
CHAPTER I

*ACCOUNTS AND FINANCES
OF PANCHAYATI
RAJ INSTITUTIONS*

SECTION A

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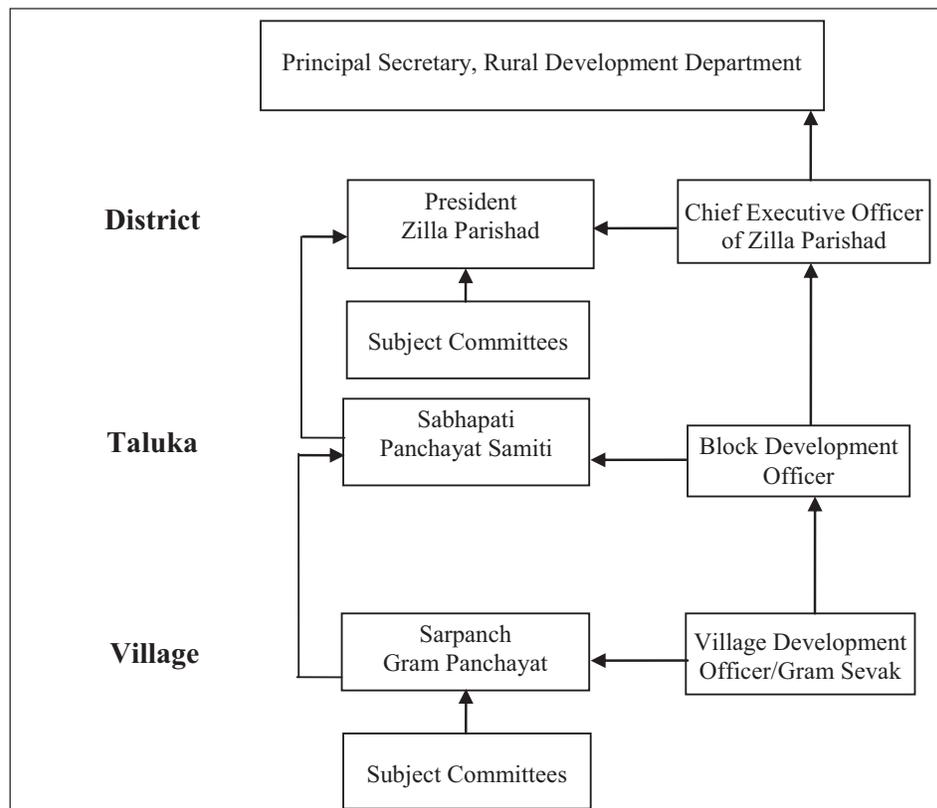
ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

In conformity with the provisions of the 73rd Constitutional Amendment, the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP/PS Act) and the Maharashtra 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 were established in the State. As per 2011 Census, the total population of the State stood at 11.24 crore of which 55 *per cent* was from rural areas.

1.2 Organisational set up

The organisational set up of PRIs in Maharashtra is depicted below:



The Chief Executive Officer (CEO) in the ZP, the Block Development Officer (BDO) in the PS and the Village Development Officer (VDO)/Gram Sevak in the GP report functionally to the respective elected bodies and administratively to their next superior authority in the State Government

hierarchy.

There were 27,906¹ GPs for 43,663 villages in Maharashtra. The VDO/Gram Sevak, a village level functionary, functions as Secretary to the GP and is also responsible for maintenance of accounts and records at GP level. However, sanctioned strength of VDOs/Gram Sevaks was 22,684 which show that even one VDO/Gram Sevak post was not sanctioned for each GP. The persons-in-position was 21,091 only with a shortage of 1,593 as of December 2013. No reasons were on record for not sanctioning and filling up of the 1,593 posts of VDOs/Gram Sevaks.

