

CHAPTER I

AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

To promote greater autonomy at the grass root level and to involve people through Gram Sabhas in identification and implementation of development programmes, the Seventy-third Constitutional Amendment Act, 1992 was promulgated. According to the provisions of Article 243G of the Constitution, the Legislature of a State may, by law, endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibility upon panchayat at the appropriate level, subject to such conditions as may be specified therein.

A three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh *Panchayat Raj Evam Gram Swaraj Adhiniyam*, 1993 which came into force from January 1994 and adopted by Chhattisgarh State as *Chhattisgarh Panchayat Raj Adhiniyam* (henceforth, the Act) 1993 on 7 June 2001 after creation of the State of Chhattisgarh.

1.1.1 *Classification of the Panchayati Raj Institutions (PRIs)*

The PRIs are classified into three tiers viz. Zila Panchayat (ZP) at district level, Janpad Panchayat (JP) at block level and Gram Panchayat (GP) at village level. After the formation of the newly created State of Chhattisgarh, the number of districts had increased from 16 in the year 2001 to 33¹ in the year 2023. However, there are total 27 ZPs functioning in the State.

As per section 10 of the Act, there shall be a ZP for every District and a JP for every block of the district. Further, there shall be a GP for a village or a group of villages which have been specified as village for the purpose of section 3 of this Act through a public notification by the Governor. At present, there are 27 ZPs, 146 JPs and 11654 GPs in the State.

¹ Five new districts i.e., (i) Manendragarh-Chirmiri-Bharatpur, (ii) Kairagarh-Chhuikhadan-Gandai, (iii) Mohla-Manpur-Ambagarh Chowki, (iv) Sakti, (v) Sarangarh-Bilaigarh formed in September 2022 are also included in this figure.

The basic information about the State of Chhattisgarh is given in the **Table 1.1**

Table 1.1: Basic information about the State

Particulars	Unit	State figure
Population	Crore	2.55
Share in country's population	<i>per cent</i>	2.11
Rural population	Crore	1.96
Share of Rural population	<i>per cent</i>	76.86
Literacy rate	<i>per cent</i>	70.3
Rural Literacy rate	<i>per cent</i>	66
Sex ratio (female per thousand males) *	Ratio	1015
Zila Panchayat	Number	27
Janpad Panchayat	Number	146
Gram Panchayat	Number	11654

(Source: Census 2011 final figures and information provided by Panchayat Directorate Raipur, GoI website)

* As per NFHS survey 2020-21.

As per 2011 census, total population of the State was about 2.55 crore with 1.96 crore people residing in rural area constituting 76.86 *per cent* of the total population. The population-wise classification of GPs as of March 2023 is given in **Table 1.2** below:

Table 1.2: Population-wise classification of Gram Panchayats (As on March 2023)

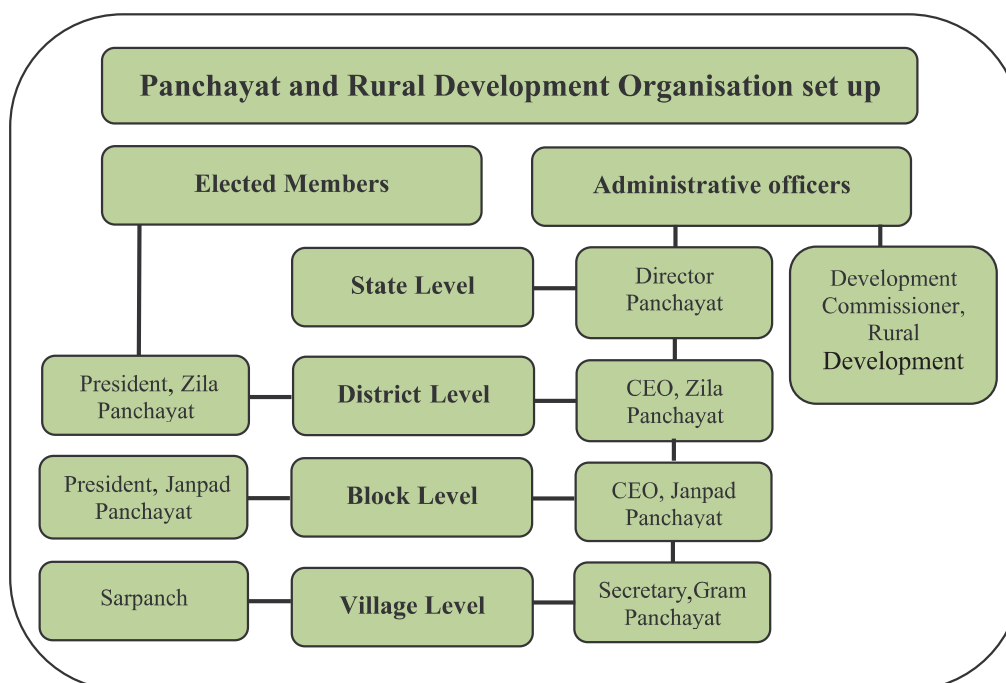
S. No.	Population	No. of Gram Panchayats
1	Upto 1,000	1284
2	1,001 to 2,000	7829
3	2,001 to 3,000	1845
4	3,001 to 4,000	441
5	Above 4,000	255
Total		11654

(Source: Data provided by Panchayat Directorate, Raipur.)

