

# CHAPTER 10

## Accounts, Audit and Governance Issues

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**10.1** In this chapter we have dealt with some important issues relating to accounts and financial accountability, organizational and administrative issues, which impact on effective decentralized rural governance.

### **Maintenance of Accounts by Panchayats:**

**10.2** The Panchayat Act provides (Sec. 73) for preparation of annual accounts and report of administration by Panchayats. The State Govt. has framed rules in (1998 and 1999), governing maintenance of accounts by each level of Panchayats in the State. The rules laid down maintenance of register and records by them and the procedure to be observed in regard to maintenance of accounts. At GP level, the cash book, general ledger, grants register, DCRB register, register of dead stock, register of immovable properties, register of fines and penalties and preparation of monthly statement of receipts and payment and annual receipts and payment accounts, etc are required to be maintained. Proper maintenance of registers, records and accounts can be expected at the JP and ZP level as they have separate account staff. At GP level, however, maintenance of registers, records and accounts is a major problem area.

**10.3** Successive Finance Commissions, since the XI FC, have emphasized on proper maintenance of accounts and financial accountability at GP level. The GPs presently handle large expenditure, not only their own but also of Central and State schemes being implemented by them. In order to ensure minimum financial transparency and accountability, proper maintenance of accounts and timely audit are a necessity. Presently, not many Panchayats maintain accounts properly. The State Govt. has introduced 'PRIA Soft', a simple format for maintenance of accounts through computers. For maintenance of the assets of the GPs also new software called 'Asset Soft' has been introduced. But proper maintenance of accounts at GP level continues to be a far cry. Not all GPs have computers. Although the gap in the coverage of computers is sought to be bridged through funds available under BRGF and agency commission of MNRGEA, the Panchayat Sachivs are not computer literate and need training to handle them. Presently, some arrangement has been made for maintenance of accounts of GPs through PRIA Soft computer software at Janpad

Panchayat level. That unfortunately does not serve much purpose. It will take time for all the Panchayats Sachivs to become computer- literate and maintain accounts themselves. *We have therefore recommended that there should be atleast one computer operator-cum-accountant in every Panchayat. Accounts must be maintained at GP level only and the Gram Sabhas must have access to it. There should be periodic review of the position of income and expenditure of the GP and the position should be put up before the Gram Sabha with a view to ensure financial accountability. This is possible only when accounts are maintained properly and regularly.*

### Audit

**10.4** An important aspect of financial accountability is audit. Although the Govt. has declared the Local Fund Audit organization to be the statutory auditor of PRIs and ULBs since 2003-04, statutory audit of GPs has so far been negligible. Because of the organization's capacity constraints the audit of JPs and ZPs are also pending for years. The Panchayat Act (Sec. 129) provides for a separate and independent organization under the control of the State Govt. to perform audit of accounts of Panchayat. The State Govt. has framed detailed rules regarding the procedure of audit and the powers and duties of the auditors. There is provision for annual and special audit. Until March, 2003 the audit of accounts of GPs was been conducted by the Panchayat Auditors of the Panchayat Deptt., while those of JPs and ZPs were being audited by the Local Fund Audit (LFAD). With effect from 2003-04, audit of accounts of GPs has also been entrusted to LFAD as statutory auditor. (Table 10.1)

**Table 10.1**  
Status of audit of PRIs by LFAD

(As on 31<sup>st</sup> August, 2012)

Sl. No.	Item	Gram Panchayats	Janpad Panchayats	Zila Panchayats
1	Total No. of Panchayats	9734	146	18
2	No. of Pending Audit Years Pertaining to:			
a)	Upto March 2003	No LF Audit	19	8
b)	Upto March 2004	6565	10	1
c)	Upto March 2005	6691	14	1
d)	Upto March 2006	7286	17	2
e)	Upto March 2007	7518	23	2
f)	Upto March 2008	7811	28	3
g)	Upto March 2009	8427	54	7
h)	Upto March 2010	8921	70	11
i)	Upto March 2011	9330	96	15
j)	Upto March 2012	9630	140	20
3	Total No. of Audit Years Pending	72134	471	70
4	Audit Completed in 2011-12	477	45	2
5	No. of Pending Audit Years as on 31.8.2012	71657	426	68

Source: Directorate of LFAudit, Govt. of Chhattisgarh

It may be seen from the table that there are huge backlogs, Audit of almost 80% of GPs is pending and during the last two years there has been practically no audit of GPs. The reasons for such accumulation of audit are several and include limited audit staff available with the LFAD, improper and poor quality of maintenance of financial records of the GPs, lack of proper guidance to GP functionaries in financial management practices and procedures, etc.

