

SECTION A

CHAPTER I

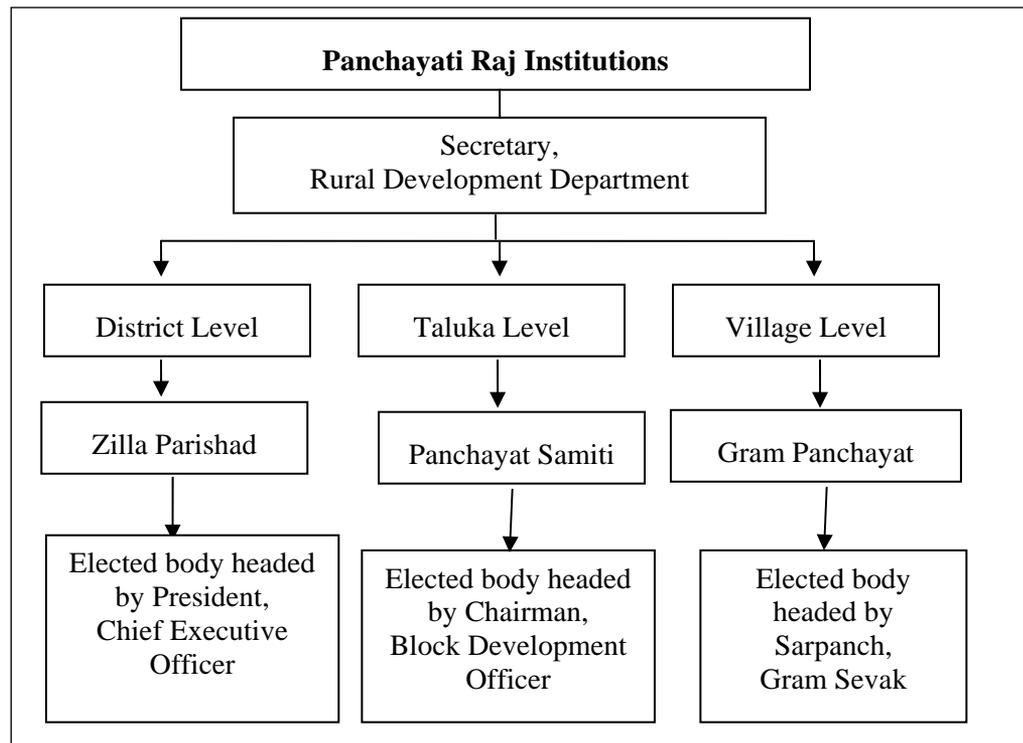
ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

1.1.1 In conformity with the provisions of the 73rd Constitutional Amendment, the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP Act) and the Bombay Village Panchayats Act, 1958 (VP Act), were amended in 1994. A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PSs) at the block level and Gram Panchayats (GPs) at the village level was established in the State. As per the 2001 Census, the total population of the State was 9.69 crore, of which the rural population was 5.58 crore *i.e* 57.58 per cent of the total population of the State. Election to PRIs was held in March 2007. The Act provides for constitution of State Finance Commission (SFC) every five years to review the financial position of Panchayats and District Planning Committees.

1.2 Organisational Set up

1.2.1 The organizational set up of PRIs in Maharashtra is depicted below:



1.3 Powers and Function

1.3.1 Zilla Parishads are the first tier of Panchayats at the district level. As of March 2008 there were 33 ZPs in the State. Chief Executive Officer (CEO) is the administrative head and assisted by departments like Finance, Public Health, Agriculture, Works *etc.*

1.3.2 The ZPs are required to prepare the budget for the planned development of the District and utilisation of the resources. Government of India (GOI) schemes, funded through the District Rural Development Agency(DRDA) and State Government schemes are also implemented by the ZP. In Maharashtra, the ZPs are empowered to impose water tax, pilgrim tax and special tax on land and building.

1.3.3 Panchayat Samitis constitute the intermediate tier of Panchayats at the Taluka level. As of March 2008, there were 351 PSs in the State. The PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. The PSs undertake developmental works at the block level.

1.3.4 Gram Panchayats constitute the last tier of Panchayats at the grass root level. As of March 2008, there were 27909¹ GPs in Maharashtra.

