

## Chapter-I

### An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions (PRIs)

#### An Overview of the Functioning of the PRIs in the State

##### 1.1 Introduction

The 73<sup>rd</sup> Constitutional Amendment Act, 1992 conferred Constitutional status to the Panchayats and recognised them as the third tier of Government to ensure a more participative government structure in the country.

The amendment provides for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice. It also provides for transferring of 29 subjects listed in XI<sup>th</sup> Schedule of the Constitution of India for PRIs. As a follow up, the State was required to entrust PRIs with such powers, functions and responsibilities as to enable them to function as Local Self Government Institutions (LSGIs). The Constitutional Amendment established a system of uniform structure, conducting of regular election, regular flow of funds *etc.* The legislative framework for conduct of business of the PRIs includes:

- Assam Panchayat Act, 1994 (AP Act, 1994);
- Assam Panchayat (Financial) Rules, 2002 [AP (F) Rules, 2002];
- The Assam Panchayat (Administrative) Rules, 2002 [AP (A) Rules, 2002]; and
- Government instructions issued from time to time.

The Administrative set-up of panchayats in the State consists of a three tier system; Gaon Panchayat (GP) at the Village level, Anchalik Panchayat (AP) at the Intermediate level co-terminus with Blocks and Zilla Parishad (ZP) at District level.

There were 2,412 PRIs in the State as on 31 March 2015. All the 2,412 PRIs are in General Areas<sup>1</sup>. The Panchayati Raj system does not exist in the Sixth Schedule Areas where local governance is vested with the Autonomous District Councils (ADCs).

The statistics of rural population of the State and number of PRIs is given in **Table 1.1**

**Table 1.1: Statistics of rural population of the State and number of PRIs**

Sl. No.	Indicator	Unit	Value
1	Population	Crore	3.12
2	Population density	Persons / Sq.km.	398
3	Rural population	<i>Per cent</i>	86
4	Rural Sex Ratio	Per thousand	960
5	Rural Literacy Rate	<i>Per cent</i>	69.34
6	Zilla Parishads (ZP)	Numbers	21
7	Anchalik Panchayats (AP)	Numbers	189
8	Gaon Panchayats (GP)	Numbers	2,202

Source: Economic Survey, Assam 2014-15.

<sup>1</sup>Areas not listed in the sixth schedule of Constitution of India.

The position of PRIs in Assam in terms of number, average area and average population is given in **Table 1.2**.

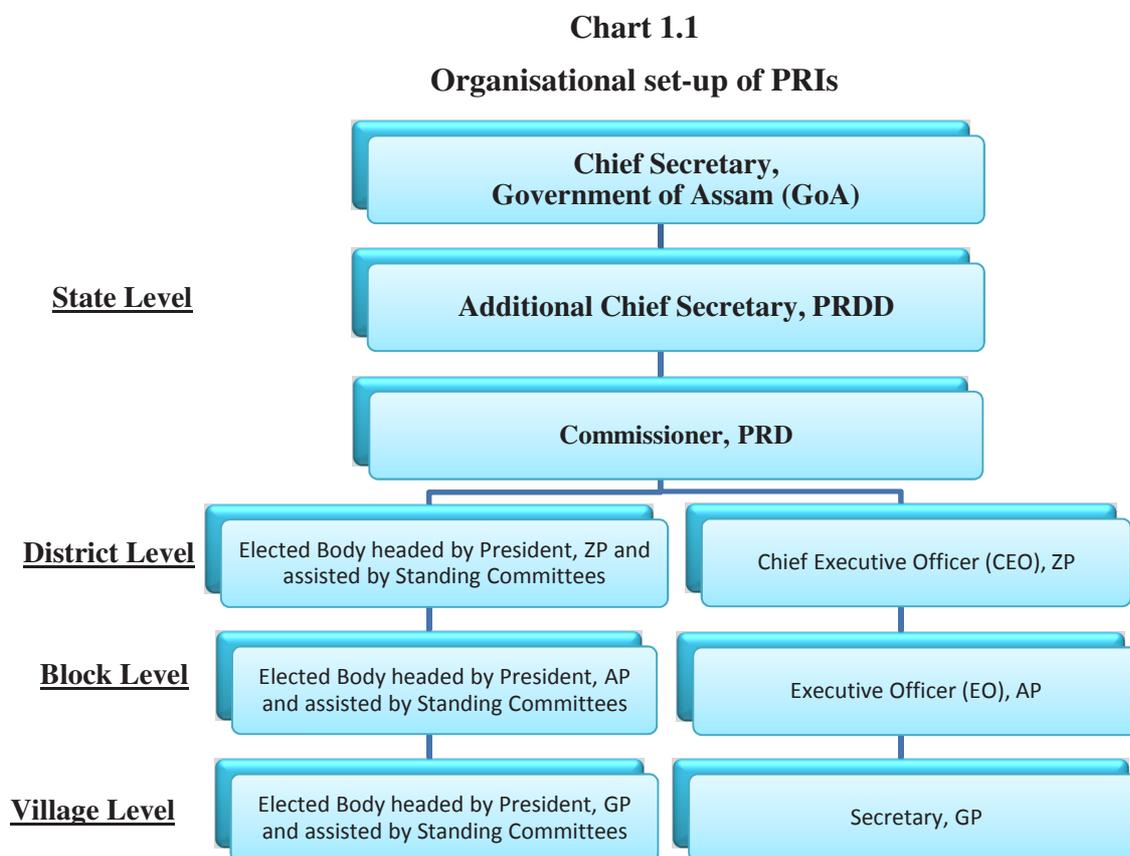
**Table 1.2: Position of PRIs**

Level of LB	No.	Average Area per PRIs (Sq Km)	Average population
		<i>As per 2011 census</i>	
Zilla Parishad (ZP)	21	2032.93	1188256
Anchalik Panchayat (AP)	189	219.78	128460
Gaon Panchayat (GP)	2202	18.46	10793

Source: Assam State Finance Commission's report submitted for 14<sup>th</sup> CFC.

