

PART A PANCHAYATI RAJ INSTITUTIONS

CHAPTER - I

FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

Panchayati Raj Institutions (PRIs) came into existence in Gujarat from April 1963 under the Gujarat Panchayat Act, 1961. This was amended in April 1993 to incorporate the provisions of the 73rd Constitutional Amendment Act, 1992. The Act envisages decentralization of powers to three tier Rural Self Governing Bodies, viz., Village Panchayats (VP), Taluka Panchayats (TP) and District Panchayats (DP). As per 2001 census, population of Gujarat is 5.07 Crore of which 3.17 Crore (62.64 *per cent*) reside in rural area. The last election of District Panchayats and Taluka Panchayats was held in the month of October 2005. The last election of some of the Village Panchayats was held in the month of April 2008.

1.2 Organizational set up

There are 25 DPs, 224 TPs and 13,788 VPs in the State. An organogram reflecting the organizational set up of PRIs is given below –

At the State Level

Secretary, Panchayat, Rural Housing and Rural Development Department

Development Commissioner

At the District Level

Elected body headed by President
and assisted by Statutory

District Development Officer

District Level Officer of all departments
(functional control with Head of Department of
concerned departments)

District Panchayat Accounts Officer

At the Taluka Level

Elected body headed by the President and
assisted by the Statutory Committees

Executive Officer
(Taluka Development Officer)

At the Village Level

Elected body headed by Sarpanch

Executive Talati cum Mantri

1.3 Powers and functions

The Gujarat Panchayat Act, 1961 (Act) as amended in 1993, entrusted the PRIs with the following powers and functions (i) to prepare development plan/ Annual action plan (ii) to implement schemes for economic development and social justice as may be drawn up by or entrusted upon it (in pursuance of 11th Schedule of the Constitution), (iii) to manage and maintain any work of public utility, and (iv) to collect revenue for utilization of such fund for Developmental Work. As per Section 180(2) of the Act, the State Government may entrust to a District Panchayat 29 functions as mentioned in the 11th Schedule of the Constitution. Out of these, 14 functions¹ are fully devolved, 5 functions² are partially devolved, and 10 functions³ are yet to be devolved.

1.4 Sources of Revenue

The receipt of PRIs from all sources during the last three years ending 2007-08 is given below:-

(Rupees in Crore)			
Description	2005-06	2006-07	2007-08
State Government Grant	3306.38	3564.88	4574.22
Govt. of India Grant	472.77	740.10	735.91
Own Revenue	82.23	182.11	713.39
Loans and advances	47.02	59.91	19.14
EFC/TFC Grant	136.34	199.66	186.20
Total	4044.74	4746.66	6228.86

Source: Annual accounts of District Panchayats & details furnished by Finance Department, Government of Gujarat.

¹ (i) Agriculture, including agricultural extension (ii) Minor irrigation; (iii) Animal Husbandry; (iv) Rural housing; (v) Drinking water-water distribution; (vi) Roads, culverts, bridges, ferries, waterways; (vii) Fuel (Energy) and fodder; (viii) Minor forest projects; (ix) Poverty alleviation programmes; (x) Fair and markets; (xi) Health and sanitation, including PHCs dispensaries; (xii) Family Welfare; (xiii) Women and Child Development; (xiv) Welfare of Weaker Sections in particular of the SC and ST.

² (i) Primary and Secondary Education-Primary; (ii) Adult and non-formal education; (iii) Cultural activities; (iv) Social Welfare, including welfare of handicapped and mentally retarded; (v) Maintenance of community assets.

³ (i) Land improvement, implementation of Land Reforms; (ii) Fisheries; (iii) Social Forestry and Farm Forestry; (iv) Small scale industry; (v) Khadi, village and cottage industries; (vi) Rural electrification including distribution of electricity ; (vii) Non-conventional source of energy; (viii) Technical training and vocational education;(ix)Libraries; (x) Public distribution system

The sectoral allocation of receipts and expenditure incurred there against is given below.

(Rs. in Crore)

Description	2005-06		2006-07		2007-08	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
General Services	77.43	62.59	191.82	112.07	554.29	896.95
Social Services	2802.86	2608.02	3043.26	2606.63	3499.27	3594.08
Economic Services	1118.21	824.22	1451.77	1027.12	2156.16	1499.89
Loans	46.24	40.21	59.81	35.05	19.14	21.24
Total	4044.74	3535.04	4746.66	3780.87	6228.86	6012.16

Source: Budget books/Annual accounts of District Panchayats and details furnished by Finance Department, Government of Gujarat.

1.5 Audit arrangements

Director of Local Fund Audit (DLFA) is the primary auditor for the PRIs. Details of outstanding audit of PRIs by the DLFA till 31st March 2009 are given below:

Year	District Panchayat	Taluka Panchayat	Village Panchayats
2004-05	01	01	00
2005-06	22	43	<u>17778 up to 2006-07</u>
2006-07	25	203	
2007-08	25	224	11887

Source:-As per details furnished by the DLFA, Gandhinagar

Looking into the considerable arrears, concrete action plan needs to be made by DLFA to clear these arrears.

Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (CAG) shall exercise control and supervision over the maintenance of the accounts and audit of the PRIs.

All PRIs in the State attract audit under section 14(1) of CAG's (DPC) Act 1971. In pursuance of Eleventh Finance Commission recommendations, the State Government also entrusted (May 2005) the technical guidance and supervision (TGS) over the audit of PRIs to the CAG under Section 20(1) of the CAG's (DPC) Act, 1971.

1.6 Annual accounts and database formats

Receipts & Payments accounts of VPs, TPs and all DPs are consolidated by Development Commissioner, Government of Gujarat. The formats for Database on finance of PRIs as prescribed by the C&AG had been accepted by the Government in September 2004 and August 2007. However, these have not been operationalised so far (March 2009).

1.7 Finance Commission Grants

During the period 2005-08, on the recommendation of Twelfth Finance Commission (TFC) Rs. 558.60 crore(186.20x3) was released to the State Government by Government of India, which was in turn released to the PRIs. A matching grant of Rs. 44.16 crore was also released by the State Government to the PRIs during 2005-06. Details of utilization of TFC grant by the PRIs during 2005-08 is given in **Appendix-I**.

It would be seen from the Appendix that the PRIs incurred expenditure of Rs. 25.68 Crore on maintenance of database. The expenditure on database management includes implementation of Double Entry Accounting system in PRIs and survey & valuation of Assets of PRIs. Both the projects are under progress and expected dates for completion are March 2010 and December 2010 respectively.

Irregularities noticed in audit in release and utilization of EFC/TFC grants are detailed in Para 2.4 of this Report.

1.8 Pending Inspection Report paragraphs

As on 31 March 2009, there were 1447107 numbers of paragraphs in the Inspection Reports issued by DLFA which were pending settlement as detailed below:-

Name of unit	No. of Paragraph outstanding
District Panchayats	37222
Taluka Panchayats	115586
Village Panchayats	1294299
Total	1447107

Source:-As per details furnished by the DLFA, Gandhinagar

Aggressive pursuance of DLFA is required for proper compliance of audit observations by PRIs for settlement of these old outstanding paras.

As on 31st March 2009, 6073 number of paras of the Inspection Reports issued by AG (Civil Audit), Rajkot and by Sr. DAG (LBAA), Ahmedabad up to the year 2007-08 were outstanding for want of proper compliance by Auditee units. The year wise break up of these paras is as under:-

Year	Up to 2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
IR	547	98	144	158	66	131	276	233	448	2101
Para	1782	414	465	550	309	362	868	514	809	6073

1.9 District Planning Board

With a view to ensure effective planning in coordination with the planning of the State, the State Government constituted (1979) District Planning Boards(DPB) for each districts headed by Minister in charge of the concerned District. The DPB have further constituted Taluka Planning Committees for comprehensive development and making basic amenities available

to every village. The Taluka Planning Committees prepare proposals for the works to be taken up under their respective talukas keeping in view the requirements of the Talukas and send them to the DPB for sanction. The works are sanctioned by the DPB and allocated to the PRIs for implementation.

1.10 Budgetary Procedure

As per Para 163(1) of the Gujarat Panchayat Act, 1993, Panchayats shall prepare annually the budget on or before the 15th February of current year. The budgets so prepared and as approved by the General Body of the Panchayats are sent to the Development Commissioner, Government of Gujarat for approval.

Further, in terms of Rule 161(d) of Gujarat Taluka & District Panchayat Finance, Accounts and Budget Rules 1963 and Para 126 of Gujarat Budget Manual Vol-I, the budget should be prepared in realistic manner. The budget should be prepared without over/under estimation of receipts and expenditure.

However, while comparing the actuals with the budget estimates of 5 PRIs, it was noticed that budget estimates for the year 2004-05 and 2005-06 have not been prepared with due care as variations between budgeted figures and the actuals ranged from 35 percent to 203 percent as detailed in **Appendix- II**

1.11 Audit Coverage

Accounts of 2004-05 and 2005-06 of 223 units (25 DPs, 47TPs and 151 VPs) were audited during the year 2007-08. Results of the audit are given in the succeeding chapter.

1.12 Conclusion

The State Government has not devolved all the functions envisaged in the 11th Schedule of the Constitution. Though the formats for database on the finances of PRIs prescribed by CAG have been adopted by the State Government, the same is yet to be implemented. Pendency of audit by DLFA and arrears in settlement of outstanding Inspection Report paragraphs of DLFA and that of AG (Civil Audit) Rajkot and Sr. DAG (LBAA) Ahmedabad indicates weak internal control system in PRIs.

1.13 Recommendations

The following measures are recommended for ensuring better accountability system in PRIs.

- All functions envisaged in the 11th Schedule may be devolved to the PRIs with transfer of adequate funds and functionaries.
- Database on finances of PRIs may be maintained in the formats prescribed by CAG.
- Outstanding Inspection Report paragraphs may be settled by effective compliance.