1.3.5 The amended VP Act provides for the constitution of Gram Sabha, which is the body consisting of persons registered in the electoral rolls of the villages within the GP area. The GPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/entertainments, taxes on bicycles, vehicles, shops, hotels *etc.*

1.3.6 Gram Sabhas are empowered with disciplinary control over GP employees and are required to meet periodically. They select beneficiaries for the State/Central Government schemes, approve development plans and projects to be implemented by the GPs, grant permission for incurring expenditure by the GPs on developmental schemes. They also convey their views on proposal for acquisition of land by the GPs.

1.3.7 The broad accountability structure in the PRIs is as follows :

	Functions Assigned
Zilla Parishad Chief Executive Officer (CEO)	<ol style="list-style-type: none">1. Drawal and disbursal of fund2. Preparation of annual budget and accounts3. Supervision and control of officers of the ZP4. Finalisation of contracts5. Publishing statement of accounts of

¹ As per information furnished by Government of Maharashtra letter No. Audit 2009/C.R.1001/Vitta-4 dated 5 August 2009.

	PSs in the Government Gazette
Chief Accounts and Finance Officer(CAFO)	1. Compilation of the accounts of the ZP 2. Providing financial advice
Heads of Departments (HODs)	1. According technical sanctions to the works 2. Supervising the work of Class II officers
Panchayat Samiti Block Development Officer (BDO)	1. Drawal and disbursal of fund 2. Acquisition, sale or transfer of property 3. Preparation of statements of accounts
Gram Panchayat Gram Sevak	1. Secretary to the Gram Sabha 2. Execution and monitoring of schemes and maintenance of records

1.4 Funding of Panchayati Raj Institutions

1.4.1 The District Fund consists of money received from the Central Government, grants for centrally sponsored schemes, funds from plan and non plan schemes of the State Government, assigned tax and non tax revenues, receipts of ZPs, interest on investments, *etc.*

1.4.2 In order to tide over the time lag between the approval of the budgets and release of grants by the State Governments, Ways and Means Advances are released by the Rural Development and Water Conservation Department (RDD) on a monthly basis to the ZPs for execution of the schemes/activities/works transferred to them and for payment of pay and allowances to the staff. These advances are finally adjusted out of grants sanctioned by the State Government (Administrative Departments).

1.4.3 Grants released by the State Government to the ZP are drawn from the district treasury by the ZP. The ZP in turn release the share of funds to the PSs and GPs. Reconciliation of fund transfer as per ZP records with treasury is done by the CAFO every month.

1.4.4 A fund flow statement depicting the flow of funds to the PRIs is shown in **Appendix I**.

1.5 Devolution of funds

Allocation of revenue to the PRIs

As per the recommendations of the Second Maharashtra State Finance Commission (SMSFC), 40 *per cent* of State revenues should be allocated to the Local Self Government (LSG). Though this was accepted by the State Government this is not being done. The table below indicates the total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs during the period

from 2004-05 to 2007-08.

(Rupees in crore)

Sr. No.	Head	2004-05	2005-06	2006-07	2007-08
1	Total revenue of the State ² (Tax and Non-tax revenues)	34724.59	39475.29	47617.49	64476.42
2	Amount required to be allocated as per SMSFC to LSG. (40 per cent of Item 1 above)	13889.84	15790.12	19047.00	25790.57
	Allocation to PRIs	6300.48	7472.84	7321.27	8007.34
	Percentage of allocation to State revenue	18.14	18.93	15.38	12.42
	Allocation to Urban Local Bodies (ULBs)	1852.32	1031.02	2652.27	1351.25
	Percentage of allocation to State revenue	5.33	2.61	5.57	2.10
3	Total	8152.80	8503.86	9973.54	9358.59
4	Percentage of allocation to State revenue	23.48	21.54	20.95	14.51

Thus, although the SMSFC had recommended allocation of 40 per cent of the State revenues to LSG, the State Government not only failed to allocate the requisite amount as recommended by SMSFC, but also the allocation steadily declined from 23.48 per cent in 2004-05 to 14.51 per cent in 2007-08. Moreover, inspite of increase of State revenue in 2007-08 by 35.41 per cent on account of transfer of Rs 10868 crore by State Government from 18 Statutory funds maintained in Public Account to Consolidated Fund of State as non-tax receipts, the allocation to LSG decreased from 20.95 per cent in 2006-07 to 14.51 per cent in 2007-08.

