

---

**CHAPTER-1**  
**PROFILE OF PANCHAYATI RAJ**  
**INSTITUTIONS**

---

## CHAPTER-1

### PROFILE OF PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Background of Panchayati Raj Institutions

The 73<sup>rd</sup> Constitutional amendment gave a Constitutional status to the Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular elections and regular flow of funds through Finance Commissions. As a follow up, the states were required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of local Self Government. In particular, the PRIs were required to prepare plans and implement schemes for economic development and social justice including those functions listed in the eleventh schedule of the Constitution. All the 29 functions listed in 11<sup>th</sup> Schedule of the constitution were devolved to the PRIs. However, funds were not being devolved by the departments. The Director, Panchayati Raj stated (October 2013) that the line departments are being pursued to devolve funds and functionaries in conformity with the functions devolved to the PRIs from time to time.

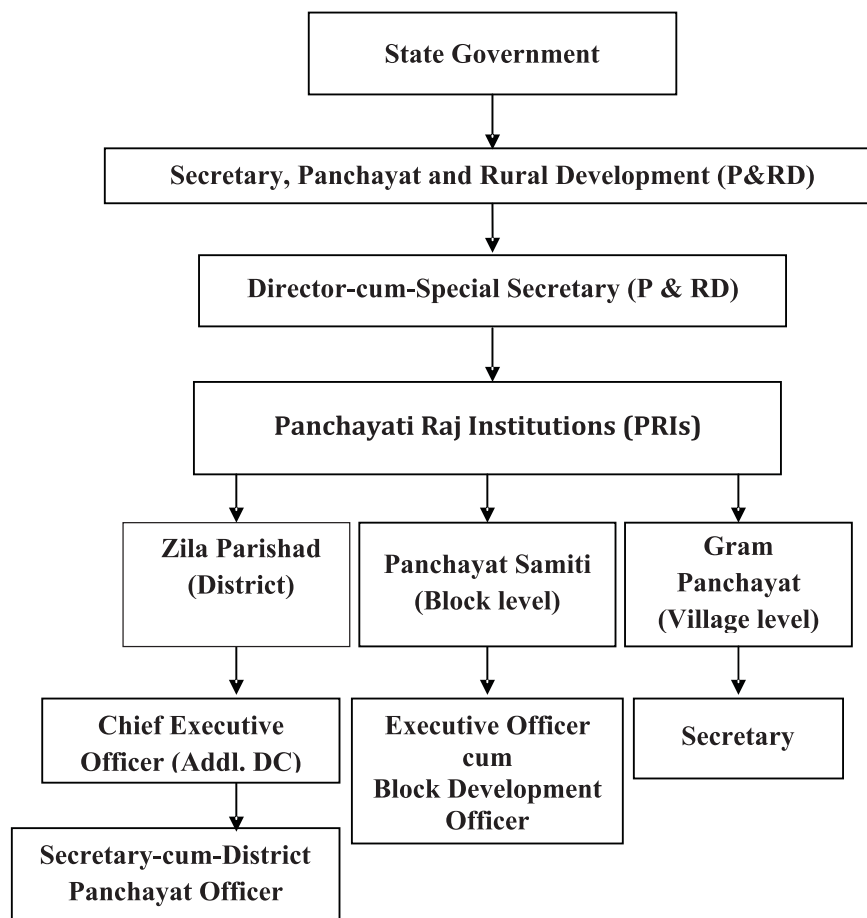
The State Government enacted the Himachal Pradesh Panchayati Raj Act, 1994 and framed the Himachal Pradesh Panchayati Raj (General) Rules, 1997 and the Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules, 2002 to enable these institutions to work as a third tier of the government. Accounting structure as prescribed by the Comptroller and Auditor General and Ministry of Panchayati Raj (MOPR), Government of India (GOI) in 2009 has been adopted by the State Government and annual accounts (receipts and expenditure) are being maintained by the PRIs accordingly.