1.2 Organisational setup of PRIs

The PRIs are under the administrative control of the Panchayat and Rural Development Department, Government of Chhattisgarh. The Act and Rules/bylaws made thereunder provide for Executive/Administrative as well as elected bodies to discharge their duties for the purpose of carrying out the administration of PRIs. The organisational structure of governance at State, District, Block and Village level is as follows:

Organisational Chart of PRIs



1.3 Functioning of PRIs

1.3.1 Powers and Functions of PRIs

The State Government had defined the functions of the ZPs, JPs and GPs under sections 52, 50 and 49 respectively of the *Chhattisgarh Panchayat Raj Adhiniyam* (CGPRA), 1993 (Act). Further, the powers of the PRIs have been stated under sections 54 to 68 of the Act. These are summarised in the following paragraphs.

1.3.1.1 Zila Panchayats (ZPs) are the first tier of Panchayat at the district level. As per section 29 of the Act, every ZP shall consist of members elected from the constituencies, who are empowered under section 32 of the Act to elect a President and a Vice-President. The President shall be responsible for carrying out the activities based upon the resolutions of the ZP, all directions issued by the State Government and all functions assigned to the ZP under section 52 of the Act. Further, section 69 (3) states that the State Government shall appoint a Chief Executive Officer (CEO) for every ZP and may also appoint one or more Additional Chief Executive Officers, who shall discharge such functions and perform such duties as may be assigned to them by the CEO. The CEO is the administrative head and is assisted by Departments like Public Health, Public Works, Rural Engineering etc. The CEO, ZP is responsible to take action based upon the resolutions of ZP, supervise and control the execution of all activities of ZP. He is authorized to draw and disburse money out of the ZP fund as per the financial rules in this regard.

The CEO, ZP is responsible for preparing the budget for the planned development of the district and utilisation of the resources, drawing up annual plans for the economic development of the district and social justice of the citizens and ensuring their implementation. The CEO, ZP is also responsible

for co-ordination, evaluation and monitoring of the activities of JPs and GPs, ensuring implementation of any schemes entrusted by the Central or State Governments, appropriation of the grants received from the Central or State Governments to the JPs and GPs in accordance with the specified criteria.

1.3.1.2 The Janpad Panchayats (JPs) are the intermediate tier of PRIs at the Block level. As per section 22 of the Act, every JP shall consist of members elected from the constituencies, who shall elect a President and a Vice-President under section 25 of the Act. The President shall be responsible for carrying out the activities based upon the resolutions of the JP, all directions issued by the State Government and all functions assigned to the JP under section 50 of the Act.

Further, section 69 (2) states that the State Government shall appoint a Chief Executive Officer (CEO) as the administrative head for every JP and may also appoint one or more Additional Chief Executive Officers, who shall discharge such functions and perform such duties as may be assigned to them by the CEO. The CEO, JP shall be assisted by Block Extension Officer, Accounts Officer, technical staffs like Assistant Engineers and other administrative staff. CEO, JP shall be responsible for taking action for implementation of the resolutions of JP, supervising and controlling the execution of all activities of JP. He is authorized to draw and disburse money out of the JP fund as per the financial rules in this regard.

The JPs have least source of their own revenue and are mostly dependent on the Block Grants received from ZPs. The JPs undertake development works. The elected members of the JP are responsible for making suitable arrangements for rural development, agriculture, social forestry, animal husbandry and pisciculture, health and hygiene, adult education, cooperative work etc.

1.3.1.3 The Gram Panchayats (GPs) are the last tier of PRIs at the grass root level. As per section 13 of the Act, every Gram Panchayat shall consist of elected *Panchs* and a *Sarpanch*. The *Sarpanch* is elected as per the provisions envisaged in Section 17 of the Act. The *Sarpanch* shall be responsible for carrying out the activities based upon the resolutions of the GP, all directions issued by the State Government and all functions assigned to the GP under section 49 of the Act. He would be responsible to ensure proper maintenance of records and registers, authorise payments, issue of cheque and refunds etc.

Further, section 69 of the Act provides that the State Government or the prescribed authority may appoint a Secretary for a GP or group of two or more GPs. The duties and power of Secretary of GP are prescribed in the Gram Panchayat (Powers and functions of the Secretary) Rules, 1999 which inter-alia provide to convene and record the proceedings of Gram Sabha and meetings of GP, regulate the functioning of GP, maintain all the official records in GP, prepare annual plan of GP, prepare estimates of revenue and expenditure, recover taxes, fees and other dues of GP etc.