1.6 Transfer of functions and functionaries

1.6.1 The 73rd Constitutional Amendment envisaged that all 29 functions mentioned in the XIth Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

1.6.2 However, as of March 2009, the State Government had transferred only 214 schemes pertaining to 15 functions to the PRIs and 3.53 lakh functionaries had been transferred to perform the functions of ZPs. Out of 214 schemes, 78 schemes with 15171 functionaries and 16 schemes without functionaries had been transferred (November 2000 to September 2002) after

² Vide Report of CAG (Civil), Government of Maharashtra for the year 2006-07 and 2007-08

73rd constitutional amendment.

1.7 Receipts and expenditure of GPs and ZPs

1.7.1 As per the Annual Reports published by the Government of Maharashtra, Directorate of Economics and Statistics and information received from RDD for the year 2007-08, the position of revenue/capital receipts, revenue/capital expenditure in respect of the PRIs for the period from 2004-05 to 2007-08³ is as follows:

(A) Zilla Parishads

(Rupees in crore)

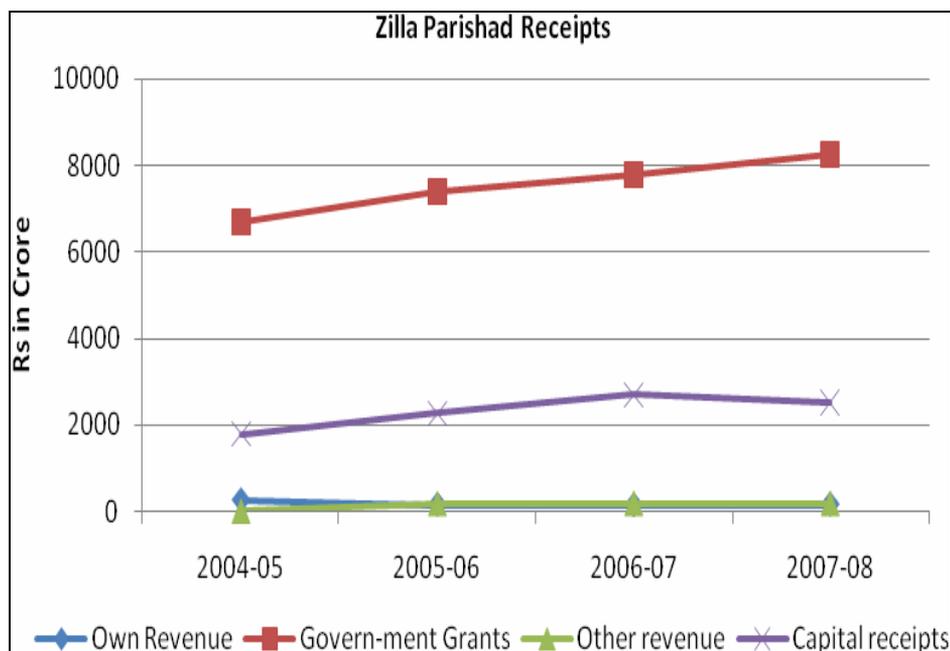
Year	Receipts						Expenditure		
	Own revenue ⁴	Government Grants	Other revenue	Total revenue	Capital receipts	Total receipts	Revenue	Capital	Total
2004-05	260	6690	Nil	6950	1788	8738	6776	1692	8468
2005-06	154	7394	181	7729	2267	9996	7495	1984	9479
2006-07 ⁵	144	7784	188	8116	2691	10807	8161	2314	10475
2007-08	161	8246	183	8590	2521	11111	8494	1923	10417

The total receipts (Capital and Revenue) of ZPs in the State for the year 2007-08 was Rs 11111 crore registering an increase of 2.81 *per cent* over the previous year's receipts of Rs 10807 crore. The major source of revenue for ZPs during 2007-08 continued to be from Government grants and Capital receipts which constituted 74.22 and 22.69 *per cent* of the total receipt of all ZPs in the State.