1.3 Powers and Functions

1.3.1 There are 35 districts in Maharashtra. Two districts (Mumbai and Mumbai suburban) do not have rural areas and therefore, there are 33 ZPs in the State. ZPs have departments for Education, Public Works, Health, Minor Irrigation, Rural Water Supply, Social Welfare, Animal Husbandry, Agriculture, Women and Child Welfare, Integrated Child Development, Finance, General Administration and Village Panchayat.

1.3.2 ZPs are required to prepare a 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 ZPs. ZPs are empowered to impose water tax, pilgrim tax and special tax on land and buildings.

1.3.3 The intermediate tier of Panchayats at the Taluka level in Maharashtra is called the Panchayat Samitis. There are 351 PSs in the State. PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. PSs undertake developmental works at the block level.

1.3.4 The 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 GP area. GPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/entertainment, taxes on bicycles, vehicles, shops, hotels *etc.*

1.3.5 Gram Sabhas are required to meet periodically. They select beneficiaries for the State/Central Government Schemes, prepare and approve development plans and projects to be implemented by GPs, grant permission for incurring expenditure by GPs on developmental schemes. They also convey their views on proposal for acquisition of land by GPs.

¹ Source: Desk Diary 2014 of Government of Maharashtra

1.3.6 The broad accountability structure in PRIs is as follows:

PRIs	Functions Assigned
Zilla Parishad , CEO	<ol style="list-style-type: none"> 1. Drawal and disbursal of fund 2. Preparation of annual budget and accounts 3. Supervision and control of officers of the ZP 4. Finalisation of contracts 5. Publishing statement of accounts of ZPs in the Government Gazette
Chief Accounts and Finance Officer (CAFO), ZP	<ol style="list-style-type: none"> 1. Compilation of the accounts of ZP 2. Providing financial advice
Heads of Departments (HoDs) in ZPs	<ol style="list-style-type: none"> 1. According technical sanctions to the works and implement development Schemes. 2. Supervising the work of Class II officers
Panchayat Samiti, BDO	<ol style="list-style-type: none"> 1. Drawal and disbursal of funds 2. Execution and monitoring of Schemes and maintenance of accounts and records
Gram Panchayat, Gram Sevak	<ol style="list-style-type: none"> 1. Secretary to the Gram Sabha 2. Execution and monitoring of Schemes and maintenance of accounts and records

1.4 Funding of Panchayati Raj Institutions

1.4.1 The District Fund consists of money received from State budget funds for plan and non-plan State Schemes, assigned tax and non-tax revenues, receipts of ZPs, interest on investments etc.

1.4.2 The cash grants are released to the ZPs through Budget Distribution System (BDS) by the respective administrative departments in accordance with the Government Resolution dated 15 October 2008.

1.4.3 Introduction of distribution of cash grants however does not dispense with the system of assessment of grants of different departments in ZPs by the administrative departments.

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 funds

Article 243 (I) of the Constitution requires that the State Finance Commission (SFC) be appointed at the expiration of every fifth year.

The Second Maharashtra SFC recommended (March 2002) allocation of 40 *per cent* of State revenues to Local Bodies (LBs). The State Government while placing the Action Taken Note (March 2006) in the State Legislature on Second SFC's recommendation showed its inability to accept the above recommendation on the ground that they were already giving various grants towards natural calamity, rehabilitation of farmers, assistance for increased electricity bills to farmers. The table below indicates the total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs as well as to Urban

Local Bodies (ULBs) during 2008-09 to 2012-13.