## 1.2 Organisational Set-up in State Government and PRIs

The Additional Chief Secretary, Panchayat and Rural Development Department (PRDD) is the administrative head of PRIs and is assisted by the Commissioner, Panchayat and Rural Development (PRD) in allocation of fund, overall control and supervision of functions and implementation of different schemes at the State level. Organisational set-up of PRIs is depicted in **Chart 1.1**:



## 1.3 Functioning of PRIs

### 1.3.1 Administrative machinery in PRIs

The Administrative set up of panchayats in the State consists of a three tier system, GP at the village level, AP at the intermediate level co-terminus with Blocks and ZP at the District level. The Constitution enjoins the State Government to make appropriate legislation regarding devolution of powers and functions to the panchayats in such a way as to enable them to function as LSGI.

Subject to the provisions of the AP Act, a Panchayat may make by-laws to carry out its functions. The Constitutional Amendment empowered them with powers and authority in revenue mobilisation and gave them access to such resources as the State Legislature may, by law, confer on them. Accordingly, the AP (F) Rules were framed in 2002 and amended in 2004 which empowers all the three tiers to levy and collect taxes. Through the AP (F) Rules, GPs got the power to levy tax *viz.*, tax on houses and structures and tax on trades *etc.* However, the relevant bye-laws had not been framed (March 2015).

### **1.3.2 Staffing pattern of PRIs**

On the matter of staffing pattern fixed by AP (A) Rules 2002, the Third Assam State Finance Commission (TASFC) while observing the acute shortage of staff at all level of PRIs recommended a revised staffing pattern of 30, 20 and 8 for each ZP, AP and GP respectively from 2008-09. It was observed that the revised staffing pattern recommended by TASFC was not implemented by PRDD.

PRDD could not fill up the vacant posts of PRIs in spite of approval given by the Finance Department. Regarding new staffing patterns, PRDD stated (December 2015) that proposed staffing pattern was under consideration of the Government.

PRIs were understaffed and therefore unable to implement/administer the various schemes effectively and efficiently. The TASFC noted (vide para 4.53) that the present scenario of Panchayat administration in Assam was marked by a deficiency syndrome in manpower development and that PRIs at all levels were starved of adequate number of functionaries in respect of competent staff trained in the nitty-gritty of functional and fiscal decentralisation. The post of Chief Accounts Officer (CAO) and Chief Planning Officer (CPO) had been created in each ZP to provide advice on financial matters including the preparation of Annual Accounts and Budget and also advice the ZP on plan formulation. However, no appointment had been made (March 2015) by the State Government. In the absence of suitable administrative machinery in the PRIs, a substantial portion of the budgetary outlays under Plan and Non-plan in the revenue accounts earmarked for panchayats against transferred subjects were being spent through the respective line departments. Unless the required legal framework along with appropriate administrative machinery is put in place, it would be futile to expect PRIs to become pro-active in augmenting internal revenue generation.

### **1.3.3 Status of devolution of functions, funds and functionaries**

In June 2007, GoA issued notification regarding 'Activity Mapping' for 23 subjects out of 29 as listed in XI<sup>th</sup> Schedule of the Constitution of India for devolution of Funds, Functions and Functionaries (3Fs) to the PRIs. However, Government orders were issued for devolution in respect of only seven out of 23 notified subjects till March 2015. Further, 'Activity Mapping' in respect of remaining six subjects had not been completed (December 2015). Though GoA accepted (February 2014) the recommendation of fourth ASFC for transfer of all activities listed in Schedule XI of Constitution of India to the PRIs at the appropriate level, along with funds and functionaries, action in this regard is yet to be taken (December 2015) by the Government.

For meaningful devolution, deployment of functionaries from the line departments to the PRIs at all levels was a pre-requisite condition. However, the approach adopted by the State Government was only partial. Apart from this, every year a substantial portion of budgetary outlays under Plan and Non-Plan revenue account was earmarked for PRIs against transferred subjects. Till March 2015, only Central Finance Commission (CFC) and SFC Funds were passed on to the PRIs on a regular basis. Apart from this the PRIs got funds under District Development Plan (DDP). In addition, central funds channelised through Backward Regions Grant Fund (BRGF) were received by PRIs at all levels wherein the funds under other Centrally Sponsored Schemes (CSS) viz., Indira Awas Yojana (IAY), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) etc., were received by the APs and GPs from respective DRDAs of the District.

It is evident from the above that devolution of 3Fs to panchayats in respect of the transferred subjects is far below the desired level. The GoA had created a Panchayat window in the State Budget and every year a substantial portion of budgetary outlays under Plan and Non-Plan in the revenue account was earmarked for panchayats against the transferred subjects. However, the earmarked amount was being spent by the line departments.

#### **1.4 Formation of various committees**

##### **1.4.1 Standing Committees**

Sections 22, 52 and 81 of Assam Panchayat Act, 1994 stipulate that PRIs shall constitute Standing Committees to perform functions assigned under the Act. Details of constitution of Standing Committees and its roles and responsibilities are given in **Appendix-I**. However, functionings of Standing Committees in the PRIs were not upto the mark which has been discussed in the paragraph **2.11.4** of **Chapter II**.

##### **1.4.2 District Planning Committee (DPC)**

As per Article 243 ZD of the Constitution of India, the State Government is required to constitute a District Planning Committee (DPC) consisting of (i) members of the House of People who represent the whole or part of the District, (ii) members of Assam Legislative Assembly; and (iii) number of persons not less than four fifth of the total number of members from amongst the members of the ZP in districts, to consolidate the plans prepared by the panchayats in the District and to undertake integrated development of the District. Accordingly, Section 3 of AP Act, 1994 and AP (F) Rules 2002 framed there under, provides that the State Government shall constitute DPC in every District for tenure of one year. Deputy Commissioner is a permanent invitee to the DPC of the District. The President of the ZP is the Chairman and CEO of ZP is Ex-officio Secretary of the DPC.

###### **1.4.2.1 Role of DPC**

As per AP Act, 1994, DPC is to consolidate the plans prepared by the panchayats in the District and prepare a draft Development Plan for the District as a whole having regard to:

- the matter of common interest of panchayats in the District including sectoral planning, sharing of water and other physical and natural resources, the integrated development of infrastructures and environmental conservation;

- the extent and type of available resources whether financial or otherwise; and
- consult such institutions and organisations as the Governor may, by order, specify.