³ Information furnished by Rural Development Department (RDD)

⁴ excludes opening balance

⁵ These are actual figures as per RDD. Figures given in Audit Report 2006-07 were based on revised estimates.

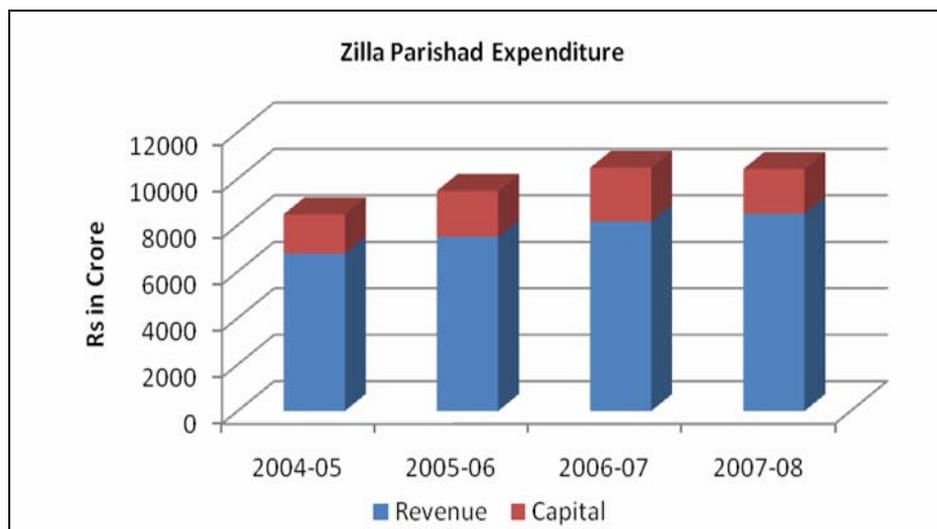


(i) Increasing dependence on grants from State and Central Government

It may also be seen from the above table that ZPs' own revenue in 2004-05 was 2.98 per cent of its total receipts and State and Central Government grants amounted to 76.56 per cent. However, by 2007-08 ZPs' own revenue declined steeply to 1.45 per cent of its total receipts and Government grants also decreased to 74.22 per cent. Although theoretically some of activities under 15 functions out of 29 envisaged in XIth Schedule of the Constitution have been transferred to PRIs in Maharashtra, effective devolution is yet to take place and PRIs function mainly as agents for utilization of State and Central Grants. While PRIs should try to come out of its dependence on Government grants, State Government also has to consider steps to be taken for effective devolution of functions to PRIs in letter and spirit.

(ii) Decrease in Capital Expenditure

While the total expenditure decreased from Rs 10475 crore in 2006-07 to Rs 10417 crore in 2007-08, the revenue expenditure increased by four per cent during the period. The capital expenditure, in fact, decreased by 17 per cent. PRIs has to increase its capital investment and decrease revenue expenditure.



(B) Panchayat Samitis

The PSs accounts are incorporated in ZP accounts.