(₹ in crore)					
Head	2008-09	2009-10	2010-11	2011-12	2012-13
State's total revenue (STR) (Tax and non-tax)	61,819.88	67,458.95	83,252.14	95,776.16	1,13,432.98
Amount required to be allocated as per Second SFC to LBs (40 per cent)	24,727.95	26,983.58	33,300.86	38,310.46	45,373.19
Actual allocation to PRIs	10,501.98	11,726.62	13,260.93	14,294.73	16,444.42
Actual allocation to PRIs as a percentage of States' total revenue	16.99	17.38	15.93	14.93	14.50
Actual allocation to ULBs	1,651.47	1,708.89	4,350.04*	4,871.33	4,401.93
Actual allocation to ULBs as a percentage of States' total revenue	2.67	2.53	5.23	5.08	3.88
Total allocation to PRIs and ULBs	12,153.45	13,435.51	17,610.97	19,166.06	20,846.35
Actual allocation to PRIs and ULBs as a percentage of States' total revenue	19.66	19.92	21.16	20.01	18.38

Source: Figures adopted from CAG's Audit Report on State Finances and Finance Accounts for the year 2012-13, Government of Maharashtra

*Huge variation was due to misclassification in previous year as mentioned in in CAG's Report on State Finances for the year 2010-11, Government of Maharashtra

It would thus, be seen that only 18.38 per cent of the State's total revenue was allocated to the LBs during 2012-13.

The Third SFC was constituted in January 2005 for the period 2006-07 to 2010-11 and submitted its report in June 2006. However, the report has been presented to the State Legislature (December 2013). The Fourth SFC was constituted in February 2011 for the period 2011-12 to 2015-16 and was to submit its report to the State Government by September 2012. However, the date for submission of report was extended by the State Government up to 30 June 2014.

1.6 Transfer of functions and functionaries

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

1.6.2 The State Government has transferred 11 functions and 15,480 functionaries to PRIs. Non-transfer of functions and functionaries has been commented in earlier Audit Reports also.

1.7 Receipts and expenditure of PRIs

(A) Zilla Parishads

1.7.1 As per information provided by 31 out of 33 ZPs², the position of revenue/capital receipts, revenue/capital expenditure in respect of ZPs and PSs for the period from 2008-09 to 2012-13 was as follows (PSs accounts were incorporated in ZP Accounts).

(₹ in crore)

Year	Receipts						Expenditure		
	Own ³ revenue	Government grants	Other revenue	Total revenue	Total capital	Total receipts	Revenue	Capital	Total
2008-09	542	11,825	443	12,810	3,066	15,876	11,661	3,118	14,779
2009-10	481	15,240	278	15,999	3,573	19,572	15,309	3,365	18,674
2010-11	627	17,721	307	18,655	3,939	22,594	20,847	4,981	25,828
2011-12	703	19,762	376	20,841	5,105	25,946	20,507	4,114	24,621
2012-13	1,014	21,630	692	23,336	10,290	33,626	21,835	8,168	30,003

(Source: figures furnished by ZPs)

(B) Gram Panchayats

The details of receipts and expenditures (revenue and capital) of GPs provided by 29 out of 33 ZPs⁴ during 2008-09 to 2012-13 were as under:

(₹ in crore)

Year	Total Receipts					Total Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
2008-09	524	506	115	162	1,307	1,252
2009-10	627	525	155	285	1,592	1,359
2010-11	618	745	158	193	1,714	1,560
2011-12	1,163	1,376	336	331	3,206	3,047
2012-13	1,235	832	189	628	2,884	2,350

(Source: Figures furnished by ZPs)

1.7.2 The following are the component-wise details of the revenue/capital expenditure of GPs and ZPs including PSs from 2010-11 to 2012-13:

² Except Bhandara and Wardha

³ Excludes opening balance

⁴ Except Amaravati, Bhandara, Beed and Yavatmal

(₹ in crore)

Sr. No.	Components	GPs expenditure			ZPs & PSs expenditure		
		2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1.	Education	64	122	60	8,434	9,705	10,894
2.	Health and Sanitation	399	708	457	1,949	1,627	1,547
3.	Public Works	523	1,180	843	1,626	1,351	1404
4.	Social Welfare	145	223	127	935	954	776
5.	Irrigation	29	65	5	823	451	778
6.	Animal Husbandry	6	9	5	256	286	321
7.	Agriculture	6	12	7	277	193	345
8.	Public lighting	39	70	47	47	36	25
9.	Forest	8	1	1	21	27	0
10.	Administration	262	507	323	1,368	1,649	2,004
11.	Rural Water Supply	*	*	54	*	*	348
12.	Women and Child	*	*	1	*	*	573
13.	Other expenditure	74	146	76	5,111	4,228	2,820
14.	Capital expenditure	5	4	344	4,981	4,114	8,168
TOTAL		1,560	3,047	2,350	25,828	24,621	30,003