GoA, PRDD in June 2010 framed guidelines for preparation of a draft District Development Plan for PRIs detailing the method of preparation of draft plan at different stages of PRIs and consolidation of a draft Development Plan of the District. Though the guidelines provided a scope for a review of implementation and monitoring of the plan by the DPC, it did not prescribe a mechanism for reporting of progress of implementation of District Plan to the State Government. The DPCs did not call for submission of their annual plan from the PRIs and other stake holders with a view to prepare the Annual District Plan as a whole. Thus, the DPCs failed to perform its primary objective of preparation of District Plan as envisaged in the AP Act, 1994. Flaws in planning of District Development plans are also discussed in paragraph 2.11.2 of Chapter II.

## Accountability Mechanism and Financial Reporting issues

### 1.5 Audit arrangement

#### 1.5.1 Primary Auditor

Director of Audit, Local Fund (DALF), Assam, established under Assam Local Funds (Accounts & Audit) Act, 1930 is the Primary Auditor of all tiers of PRIs in the State. The Directorate is responsible for (i) carrying out the Audit of Local Funds with the help of 20 circle offices each of which was headed by an Assistant Director to perform audit functions at the District level; and (ii) facilitating submission of Audit Reports of the Administrative Departments. There are 131 audit parties comprising of one Audit Officer and one or more Assistant Audit Officers. The audit is conducted in conformity with the Assam Audit Manual and other prescribed Government Rules and Amendments declared by Government from time to time.

##### 1.5.1.1 Audit coverage by DALF

There were arrears in audit of PRIs during the period 2010-15 which ranged between 21 and 65 *per cent*. The year-wise position of units to be audited and those actually audited are detailed in Table 1.3.

**Table 1.3: Shortfall in covering the units planned for audit by DALF**

Year	No. of units planned for audit	No. of units audited	Shortfall	Percentage of shortfall
2010-11	1297	458	839	65
2011-12	877	492	385	44
2012-13	1423	788	635	45
2013-14	1130	888	242	21
2014-15	1131	842	289	26

*Source: Information furnished by DALF, Assam.*

Apart from this, there was also an arrear in issue of 1011 audit reports as of March 2015. The reasons for shortfall in audit coverage and arrear in issue of audit reports were attributed to

failure in production of records to audit, engagement of Audit Officials in Panchayat Election and works related to updation of National Register of Citizens (NRC).

### 1.5.1.2 Staff strength of DALF

Details of sanctioned strength and persons in position in the organisation as of 31 March 2015 are shown in **Table 1.4**

**Table 1.4: Sanctioned strength and persons in position in DALF**

Sl. No.	Post	Sanctioned	Men-in-position	Vacant	Percentage of vacancy
1	Director	1	1	Nil	Nil
2	Joint Director	2	1	1	50
3	Deputy Director	3	3	Nil	Nil
4	Assistant Director	23	12	11	48
5	Registrar	1	Nil	1	100
6	Superintendent	1	1	Nil	Nil
7	Audit officer	159	126	33	21
8	Assistant Audit Officer	220	117	103	47
9	Stenographer	1	1	Nil	Nil
10	Sr. Assistant (HO)	10	10	Nil	Nil
11	Jr. Assistant (HO)	19	18	1	5
12	Other ancillary staff	270	248	22	8
<b>Overall</b>		<b>710</b>	<b>538</b>	<b>172</b>	<b>24</b>

Source: DALF, Assam.

The organisation is functioning with an overall 24 per cent shortage of personnel within which the shortage in the cadre of Joint Director (50 per cent), Assistant Director (48 per cent) and Assistant Audit Officer (47 per cent) adversely affected the mandated functions of the organisation.

### 1.5.1.3 Presentation of Annual Audit Report

As per para 101 (i) of Assam Audit Manual, DALF is required to send an Annual Audit Report to the Finance Department by 30 September each year incorporating major outstanding audit objections relating to PRIs which were pending settlement for further action by the Finance Department. The status of consolidated Audit Reports submitted by DALF is shown in **Table 1.5:**

**Table 1.5: Audit Report submitted by DALF to the Government.**

Sl. No.	Consolidated Audit Report for the year	Submitted to Government	Laid before Legislature
1	2010-11 and 2011-12	21 March 2013	10 February 2014
2	2012-13 and 2013-14	7 December 2014	19 December 2014

However, follow up action and Action Taken Report by Finance Department on the Annual Consolidated Audit Report of DALF is wanting, thereby weakening the accountability mechanism of ULBs in Government.

### 1.5.2 Audit by CAG of India

CAG of India conducts audit of substantially financed PRIs under Section 14 (1) of CAG's (DPC) Act, 1971 and audit of specific grants to PRIs under Section 15 of the Act *ibid*. The

audit of PRIs is also conducted by CAG under Section 20 (1) of the Act as per Technical Guidance and Support (TGS) module as entrusted by the State Government in May 2002 followed by acceptance of standard terms and conditions of TGS (May 2011) pursuant to the 13<sup>th</sup> FC recommendations.

During April 2014 to March 2015 accounts of 54 PRIs (four ZPs, 20 APs and 30 GPs) were audited.

State Legislature has constituted (October 2012) a Local Fund Accounts Committee (LFAC) for the first time to discuss the Audit Report on LBs consisting of audit findings of PRIs. ATIR for the year ended 31 March 2010 was discussed by the Committee. However, Action Taken Report (ATR) on the ATIRs submitted to Government was awaited (October 2015). ATIR for the years 2011 to 2013 and CAG's Audit Report on PRIs & ULBs for the year 2014, though, placed before the Legislature, were yet to be discussed by the Committee.

## 1.6 Response to Audit Observations

Inspection Reports (IRs) were issued by Accountant General (Audit), Assam to audited PRI authorities with a copy of each to the State Government. PRI authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within three months from the date of issue of IRs. Important audit findings are also reported to Government through Audit Reports on Local Bodies.