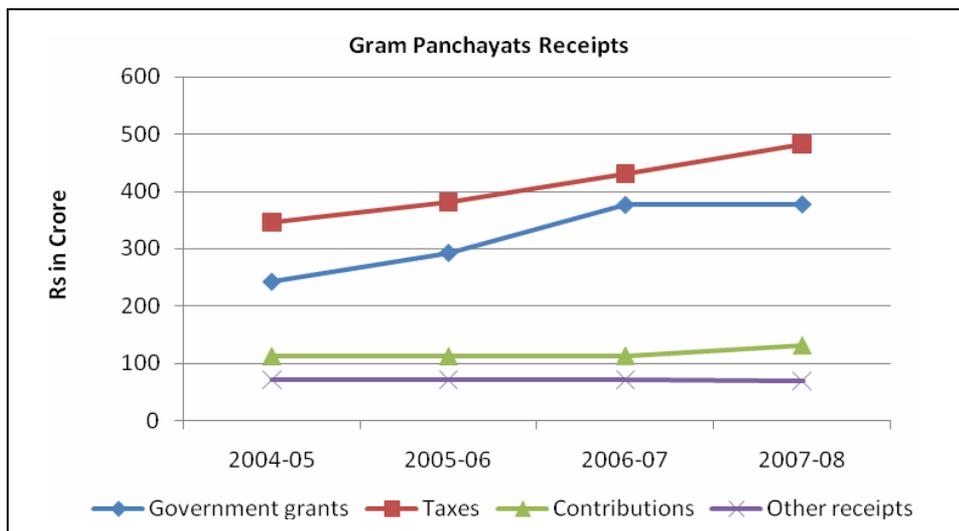
(C) Gram Panchayats⁶

(Rupees in crore)

Year	Total Receipts ⁷					Total Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
2004-05	243	346	112	72	773	758
2005-06	293	381	112	72	858	820
2006-07	376	430	113	71	990	938
2007-08	377	482	131	69	1059	1075

⁶ Figures furnished by RDD (August 2009). These figures varies from the figures given in 2006-07 Audit Report which was based on Economic Survey of Maharashtra for 2006-07.

⁷ These figures are excluding opening balance. However the revenue receipts of the GPs for 2004-05 indicated in the Audit Report for 2005-06 included opening balance also.



Thus, it may be seen that while the total receipts of all the GPs in the State during 2007-08 registered an increase of seven *per cent* over the receipts of 2006-07, the increase in expenditure during the period was 15 *per cent*.

One of the major sources of receipts for the GPs in 2007-08 was Government grants of Rs 377 crore constituting 36 *per cent* of the total receipts as against Rs 376 crore in previous year. There was no significant increase in the Government grants to GPs in 2007-08.

1.7.2 The following are the component wise details of the revenue expenditure of GPs and revenue/capital expenditure of ZPs during 2006-07 and 2007-08.

(Rupees in crore)

Sr. No.	Components	Gram Panchayats expenditure		Zilla Parishad expenditure ⁸	
		2006-07	2007-08	2006-07	2007-08
1	Administration	154	179	576	610
2	Health and Sanitation	241	250	947	965
3	Public Works	352	423	591	692
4	Education	20	25	3638	3917
5	Irrigation	-	-	239	211
6	Agriculture	-	-	92	128
7	Social Welfare	44	42	735	700

⁸ These figures are as furnished by RDD of State Government and varies from figures given in 2006-07 Audit Report which were based on Economic survey of Maharashtra for 2006-07.

8	Public lighting	47	50	-	-
9	Animal Husbandry	-	-	115	123
10	Forests	-	-	7	6
11	Other expenditure	80	106	1221	1142
12	Capital expenditure	-	-	2314	1923
	TOTAL	938	1075	10475	10417

1.7.3 The above table shows that the revenue expenditure of GPs increased from Rs 938 crore in 2006-07 to Rs 1075 crore in 2007-08, registering an increase of 15 *per cent*. During the year 2007-08, expenditure on public works constituted the largest component at 39 *per cent* followed by health and sanitation at 23 *per cent*. No expenditure was incurred by the GPs during the period 2006-07 and 2007-08 under Animal Husbandry although this function had been transferred to PRIs. This function was executed by ZP.

1.7.4 At the ZP level, the expenditure on public works during 2007-08 showed an increase of 17 *per cent* over the previous year.

1.7.5 The works undertaken by the ZPs come under the categories of (1) ZPs own schemes (2) schemes transferred/funded by the State Government (3) Schemes funded by other agencies. The expenditure of Rs 10417 crore during 2007-08 indicated in Para 1.7.2 is based on the figures adopted from the RDD. It was, however, noticed from the information received from all ZPs for the year 2007-08 that these ZPs incurred an expenditure of Rs 12329 crore (Rs 483.44 crore on their Own schemes, Rs 10289.43 crore on Transferred schemes and Rs 1556.06 crore on Agency schemes). District wise split up of expenditure incurred on Transferred and Agency Schemes and on ZPs own schemes have been given in **Appendix II**.

