocated to GPs on the basis of following formula:-

- (a) 70 per cent on population basis
- (b) 25 per cent on area basis
- (c) 5 per cent on the basis of revenue collected by GPs

Out of SFC grants drawn by ZP Bhopal up to 2006-07, a sum of Rs. 1.64 crore was lying un-disbursed (April 2008). Out of Rs. 1.64 crore a sum of Rs. 0.73 crore pertains to formula (c) above as under:-

(Rs. in lakh)

Year	Details of 5% grant of revenue collected by GPs				
	Opening balance lying un-disbursed	Share of grants earmarked under the component of 5% of revenue collected	Total share of grants available under the component of 5% of revenue collected	Amount of 5% grant distributed to the GPs in the year	Closing balance of 5% grant lying un-disbursed
2004-05	67.76	14.60	82.36	Nil	82.36
2005-06	82.36	15.90	98.26	24.85	73.41
2006-07	73.41	Nil	73.41	Nil	73.41

On being pointed out CEO (ZP) Bhopal stated (April 2008) that the action for releasing the grants would be taken on receipt of information regarding revenue collected by GPs and receipt of previous UCs from GPs.

8.9.6 Eleventh and Twelfth Finance Commission (EFC & TFC) grants to GPs

Grants released by the Government of India based on the recommendations of EFC & TFC were shown below:

(Rs. in crore)

Category of PRIs to whom grants released	Grants released during the years			
	2004-05 (EFC)	2005-06 (TFC)	2006-07 (TFC)	Total
GPs	101.08	332.60	332.60	766.28

Important points noticed during test-check of records (April-June 2008) of utilisation of grant were as under:

8.9.7 EFC grants not reconciled

Out of total EFC grants (Rs. 501.25 crore) pertaining to year 2000-05, a sum of Rs. 20.11⁶ crore was allocated to the Head of Department (PRD). The amount was allocated under the budget component "Computerisation and preparation of database recommended by EFC, financial assistance of local bodies and maintenance of Panchayat accounts".

⁶ Rs. 20.11 crore (2002-03: Rs. 4.03 crore, 2003-04: Rs. 4.04 crore and 2004-05: Rs. 12.04 crore).

Scrutiny of information made available (April 2008) by the PRD revealed that out of Rs. 20.11 crore allocated to the PRD, a sum of Rs. 11.70⁷ crore were released to the NISC for the above purposes. The details of release and utilisation of remaining amount of Rs. 8.41 crore allocated to the PRD were not furnished to audit. On being enquired, the Commissioner, PRD stated (April 2008) that the total amount (Rs. 501.25 crore) of EFC grants were utilised and information of incomplete works would be collected from the districts and furnished to audit.

8.9.8 EFC grants lying idle

EFC grants allocated to ZPs during the years 2000-05 were to be released to GPs for basic services etc. Scrutiny of records of ZP Bhopal and Rewa revealed that an amount of Rs. 1.89 crore⁷ was lying un-disbursed with the above ZPs even after lapse of three years (March 2008). On being enquired, the CEO (ZP) Bhopal and Rewa stated (April-June 2008) that the above amount was not disbursed due to incomplete works and it would be released after receipt of UCs/ demands from GPs. The reply was not acceptable as the reason of the above amount lying un-disbursed even after lapse of three years was not justified.

8.9.9 Non receipt of UCs of NISC

Out of EFC and TFC grants, a sum of Rs. 12.03 crore⁸ was released to the NISC during the years from 2003-04 to 2006-07. But UCs, purchase files and expenditure vouchers of such amount were not made available to audit for test-check. On being pointed out, the Commissioner, PRD stated (April 2008) that the UCs were being obtained from the NISC. Therefore, proper utilisation as envisaged could not be ascertained by audit in the absence of UCs and expenditure vouchers etc.

8.9.10 Parking of funds into Personal Deposit (PD) account

Scrutiny of records made available (July 2007 and April 2008) by the PRD revealed that the TFC grants amounting to Rs. 13.94 crore⁹ earmarked for construction of Panchayat Building-cum-E-Governance and maintenance of Panchayat accounts etc. were parked (March 2006 & 2007) into PD accounts of the Director, Panchayat and Social Justices Bhopal (PRD) on the basis of sanctions issued by the FD (February 2006 and March 2007). This was contrary to the GOI guideline as the grants were not utilised for the above purposes and was parked in PD accounts. On being enquired, the Commissioner, PRD confirmed the details of funds parked into PD accounts (April 2008).

⁷ ZP Bhopal: Rs. 0.16 crore and ZP Rewa: Rs. 1.73 crore.

⁸ The details of Rs.: 12.03 crore (2003-04: Rs. 4.04 crore, 2004-05: Rs. 7.66 crore and 2005-06: Rs. 0.33 crore) were:
Rs. 2,23,36,000/- (BD No. 093677/ Date 31.3.2004), 40,18,000/- (093678/ 31.3.2004), Rs. 21,34,000/- (093679/31.3.2004), Rs. 1,18,66,000/- (093680/ 31.3.2004), Rs. 2,80,30,000/- (125587/ 31.3.2005), Rs. 4,85,54,000/- (125585/ 31.3.2005), Rs. 19,00,000/- (125356/ 2.4.2006), Rs. 5,00,000/- (353181/ 2.4.2006), 9,00,000/- (353180/2.4.2006)

⁹ Rs. 6.75 crore pertained to the year 2005-06 (Financial sanction of FD vide No.L-1/10/ 2003/ B-7/4, dated 28 February 2006) and Rs. 7.19 crore pertained to the year 2006-07 (Financial sanction of FD vide No. L.17-30/4/B-7/2007 dated 30 March 2007).

8.10 Conclusion

PRIs' Act was not amended to empower the CAG. "Pancha Lekha" Software was lying non-operational. The information regarding receipts of own revenue and expenditure of all PRIs was not being maintained by the PRD at state level. The State Legislature Committee for discussion of ATIR on LBs were not formed. Approval of PAG on audit plans was not obtained by CLFA.

8.11 Recommendations

- Necessary amendment in PRIs Act should be made to empower the CAG to perform a roll of TGS mode and place the audit report on LBs before the State Legislature.
- Procedure prescribed by the CAG for consultation and approval of PAG in audit plans by CLFA should be followed.
- Arrangements may be made for consolidation of data on finances of PRIs at state level.
- Arrangements for release of SFC grants directly to GPs as adopted in ULBs should be made to avoid further delay.