

## CHAPTER – I

### AN OVERVIEW OF FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Introduction

The 73<sup>rd</sup> Constitutional amendment gave constitutional status to Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular elections, regular flow of funds through Finance Commissions, *etc.* As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-government. In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

A three-tier<sup>1</sup> system of Panchayat was envisaged in the Gujarat Panchayat (GP) Act, 1961. This Act was amended in April 1993 to incorporate the provisions of the 73<sup>rd</sup> Constitutional Amendment Act, 1992.

#### 1.2 State Profile

The population growth in Gujarat during the last decade was 19.17 *per cent* and was more than the national average of 17.64 *per cent*. By the year 2011, the population of the State was 6.04 crore, of which women comprise 47.86 *per cent*. The rural population of the State was 3.47 crore (57.45 *per cent*) and urban population was 2.57 crore (42.55 *per cent*). The comparative demographic and developmental picture of the State is given in **Table 1** below:

**Table 1: Important statistics of the State**

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	60,384	12,10,193	10
Population density	Sq. km	308	382	21
Rural Population	1,000s	34,671	8,33,088	11
Number of PRIs	Numbers	14,132	2,45,868	05
Number of District Panchayats (DPs)	Numbers	26	589	09
Number of Taluka Panchayats (TPs)	Numbers	223	6,321	11
Number of Gram Panchayats (GPs)	Numbers	13,883	2,38,958	05
Gender ratio	1,000 males	918	940	24

(Source : Socio-Economic Review 2011 of Gujarat)

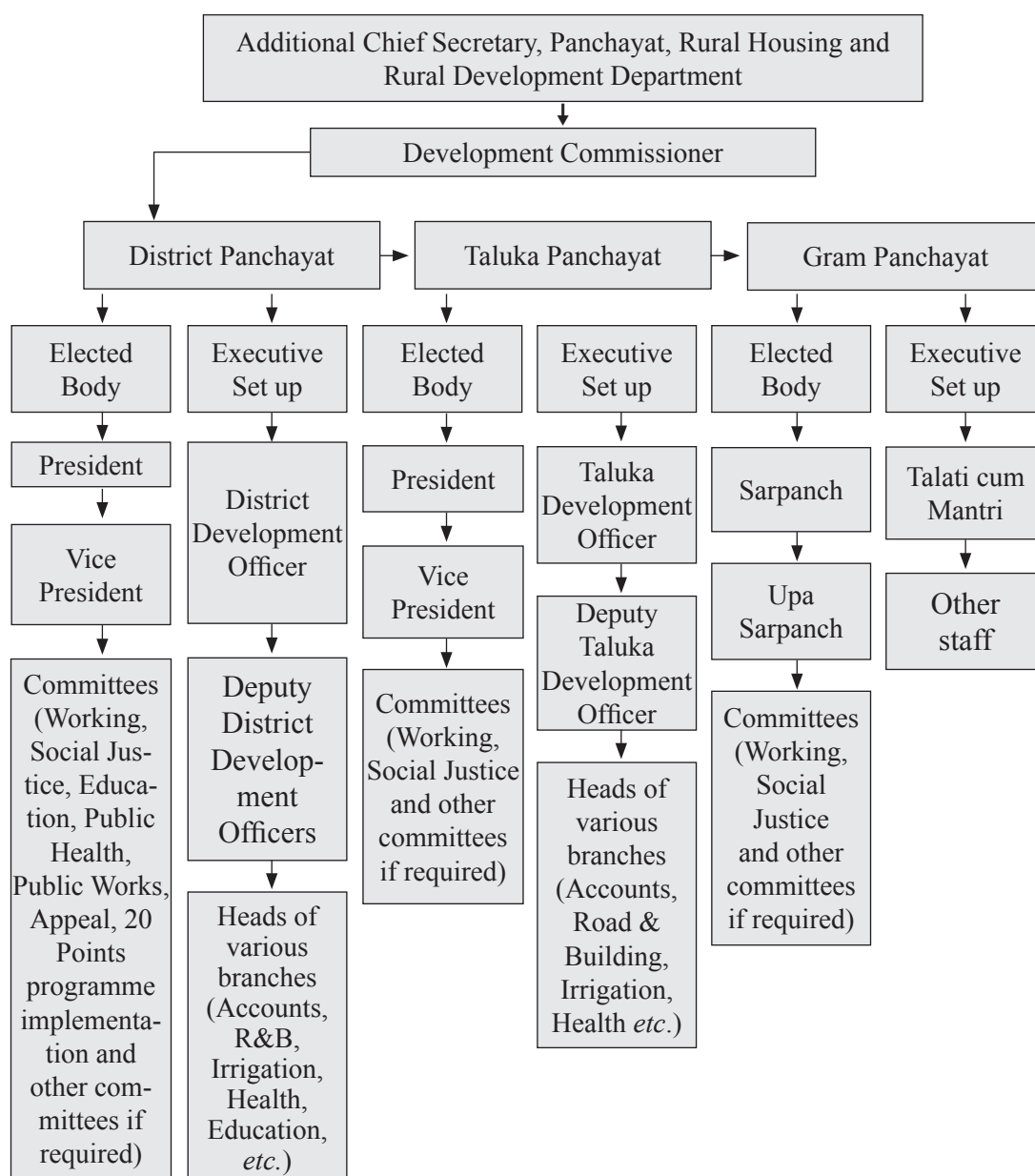
#### 1.3 Organisational set up of the PRIs