Secretary of the GP is responsible for supervision of cleanliness and hygiene, drinking water, lighting of village roads and implementing programmes for social welfare and any other activities entrusted by the State Government, ZP or JP.

1.4 Devolution of functions to PRIs

The Seventy third Constitutional Amendment Act intends to enable and empower PRIs to perform functions and implement schemes in relation to 29 subjects specified in the 11th Schedule and mandated each State to enact a legislation to devolve these functions to PRIs. For effective devolution, there should be a clear-cut delineation of functions for each level of the local Government and clarity on the role and responsibilities of the Panchayats of three tiers is to be provided by ‘activity mapping’, which becomes an important step in devolution of functions to the Panchayats.

As per the order for adoption of laws under Madhya Pradesh Reorganization Act, 2000, the laws that were in force in the State of undivided Madhya Pradesh were adopted in the State of Chhattisgarh after its formation. Accordingly, the Panchayati Raj Legislation in force in Madhya Pradesh became applicable to Chhattisgarh and now called the *Chhattisgarh Panchayat Raj Adhiniyam*, 1993 which forms the basis of current Panchayat system in place in Chhattisgarh. As intimated by the Department, the orders for devolution of 27 out of the 29 activities/functions were issued during the period 1994 to 1998 by the Madhya Pradesh Government.

Third State Finance Commission Report of September 2018 covering the period 2017-18 to 2021-22 had mentioned that 27 out of the 29 functions have been transferred to PRIs, the action to transfer funds, functions and functionaries was awaited from the concerned Department. At present, the PRIs are functioning on the basis of devolution policy introduced in the undivided Madhya Pradesh. In spite of preparation of activity mapping framework, the necessary executive orders to functionalise activity mapping has not been issued so far and that in many cases the functionaries were not aware of this process.

Thus, it is evident that the actual devolution of funds, functions and functionaries are yet to take place in the State of Chhattisgarh.

1.5 Maintenance of Accounts by Panchayati Raj Institutions

Based on the recommendations of the Eleventh Finance Commission, for exercising proper control and securing better accountability, the formats for the preparation of budget and accounts and database on finances of PRIs were prescribed (2002) by the Comptroller Auditor General of India (CAG). These formats were further simplified (2007) for easy adoption at grass root level, namely (i) Monthly/Annual Receipts and Payment Accounts; (ii) Format of Consolidated Statement; (iii) Format of Monthly Reconciliation Statement; (iv) Format of Receivable and Payable; (v) Format of Immovable Property; (vi) Format of Movable Property; (vii) Format of Inventory Register; and (viii) Format of Demand, Collection and Balance. The State Government had constituted a State Model Accounting System Committee (SMC) for the implementation of the above formats.

Department stated (April 2023) that during 2016-17 to 2018-19, GPs used *Priasoftware* (online accounting system) developed by *Panchayati Raj* Ministry, GoI for posting accounting entries and during the period 2019-20 to 2021-22,

e-Gram Swaraj portal and Integrated PFMS portal was used for accounting related to Fifteenth Finance Commission.

However, in four² test checked PRIs, it was observed that accounts were not maintained in the above formats.

Due to lack of proper accounts in PRIs, Chhattisgarh State Audit (CSA) conducted the certification by verifying cash book and other basic documents. The status of certification of accounts (other than Audit online) of Panchayati Raj Institutions by the CSA is given in following **Table 1.3:**

Table 1.3 : Status of certification of accounts, as of March 2022

S. No.	Financial year	Total pendency at the end of previous year	No. of accounts due for certification in the year	Accounts certified in the year	Total accounts due for certification at the end of year
1	2017-18	112912	11142	813	123241
2	2018-19	123241	11145	1842	132544
3	2019-20	132544	11145	457	143232
4	2020-21	143232	11584	619	154197
5	2021-22	154197	11721	3530	162388
Total				7261	

(Source: Information provided by Director, Chhattisgarh State Audit, Raipur)

The Director, CSA, Raipur informed (December 2023) that between 2017-2022, 7261 accounts of PRIs were certified, and 162388 accounts are still due for certification. However, Director, CSA did not give any reasons for such a huge number of pendency for certification of accounts.

Further, to facilitate the automation of auditing processes in PRIs and thus assist the States in getting Fifteenth FC grants, the Ministry of Panchayati Raj (MoPR) has launched an IT platform called Audit Online on 15 April 2020. The number of PRI units whose audit was done in Audit Online are as given in the following **Table 1.4:**

Table 1.4: Number of units of PRIs whose audit was done in Audit online (As of July 2023)

Year of audit	Year of accounts audited	No. of PRI units audited				
		GPs		JPs	ZPs	Total
2020-21	2019-20	13		0	0	13
2021-22	2020-21	2908 (2019-20)	3783 (2020-21)	56	10	6757
2022-23	2020-21	7510		90	17	7617

(Source: Data provided by Director, Chhattisgarh State Audit Raipur)

² JP Dhamdha, JP Lakhanpur, JP Baikunthpur, GP Amarpur.