(Source: Figures furnished by ZPs)

* Information not furnished separately by GPs, ZPs and PSs.

The expenditure of GPs in 2012-13 had decreased by 22.87 *per cent* in comparison to the previous year whereas, expenditure of ZPs had increased by 21.86 *per cent* during 2012-13 over the previous year.

1.7.3 The works undertaken by the ZPs are categorized as: (i) ZPs own schemes; (ii) Schemes transferred/funded by the State Government; and (iii) Schemes funded by other agencies. From the information received from 31 out of 33 ZPs² for the year 2012-13, these ZPs incurred an expenditure of ₹ 26,523.37 crore (₹ 22,852.84 crore on transferred schemes, ₹ 2,016.27 crore on agency schemes and ₹ 1,654.26 crore on ZPs own schemes). District-wise break up of expenditure incurred on transferred schemes, agency schemes and ZPs own schemes during 2012-13 are indicated in **Appendix II**.

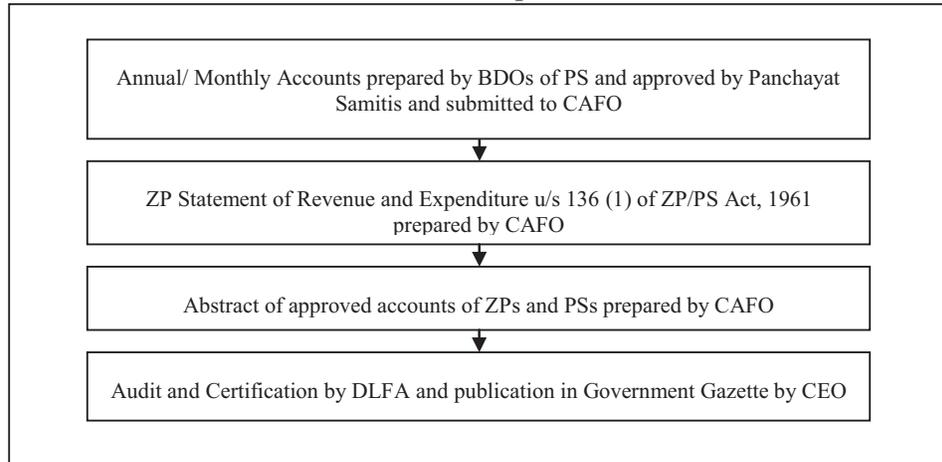
1.8 Accounting arrangements

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. Under provisions of Section 62 (4) of the VP Act, the Secretaries of the GPs are required to prepare annual accounts of GPs. A Performance Audit on quality of maintenance of accounts in PRIs in Maharashtra State was also conducted and commented in Chapter II of the Report of the Comptroller and Auditor General of India (Local Bodies), Government of Maharashtra (GoM) for the year ended 31 March 2008.

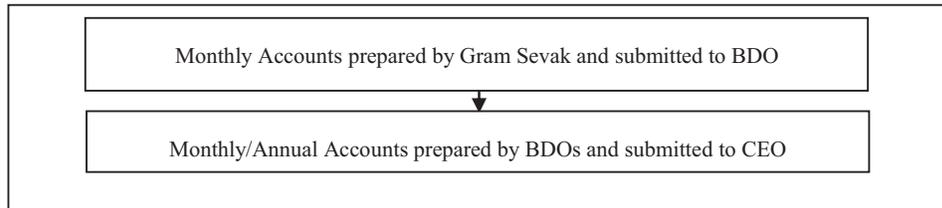
1.8.2 In accordance with the provisions of Section 136 (1) of the ZP/PS Act and Rule 66 A of the Maharashtra Zilla Parishads and Panchayat Samitis (MZP&PS) Account Code, 1968, CEOs of ZPs are required to annually prepare statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year to which the statement relates. 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 are prepared by CAFO and forwarded to the Director, Local Fund Audit (DLFA) for audit, certification and publication in the Government Gazette.