10.5 Not only are there backlogs in audit, the position of settlement of audit objections are worse.

*Table-10.2*

**Audit Objections Pending & the Amount Involved and Cases of Embezzlement**

(As on 31<sup>st</sup> August, 2012)

Sl. No.	Item	Gram Panchayats		Janpad Panchayats		Zila Panchayats		Total (Rs. in lakhs)	
		NAOP/ NOCE	Amount Involved	NAOP/ NOCE	Amount Involved	NAOP/ NOCE	Amount Involved	NAOP/ NOCE	Amount Involved
1	Audit Objections Pending and Amount Involved	85436	14289.27	31783	22408.41	20072	11824.77	137291	48522.55
2	No. of Cases of Embezzlement and Amount Involved	6	0.11	267	83.58	984	461.24	1257	544.93

*NAOP: Number of Audit Objections Pending*

*NOCE: Number of cases of Embezzlement*

*Source: Directorate of LF Audit, Govt. of Chhattisgarh*

From Table-10.2 it may be seen that by August-end 2012, the total number of audit objections raised by the statutory auditors of Panchayats which still remain unsettled are 85,436 involving transactions to the tune of Rs.142.89 crore in the case of GPs; and 31,783 involving transactions of the value of Rs.224.08 crore in the case of JP in the State. In regard to ZPs, 20,072 audit objections involving a monetary value of Rs.118.25 are still to be settled. *In sum, the aggregate number of audit objections which need clearance from the statutory auditors are 1,37,291 involving transactions of the value of Rs.485.23 crore by the end of August 2012. From the same table it may be observed that till August 2012, the number of cases of embezzlement of funds noticed by the LF Auditors were 6, 267, and 984 in the case*

of ZPs, JPs and GPs respectively. The corresponding amount involved is stated to be Rs.0.11 lakh, Rs.83.58 lakh and Rs.461.24 lakh respectively. Thus, *altogether a total of 1257 cases of embezzlement involving a total sum of Rs.544.93 lakh were noticed by the statutory auditors in the course of conducting their annual post-audit of the accounts of Panchayats in the State.*

**10.6** As per the recommendations of the XIII Finance Commission, the State Govt. notified in 2011 (FD notification no. 1244/242/2011/ESTT/IV dated 24.10.2011) that the LFAD shall function under the technical guidance and supervision (TG&S) of the C&AG. But the system of statutory audit of PRIs as envisaged by the 13<sup>th</sup> Finance Commission has not been in place so far. Under the scheme the AG is also not only to provide technical guidance to LFAD and supervise audit but also undertake sample audit of local bodies. We have been informed by the AG (Audit), Chhattisgarh that the process of sample audit of ULBs by AG has started but the process of technical guidance and supervision by the AG is yet to commence. The GPs continue to be audited by the auditors of the Panchayat Deptt. The Commission has been informed by LFAD that they were associated neither with the design of PRIA Soft nor in its use. The GPs refuse audit by LFAD on the ground that their account are audited by the Panchayat auditors. We have observed that there is lack of co-ordination between the Panchayat Deptt. and LFAD which is under the Finance Deptt.

**10.7** Accounts and audit continue to be the weakest link in Panchayat system which militates against their institutional development. We have not received information regarding compliance of audit report and hence have not reviewed the position. We understand that the position of compliance is worse. This should be an area of great concern for the State Govt., but seems to have received little attention. *We therefore strongly recommend that the statutory audit system be strengthened most urgently. We recommend the following in this regard:*

*1 We have separately recommended appointment of an accountant-cum-computer assistant in each GP for proper maintenance of accounts and related registers.*

*2. The LFAD with its present strength does not have the capacity to carry out audit of GPs and other local bodies. The LFAD set up requires immediate review and strengthening in a time bound manner. This exercise must be undertaken urgently by the Finance Deptt. if necessary in consultation with the AG, Panchayat and RD and UAD Deptts. We have commented on this in Chapter 17 also.*