1.6 Audit arrangement

1.6.1 Primary Auditor

Chhattisgarh Rajya Sampriksha Adhiniyam, 1973 (Act) was enacted to make provision for, and to regulate audit of local funds under the management or control of local authorities in the State. The State Government designated (February 2004) Chhattisgarh State Audit (CSA) as primary auditor for audit of accounts of Panchayats who shall work under the Technical Guidance and Support (TGS) of the C&AG. The CSA is a Directorate under Finance department entrusted with the responsibility of conducting audit of Panchayati Raj Institutions, Urban Local Bodies, Agriculture market committee and other Government aided organisations. The CSA regulates audit of local funds under the management or control of local authorities in the State of Chhattisgarh.

The CSA compiles and processes the information related to audit findings on major financial irregularities, embezzlement and misappropriation of funds. The CSA conducts audit and certification works in both online and conventional mode. Funds received from Central Finance Commission to PRIs are audited in online mode only and rest are audited in conventional mode. The Director, CSA submits the annual reports to the Finance Department (as per section 8A (1) of the Act) in respect of all local bodies under his scope of audit. The Finance Department thereafter lays this Annual Report before the State Legislature (Section 8A (2) of the Act).

The total number of PRIs audited by CSA is given in following **Table 1.5:**

Table 1.5: Number of PRIs audited by CSA

S. No.	Year	No. of units during the year		Pendency in audit	Total No. of ZPs in State	No. of ZPs audited	Total No. of JPs in State	No. of JPs audited	Total No. of GPs in State	No. of GPs audited
		Total	Audited							
1.	2016-17	11142	262	10880	25	7	146	39	10971	216
2.	2017-18	11142	270	10872	25	5	146	48	10971	217
3.	2018-19	11145	497	10648	27	2	146	50	10972	445
4.	2019-20	11145	175	10970	27	2	146	31	10972	142
5.	2020-21	11357	52	11305	27	1	146	13	11184	38
6.	2021-22	11494	30	11464	27	4	146	22	11321	4

(Source: Information provided by Director, Chhattisgarh State Audit Raipur)

The total number of outstanding audit observations of CSA was 2.79 lakh as of March 2022. Details of outstanding observations of PRIs included in the Inspection Reports of CSA are given in the **Table 1.6** below:

Table 1.6: Outstanding audit observations of CSA

S. No.	Financial year	No. of units Audited	Total no. of outstanding audit observations	Observations taken during the years	No. of observations settled	No. of observations remaining outstanding
1	2016-17	262	173255	20845	8631	185469
2	2017-18	270	185469	19472	14627	190314
3	2018-19	497	190314	38717	1864	227167
4	2019-20	175	227167	15223	798	241592
5	2020-21	52	241592	2323	769	243146
6	2021-22	30	243146	57071	21420	278797
Total		1286		153651	48109	

(Source: Information provided by Director, Chhattisgarh State Audit Raipur)

It is evident from the above tables that pendency in the audit of ZPs, JPs and GPs and settlement of outstanding observations had increased during the period 2016-17 to 2021-22. Audit observed that out of the total 425 sanctioned posts for CSA, only 246 (58 *per cent*) posts were filled. As of June 2024, against the 257 posts of Senior Auditors/Assistant Auditors, only 159 (62 *per cent*) posts were filled and 38 *per cent* of the posts were vacant. The 62 *per cent* available strength of Senior Auditor/Assistant Auditor is therefore left with the responsibility of auditing 27 ZPs, 146 JPs and 11,321 GPs in addition to 169 ULBs (as of March 2022) in the State which is invariably adding to the pendency of audit.

On being pointed out regarding CSA's outstanding audit observation, Director, CSA cited (July 2023) inertia in resolution of pending observations by local bodies and shortage of staff in auditee units as major reasons for pendency of large number of outstanding observations.

1.6.2 Audit by Comptroller and Auditor General of India

The Eleventh Finance Commission had recommended that the C&AG of India should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit for all tiers of panchayats. The report of the C&AG relating to audit of accounts of the panchayats and the municipalities should be placed before a Committee of the State Legislature constituted on the same lines as the Public Account Committee. The Thirteenth Finance Commission had also recommended that the C&AG must be entrusted with Technical Guidance and Supervision (TGS) over the audit of all the Local Bodies (LBs) at every tier and his Annual Technical Inspection Report (ATIR) as well as Annual Report of DLFA must be placed before the State Legislature. Fourteenth Finance Commission had also recommended that the initiatives made by the previous Finance Commissions regarding improvement in maintenance of accounts of LBs and their audit and TGS arrangement by the CAG should be continued.