Panchayat, Rural Housing and Rural Development Department (PRHRDD) headed by Additional Chief Secretary exercises administrative control over the

<sup>1</sup> District Panchayat (DP) at district level, Taluka Panchayat (TP) at intermediate level and Gram Panchayat (GP) at village level.

PRIs. The PRHRDD is responsible for framing policies pertaining to formulation and implementation of developmental schemes and administration. The PRHRDD exercises administrative control through office of the Development Commissioner, Gandhinagar. The President and Vice President of the DPs and TPs are elected from the elected representatives. The Sarpanch of a GP is elected by the villages and the Upa Sarpanch is elected from the elected representatives. The GP Act envisages the functioning of the DPs, TPs and GPs through Standing Committees having elected representatives as members and chairman. The numbers of Committees prescribed under the GP Act are seven, two and two for DPs, TPs and GPs respectively. In addition, the Panchayats may, with the prior approval of the State Government, constitute Committee(s) for specific purposes. The President in respect of DPs and TPs and Sarpanch of GPs is the *ex-officio* Chairperson of the Standing Committees.

The organisational set up of the three tier system in Gujarat is shown below:



## 1.4 Powers and functions

The 73<sup>rd</sup> Amendment to the Constitution envisaged transfer of the 29 functions listed in the 11<sup>th</sup> Schedule of the Constitution to the PRIs. Article 243 G of the Constitution had empowered the State Legislature to decide and confer powers and responsibilities to the PRIs. As per Section 180 (2) of the GP Act, the State Government may entrust 29 functions to the PRIs. State Government has devolved (April 1993) 14 functions fully and 5 functions partially to PRIs. Ten functions have yet not been devolved (March 2013) to the PRIs (**Appendix-I**).

## 1.5 District Planning Committees

Article 243 ZD of the Constitution of India envisages that a District Planning Committee (DPC) shall be constituted at district level in every State to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan (DDP) for the district as a whole. The Chairperson<sup>2</sup> of every DPC<sup>3</sup> shall forward the draft development plan, as recommended by such Committee, to the Government of the State.

The State Government had constituted (July 2006 and January 2009) DPCs in all the districts. Due to election of ULBs and PRIs in the State between October 2010 and February 2011, all the DPCs were dissolved. Subsequently, DPCs were reconstituted (between June 2011 and June 2012) in 10 districts namely Bharuch, Dahod, Dangs, Jamnagar, Kutch, Mehsana, Narmada, Navsari, Panchmahals and Surat and in the 16 remaining districts, DPCs are yet to be constituted<sup>4</sup> (March 2013).

## 1.6 Financial Position of PRIs

### 1.6.1 Fund flow chart of PRIs

The funds of DPs and TPs are deposited in the District Treasury in Deposits Account which is operated as non-interest bearing banking account. Centrally Sponsored Scheme (CSS) funds are kept in the banks/post offices in savings accounts according to guidelines of the respective schemes. The funds of GPs are kept in savings accounts at the nearest post office or a scheduled bank.