#### 1.2 Audit mandate of CAG

In Himachal Pradesh, audit of Panchayati Raj Institutions (PRIs) is being conducted by the audit wing of the Director, Panchayati Raj Department. The state government has entrusted (March 2011) audit of PRIs to the Comptroller and Auditor General of India (CAG) with the responsibility of providing Technical Guidance and Support under section 20(1) of the CAG's (DPC) Act, 1971. The results of audit are included in the Annual Technical Inspection Report (ATIR), which is to be placed before the state legislature as per section 118 of the Himachal Pradesh Panchayati Raj Act, 1994.

#### 1.3 Organizational structure of Panchayati Raj Institutions

The chart given below depicts the organizational structure of the State Government, Panchayati Raj department and the Panchayati Raj Institutions at the Zila Parishad (ZP), Panchayat Samiti (PS), and Gram Panchayat (GP) level:



The chairperson of ZPs and PSs and the Pradhans of GPs are the elected members and head the ZPs, PSs and GPs, respectively. District level officers are required to attend the monthly meetings of ZPs to discuss the developmental activities.

### 1.3.1 Standing committees

The various standing committees in PRIs and their role and responsibilities are given in **Table 1**:

**Table 1: Roles and responsibilities of the standing committees**

Level of PRIs	Standing committee headed by	Name of the standing committees	Role and responsibilities of the standing committee
Zila Parishad	Chairperson	General Standing Committee	Performs the functions relating to establishment matters, communications, buildings, etc.
		Finance, Audit and Planning Committee	Performs the functions relating to the finances of the Zila Parishad.
		Social Justice Committee	Performs the functions like promotion of education, economic, social, cultural and other interests of the SCs/STs/BCs.
		Education and Health Committee	Undertakes the planning of education in the district within the framework of the national policy and the national and state plans.

		Agriculture and Industries Committee	Performs the functions relating to agriculture production, animal husbandry, co-operation, village and cottage industries, etc.
Panchayat Samiti	Chairperson	General Standing Committee	Performs the functions relating to the establishment matters and communications, etc.
		Finance, Audit and Planning Committee	Performs the functions relating to the finance of the Panchayat Samiti.
		Social Justice Committee	Performs the functions relating to promotion of education, economic, social, cultural and other interests of the SCs/STs/BCs, etc.
Gram Panchayat	Pradhan	Works Committee	All developmental works of the Gram Panchayats are executed by this committee.
		Budget Committee	Prepares the annual budget of the GP and submit the same to the Secretary

### 1.3.2 Institutional arrangements for implementation of schemes

The Panchayati Raj Institutions (PRIs) have technical and non-technical staff. Against 8186 sanctioned posts of various cadres, 200 posts of Panchayat sahayak/secretaries were lying vacant as of March, 2013 (**Appendix-1**).

Panchayat secretaries/sahayaks are being imparted a basic training course of 45 days in Panchayati Raj Institutes. Besides, refresher courses including computer training are organized by the department to upgrade their skills.

## 1.4 Financial profile

### 1.4.1 Fund flow to PRIs

#### Fund flow: Source and custody of funds in PRIs

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central Government grants for maintenance/ development purposes and implementation of schemes. The fund-wise sources and their custody for each tier as well as the fund flow arrangements for flagship schemes are given in **Table 2** and **Table 3**:

**Table 2: Fund flow: Source and custody of funds in PRIs.**

Nature of Fund	ZPs		PSs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	ZPs	Bank	PSs	Bank	GPs	Bank
State Plan	State Government	Bank	State Government	Bank	State Government	Bank
State Finance Commission	State Government	Bank	State Government	Bank	State Government	Bank
Central Finance Commission	GOI	Bank	GOI	Bank	GOI	Bank
Centrally Sponsored Schemes	GOI	Bank	GOI	Bank	GOI	Bank

While Central and State grants are utilized by the PRIs for execution of central and state sponsored schemes as per the guidelines issued by GOI and State Government, the own receipts of PRIs are utilized for execution of schemes/works formulated by the PRIs.