The C&AG was entrusted (October 2011) with the audit of LBs by the Government of Chhattisgarh under sub-section (1) of section 20 of the C&AG's (Duties, Powers and Conditions of Service) Act 1971. The entrustment read with Regulation 152 of the Regulations on Audit and

Accounts, 2007 provides for suitable TGS to the Primary Auditor of LBs viz., the DLFA for the purpose of strengthening Public Finance Management and Accountability in the LBs.

The DLFA shall prepare an annual Audit Plan, follow the audit methodology and procedure as per the statutes, forward the copies of Inspection Reports (IRs) to AG (Audit) and follow other conditions as prescribed in Regulation 152 of Regulations on Audit and Accounts, 2007.

The Office of the AG (Audit), Chhattisgarh had been organizing training programmes on the efficacy of TGS for conducting audit of PRIs and ULBs, preparation of Audit Plan and audit methodology for the staff of the DLFA. During 2016-17 to 2021-22, a training was organized with Chhattisgarh State Audit Office (CSA) by AG audit office where 31 candidates received training. In the year 2022-23 five training sessions were organized at AG office where 183 candidates were trained by the AG audit office. Further, nine joint meetings were conducted during the period August 2015 to April 2023 between DLFA and AG (Audit) to discuss various issues under TGS.

1.7 Response to Audit observations

During the period 2021-22, Compliance Audit of two out of 28 ZPs and 27 out of 146 JPs was conducted by the office of Principal Accountant General.

The number of outstanding observations of AG's IRs pertaining to the period from 2016-17 to 2021-22 was 4301 as of March 2022. Details of outstanding audit observations of AG's IRs are shown in the following **Table 1.7**:

Table 1.7: Outstanding audit observations of AG's Inspection Reports

S. No.	Financial Year	Total No. of Units audited during the year	Opening Balance of Observations	Observation taken during the year	Total No. of observations	No. of observations settled	No. of observations Outstanding
1	2016-17	68	2415	821	3236	743	2493
2	2017-18	49	2493	594	3087	201	2886
3	2018-19	17	2886	242	3128	36	3092
4	2019-20	40	3092	517	3609	39	3570
5	2020-21	48	3570	458	4028	0	4028
6	2021-22	29	4028	293	4321	20	4301
Total		251		2925		1039	

It is evident from the above table that only 1039 audit observations were settled during the period 2016-17 to 2021-22. As a result, total 4301 number of audit observations were outstanding till 2021-22, out of which 2415 observations pertained to period prior to 2016-17.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

1.8 Ombudsman

Para 10.66 of the Thirteenth Finance Commission report provides for constituting a separate ombudsman for local bodies by amending the respective State Panchayat and Municipal Acts.

Chhattisgarh *Lok Aayog Adhiniyam*, 2002 provides for provisions of appointment and functions of certain authorities for the inquiry into the allegations against Ministers, Parliamentary Secretaries, Public servants etc., and for the matters connected therewith. A Gazette notification in this regard was published in November 2002.

As per section 2.2(vii)(aa) read with section 2(e) of the Chhattisgarh *Lok Aayog Adhiniyam*, 2002 the local bodies have also been brought under the ambit of '*Lok Aayog*'.

1.9 Social Audit

Under the 'Mahatma Gandhi National Rural Employment Guarantee' Audit of Scheme Rules, 2011, Chhattisgarh Social Audit Unit (CSAU) was constituted (September 2013) as an independent agency with the objective to work towards strengthening the Social Audit (SA) process in Chhattisgarh.

The SAU conducts SAs during Gram Sabhas (GS) with the help and support of Resource Persons (member of GS/Beneficiaries) identified by State SAU at district and village levels. The Resource Persons along with the primary stakeholders shall verify the records related to payment, procurement of materials, and other financial transactions, visit the work sites, contact wage seekers, collate records and convene a GS to discuss the findings of the verification exercise and to review the compliance on transparency and accountability, fulfilment of rights and entitlements of labourers and proper utilization of funds. The SA unit consolidates all the findings and prepares a SA report and on last day special GS is organized where the findings of the SA are read out and necessary action is recommended by the GS.

The sanctioned strength of Chhattisgarh SAU was 520 which includes seven State Resource Persons (SRP), 88 District Resource Persons (DRP) and 425 Block Resource Persons (BRP). Against the sanctioned strength, there were two SRPs, 20 DRPs and 287 BRPs. Thus, 40 *per cent* posts were vacant. The Chhattisgarh SAU has also hired and engaged 3000 village resource persons (VRP) and trained them for conducting SA.