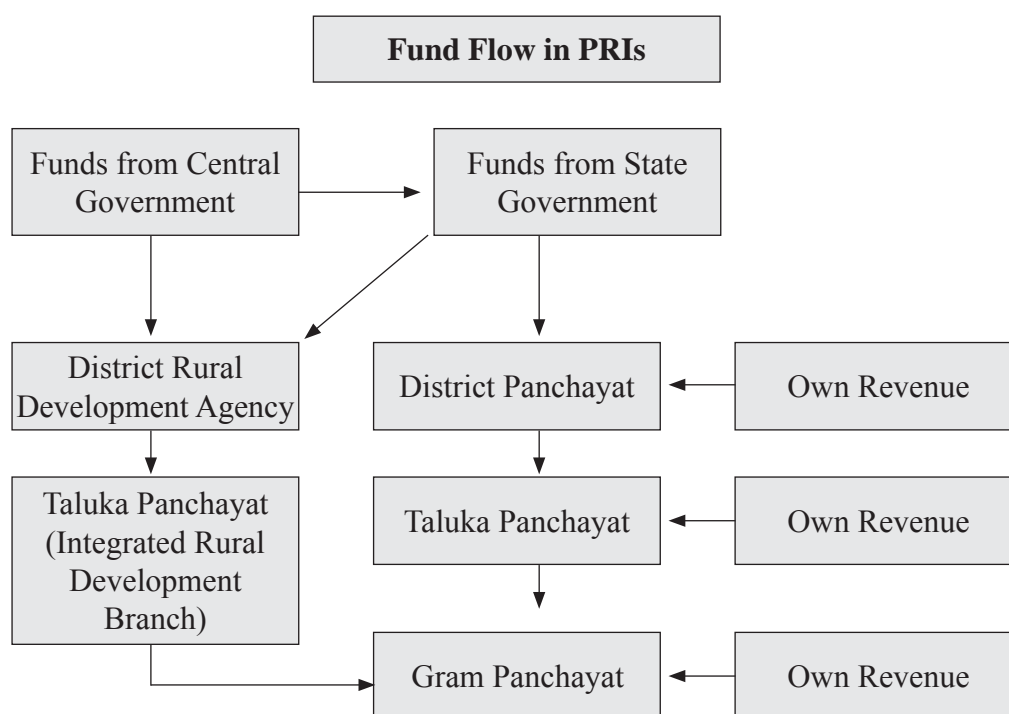
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<sup>2</sup> Minister in-charge of the district

<sup>3</sup> DPC consists of such number of elected, nominated and permanent invitee members (not less than 15 and not more than 30) as determined by the Collector of the district.

<sup>4</sup> In absence of DPC, plan is approved by District Development Officer and later ratified by DPC after reconstitution.

The fund flow-chart in PRIs is shown below:



### 1.6.2 Financial position of PRIs

In addition to own source of tax and non tax revenue e.g. fair tax<sup>5</sup>, building tax, fee, rent from buildings, water reservoirs, *etc.* and capital receipts from sale of land, PRIs receive funds from State Government and Government of India (GOI) in the form of grants-in-aid/loans for general administration, implementation of development schemes/works, creation of infrastructure in rural areas, *etc.* Besides, grants from State/Central Finance Commission are also received.

### 1.6.3 Sources of Revenue

The receipt of PRIs from all sources during the last three years ending 2011-12 is shown in the **Table 2** below:

**Table 2 : Sources of revenue of PRIs**

(₹in crore)

	2009-10	2010-11	2011-12
Government Grants	8,731.62	11,419.64	13,087.87
Own Revenue	242.48	133.88	266.61
Twelfth/Thirteenth Finance Commission Grants	186.20	230.43	299.02
<b>Total</b>	<b>9,160.30</b>	<b>11,783.95</b>	<b>13,653.50</b>

(Source : Budget publications and information furnished by the PRHRDD)

The above table shows that total receipts during 2009-12 increased by 49 *per cent* mainly contributed by increase in government grants by 50 *per cent*.