**Table 3: Fund flow arrangements in major centrally sponsored flagship schemes**

Sr. No.	Scheme	Fund flow Arrangements
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	GOI and state government transfer their respective shares of MGNREGA funds in a bank account, called State Employment Guarantee Fund (SEGF) which is set outside the state accounts. Commissioner, State Rural Employment Guarantee is the custodian of SEGF and authorizes onward transfer of funds to ZPs, PSs and GPs.
2.	Indira Awas Yojana (IAY)	The Indira Awas Yojana is a centrally sponsored scheme, funded on cost-sharing basis between the government of India and the state government in the ratio of 75:25. Funds are transferred by MORD, GOI to DRDAs, who are the custodian of these funds. The DRDAs release the funds to BDOs and BDOs to GPs. Further, GPs transfer funds directly to the beneficiaries' accounts in two installments. Second installment is released after construction reaches the lintel level.
3.	Integrated Watershed Development Programme (IWDP)	The Intergrated Watershed Development Program is a centrally sponsored scheme, funded on cost-sharing basis between the government of India and the state government in the ratio of 5500:500 per hectare. Funds are released by District Rural Development Agency (DRDA) to watershed committee which opens an account in the bank. Flow of funds under this scheme is from GOI, Department of Watershed Development (DoWD) to the DRDA, DRDA to Project Implementing Agency (PIA), PIA to watershed committee and watershed committee to executing agencies.
4.	Swarnjayanti Gram Swarozgar Yojana (SGSY)	The total cost of the project is to be shared between Centre and State in the ratio of 75:25. Funds are transferred by MORD, GOI to DRDAs; the DRDAs release the funds to BDOs and the BDOs release funds directly to the beneficiaries.
5.	Total Sanitation Campaign (TSC)	Under this scheme, funds are shared in the ratio of 60:30:10 among the Centre, State and community, respectively. On receipt of funds from GOI, the same alongwith matching share is released to the district's account by the Rural Development Department (RDD). The community contribution, however, can be made by the Panchayat out of its own resources, from grants of the 13 <sup>th</sup> FC or from any other fund of the State duly permitted by it.

#### 1.4.2 Resources: trends and composition

The resources of PRIs for the period from 2008-09 to 2012-13 are detailed in **Table 4:**

**Table 4: Time series data on resources of PRIs**

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Own Revenue	7.35	7.72	7.81	31.52	NA
CFC transfers (Finance Commission devolutions)	29.40	29.40	52.14	80.80	93.21
SFC transfers (State Finance Commission devolutions)	51.80	51.83	48.02	67.53	62.95
Grants from State Government	65.93	69.87	71.65	72.88	70.40
Grant from Central Government	61.76	58.57	82.79	113.15	131.16
GOI grants for CSS	528.57	505.29	818.56	735.20	488.57
State Government grants for state schemes	22.02	25.99	33.24	22.20	15.80
Other receipt	3.38	3.55	3.60	1.00	1.00
<b>Total</b>	<b>770.21</b>	<b>752.22</b>	<b>1117.81</b>	<b>1124.28</b>	<b>863.09</b>

NA: Not available.

Note: Decrease in GOI grants for CSS is due to less demand of funds under MGNREGS by the State Government.

### 1.4.3 Application of resources: trends and composition

The application of resources of PRIs for the period from 2008-09 to 2012-13 are detailed in **Table 5**:

**Table 5: Application of resources sector-wise**

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Expenditure from CFC transfers (Central Finance Commission devolutions)	29.40	29.40	52.14	80.80	93.21
Expenditure from SFC transfers (State Finance Commission devolutions)	51.80	51.83	48.02	67.53	62.95
Expenditure from grants from State Government and Centre Government.	138.42	128.44	154.44	187.02	202.52
Expenditure on CSS	398.80	643.58	594.89	591.35	544.51
Expenditure on State Schemes	21.31	25.24	32.18	21.49	16.26
<b>Total</b>	<b>639.73</b>	<b>878.49</b>	<b>881.67</b>	<b>948.19</b>	<b>919.45</b>

Source: Director, Panchayati Raj and Director, RDD, Himachal Pradesh.