According to Section 3(1) of 'Mahatma Gandhi National Rural Employment Guarantee' Audit of Scheme Rules, 2011 the State Government shall facilitate conduct of Social Audits (SAs) of the works taken up under the Act in every GPs at least once in six months in the manner prescribed under the rules. Details of the social audit conducted during the year 2016-17 to 2021-22 are as shown in following **Table 1.8**:

Table 1.8: Social Audit of MNREGA conducted by Social Audit Unit

Financial year	No of GPs in the State	GP planned for SA	GPs in which SA conducted (per cent)
2016-17	10978	10667	5846 (55)
2017-18	10978	10677	7621 (71)
2018-19	10978	6561	6490 (99)
2019-20	11664	6951	6635 (95)
2020-21	11664	0	0
2021-22	11664	11494	7996 (70)
Total		46350	34588 (75)

(Source: Information provided by Director, Social Audit Unit, Raipur)

Thus, the coverage of social audit ranged between 55 *per cent* and 99 *per cent* during 2016-17 to 2021-22. However, no social audit was conducted during 2020-21 for which the Additional Director, CSAU stated that due to COVID epidemic in the year of 2020-21, the concurrent audit of 11,295 GPs was done but the social audit could not be conducted.

Chhattisgarh Social Audit Unit stated (March 2024) that apart from social audit of MNREGA, CSAU has also carried out social audit of 78 GPs under *Swacch Bharat* Mission (SBM) and 14 GPs under National Rurban Mission (NRuM) during the period of 2016-17 to 2021-22.

1.10 Submission of Utilisation Certificates

As per Rule 182 of the Chhattisgarh Financial Code Vol-I, in case of an annual or a non-recurring conditional grant, the Departmental officer on whose signature or counter-signature Grant-in-aid bill is drawn, shall furnish the Utilisation Certificates (UCs) to the Accountant General on or before 30 September of the year following that to which the grant is related.

Further, it is to be stated that Finance Department, Government of Chhattisgarh and Office of the AG (A&E) Chhattisgarh mutually consented (August 2014) that Grant-in-Aids (GIA) vouchers, wherein it was not clearly mentioned that the UCs shall be sent to Accountant General, the UCs shall not be shown pending. Hence, the UCs of GIA vouchers where it is specifically mentioned that the UCs should be sent to the Accountant General are only being compiled by AG (A&E).

Information received (February 2023) from the Office of the PAG (A&E), Chhattisgarh revealed that total number of three UCs were due from October 2022 in respect of grants amounting to ₹ 436.12 lakh paid during 2021-22 under Major Head 2515 (Other Rural Development Programme). Out of these three UCs, one UC for an amount of ₹ 120.84 lakh was not received in the Office of the PAG (A&E), as of February 2023.

1.11 Inspection and Internal Control System of PRIs

In exercise of powers conferred by Section 95 read with Section 84 of the *Chhattisgarh Panchayat Raj Act, 1993* the State Government framed

Chhattisgarh Panchayat (Inspection of Proceedings) Rules, 1995 to inspect the working of Panchayats. Rule 3 of the said rule envisaged that the inspection of works, and the working of Panchayats could be done by the officers authorized from time to time by the State Government under Clause (1) of Section 84 of the Act. Further, Sub-Divisional Officer in respect of GP, Commissioner, Director (Panchayat) or Collector in respect of GP and JP, and Commissioner or Director (Panchayat) in respect of ZP shall be authorized as Inspecting Officers for overseeing the operations.

As per Rule 13 of Chhattisgarh Panchayat Samparisksha Niyam, 1997, the Sarpanch, President, CEO, Janpad Panchayat after receiving the inspection report will find out the irregularities pointed out in the report and place the report along with facts before the General Administration Committee for discussion. Thereafter, Sarpanch/CEO, JP will call the general meeting of the Panchayat and will present the report along with facts, status and comments for discussion and further action in this regard. After the discussion on the report by the Panchayat, the Sarpanch/President/CEO JP will take necessary action on the irregularities pointed out in the report and will send a detailed compliance report to the auditing authority within three months of receipt of Audit Report.

In this context, Directorate, Panchayat intimated (April 2023) that Chhattisgarh Panchayat Act 1993 (Section 129) provisioned for a separate and independent audit under the control of Government. Further, Audit was conducted time to time by the Deputy Director, Assistant Director, District Auditor and other officers under the Panchayat, Directorate as per the orders of Government.

Directorate, Panchayat intimated (April 2023) that data related to inspection of Panchayats is not maintained at Directorate level. Further, the Directorate stated that there is a provision for internal audit of 100 per cent of the GPs in Chhattisgarh State. Details of internal audit of GPs are shown in following **Table1.9:**

Table 1.9: Year wise data of internal audit of Gram Panchayats

S. No.	Year	No. of GPs provisioned for audited	No. of GPs audited	Percentage of GPs audited
1	2016-17	10971	10704	97.57
2	2017-18	10971	10570	96.34
3	2018-19	10978	9549	86.98
4	2019-20	10978	8628	78.59
5	2020-21	10960	9567	87.29
6	2021-22	11664	10994	94.26
Total		66522	60012	90.21

(Source: Panchayat Directorate, Raipur, Chhattisgarh)

1.12 Financial Reporting Issues

1.12.1 Sources of revenue

There are mainly two sources of funds for PRIs viz, Government grants and own revenues. Government grants comprise funds released by the State Government and GoI based on the recommendation of the State Finance Commission (SFC)/Central Finance Commission and GoI and State share transferred for various Centrally sponsored/Central and State sector schemes. Own revenue resources of PRIs comprise tax and non-tax revenues realised by them.