The details of outstanding paragraphs in respect of PRIs as of March 2015 are shown in **Table 1.6**.

**Table 1.6: The details of outstanding IRs and paragraphs**

Year of Issue	No. of Inspection Reports	No. of Outstanding Paras	Money Value (₹ in crore)	First reply furnished
Upto 2010-11	465	3165	378.97	193
2011-12	65	433	174.71	20
2012-13	42	281	157.92	7
2013-14	51	366	176.50	4
2014-15	109	820	475.25	12
<b>Total</b>	<b>732</b>	<b>5065</b>	<b>1363.35</b>	<b>236</b>

Source: Progress Register.

Thus, 5065 paragraphs with monetary value of ₹1363.35 crore were pending settlement (March 2015) for want of replies from the concerned PRIs. Even the first reply had not been received in respect of 4829 paragraphs. Increasing trend of outstanding paragraph was indicative of the fact that compliance to audit observations was not done. The Administrative Heads of the Departments concerned also did not ensure that the concerned officers of the PRIs took prompt and timely action in furnishing replies to IRs and thereby weakening the accountability mechanism of PRIs in Government.

## 1.7 Ombudsman

The Ombudsman conducts investigation and enquires into instances of maladministration, corruption, favouritism, nepotism, lack of integrity, excessive action, inaction, abuse of position *etc.*, on the part of officials and elected representatives of PRIs. He can even register cases, *suomoto*, if the instances of the above kind come to his notice. In October 2014, the State Government initiated action for appointment of Ombudsman for 27 districts in the State

for a tenure of two years for conducting above investigation and enquires on the part of officials and elected representatives of LBs under section 27 (1) of the MGNREG Act, 2005. However, till October 2015 only eight Ombudsmen had been appointed for nine<sup>2</sup> districts. Thus, the process of selection of Ombudsman in all the districts was yet to be completed. There was however, no provision in the AP Act regarding setting up of Ombudsman for PRIs.

## **1.8 Social Audit**

The primary objective of Social Audit (SA) is to bring the activities of PRIs under close surveillance of people to enable them to access the records and documents of PRIs. Such immediate access to information would facilitate transparency and accountability in day-to-day functioning of PRIs. Except for a provision made under the Assam Rural Employment Guarantee (AREG) Scheme under MGNREGA, the State Government had not amended the relevant Panchayat Act by including a statutory provision for social auditing.

In July 2014, the Government designated the State Institute of Rural Development (SIRD) as Nodal Agency for conducting Social Audit of all the Panchayati Raj Schemes and Rural Development Schemes of the GoI/GoA under PRDD. Accordingly, the SIRD conducted Social Audit of 2201 Gaon Panchayats during November 2014.

Compliance Audit of “Audit of Schemes Rules 2011” (Social Audit) conducted by CAG during July 2015 revealed the following:

- There was delay in formation of Social Audit Unit (SAU) in the State.
- Full time dedicated Director as well as support staff was not recruited to make the SAU more effective and independent.
- Insufficient fund flow hampered the working of SAU.
- Appointments of Village Social Auditors were influenced by Implementing Agencies leading to possibility of biased auditing.
- SAU did not prepare any Audit Plan and calendar of training for conducting audit in a planned and effective manner.
- Gaon Sabhas for SA were held as routine exercises without properly discussing the findings of SA.
- Awareness regarding Gaon Sabha for SA was not sufficient and attendance of villagers was also not adequate.
- State Government was lagging behind in taking action on SA reports and its follow up to comply with the Audit of Scheme Rules, 2011.

## **1.9 Lokayukta**

The Assam Lokayukta and Upa-Lokayukta Act, 1985 (Assam Act XX of 1985) was introduced to improve the standard of Public Administration through investigation of complaint against ministers, legislators and public functionaries including those of PRIs. The institution was headed by Upa-Lokayukta since March 2001 as the post of Lokayukta had been lying vacant for the last 20 years (since March 1995). Though the State Government had

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<sup>2</sup>*Kamrup, Kamrup (M), Darrang, Nalbari, Cachar, Morigaon, Sivsagar, Karimganj and Hailakandi.*

taken various initiatives for creating awareness among the people regarding Lokayukta and Upa-Lokayukta Act, the Upa-Lokayukta had received only 29 complaints during the year 2014-15 out of which 21 cases were settled.

Thus, there was a need to increase awareness among the people about the existence and functioning of anti-corruption mechanism to make it more effective and useful to the public.

### **1.10 Submission of Utilisation Certificates (UCs)**

Scheme guidelines of CSS stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. However, test check of PRIs revealed that UCs amounting to ₹ 14.79 crore were pending from three<sup>3</sup> implementing agencies.

Pendency in submission of UCs indicated poor monitoring of the utilisation of scheme funds by the DDOs and the Head of the Department (HoD).

### **1.11 Internal Audit and Internal control system in PRIs**

#### **1.11.1 Internal Audit**

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control frame work in the PRIs.

Rule 18 of AP (A) Rules, 2002 provides for utilisation of internal auditors of PRDD for proper and correct maintenance of accounts of PRIs. An internal audit wing with internal auditors was in place in the Commissionerate of PRD, Assam. However, no internal audit of PRIs had been conducted (March 2015). The Department had no Audit Manual of its own and its main function was limited to assisting the Commissioner, PRD, Assam in settling the outstanding audit paras and inspection reports relating to departmental units.

This affected the sense of accountability to ensure proper compliance with Rules and Procedures as envisaged in the relevant Acts/Rules.

#### **1.11.2 Internal control mechanism in PRIs**

Internal control mechanism is an integral function of an organisation which helps it to govern its activities effectively and achieve the objectives of the organisation. Various internal control measures would minimise the risk of errors and irregularities and will ensure compliance with applicable rules, regulations and implementation of programmes in an orderly, economical, efficient and effective manner.

The internal control system at the level of each PRIs had been designed by GoA through AP Act, 1994, AP (F) Rules, 2002, besides application of State Government's own rules and policies relating to finance, budget and personnel matters. Significant provisions of internal control mechanism in PRIs are given in **Appendix-II**.