<sup>5</sup> Tax on melas held in the jurisdiction of PRIs

### 1.6.4 Sectoral Receipt and Expenditure

The sectoral allocation of receipt and expenditure of PRIs during 2009-10 to 2011-12 is given in **Table 3** below:

**Table 3 : Sectoral receipt and expenditure of PRIs**

(₹in crore)

Description		General Services	Social Services	Economic Services	Total
2009-10	Budget provision	925.40	5,351.97	2,882.93	9,160.30
	Expenditure	1,330.26	5,089.18	2,797.26	9,216.70
2010-11	Budget provision	904.80	7,535.03	3,344.12	11,783.95
	Expenditure	1,073.67	7,521.04	3,353.18	11,947.89
2011-12	Budget provision	1,162.29	7,671.39	2,201.24	11,034.92
	Expenditure	921.51	7,523.21	2,510.92	10,955.64

(Source : VLC data and Budget publications).

The above table shows that percentage of expenditure to total expenditure decreased from 14 *per cent* to eight *per cent* under general services and from 30 *per cent* to 23 *per cent* under economic services whereas it increased from 55 *per cent* to 69 *per cent* under social services during the period 2009-12.

## 1.7 State Finance Commission

Article 243 I of the Constitution made it mandatory for the State Government to constitute a State Finance Commission (SFC) within one year from the enactment of 73<sup>rd</sup> Constitutional Amendment and thereafter on expiry of every five years to review the financial condition of the PRIs and to make recommendations to the Governor for devolution of funds on the following aspects:

- the distribution of net proceeds of taxes, duties and fees between the State and the PRIs;
- taxes, duties, fees and tolls to be assigned and appropriated by PRIs;
- release of grants-in-aid to the PRIs from Consolidated Fund of the State; and
- measures needed to improve the financial conditions of the PRIs.

### 1.7.1 Delayed/Non-constitution of State Finance Commission

As the Constitutional Amendment Act, 1992 came into effect on 20 April 1993, the constitution of the first SFC was due by 19 April 1994. Status of constitution of Finance Commissions by the State Government is given in **Table 4** as follows :

**Table 4 : Constitution of State Finance Commission**

Finance Commission	Due Date for Constitution of SFC	Actual Date of Constitution	Delay in constitution	Month of submission of reports by SFC	Date of placement in Assembly
1 <sup>st</sup> FC	19 April 1994	15 September 1994	5 Months	October 1997	28 August 2001
2 <sup>nd</sup> FC	19 April 1999	19 November 2003	55 Months	November 2006	30 March 2011
3 <sup>rd</sup> FC	19 April 2004	02 February 2011	81 Months	Not Submitted	NA
4 <sup>th</sup> FC	19 April 2009	Not constituted	--	NA	NA

(Source : Information received from PRHRDD)

The above table shows that the mandatory provisions in respect of timely constitution of the SFCs were not adhered to by the State Government. Delayed/ non-constitution resulted in non availability of set of guiding principles for distributing State's financial resources among PRIs/ULBs, determination of taxes, duties, tolls and fees which are to be assigned to or appropriated by, the Panchayats or the Municipalities.

Though 2<sup>nd</sup> SFC report was submitted in November 2006, it was placed in Legislature in March 2011 after delay of four years and five months. Out of 83 recommendations<sup>6</sup> made by 2<sup>nd</sup> SFC, State Government accepted 31 recommendations<sup>7</sup>. Audit observed that only 14<sup>8</sup> recommendations have been implemented (December 2012) as shown in **Appendix - II**.

### 1.8 Twelfth Finance Commission Grants

On the recommendation of Twelfth Finance Commission (TFC), Government of India released ₹931.00 crore to the State Government during the period 2005-10. State Government released the funds to the PRIs during the same period. Out of which, PRIs spent ₹264.52 crore on Water Supply and Sanitation, ₹264.52 crore on Solid Waste Management, ₹42.80 crore on database on finances and ₹352.71 crore on other works leaving an unspent balance of ₹6.45 crore (GOI share) as on March 2010. The State Government granted permission (June 2011) to PRIs to spend this unspent balance for the works recommended by TFC. However, it was observed that though more than one and a half years have elapsed, the department failed to ascertain its utilisation by PRIs as the details of expenditure incurred by the PRIs were not available with the Department (April 2013).