*3. Special drive for specifically reducing the existing volume of audit arrears may be organized by deploying the existing machinery of Internal Audit & Taxation Officers*

*for assisting the statutory audit machinery in the process of their audit. The services of retired LFAD officials may be taken to liquidate audit arrears.*

*4. In view of the sheer numerical strength of Gram Panchayats in the State, the State government may examine the feasibility and desirability of creating a separate Section in the Directorate of LF Audit staffed with adequate and qualified auditors exclusively for attending to the audit of Panchayat accounts.*

*5. The cadre of Panchayat Auditors should be merged with LFAD.*

*6. Appropriate penal action in terms of the existing statutory provisions may be initiated against those Panchayat functionaries who, despite being informed of the date of audit in advance, deliberately or willfully avoid audit on some pretext. It is also understood that many records and registers of atleast the last five years are not preserved carefully and are said to be not available or traceable. Also, instances are not rare where change of incumbency in the office of Sarpanch took place, the official records and registers were not being handed over by the outgoing Sarpanch to his/her successor, and that no penal or legal action is stated to have taken in several such cases.*

*7. Expeditious action may be taken by the government to recover the funds which are lawfully due to the Panchayats from Panchayat functionaries or other relevant officials under the control of Panchayats on account of embezzlement, or misappropriation of Panchayat funds or misuse of their financial powers. The competent authority under the Panchayat Act should be fully empowered for recovery of such dues.*

*8. The State Govt. should proactively pursue the C&AG for providing TG & S to LFAD and taking up test audit of local bodies.*

#### **Other Governance Issues:**

**10.8** Of the three tier Panchayats, the GP is closest to the people and is directly responsible for providing civic services, developing basic infrastructure in the villages and implementing schemes of economic and social justice. The State Panchayat Act has entrusted to them all the 29 functions listed in the XI Schedule to the Constitution. It is therefore at this level that the governance issues are crucial to their effective functioning. The JPs, on the other hand, being an intermediate level, have mostly supervisory functions and very few direct responsibilities. The ZPs are primarily responsible for supervision and monitoring but also have direct responsibility for implementation of Central and States scheme. They also have



control over the staff of various line Departments. But as already mentioned, it is at the GP level that the governance issues are critical. The main problem is lack of capacity. The GPs have greater focus on implementation of schemes like MNREGA and Indira Awas Yojna etc and implementation of social security measures such as, old age pension etc and PDS, than providing necessary services in the villages and discharging their Constitutional responsibilities. The Commission during field visits felt that this has unfortunately led to a disconnect between the people and the Panchayats, which needs to be remedied.

**10.9** Capacity development, both institutional and functional is the key to effective rural governance. Taking the second first, the functional capacity of GPs is severely limited. There is a need for strengthening, along with their finances, the capacity of the GPs in terms of manpower and training. It is beyond the capacity of one Panchayat Sachiv to discharge all the responsibilities of GP and levy and recover taxes, maintain all the records, attend various meeting at JP and ZP level and do a multitude of other duties. Many GPs have been provided computers but they are not put to use because the Sachivs are not computer-literate. *The GPs urgently need the following staff: An Accountant-cum-Computer operator; one assistant, and one technical person in bigger Panchayats to look after maintenance of water supply, street light and construction works. Alternatively a qualified technical assistant may be appointed for a cluster of GPs and placed under the concern JP. The Govt. can take full advantage of RGPSA for this.*

### **Training**

**10.10** The capacity and competence of the Panchayat personnel, both elected and appointed, are directly proportional to the training they receive. The present training infrastructure of Panchayats comprise of a State Institute of Rural Development (SIRD), six ETCs (Regional Panchayat and RD Training Centre), 110 Panchayat Resource Centres at Block level and 700 Community Centres for a cluster of 10 GPs. The SIRD organizes a number of training programmes for both Panchayat officials and elected representatives and is reasonably equipped. Training programmes are also organized through the six ETS under SIRD. The Block (Janpad level) Resource Centres and the Community Resource Centres are only in name. They lack necessary manpower and equipment for training. Even the SIRD itself and the six ETCs suffer from lack of experienced manpower to impart training. The State Govt. propose to add 22 more district level Panchayat and RD training centres so that all districts have atleast one training centre. They also propose to add 36 Block level resource centres so