It was noticed that all funds transferred by the Panchayati Raj Department to PRIs have been shown as expenditure. The exact figure of expenditure incurred by the PRIs was not available with the Panchayati Raj Department.

### 1.5 Accounting system in PRIs

The PRIs maintain their accounts in the proforma, prescribed under Himachal Pradesh Panchayati Raj General Rules, 1997. Accounts of the Gram Panchayats are maintained by the Panchayat Secretary, appointed by the Director-cum-Special Secretary Panchayati Raj & Rural Development Department (P&RD) and Panchayat Sahayak, appointed on contract basis by the Executive Officer -cum -Block Development Officer. In case of PSs, the accounts are maintained by the accountants of development blocks. Accounts of ZPs are maintained by government officials of the office of DPO-cum-Secretary, ZP. The accounts of the PRIs are not certified in the absence of any provision for certification of PRI accounts in the HP Panchayati Raj (General) Rules, 1997 and HP Panchayati Raj Rules, 2002.

The Eleventh Finance Commission (EFC) had recommended that the CAG must exercise control and supervision over maintenance of accounts of all the three tiers of PRIs. The CAG and MOPR, GOI had recommended Model Accounting Structure for PRIs in 2009. The Director, Panchayati Raj Department stated (August 2012) that the State Government had adopted PRIASOFT, a software developed by MOPR for maintaining the accounts of PRIs as per the Model Accounting Structure. Presently, the process of data upload is being carried out through this software.

### 1.6 Audit coverage

The Principal Accountant General (Audit), Himachal Pradesh conducts the audit of PRIs with the responsibility of providing Technical Guidance and Support under Section 20(1) of the CAG's (DPC) Act, 1971. Audit of accounts of six ZPs (out of 12), 19 PSs (out of 77) and 92 GPs (out of 3,243) was conducted by Office of the

Pr. Accountant General (Audit), Himachal Pradesh during 2012-13 (**Appendix-2**). Important audit findings are discussed in the following paragraphs.

### **1.7 Financial reporting and accountability framework of PRIs (internal control system)**

A sound internal control system significantly contributes to efficient and effective governance of the PRIs by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance are the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the PRIs and the State Government in meeting its basic stewardship responsibilities, including strategic planning, decision making and accountability of the stakeholders. The following discrepancies were found in the internal control system:

#### **1.7.1 Primary audit of PRIs**

The Local Audit Department (LAD) has been empowered to conduct the audit of PRIs as per amendment made in section 118 of the Himachal Pradesh Panchayati Raj Act (HPPRA), 1994. Till date, audit of PRIs has not been conducted by the LAD due to shortage of staff in their department. Sub-section (I) of section 118 of the HPPRA, 1994 also provides that there will be a separate and independent internal audit agency under the control of the Director, Panchayati Raj to audit the accounts of PRIs with a view to have proper financial control on income and expenditure. The position of internal audit conducted by the Audit wing under Director, Panchayati Raj during April 2010 to March 2012 is given in **Table 6**:

**Table 6: Position of Internal Audit**

<b>Name of Institution</b>	<b>Total units</b>	<b>No. of units planned for audit</b>	<b>No. of units audited</b>	<b>No. of units not audited</b>	<b>Percentage of short fall</b>
(1) Panchayat Samitis	77	67	49	18	27
(2) Gram Panchayat	3243	2411	1474	937	39

Source: Director, PRI.