### 1.9 Thirteenth Finance Commission

The Thirteenth Finance Commission grants are divided into two components—General Basic Grant (GBG) and General Performance Grant (GPG). The GBG can be assessed by all States as per criteria laid down by the Commission. But GPG can be assessed only by those States which comply with conditions

<sup>6</sup> 41 recommendations in respect of PRIs and 42 recommendations in respect of ULBs

<sup>7</sup> 21 recommendations in respect of PRIs and 10 recommendations in respect of ULBs

<sup>8</sup> Seven each of PRIs and ULBs

stipulated, otherwise the GPG would be forfeited. The forfeited grant is to be distributed as follows:

- 50 per cent of amount forfeited by the PRIs to be distributed among all States irrespective of their compliance with the condition; and
- remaining 50 per cent to be distributed among the States which have complied with the conditions.

The State Government for the period 2010-15 is eligible to get central grant of ₹2,333.09 crore for PRIs, of which ₹1,525.44 crore was earmarked for GBG and ₹807.65 crore for GPG. Accordingly, State Government received GBG of ₹230.43 crore<sup>9</sup> for the year 2010-11 and ₹285.50 crore<sup>10</sup> for the year 2011-12. However, records regarding utilisation of GBG and GPG grants were not made available, hence, the expenditure incurred could not be vouchsafed in audit.

Audit further observed that GPG of ₹93.80 crore allocated (2011-12) by GOI for the State was forfeited due to non-compliance of conditions stipulated by the 13<sup>th</sup> Finance Commission and received only ₹13.52 crore as GPG for the year 2011-12. This has resulted in loss of Central assistance of ₹80.28 crore.

### 1.10 Formats of Accounts

State Government decided (September 2004) to accept the Model Accounting System (MAS) prescribed by the Comptroller and Auditor General of India (CAG) which provides for four tier classification of accounts viz. major head, minor head, sub head and object head. Further, instructions were issued (March 2011) by the State Government for maintaining accounts as per double entry accrual accounting system in Gujarat Rural Accounting Management (GRAM) software along with eight formats prescribed in MAS in addition to the requirement of respective Financial Rules of PRIs. However, the formats have not been operationalised and PRIs continued with their existing accounting formats prescribed under the Gujarat Taluka and District Panchayats Financial Accounts and Budget Rules, 1963.

Further, audit observed that web-based software (PRIASoft) developed by the GOI for maintenance of accounts of PRIs was not adopted by the State Government.

DPs stated (January 2013) that GRAM software had facilities for keeping accounts in double entry accounting system. The reply is not acceptable as the format prescribed by CAG was not found in the GRAM software adopted by the PRIs. Further, the annual accounts maintained by the PRIs were on cash basis instead of double entry accrual based accounting system. The State Government stated (May 2013) that the proposal of adoption of PRIASoft was under consideration.

<sup>9</sup> ₹217.24 crore (GBG) + ₹13.19 crore Special area basic grant

<sup>10</sup> ₹272.31 crore (GBG) + ₹13.19 crore Special area basic grant

## 1.11 Audit arrangement and coverage

Director Local Fund Audit (DLFA) is the primary auditor of the accounts of PRIs under the provisions of the Gujarat Local Fund Audit (GLFA) Act, 1963. State Government by a resolution (May 2005) entrusted the Technical Guidance and Supervision (TGS) over the audit of PRIs to Comptroller and Auditor General of India (CAG) under Section 20(1)<sup>11</sup> of CAG's (DPC) Act, 1971. The provision of laying of Audit Report of DLFA alongwith the Report of CAG before the State Legislature was made by amending (May 2011) the Gujarat Panchayats Act, 1993. The Accounts for the financial years 2006-07 and 2007-08 of 15 DPs, 61 TPs and 488 GPs were audited during 2011-12 under Section 20(1) of CAG's (DPC) Act, 1971.