Revenue of Gram Panchayats

The *Chhattisgarh Panchayat Raj Act*, 1993 classifies taxes/fees on six items³ as obligatory taxes assigned to GPs. Besides, some optional taxes/fees may also be levied by GPs. According to Rule 3 of the Chhattisgarh Gram Panchayat Obligatory Taxes and Fees (Conditions and Exceptions) Rules 1996, every GP shall impose any tax or fee after passing a resolution regarding the rate at which the tax or fee is to be imposed. The statute further prescribes a minimum in addition to maximum rate for Property tax on land and buildings, tax on person following any profession or trade, Market fees and fees on registration of animals sold in any market.

1.12.2 Budgetary Allocation and Expenditure

Funds (Share of tax revenue of the State, Schemes and grants etc.) allocated to PRIs by the State Government through budget including GoI share of the schemes and grants recommended by Central Finance Commission are shown in the following **Table 1.10**:

Table 1.10: Statement showing allocation and expenditure of funds.

(₹ in crore)

S. No.	Year	Budgetary Allocation			Expenditure			Savings (percentage)
		Plan	Non-Plan	Total	Plan	Non-Plan	Total	
1	2016-17	789.41	1559.75	2349.16	300.87	1508.31	1809.18	22.99
2	2017-18	1011.20	1305.17	2316.37	986.92	1088.44	2075.36	10.40
3	2018-19	961.10	1601.14	2562.24	862.23	871.03	1733.26	32.35
4	2019-20	815.18	2555.77	3370.96	783.20	2171.99	2955.19	12.33
5	2020-21	939.26	1983.11	2922.37	629.66	1693.82	2323.48	20.49
6	2021-22	916.42	1357.90	2274.32	685.05	1321.07	2006.12	11.79
Total		5432.57	10362.84	15795.42	4247.93	8654.66	12902.59	

(Source: Information provided by the Panchayat Directorate, Raipur)

It is evident from above table that against the total allocation of ₹ 15,795.42 crore during 2016-17 to 2021-22, the expenditure of the PRIs was ₹ 12,902.59 crore. The maximum savings were 23 per cent and 32 per cent of allocated funds during 2016-17 and 2018-19 respectively. The reasons for savings were

³ Property tax, tax on cleaning of private latrin, Light tax, tax on persons carrying out any profession/trade, Market fees and fees on registration of animal sold in any market.

not intimidated by the Department.

1.12.3 Recommendations of the State Finance Commission (SFC)

As per article 243(I) and 243(Y) of Constitution of India, the State Finance Commission (SFC) is to be appointed after every five years to recommend devolution of funds from the State Government to Local Bodies.

The Government of Chhattisgarh has constituted four State Finance Commissions since the formation of State in year 2000. Details of State Finance Commissions have been presented in following **Table 1.11**:

Table 1.11: Constitution of State Finance Commission

S. No.	State Finance Commission	Date of constitution	Date of Submission of recommendation	Acceptance by the Government	Period Covered
1	First	22.08.2003	30.05.2007	July 2009	2007-12
2	Second	23.07.2011	31.03.2013	July 2013	2012-20
3	Third	20.01.2016	30.09.2018	October 2019	2020-25
4	Fourth	29.07.2021	-	-	2025-30

(Source: Third State Finance Commission Report of Chhattisgarh)

Devolution of State Own Tax Revenue (SOTR) to PRIs as recommended by SFCs and modifications accepted by State Government has been presented in following **Table 1.12**:

Table 1.12: Devolution of SOTR to PRIs accepted by the State Government as per recommendation of State Finance Commissions

(in per cent)

S. No.	State Finance Commission	Award Period	Recommendation of Devolution by SFC	Devolution accepted by the State Government
1	First	2007-12	6.62	4.79
2	Second	2012-20	6.15	6.15
3	Third	2020-25	6.91	6.91
4	Fourth	2025-30	-	-

(Source: Third State Finance Commission Report of Chhattisgarh)

First SFC recommended devolution of 6.62 per cent of the State's Own Tax Revenue (SOTR) to PRIs during its award period of 2007-12. However, the State Government agreed to devolve only 4.79 per cent to PRIs. Second SFC had recommended devolution of 6.15 per cent of SOTR to PRIs during its award period 2012-17, the same was accepted by the State Government for the period 2012-20. Third SFC had recommended devolution of 6.91 per cent of net SOTR to PRIs during its award period 2017-22, the same was accepted by the State Government for period 2020-25.