However, the following deficiencies were observed which indicated lack of internal control mechanism in PRIs:

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<sup>3</sup>Sivsagar ZP: ₹ 14.59 crore, Kochpara GP: ₹ 11.94 lakh, Ghilamara GP: ₹ 7.88 lakh.

- The Department lacked control over the own revenue resources as data regarding revenue mobilisation of PRIs was not available. The department could not provide any information in respect of total revenue realised by the PRIs during 2013-14 and 2014-15 even after repeated persuasions.
- Though the Department stated that the accounts were finalised upto 2014-15, test check of PRIs revealed that four PRIs did not maintain Monthly accounts, Annual account *etc.*, as detailed in **para 1.12.6**.
- Funds were released by the Government in a routine manner, even though ZPs had not submitted budget proposals thereby defeating the purpose of planning as detailed in **para 1.12.4**.

Though these shortcomings were pointed out to PRIs and the State Government in previous ATIRs/Audit Report to ensure proper maintenance of records to put an internal control mechanism in place, no corrective action has yet been taken.

### **1.11.3 Advance paid to JE/Contractor not adjusted**

State Financial Rules stipulate that advances paid should be adjusted without any delay and DDO concerned should watch their adjustment. Though Chief Executive Officer (CEO) of ZP, Executive Officer (EO) of AP and Secretary of GP are custodians of Panchayat funds, it was noticed that in five PRIs, advances (ranging from ₹ 1.00 lakh to ₹ 1.30 crore)<sup>4</sup> given to JEs/Contractors for implementation of schemes remained unadjusted till December 2015.

### **1.11.4 IT and VAT not deducted**

According to Income Tax (IT) Act and State Value Added Tax (VAT) Act, IT & VAT are to be deducted from the payment of contractors/suppliers. Test check of records revealed that in 20 PRIs (Sixteen APs and four GPs) VAT/IT amounting to ₹ 29.83 lakh were not deducted as detailed in **Appendix-III**.

As the taxes were not deducted, Government suffered a loss of revenue to that extent.

### **1.11.5 Short collection of Kist Money**

Sub-Rule 14 and 15 of Rule 47 of the Assam Panchayat (Financial) Rule 2002, stipulates that panchayats are required to recover the *kist*<sup>5</sup> money from the lessees in due time. During test check of records it was noticed that there was short collection of *kist* money of ₹ 5.53 crore in 21 PRIs as shown in **Appendix-IV**.

Thus, due to short collection of *kist* money, revenue could not be augmented to that extent.

## **1.12 Financial Reporting issues**

### **1.12.1 Source of funds**

The main source of income of PRIs in the State is funds released by GoI under various Centrally Sponsored Schemes, CFC grants, SFC grants and State Government grants under

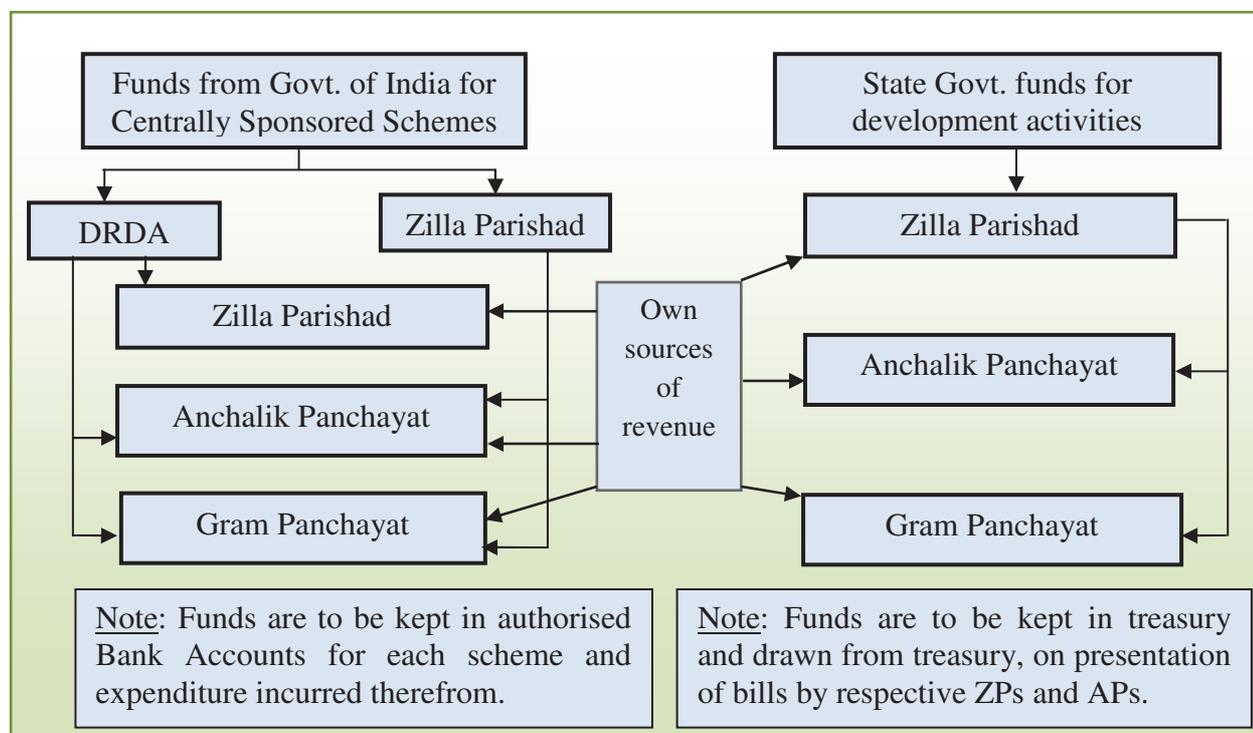
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<sup>4</sup>Lakhimpur AP: ₹8.96 lakh, Moirabari AP: ₹1.00 lakh, Salchapra AP: ₹27.26 lakh, Silchar AP: ₹63.28 lakh and Dhubri ZP: ₹1.30 crore.