that each block has a training centre. These additions are proposed under the RGPSA, the new Central scheme. While a four tier training infrastructure may be the most useful, in view of the resource constraint, we would suggest that focus should be on SIRD and the Block Level training centres, while the district level centres function only as Panchayat Resource centres rather than training centres. We have been informed that all elected representative have been give some training. The Panchayats Sachivs are also trained in various aspects of functioning of Panchayats. But they need more intensive and extensive training than at present. The Block level training centres are best suited for training of GP personnel, both elected and appointed. *We therefore recommend that instead of spreading the resources too thin by creating community centres, the State Govt. should focus on strengthening SIRD and Block level institutions for creation of adequate training infrastructure. The district centres should primarily be resource centres for technical support, preparation of training material etc for lower level training institutions. We also recommend that there should be special incentive for trainers to attract competent people.*

#### **Viability of GPs of JPs**

**10.11** At present all GPs are being treated in a uniform manner in terms of statutory and agency functions and revenue raising powers regardless of their geographical and demographic profile and resource base. In fact, the geographical area, the size of population to be served, level of resources available should dictate the staff support required and the nature and scale of services to be provided. A GP in a tribal area is treated on par with those in non-tribal areas. *It would be advisable to categorize GPs into two/three categories on the basis of their area, population, and revenue base for financial assistance and for staffing.*

#### **Basic/Core Services**

**10.12** The GPs do not seem to have a clear idea as to what constitute basic/core, civic amenities/services required to be provided by them. In fact presently, the 'basic services grant' being provided to GPs is being used for a variety of purposes, not related to basic services. In the rural areas of this State, the basic services comprise supply of safe drinking water, sanitation, street lights, internal roads and drainage, primary health care, primary education and maintenance of common properties. *We recommend that the Govt. should not only clearly define basic services at village level but also set the standards of service to be achieved and also the timeframe within which to be achieved. In some State, core*

*services to be provided by GPs are identified in the Panchayat Act itself. The funds earmarked for basic services should be used for such services.*

### **Release of Gram Panchayat Grants**

**10.13** As per the present practice in the State all grants to JPs and GPs are disbursed through the ZP. This results in avoidable delays in resource transfers as well as maintenance of separate records. With e.connectivity up to the JP level in the State, all grants meant to reach JPs and GPs can be released directly from the State headquarters to JPs under intimation to ZPs. This will avoid ZPs keeping account of such grants. *Hence, the Commission recommends that all grants which are specifically earmarked to GPs and JPs and where ZP does not enjoy any discretion with regard to their distribution among the lower levels of Panchayats, be directly transferred to the JPs, marking a copy of such releases to the ZPs concerned. The JPs can in turn distribute the grants meant for GPs in their respective jurisdictions without much delay.*

### **Taxation in Schedule V area GPs**

**10.14** As observed earlier tribal and non-tribal GPs can be differently treated in the matter of grant of revenue-raising powers also. In the light of the narrow revenue base available for the GPs and JPs in all the 85 tribal blocks spread over in as many as 18 districts in the State, the government may examine the feasibility of making all obligatory tax and non-tax levies of GPs 'optional' levies for them. If necessary PESA may be amended to give effect to this suggestion.

### **Panchayat Data Bank**

**10.15** At present, the records maintenance at the GP level is in a chaotic state. Account books are not properly and regularly maintained by most of them. Budget estimates, annual administration reports, and statements of annual account are not promptly prepared, presented and preserved. Lack of reliable, appropriate and adequate data on local government finances in the State is one of the constraints to relate financial assistance to the fiscal needs of these institutions. The XI Finance Commission had earmarked a portion of its grant to local bodies for maintenance of accounts in Gram and intermediate Panchayats, and for creation of a database. However, this earmarked grants have apparently not been used for the specified purpose. The need for a data bank on Panchayats and municipalities deserves no special



emphasis. We feel that it would be more practical and useful and also feasible to create Panchayat data bank at district level. Thus *collection, classification, tabulation and monitoring of statistical and other specified information on Panchayats at all levels in the district* should be assigned to the ZPs. *The Commission accordingly recommends establishment of a Data Bank on all Panchayats in the district be made an obligatory duty of the ZPs, through a statutory amendment, if necessary. The ZPs should be provided with necessary staff, equipment and funds, if necessary by earmarking a portion of the Central Finance Commission grant for this purpose. The funds proposed to be transferred to ZPs by this Commission should be used for this purpose.*