Audit also noticed that the Audit wing under Director, Panchayati Raj had not planned internal audit of any of the ZPs during 2012-13. The Joint Director, PRI stated that the internal audit of ZPs could not be done because the post of the Deputy Controller (Audit) was lying vacant and one post of District Audit Officer and 22 posts of Panchayat Auditors were also vacant, due to which audit of PSs and GPs could not be accomplished as per plan.

#### **1.7.2 Non-preparation of budget estimates**

Rule 37 and 38 of the HPPR Rules, 2002 provide that the annual budget estimates of GPs, PSs and ZPs showing the probable receipts and expenditure for the following year are required to be prepared and passed by the Gram Sabha, PS or ZP, as the case may be, by majority vote, before commencement of the next financial year.

It was observed that one ZP (Out of 6 ZPs test checked), 8 PSs (Out of 19 PSs test checked) and 17 GPs (out of 92 GPs test checked) had not prepared the annual budget estimates for the period between 2008 and 2013. However, an expenditure of ₹ 24.26 crore<sup>1</sup> had been incurred during this period without approval of the estimates, which was contrary to the HPPR Rules, 2002 (**Appendix-3**).

While confirming the facts, the Executive Officers/Secretaries concerned stated (September 2012-February 2013) that budget estimates could not be prepared due to rush of work and would be prepared well in time in future.

### **1.7.3 Non-maintenance of registers**

Rule 31 of HPPR Rules, 2002 stipulates that every PRI shall maintain important records, register, forms, etc., as detailed in Rule 34 of HPPR (General) Rules 1997.

It was observed that in one PS and 22 GPs audited during 2012-13 (**Appendix-4**) important registers like stock register, immovable property register, work register, muster roll register were not being maintained. Due to non-maintenance of the records, correctness of financial transactions could not be ascertained. The Executive Officers /Secretaries concerned admitted the facts (April 2012–February 2013) and assured to maintain these records in future.

### **1.7.4 Improper maintenance of accounts of income from own resources and grant-in-aid/ loans**

As per rule 4 of HPPR Rules, 2002, every GP and PS is required to keep separate accounts of income from own resources and grant-in-aid and loans received for special purposes. While Account 'A' was to be maintained in the former case, Account 'B' was to be maintained in the later case.

It was noticed that in five GPs and one PS<sup>2</sup>, the accounts were not maintained in the prescribed format and all the transactions were carried out through a single account in contravention of the rule *ibid* due to which the correctness of income from own resources and grant in aid/loans received could not be verified.

### **1.7.5 Preparation of bank reconciliation statements**

Rule 15 (10) (b) of the HPPR Rules, 2002 provides that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. The difference, if any, shall be explained and accounted for in a foot note in the cash book.

However, it was noticed that difference of ₹ 3.51 crore (**Appendix-5**) between cash books and pass books at the close of the year 2012-13 was not reconciled by 53 PRIs. The authenticity of accounts of these PRIs could not be ascertained in the absence of reconciliation with bank statements. The officers of the concerned PRIs stated (April 2012–February 2013) that the differences would be reconciled.

---

<sup>1</sup> ZPs ₹ 5.14 crore: PSs ₹ 14.49 crore and GPs ₹ 4.63 crore

<sup>2</sup> Five GPs: Bandi, Dishti, Basha, Dashesda, Baggi (All from Mandi district)  
One PS: Tissa (Chamba district)



### **1.7.6 Non-accounting of materials**

#### **Non-accountal of materials in stock register by the GPs.**

Under rule 69 of HPPR Rules, 2002, all stores when received are required to be examined, counted, measured or weighed, as the case may be, at the time of taking delivery and should be entered in the stock register immediately. A certificate to the effect is also required to be given at the end of the entries for any single day by the official incharge of stores authorised by the Gram Panchayat or Secretary of the Panchayat Samiti or the Zila Parishad, as the case may be, stating that the stores have been received in proper condition and according to specifications. In the event of stores found surplus the same should be indicated as additional receipt and shortages, if any, should be indicated in red ink. Further, rule 70 of the HPPR Rules 2002 *ibid* stipulates that articles of stores shall be issued against proper indents.