Flow Chart of Accounts compilation in ZPs and PSs



Flow Chart of Accounts compilation in GPs



1.8.4 As per Section 136 of ZP Act and Rule 66 of MZP&PS Account Code, 1968, the prescribed date for preparation and approval of annual accounts of ZPs for a financial year is 30 September of the following year and accounts of ZPs are required to be published in the Government Gazette by 15 November of the year. Accordingly, the accounts for 2012-13 should have been finalized by September 2013 and published by November 2013. However, information provided by the Department (December 2013) indicated that only the accounts up to the year 2010-11 have been published in the Government Gazette and submitted to the State Legislature. The annual accounts of all 33 ZPs for the year 2011-12 and 2012-13 have been finalized and submitted to DLFA for certification. After certification by DLFA, accounts would be published in the Government Gazette.

1.8.5 Non-adoption of format of accounts prescribed by Comptroller and Auditor General of India

The Eleventh Finance Commission (EFC) had recommended that the Comptroller and Auditor General of India exercise control and supervision over the proper maintenance of accounts of LBs. Accordingly, Comptroller and Auditor General of India had prescribed the formats for maintenance of accounts by PRIs in 2002. This was followed by simplified formats in 2007 and 2009. The State Government was required to amend the MZP&PS Account Code, 1968 and Maharashtra Village Panchayat (Budget and Accounts) Rules, 1959 for adoption of the accounts formats prescribed by the Comptroller and Auditor General of India. It was however, observed that the State Government has not yet amended MZP&PS Account Code as of December 2013 due to which, accounts in the prescribed formats were not maintained in any of the ZPs. The Rural Development and Water Conservation Department (Department) stated that the practice of maintaining accounts in Model Accounting System (MAS) was in progress in all the PRIs of Maharashtra (ZPs, PSs and GPs). The proposal for amendments in relevant Rules has been submitted to Law and Judiciary Department for approval.

1.8.6 Pending assessment of grants

The grants released by the Government to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year according to Government orders (May 2000). They were to inform Rural Development and Water Conservation Department about the amounts recoverable from/payable to ZPs for adjustment for release of further grants.

It was however, observed that in 23 out of 33 ZPs⁵, there were arrears in assessment of grants in respect of 10 Departments as shown below:

Sr. No.	Name of department	Period of arrears
1.	Education	2000-2013
2.	Agriculture	1998-2013
3.	Social Welfare	1998-2013
4.	Animal Husbandry	1999-2013
5.	Public Health	2000-2013
6.	Family Welfare	1998-2013
7.	Water Supply and Sanitation	1998-2013
8.	Women and Child Welfare	1993-2013
9.	Minor Irrigation	1998-2013
10.	Public Works	2001-2013

(Source: Figures furnished by ZPs)

The Department stated (December 2013) that the cash grants were released to the ZPs through Budget Distribution System by the respective Administrative Departments and all the Administrative Departments have been directed to clear the arrears in assessment of grants.

⁵ ZPs Aurangabad, Bhandara, Beed, Buldhana, Chandrapur, Jalna, Latur, Parbhani, Washim and Yavatmal did not furnish any information

1.9 Thirteenth Finance Commission Grants

The State Government released an amount of ₹ 2,711.70 crore as per recommendations of the Thirteenth Finance Commission of which, ₹ 1,582.29 crore (58 per cent) has been spent as of March 2013.

