

## **PART-A PANCHAYATI RAJ INSTITUTIONS**

### **CHAPTER-1**

#### **PROFILE OF PANCHAYATI RAJ INSTITUTIONS**

##### **1.1 Background of Panchayati Raj Institutions**

The 73<sup>rd</sup> Constitution Amendment Act accorded constitutional status to the Panchayati Raj Institutions (PRIs) and established a structure of self governing institutions at the rural level, with regular elections and flow of funds through Finance Commissions. States were expected to devolve funds, functions and functionaries to these bodies so as to enable them to function as institutions of Local Self Government. Twenty-nine functions (**Appendix-1**) listed in the 11<sup>th</sup> Schedule of the Constitution were to be devolved to PRIs, alongwith funds and functionaries. PRIs were required to prepare plans and implement schemes for socio-economic development, particularly for those functions listed in the Eleventh Schedule of the Constitution.

The Government of Himachal Pradesh 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 the third tier of Government. The activity map for devolving functions, funds and functionaries (3Fs) of 15 line departments was notified vide notification No. PCH-HA (3)/9/2006, dated 19<sup>th</sup> October, 2009. Although all 29 functions relating to these 15 line departments (**Appendix-2**) have been assigned to PRIs, matching funds and functionaries have not been provided to the PRIs<sup>1</sup>.

##### **1.2 Audit mandate of the CAG**

In Himachal Pradesh, primary audit of Panchayati Raj Institutions (PRIs) is being undertaken by the Director, Local Audit Department (LAD). The State Government has entrusted (March 2011) audit of PRIs to the Comptroller and Auditor General (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.

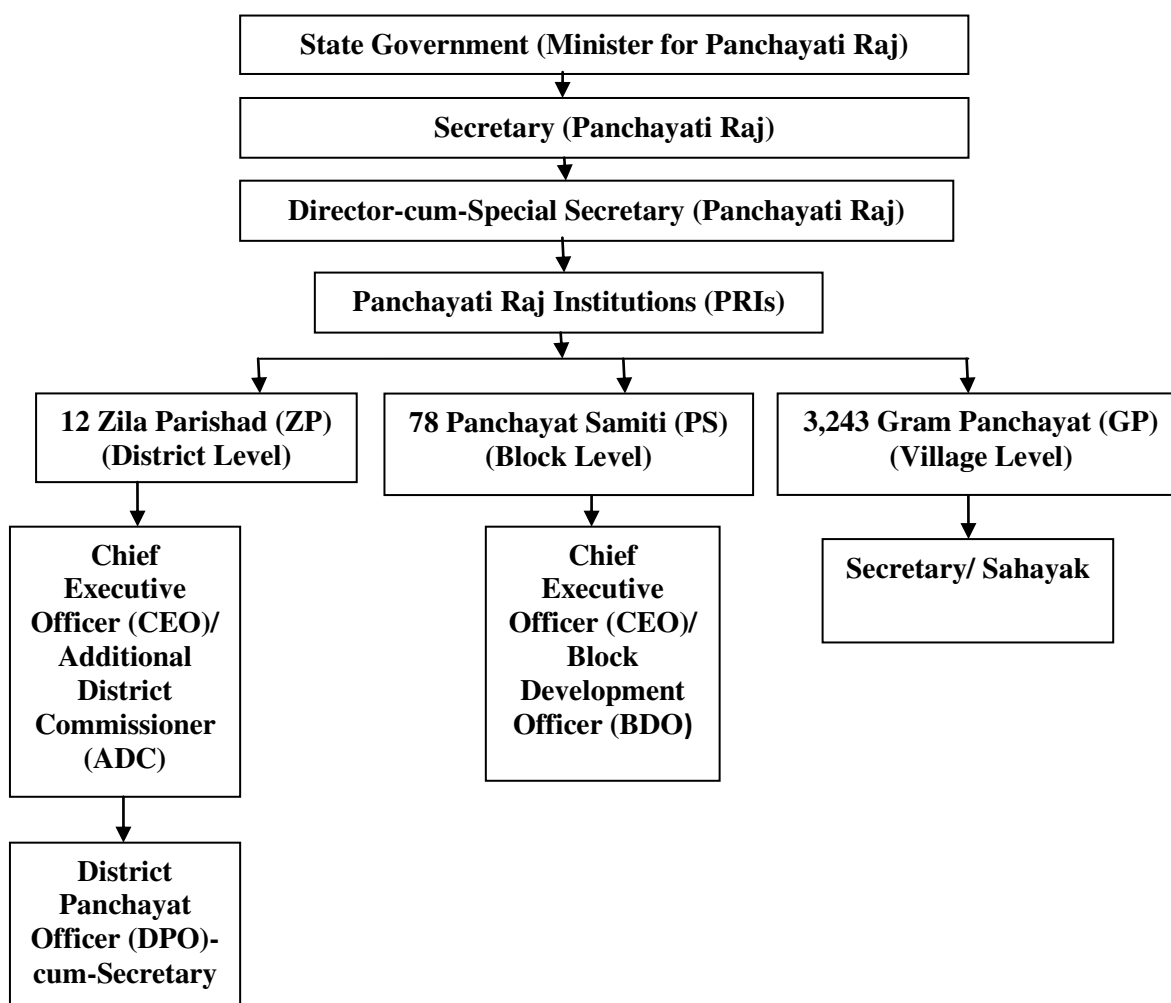
##### **1.3 Organisational structure of Panchayati Raj Institutions**