1.8 Accounting arrangements

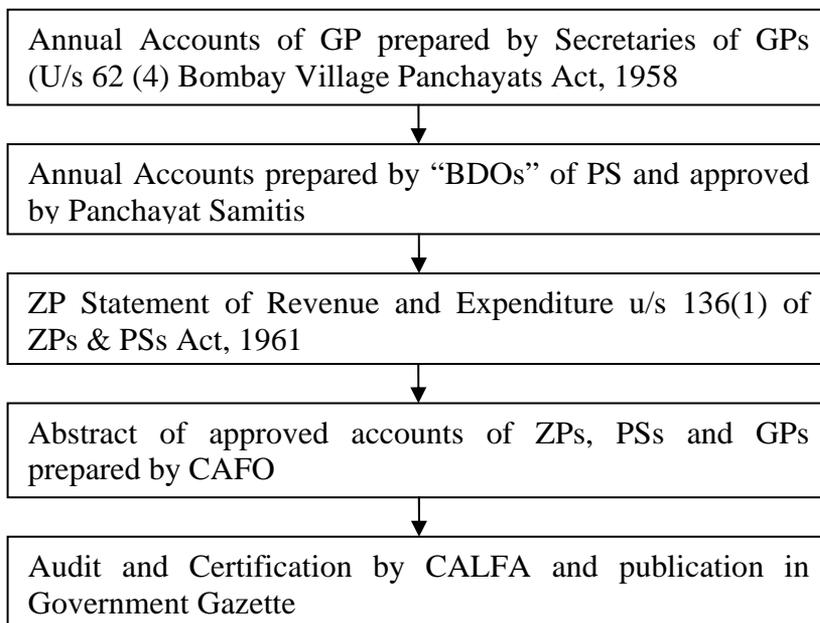
1.8.1 Under the provisions of Section 136(2) of ZP Act, the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts and under provisions of Section 62(4) of the VP Act, the Secretaries of the GPs are required to prepare annual accounts of the GPs. The approved accounts are to be forwarded to the ZPs on the prescribed date. A performance Audit on quality of maintenance of accounts in PRIs in Maharashtra State was also conducted and Audit findings have been included in Chapter II of this Report.

1.8.2 In accordance with the provisions of Section 136 (1) of the ZP Act, CEOs of ZPs are required to prepare every year, statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the

following financial year. These are then required to be placed before the Finance Committee and the accounts are finally to be placed before the ZPs for approval along with the Finance Committee reports.

1.8.3 The abstracts of the approved accounts of the ZPs/PSs and GPs are prepared by CAFO and forwarded to the Chief Auditor, Local Fund Accounts (CALFA) for audit, certification and publication in the Government Gazette.

Flow Chart of Accounts compilation in PRIs has been given below:



1.8.4 The prescribed date for finalisation of annual accounts of ZPs for a financial year is 30 June of the following year. Accordingly, the accounts for 2007-08 should have been finalised by June 2008. However, it was observed from the information collected (August 2009) from CALFA that out of the 33 ZPs except Akola, Bhandara, Kolhapur, Pune, Sangli, Satara and Solapur, all others had not finalized their accounts for 2007-08. Arrears in finalisation of accounts by the ZPs and certification thereof by the CALFA ranged from one to four years.

1.8.5 According to Section 136(9) of the ZP Act, the annual accounts of the ZPs, duly approved and certified by the CALFA for a year, were required to be published in the Government Gazette by 15 November of the subsequent year. However, information regarding the status of publication of the ZPs' accounts made available by the Government indicated arrears of one to three years in publication of annual accounts of ZPs, although procedure for ensuring timely finalisation and publication of the accounts had been prescribed. Arrears in finalisation and publication of accounts is indicative of

inefficient internal controls. Absence of a proper management information system and the increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriations and other irregularities.

1.9 Creation of database on finances of Panchayati Raj Institutions

Twelfth Finance Commission (TFC) had accorded high priority for the creation of database on finances at the grass root. Accordingly, TFC had allocated an amount of Rs 28.30 crore for maintenance of database on finances of PRIs out of the first installment of Rs 198.30 crore received in October 2005. As the amount could not be utilised for the said purpose within the stipulated time, the Government (March 2006) redistributed the same to all the PRIs for implementation of different schemes. However, out of Rs 198.30 crore, State Government had disbursed Rs 7 crore (by July 2007) and Rs 10 crore (by January 2009) for data entry in Panchayati Raj Portal created at National level by GOI.