<sup>5</sup>*Kist*: Installment.

various schemes. In addition, PRIs were also mobilising revenue from own sources such as taxes, rents, license fees *etc.* Funds flow of PRIs is depicted in **Chart 1.2**:

**Chart 1.2**  
**FUND FLOW CHART**



The receipts of PRIs from all sources during the last five year ending 2014-15 are shown in the **Table 1.7** below.

**Table 1.7: Time series data on PRIs resources**

Source	2010-11	2011-12	2012-13	2013-14	2014-15
Own Revenue	23.46	87.85	176.16	NA	NA
SFC transfers	119.36	227.96	104.42	158.23	298.84
CFC transfers	73.44	196.01	362.05	201.93	270.54
State Sponsored Schemes (SSS)	341.86	520.73	89.09	197.29	147.04
Centrally Sponsored Schemes (CSS)	1684.81	1323.36	1211.38	2000.58	1879.94
<b>Total</b>	<b>2242.93</b>	<b>2355.91</b>	<b>1943.10</b>	<b>2558.03</b>	<b>2596.36</b>

Source: Commissioner PRD, Assam, and information furnished by GoA.

Although, overall receipts of PRIs increased marginally in 2014-15 as compared to 2013-14, the fund released under SSS and CSS decreased during 2014-15 when compared to fund released during 2013-14. Due to less release of fund, many welfare activities intended to be executed under SSS and CSS got hampered.

### 1.12.1.1 Public investment in Social Sector and Rural Development

Details of public investment in Social Sector and Rural Development through major CSS by GoI including State share during 2010-11 to 2014-15 are shown in **Table 1.8**:

**Table 1.8: Statement showing investment through major CSS**

(₹ in crore)

Sl. No.	Scheme	Year	Allocation of fund	Fund Released to PRIs	Short release of fund
(1)	(2)	(3)	(4)	(5)	(6)
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	2010-11	1828.15	690.8	1137.35
		2011-12	1276.65	481.72	794.93
		2012-13	1017.51	588.46	429.05
		2013-14	1034.61	647.31	387.30
		2014-15	1101.02	554.6	546.42
2	Indira Awas Yojana (IAY)	2010-11	828.62	825.63	2.99
		2011-12	867.28	867.28	0.00
		2012-13	894.37	71.27*	823.10
		2013-14	1040.21	985.9	54.31
		2014-15	1373.78	937.45	436.33
3	Backward Region Grant Fund (BRGF)	2010-11	185.01	65.29	119.72
		2011-12	168.19	140.54	27.65
		2012-13	177.75	92.92	84.83
		2013-14	228.79	199.88	28.91
		2014-15	213.65	139.41	74.24
4	National Social Assistance Programme (NSAP)	2010-11	131.18	117.18	14.00
		2011-12	188.76	168.76	20.00
		2012-13	167.14	156.13	11.01
		2013-14	230.82	230.82	0.00
		2014-15	248.46	248.46	0.00
5	National Rural Livelihood Mission (NRLM)	2012-13	217.14	16.36	200.78
		2013-14	288.28	95.75	192.53
		2014-15	156.24	16.46	139.78

Source: Information furnished by Commissioner, PRD, Assam; \* State share only.

It could be seen from above that there was constant short release of fund to PRIs in respect of MGNREGS, BRGF and NRLM schemes which had deprived the intended beneficiaries of their benefits.

#### 1.12.1.2 Funds transferred to State Implementing Agencies outside State Budget

The Central Government had been transferring sizeable amount of funds directly to the State Implementing Agencies for implementation of various schemes/programmes in Social Sectors for the social and economic development of the rural population. During 2014-15, significant amounts were released for implementation of major programmes/schemes, as depicted in following **Table 1.9** and **Chart 1.3**.

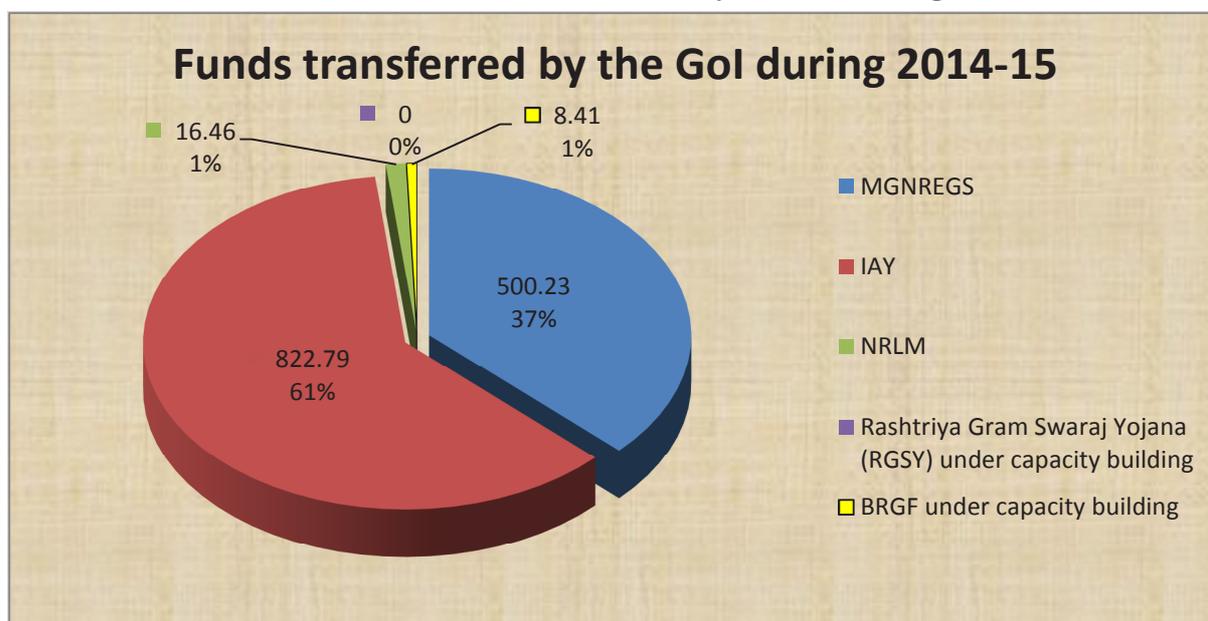
**Table 1.9: Funds transferred directly to State Implementing Agencies (₹ in crore)**

Sl. No.	Programme/scheme	Fund transferred by the GoI during 2013-14	Fund transferred by the GoI during 2014-15	Implementing agencies
1	MGNREGS	573.49	500.23	Mission Director, Assam State Rural Livelihood Mission Society, DRDAs & SIRD (State Institute of Rural Development)
2	IAY	900.06	822.79	
3	NRLM	81.63	16.46	
4	Rashtriya Gram Swaraj Yojana (RGSY) under capacity building	1.69	0.00	
5	BRGF under capacity building	131.19	8.41	
<b>Total</b>		<b>1,688.06</b>	<b>1347.89</b>	

Source: Information received from Panchayat and Rural Development Department.