### 1.11.1 Status of audit of PRIs by DLFA

The status of audit conducted by DLFA up to October 2012 is shown in **Table 5** below:

**Table 5 : Status of audit by DLFA**

PRIs	Number of Auditee units	Units audited and period of accounts covered	Units yet to be audited and period of accounts to be covered
DPs	26	26 units (upto 2009-10)	26 units (2010-11 and 2011-12)
TPs	224	214 units (upto 2009-10)	10 units (2009-10); 224 units (2010-11 and 2011-12)
GPs	13,714	2,921 units (upto 2009-10)	10,793 units (2009-10); 13,714 (2010-11 and 2011-12)

(Source : Information furnished by DLFA)

The above table shows that audit of GPs by DLFA was in arrears from 2009-10 onwards and for DPs and TPs, the arrears were from 2010-11 onwards.

The audit report of PRIs by DLFA for 2007-08 was placed before Legislature and reports for the year 2008-09 and 2009-10 were under preparation.

### 1.11.2 Compliance to Inspection Reports

#### 1.11.2.1 Inspection Reports of DLFA

Gujarat Local Fund Audit (GLFA) Act 1963, provides that DLFA should conduct audit of PRIs, prepare Inspection Reports (IRs) and send the same to the local authorities within one month of completion of audit. The IRs should be complied by the local authority within one month from the date of its receipt. Information provided by DLFA showed that as on March 2012, 16,73,896 paragraphs issued

<sup>11</sup> Save as otherwise provided in section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority: Provided that no such request shall be made except after consultation with the CAG.

by DLFA were pending for compliance. Age-wise pendency of IR paragraphs is given in **Table 6** as follows:

**Table 6 : Pendency of IR paragraphs of DLFA**

PRI's	Outstanding paragraphs pertaining to the period up to 2001-02	Outstanding paragraphs pertaining to the period 2002-06	Outstanding paragraphs pertaining to the period 2006-10	Total outstanding paragraphs
DPs	28,305	9,755	6,333	44,393
TPs	79,837	30,980	26,964	1,37,781
GPs	9,08,725	2,88,983	2,94,014	14,91,722
<b>Total</b>	<b>10,16,867</b>	<b>3,29,718</b>	<b>3,27,311</b>	<b>16,73,896</b>

(Source : Information furnished by DLFA)

The above table shows that out of 16,73,896 outstanding paragraphs, 10,16,867 (61 *per cent*) paragraphs were outstanding for more than ten years due to non-compliance by PRIs. This indicated lack of prompt response on the part of officials of PRIs.

### 1.11.2.2 Outstanding paragraphs of IRs of Accountant General

22,098 paragraphs of 5,144 IRs up to the year 2011-12 were outstanding for want of proper compliance from PRIs as on September 2012. The status of financial year-wise outstanding paragraphs is shown in **Table 7** below:

**Table 7 : Position of pendency of paragraphs of AG**

	Up to 2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
<b>IRs</b>	2,285	401	419	683	804	552	5,144
<b>Paras</b>	8,767	1,650	1,594	2,454	3,745	3,888	22,098
<b>Money value (₹in crore)</b>	31.84	5.63	1.92	2.44	0.39	9.68	51.90

Increasing trend of outstanding paragraphs indicated lack of efforts by concerned authorities in furnishing compliance to these paragraphs rendering audit exercise ineffective.

## 1.12 Response of departments to the audit paragraphs

Two<sup>12</sup> draft performance audit reports and one<sup>13</sup> draft thematic audit paragraph were forwarded to the Principal Secretaries of the concerned administrative departments between August 2012 and September 2012 with a request to send their responses within four weeks. The reply to one<sup>14</sup> draft performance audit report featured in this Report was received. Entry and exit conferences were

<sup>12</sup> Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission

<sup>13</sup> Management of Finance in Bhavnagar and Surendranagar District Panchayats

<sup>14</sup> Implementation of Jawaharlal Nehru National Urban Renewal Mission

also held with the concerned departments on the audit findings and the replies/ views expressed have been duly considered while finalising this report.

### **1.13 Conclusion**

The State Government has not yet devolved 10 functions out of 29 functions to the PRIs as envisaged in the 11<sup>th</sup> Schedule of the Constitution. District Planning Committees have been constituted in 10 districts only. Prescribed periodicity for constitution of State Finance Commissions was not maintained. Formats of Model Accounting System prescribed by CAG were not adopted. Long pendency of audit paragraphs and non-settlement of audit observations indicated weak internal control system in PRIs.