1.10 District Planning Committee

Under Article 243ZD of the Constitution, States are required to form District Planning Committees (DPCs) to consolidate the development plans prepared by PRIs and ULBs. In Maharashtra, District Planning and Development Councils existing after formation of the State in 1960 were replaced by DPCs constituted under the Maharashtra District Planning Committee (Constitution and Functions) Act, 1998. The Act came into force from 15 March 1999.

1.11 Twelfth Finance Commission Grants

As stated in Para 3.8 of the Report of the C&AG of India for 2006-07 (Local Bodies-Government of Maharashtra), the funds allotted to PRIs in Maharashtra, out of the total grant of Rs 2774 crore recommended by the TFC of GOI to the Local Bodies in the State for the years 2005-06 to 2009-10 was Rs 1983 crore. Out of this, grants amounting to Rs 991.50 crore had been received during the period from 2005-06 to 2007-08. Subsequently, during 2008-09 the State received TFC grants of Rs 594.90 crore (including Rs 396.60 crore received in March 2009) for PRIs. The overall position is as follows:

(Rupees in crore)

Installments	Period of receipt	Amount received	Amount spent		
			Up to	Amount	Percentage
I to V	2005-06 to 2007-08	991.50	June 2008	683.68	69
VI to VIII	2008-09	594.90			
Total	2005-09	1586.40	July 2009	1022.25	64

TFC grants are to be utilised for purposes specified in the guidelines like

repairs and maintenance of water supply schemes, schools, primary health centres *etc.*

In August 2009, RDD stated that out of the Rs 1022.25 crore spent so far, Rs 653.20 (63.90 *per cent*) has been spent on water supply and sanitation for the PRIs. The utilization for the period upto June 2008 had already been commented upon in the Para 3.8 of the Report of the C&AG of India for the year 2006-07.

1.12 Audit Arrangements

1.12.1 Audit by Chief Auditor, Local Fund Accounts

1.12.1.1 The Audit of PRIs is conducted by the CALFA in accordance with provisions of the Bombay Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act. The CALFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

1.12.1.2 It was observed that local fund (transaction) audit of all ZPs and PSs was conducted for the year 2006-07. The Consolidated Audit Review Report for the year 2006-07 prepared by the CALFA was presented to the State Legislature in June 2009. The work of preparation of Consolidated Audit Review Report for the year 2007-08 is in progress.

1.12.2 Audit by Comptroller and Auditor General of India(C&AG)

The C&AG of India conducts audit of ZPs and PSs under Section 14 of the C&AG's (DPC) Act, 1971 and under Section 142A of ZP Act, 1961. The audits of selected GPs under PS are also conducted during audit of the PS.

1.13 Non-adoption of format of accounts prescribed by C & AG

The Eleventh Finance Commission (EFC) had recommended that the C&AG shall be responsible for exercising control and supervision over the proper maintenance of accounts of Local Bodies. Accordingly, C&AG had prescribed the formats for maintenance of accounts by PRIs in 2002. This was followed by simplified formats in 2007. The State Government had issued instructions to the PRIs and instructed ZPs to maintain the annual accounts in the same formats. It is, however, observed that the State Government has not yet amended (August 2009) the Maharashtra Zilla Parishads and Panchayat Samitis Account Code (MZP&PS) due to which maintenance of accounts in the prescribed formats were not done by any of the ZPs. As stated earlier, the Report on the performance audit on quality of maintenance of accounts by PRIs have been included as Chapter II of this Report.

1.14 Internal Control

1.14.1 Pending assessment of grants

Funds were made available to PRIs through ways and means advances for implementation of schemes. The grants were released by the Government to the ZPs as the functions had been transferred to them. According to Government orders (May 2000), grants paid to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year. They were to inform the RDD about the amounts recoverable from/payable to the ZPs for adjustment while releasing ways and means advances for the succeeding years.