As can be seen from the table, the funds released by the GoI to the State Implementing Agencies under all the aforementioned schemes had decreased considerably in the year 2014-15 as compared to 2013-14. Funds released under BRGF for the year 2014-15 was 93.59 per cent less when compared to fund released for the year 2013-14.

**Chart 1.3: Position of funds transferred by the GoI during 2014-15**



### 1.12.2 Devolution recommended by ASFC

Details of quantum of devolution recommended by ASFC and fund released by the GoA to PRIs are indicated in **Table 1.10**.

**Table 1.10: Devolution of Fund to PRIs**

(₹ in crore)

Year	Net collection of the State Government	Amount to be devolved	Additional devolution	Total	Amount actually released to PRIs	Amount short released
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010-11	5929.84	716.69	92.79	809.48	119.43	690.05
2011-12	7638.23	222.94	-	222.94	191.62	31.32
2012-13	8250.21	243.22	-	243.22	104.42	138.80
2013-14	6545.09	719.93	-	719.93	158.23	561.70
2014-15	7265.05	798.94	-	798.94	298.83	500.11
<b>Total</b>	<b>35628.42</b>	<b>2701.72</b>	<b>92.79</b>	<b>2794.51</b>	<b>872.53</b>	<b>1921.98</b>

Source: The FASFC Report and information furnished by Director, Finance (Economic Affairs) Department, Assam.

It can be seen from the above table that there was continuous shortfall in release of funds by the State Government during 2010-11 to 2014-15. As against ₹ 2794.51 crore to be devolved for PRIs, the State Government released only ₹ 872.53 crore which constituted only 2.45 per cent of the State's total revenue. Thus, due to short release of fund, the PRIs could not implement various welfare activities for the overall economic development.

### 1.12.3 Thirteenth Finance Commission (13<sup>th</sup> FC) Grant

The weights adopted by the 13<sup>th</sup> Finance Commission for inter distribution of funds among the States were 50 per cent population, 10 per cent area and 10 per cent distance from highest per capita income for PRIs, 15 per cent index of devolution, 10 per cent SC/ST population for PRIs and five per cent CFC grant utilisation index. Based on the above principles, the share of PRIs and ULBs for the periods 2010-15 in Assam including Sixth Schedule areas amounted to ₹ 1892.90 crore. The amount so recommended has two components viz., General Basic Grants and Performance Grants. According to the 13<sup>th</sup> FC for the periods 2010-15, States will be eligible to draw their Basic Grants subject to submission of UCs in time and Performance Grants from the second year of the award period subject to fulfilment of conditions as laid down in the 13<sup>th</sup> FC recommendations.

#### 1.12.3.1 Penal interest for late release of fund by the State Government

The position of grants released during 2010-15 by the GoI and GoA and penal interest for late release of fund to PRIs is shown in **Table 1.11**.

**Table 1.11: Award of 13<sup>th</sup> FC Grants to PRIs**

(₹ in crore)

Programme year	Scheme components	Fund received/released		Penal interest for late release of fund
		Received from GoI	Released to PRIs	
2010-11	General Performance Grant	Nil	Nil	2.54
	General Basic Grant	125.97	125.97	
2011-12	General Performance Grant	52.20	52.20	0.72
	General Basic Grant	161.38	161.38	
2012-13	General Performance Grant	124.40	124.40	1.91
	General Basic Grant	181.61	181.61	
2013-14	General Performance Grant	204.80	201.93	2.21
	General Basic Grant	139.88	NIL	
2014-15	General Performance Grant	190.08	NIL	7.19
	General Basic Grant	279.26	263.74	
<b>TOTAL</b>		<b>1459.58</b>	<b>1111.23</b>	<b>14.57</b>

Source: Director, Finance (Economic Affairs) Department, Assam.

It was observed that State Government released 13<sup>th</sup> FC grants to PRIs with an interest liability of ₹ 7.19 crore for 2014-15 alone which was almost equivalent to interest paid for the last four years. This shows the extent by which the release of fund to PRIs was delayed.

As time factor plays an important role in Assam in view of season specific limitations in execution of works, delay in release of fund greatly hampered timely implementation of projects which increases the possibility of cost overrun leading to many incomplete projects.

#### 1.12.4 Maintenance of Records

As per AP Act, the Budget proposals containing detailed estimates of Income & Expenditure expected during the ensuing year were to be prepared by the respective Standing Committees of PRIs after considering the estimates & proposals submitted by the executive authorities of PRIs every year. Rule 32, 33 & 34 of AP (F) Rules, 2002 also stated that every GP, AP and ZP shall prepare Budget before the beginning of Panchayat financial year in the respective format by indicating minor heads. After considering the proposals, the Finance, Audit and

Planning Committee was to prepare the budget showing the income and expenditure of the respective PRIs for the ensuing years and place it before the governing body for approval. The approved budget of PRIs had to be consolidated by the ZPs for submission to the State Government for final approval.

The position of submission of budget by the ZPs during last four years to PRD, Assam is shown in the **Table 1.12**.