1.10 Audit arrangements

1.10.1 Audit by Director, Local Fund Audit

The Audit of PRIs is conducted by the DLFA in accordance with the provisions of the Maharashtra Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act, 1958. The DLFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

It was observed that local fund (transaction) audit of all ZPs and PSs was conducted for the year 2012-13. The Consolidated Audit Review Report for the year 2010-11 was prepared by the DLFA and presented to the State Legislature in July 2013.

1.10.2 Audit by Comptroller and Auditor General of India

The Comptroller and Auditor General of India conducts audit of ZPs and PSs under Section 14 of The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Section 142 A of the ZP Act, 1961 also contains an enabling provision for audit by the Comptroller and Auditor General of India.

Audit of GPs was also entrusted (March 2011) to the Comptroller and Auditor General of India under Technical Guidance and Supervision by the GoM under Section 20 (1) of The Comptroller and Auditor General's (DPC) Act, 1971.

1.10.3 Formation of District Level Audit Committees

The Government directed (March 2001) ZPs to constitute District Level Audit Committees (DLACs) for discussion and settlement of outstanding audit objections raised by DLFA and the Principal Accountant General/Accountant General. The Department stated (December 2013) that against 2,24,127 outstanding paragraphs, 12,334⁶ paragraphs had been cleared during 2012-13.

1.10.4 Outstanding Paragraphs from DLFA Reports

As per Annual Audit Review Report of DLFA for the year 2010-11, 1,09,178 paragraphs in respect of Government funds involving ₹ 6,016.04 crore and 27,154 paragraphs pertaining to ZPs own funds involving ₹ 804.02 crore were pending for settlement for the period from 1962 to 2011 as indicated in **Appendix III**.

1.10.5 Outstanding Inspection Reports and Paragraphs of Accountant General

Audit observations on financial irregularities and defects in initial accounts/records noticed during local audit by the Principal Accountant

⁶ Accountant General: 981; Local Fund Audit: 10,492 and Panchayati Raj Committee: 861

General/Accountant General but not settled on the spot are communicated to the heads of offices and departmental authorities through Inspection Reports. More important and serious irregularities are reported to the Government. Statements indicating the number of observations outstanding for over six months are also sent to the Government for expediting their settlement.

For efficient implementation of the schemes transferred to the PRIs and ensuring accountability, all deficiencies pointed out by the Principal Accountant General/Accountant General are required to be complied with promptly.

At the end of March 2013, 3,842 Inspection Reports containing 12,809 paragraphs of ZPs, PSs and GPs issued by audit were pending settlement despite holding of four Audit Committee Meetings during 2012-13.

Year	Inspection Reports	Paragraphs
Up to 2009-10	3030	8,819
2010-11	364	1,490
2011-12	244	1,156
2012-13	204	1,344
Total	3,842	12,809

Arrears in outstanding Inspection Reports and paragraphs indicated weak internal controls in PRIs.

1.11 Conclusion

The functioning of Panchayati Raj Institutions in the State revealed that:

- allocations to Local Bodies were meagre at 18.38 *per cent* (Panchayati Raj Institutions: 14.50 *per cent* and Urban Local Bodies: 3.88 *per cent*) as against 40 *per cent* of the total State's revenue recommended by the Second Maharashtra State Finance Commission;
- out of 29 functions listed in the XI Schedule of the Constitution of India, only 11 functions were transferred to Panchayati Raj Institutions;
- though annual accounts of all the 33 ZPs for the year 2011-12 and 2012-13 have been finalized, these were yet to be certified by DLFA and published in the Government Gazette; and
- the Maharashtra Zilla Parishads and Panchayat Samitis Account Code and Maharashtra Village Panchayat (Budget and Accounts) Rules have not been amended. As a result, accounts in the formats prescribed by the Comptroller and Auditor General of India were not maintained in any of the Zilla Parishads.

The matter was referred to the Government in April 2014; their reply was awaited.