In 20 GPs, items of stores such as steel, timber, furniture, hardware items etc. purchased at a cost of ₹ 1.59 crore were not accounted for in stock registers (**Appendix-6**). In the event of non-accounting of these stores the possibility of pilferage/ loss cannot be ruled out. This was indicative of ineffective monitoring on the part of GPs. In reply, the secretaries of GPs concerned stated (June 2012-March 2013) that the stores would be entered in the stock registers. The fact, however, remained that there was absence of proper check over maintenance of accounts by the GPs concerned.

### **1.7.7 Non-maintenance of accounts of works of ₹ 1.13 crore**

Under rule 103 of HPPR Rules, 2002, the accounts of works taken up for execution in respect of panchayats are required to be maintained by the secretary himself or through officers/officials under him. The original receipts of all materials purchased, payments made or all other relevant records pertaining to the execution of works so maintained are subject to audit.

During audit of GP *Baghaigarh* (Chamba district), it was noticed that between April 2007 and August 2012, execution of 54 works costing ₹ 1.13 crore was taken up, but the work-wise details of amount sanctioned, amount utilized, physical and financial status of works were not maintained. The Secretary of the GP stated (October 2012) that the requisite records would be maintained in future.

### **1.7.8 Blocking of funds under 13<sup>th</sup> Finance Commission**

#### **Funds of ₹ 15.38 lakh remained unutilized under 13<sup>th</sup> Finance Commission in 19 GPs.**

As per guidelines of 13<sup>th</sup> Finance Commission (13<sup>th</sup> FC), for utilization of grants released by the GOI to the State Government, the same were to be transferred by the State Government to the PRIs within 15 days from the date of their credit into the account of the State Government and completion of works should have been ensured within a period of six months from the date(s) of sanction(s).

It was noticed that in 19 GPs an amount of ₹ 15.44 lakh was received under 13<sup>th</sup> FC during 2010-12, of which an amount of only ₹ 0.06 lakh had been spent leaving ₹15.38 lakh unutilised as of March, 2013 (**Appendix-7**) for which Secretaries of concerned PRIs advanced no reasons. Thus, failure to utilise the available funds led to unnecessary blocking up of funds and also deprived the beneficiaries of the intended benefits.

### 1.7.9 Outstanding inspection reports

As a result of audit of PRIs under TGS, 1760 inspection reports (IR) containing 11,859 paras were issued by the office of Principal Accountant General (Audit), Himachal Pradesh to the concerned PRIs during 2007-13. Of these, 59 paras were settled leaving 1760 IRs and 11,800 paras outstanding as of March 2013. The details are given in **Table 7**:

**Table 7: Outstanding inspection reports**

Sr. No.	Year of issue of Inspection Reports	Outstanding IRs/ Paras as on 31 March, 2012		Addition (No. of IRs/ paras issued during the year)		Total		No. of IRs/ paras settled during 2012-13		No. of outstanding IRs/Paras as on 31.03.2013	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2007-08	528	2539	-	-	528	2539	-	-	528	2539
2.	2008-09	320	2558	-	-	320	2558	-	14	320	2544
3.	2009-10	336	2427	-	-	336	2427	-	18	336	2409
4.	2010-11	334	2389	-	-	334	2389	-	22	334	2367
5.	2011-12	126	1043	-	-	126	1043	-	05	126	1038
6.	2012-13	-	-	116	903	116	903	-	-	116	903
	<b>Total</b>	<b>1644</b>	<b>10956</b>	<b>116</b>	<b>903</b>	<b>1760</b>	<b>11859</b>	<b>-</b>	<b>59</b>	<b>1760</b>	<b>11800</b>

Increasing trend of outstanding inspection reports and paras is indicative of non-compliance of audit observations which has resulted in erosion of accountability.