It was, however, observed that in respect of 10 departments of nine ZPs, there were arrears in assessment of grants as follows:

Sr. No.	Name of department	Period of arrears
1	Education	2000-01 to 2007-08
2	Agriculture	2005-06 to 2007-08
3	Social Welfare	2002-03 to 2007-08
4	Animal Husbandry	2003-04 to 2007-08
5	Public Health	2000-01 to 2007-08
6	Family Welfare	2004-05 to 2007-08
7	Water Supply and Sanitation	2001-02 to 2007-08
8	Women and Child Welfare	1998-99 to 2007-08
9	Minor Irrigation	1992-93 to 2007-08
10	Public works	2001-02 to 2007-08

The State Government did not have the details of excess expenditure pending regularisation and amount recoverable from ZPs. In August 2009, RDD stated that the information is being collected from ZPs.

1.14.2 Formation of District Level Audit Committees

The Government directed (March 2001) the ZPs to constitute District Level Audit Committees (DLAC) for discussion and settlement of outstanding audit objections. The State Government stated (August 2009) that as on 31 March 2008, the DLAC had been formed in all districts.

1.14.3 Outstanding Paras from CALFA Report

As per the report of CALFA for the year 2006-07, 106453 paragraphs in respect of Government funds involving Rs 4798.62 crore and 48123 paragraphs pertaining to ZPs own funds involving Rs 936.40 crore were pending for settlement for the period from 1962 to 2007 as detailed in **Appendix III**.

1.14.4 Outstanding Inspection Reports and Paras of Principal Accountant General

Audit observations on financial irregularities and defects in initial accounts/ records noticed during local audit by the Principal Accountant General/ Accountant General but not settled on the spot were communicated to the heads of offices and departmental authorities through Inspection Reports. More important and serious irregularities were reported to the Government. Statements indicating the number of observations outstanding for over six months were also sent to the Government for expediting their settlement.

For efficient implementation of the schemes transferred to the PRIs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ensure establishing accountability structure in PRIs.

At the end of March 2008, 3787 Inspection Reports containing 11993 paras of ZPs and PSs issued by Audit were pending settlement. However, as of August 2009, the number of Inspection Reports and paras pending settlement was only 3340 and 8155 respectively. The yearwise breakup of the outstanding reports and paras at the end of March 2008 were as follows:

Year	Inspection Reports			Paragraphs		
	Mumbai	Nagpur	Total	Mumbai	Nagpur	Total
Up to 2003-04	599	1034	1633	1500	3116	4616
2004-05	295	346	641	760	615	1375
2005-06	231	238	469	685	713	1398
2006-07	251	327	578	940	1118	2058
2007-08 (Issued up to December 2007)	257	209	466	1145	1401	2546
Total	1633	2154	3787	5030	6963	11993

Arrears in outstanding Inspection Reports and paragraphs indicate weak internal control mechanism in PRIs.

1.15 Conclusion

An overview of the functioning of PRIs in the State revealed that allocations out of the State budget to PRIs were much less than the 40 per cent recommended by SMSFC. Only 214 schemes of the 15 functions were transferred to PRIs as against 29 functions listed in XIth schedule of the Constitution of India. Maintenance of accounts in the formats prescribed by C&AG was not done in any of the ZPs due to non-amendment of the MZP&PS Account Code. Database on finances of PRIs were not maintained though funds were provided by TFC for the purpose. Twenty six ZPs out of

33 ZPs in the States were yet (August 2009) to finalise the accounts for 2007-08. Arrears in finalization of accounts and certification by CALFA ranged between one and four years. TFC grants were utilised to the extent of 64 *per cent*. Instances of pending assessment of grants and outstanding audit paras indicate weak internal controls.

1.16 Recommendations

- The State Government may consider increase in financial outlay to PRIs keeping in view the recommendations of the State Finance Commission.
- Government should consider transfer of remaining 14 functions specified in XIth schedule of the Constitution of India.
- Steps be taken to ensure timely preparation of the accounts of ZPs/PSs/GPs and certification thereof by CALFA.
- Creation and maintenance of database on finances of PRIs be expedited.
- The ZP/VP Act and Account Code be amended suitably for implementing the revised accounting formats.
- It should be ensured that the TFC grants are utilised within the time frame envisaged in the guidelines.
- Grants released to ZPs for implementations of schemes should be assessed and adjustment be made as per time schedule.