The details of fund flow with regard to recommendation by SFC, devolution accepted, and actual budget allocated and released to PRIs by the State Government during 2017-22 are shown in following **Table 1.13**:

Table 1.13: SFC projections vis-à-vis Devolution accepted and Actual budget/expenditure for PRIs by the State Government during 2017- 22

(₹ in crore)

S. No.	Year	Percentage recommended by SFC	Devolution accepted by State Government	Net Own Tax Revenue of the State	Budget to be allocated by the State Government	Budget actually allocated by State Government	Actual Release by State Government
1	2017-18	(6.15)	(6.15)	18,577.89	1142.54	952.00	946.79
2	2018-19	(6.15)	(6.15)	21,120.80	1298.93	899.89	859.49
3	2019-20	(6.15)	(6.15)	21,630.73	1330.29	755.89	751.46
4	2020-21	(6.91)	(6.91)	21,580.13	1491.19	865.09	616.30
5	2021-22	(6.91)	(6.91)	25,743.56	1778.88	858.09	729.45

(Source: Panchayat Directorate, Raipur and Finance Accounts of Chhattisgarh state)

The reports of the Second SFC and Third SFC mentioned that only Net Tax Revenues of the State is to be shared with PRIs and ULBs. As per the method mentioned in the SFC report, the Net Tax Revenues of the State has been arrived at by deducting from State Own Tax Revenue (SOTR), the proceeds of three⁴ taxes which are transferred in full to the local bodies and the expenditure incurred in the collection of the remaining taxes⁵. Further, for calculation of Net SOTR, data of SOTR provided by Panchayat Directorate, Raipur and data of cost of collection and taxes transferred in full to local bodies as provided in Finance accounts of Chhattisgarh State for the respective years have been taken into consideration.

As can be seen from the above table, the State Government has allocated less budget to PRIs as per the accepted devolution from 2017-18 to 2021-22. Also, actual fund released to PRIs was less than the budget allocated during 2017-22.

1.12.4 Recommendations of the Central Finance Commission

Fourteenth Finance Commission Grants

Fourteenth Finance Commission had recommended two types of grants namely, Basic Grant and Performance Grant, for GPs and Municipalities. The purpose of the Basic Grant is to provide unconditional support to the GPs and Municipalities for delivering the basic functions assigned to them under their respective statutes, such as water supply, sanitation, sewerage, maintenance of community assets, footpaths and street lighting, burial and cremation grounds etc. In the case of Performance Grant, a detailed procedure for disbursement of the Performance Grant to PRIs based on revenue improvement be designed by the State Government concerned, subject to certain eligibility criteria.

The Government of India (GoI) sanctioned an amount of ₹ 4,943.30 crore during 2015-16 to 2019-20 to PRIs as per recommendations of the Fourteenth Finance Commission and the entire amount was released. Out of released

⁴ Land Revenue, Tax on Goods and Passengers, Other Taxes on Commodity and Services.

⁵ Cost of collection of four taxes i.e., Stamp & Registration, State Excise, Commercial Tax, Tax on Vehicles.

amount of ₹ 4,943.30 crore, expenditure of ₹ 4,919.42 crore was incurred and an amount of ₹ 23.87 crore (0.48 *per cent*) had not been spent as of March 2023. The details of allotment and expenditure of Fourteenth Finance Commission grant are given in the following **Table 1.14**:

Table 1.14: Details of allocation and expenditure of Fourteenth Finance Commission grant

(₹ in crore)

Year	Allocation			Total Expenditure	Saving (Percentage)
	Basic Grant	Performance Grant	Total		
2015-16	566.18	0.00	566.18	4919.42	23.87 (0.48 <i>per cent</i>)
2016-17	783.98	102.84	886.82		
2017-18	905.81	116.37	1022.18		
2018-19	1047.86	0.00	1052.22 ⁶		
2019-20	1415.89	0.00	1415.89		
Total	4719.72	219.21	4943.29		

(Source: Information provided by Panchayat Directorate, Raipur)

Fifteenth Finance Commission Grants

Fifteenth Finance Commission report for 2021-22 to 2025-26 provides that, out of the total grants earmarked for PRIs, 60 *per cent* is earmarked for national priorities like drinking water supply and rainwater harvesting and sanitation, while 40 *per cent* is untied and is to be utilised at the discretion of the PRIs for improving basic services.

Accordingly, GoI allotted and released grant of ₹ 2,529.00 crore as Basic Grant between 2020-21 and 2021-22 as per recommendations of Fifteenth Finance Commission, of which expenditure of ₹ 1,329.92 crore had been incurred by the Department as of March 2022.

Revised Chapter-I was issued to the State Government in November 2024 and response of the Government is awaited.

⁶ Included interest of ₹ 4.3663 Crore due to non-devolution of funds by GoI within prescribed time.