**Table 1.12: Details of budget submitted by the ZP**

(in numbers)

Year	Total ZPs in the State	Budget proposals submitted by the ZPs	Budget proposals not submitted by the ZPs
2011-12	21	11	10
2012-13	21	13	8
2013-14	21	8	13
2014-15	21	14	7

**Source:** Commissioner, P&RD, Assam,

The above table shows that out of 21 ZPs, ten, eight, 13 and seven ZPs had not submitted budget proposals during 2011-12, 2012-13, 2013-14 and 2014-15 respectively. Funds were released by the government in a routine manner, thereby defeating the purpose of planning and without taking into account the requirement of the people at the grass root level.

#### 1.12.4.1 Assets Register

All properties vested in the ZPs, APs and GPs shall be entered in the Register of properties and assets in the Form 6 of Rule 19 of AP (F) Rules, 2002. The entries shall be attested by the officer concerned. However, audit noticed that the Asset Registers were not maintained by 20<sup>6</sup> test checked PRIs and the State Government also did not call for any return on the nature of asset, year of creation and monetary value of the assets.

#### 1.12.4.2 Register of Receipt Book and Stock Register not maintained

As per Sub-Rule 1 of Rule 16, of AP (F) Rules, 2002, a register of receipt book shall be maintained in Form 5 of the schedule under the personal custody of the CEO in case of ZP, EO in respect of AP and the Secretary in respect of GP or under the custody of any other officer who is authorised in their behalf, under lock and key. However, Register of Receipt Books could not be produced to audit by the four PRIs<sup>7</sup>. As a result, number of receipt books in operation could not be ascertained in audit and this may also lead to unauthorised operation of receipt books with the risk of fraud and embezzlement of money.

Similarly, the above four PRIs did not maintain the stock register as envisaged in the Rule 30 (1 & 2) of AP (F) Rules 2002. As stock register was not maintained, actual receipt and utilisation of material could not be monitored by the PRIs. Further, this could also facilitate mis-utilisation of material intended for implementation of the schemes.

<sup>6</sup>Balijan AP, Barbhagiya GP, Chariduar GP, Charing Pathar GP, Dakhin Bholagaon GP, Dakin Natun Dehar GP, Jerai GP, Lokra GP, Madhabpara GP, Pachim Sarukhetry GP, Uttar Pachim Bongaon GP, Bongaon AP, Hatidhura AP, Lahowal AP, Panitola AP, Rangjuli AP, Salchakra AP, Sarukhetry AP, Barpeta AP and Sivasagar ZP.

<sup>7</sup>Balijan GP, Jerai GP, Lahowal AP and Panitola AP.

### 1.12.5 Cash Book not reconciled

Rule 8, sub rule 4 (a), (b) and (c) of AP (F) Rules 2002 stipulate that all moneys received and payments made should be entered in the Cash Book which should be closed every day. Monthly closing of Cash Book with physical verification of cash and reconciliation of Cash book balance with bank balance under proper authentication are also to be done. Sub-rule 4(e) further stipulates that at the close of each month, the bank balance as reflected in the Cash Book shall be reconciled with balances as per bank account.

However, during audit it was observed that Cash Book balances were not reconciled with bank balances in some PRIs. Instances of un-reconciled balances with differences ranging from ₹ 813 to ₹ 1.79 crore in four PRIs were noticed as given in **Appendix-V**. Failure in maintenance of Cash Book as per provision of financial rules pointed towards gross irregularity. Besides, the possibility of occurrence of fraud and embezzlement of Government money could not be ruled out.

### 1.12.6 Maintenance of Accounts by PRIs

The Monthly and Annual Accounts as per prescribed formats showing the details of income and expenditure during the year duly supported by the necessary documents should be prepared by all three tiers of PRIs. These records are important as they are included to constitute evidence of proper receipt and utilisation of funds.

Instances of Annual Accounts not maintained by PRIs have been brought to the notice of State Government on several occasions through Inspection Reports and Annual Technical Inspection Reports/Audit Report. It was informed (December 2015) by the Commissionerate of P&RD that the State Government had adopted PRIASoft for maintenance of their accounts in the format prescribed by the MoPR on Model Accounting System (MAS) and the accounts of the PRIs had been finalised upto 2014-15.

However, during test check of PRIs, it was found that annual accounts were not prepared by PRIs as detailed in the following **Table 1.13** reflecting poor internal controls and inadequate accounting arrangements in PRIs.

**Table: 1.13 Details of accounts not maintained by PRIs**

Sl. no	Name of the PRIs	Particulars
1	Lahowal AP, Panitola AP, Jerai GP and Balijan GP	i) Monthly accounts to watch over trends of receipt & progress of expenditure under different heads of A/cs under different scheme had not been prepared. Annual Accounts, to reflect the overall receipts & expenditure in a year, prepared, if any, had also not been produced to audit. ii) Receipt & Expenditure ledger for record of accounts under different detailed minor heads were not prepared.
2	Lahowal AP and Panitola AP	A control ledger of receipt and expenditure of AP and GP fund as prescribed in form 2 under sub rule (3) of Rule 8 of AP Act, to watch over trends of receipts and expenditure against estimate of receipt, and the provision of fund respectively was not maintained.

### 1.12.7 Maintenance of database and the formats therein on the finances of PRIs.

Based on the recommendations of 11<sup>th</sup> FC, CAG had prescribed database formats for capturing the finances of PRIs. The database formats were prescribed with a view to having a

consolidated position of sector wise resource and application of funds by PRIs, details of works executed by PRIs and their physical progress *etc.*

The 11<sup>th</sup> FC had earmarked funds for creation of database for PRIs in their awards covering the period 2000-05. The 12<sup>th</sup> FC had also recommended that States may assess the requirement of each PRI in this regard and earmark funds accordingly out of the total allocation of 12<sup>th</sup> FC grants. Despite the dedicated fund allocation, little improvement had been made in development of database though ₹56.21 crore (₹55.61 crore under 12 FC and ₹0.60 crore under 13 FC upto 2014-15) were incurred on creation of database during the years 2008-2015. The 13<sup>th</sup> FC in its report had also expressed similar dissatisfaction. A reliable base data on finances of PRIs was yet to be developed. Moreover, computerisation of PRIs in Assam suffered as GP offices were not electrified.

The entire matter of implementation of the programme of database on finances needed to be evaluated and effective steps were required to be taken to develop the database without further loss of time.