There are 12 Zila Parishads (ZPs), 78 Panchayat Samitis (PSs) and 3,243 Gram Panchayats (GPs) in the State, as of March, 2016. The chart below depicts the organisational 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.

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<sup>1</sup> Stated by Director, Panchayati Raj (July 2016).

### Organisational set up



The chairpersons of ZPs and PSs, and the Pradhans of GPs are elected representatives and head the ZPs, PSs, and GPs respectively. District level officers are required to attend monthly meetings of the ZPs.

#### 1.3.1 Standing Committees

The various Standing Committees in PRIs and their roles 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 Standing Committees	Role and responsibilities of the Standing Committee
Zila Parishad	Chairman	General Standing Committee	Performs functions relating to establishment matters, communications, etc.
		Finance, Audit and Planning	Performs functions relating to finances of Zila Parishad.
		Social Justice Committee	Performs functions like promotion of educational, economic, social, cultural and other interests of SCs/ STs/OBCs.
		Education and Health Committee	Undertakes planning of education in the district within the framework of the national policy and National and State plans
		Agriculture and Industries Committee	Performs functions relating to agriculture

Level of PRIs	Standing Committee headed by	Name of Standing Committees	Role and responsibilities of the Standing Committee
Panchayat Samiti	Chairman	General standing committee	Performs functions relating to the establishment matters.
		Finance, Audit and Planning	Performs functions relating to finances of the Panchayat Samiti.
		Social Justice committee	Performs functions like promotion of educational, economic, social, cultural and other interests of SCs/STs/OBCs.
Gram Panchayat	Pradhan or Up-Pradhan	Works Committee	All development works of the Gram Panchayat are executed by this committee.
		Budget Committee	Prepares the annual budget of the Gram Panchayats and submits 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 9,572 sanctioned posts (2,068 regular + 7,504 contractual) of various cadres, 9,496 persons (2,068 regular + 7,428 contractual) were in position and 76 posts (Junior Engineer: 14 and Panchayat Secretary: 62) were lying vacant as of March 2017. Also, 62 posts of Panchayat Secretary are vacant. All 2,954 Panchayat Secretaries were imparted 45 days' compulsory training after their joining. During 2016-17, 268 Panchayat Secretaries and Sahayaks were imparted basic computer training courses and training on e-Panchayat Applications by the Panchayati Raj Department.

## 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 development activities and implementation of schemes. The funds allotted to the PRIs through different sources are kept in banks.

While Central and State grants are utilised by the PRIs for execution of Central and State sponsored schemes as per guidelines issued by the GoI and State Government, the own receipts of PRIs are utilised for execution of schemes and works formulated by the PRIs. The fund flow arrangements for flagship schemes are given in **Table-2**.

**Table-2: Fund flow arrangements for the major Centrally Sponsored Flagship Schemes**

Sl. No.	Scheme	Fund flow Arrangements
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GOI and State Government transfer their respective shares of MGNREGS in State Employment Guarantee Fund (SEGF) which is set outside the state accounts. Divisional Commissioner, State Rural Employment Guarantee Schemes is the custodian of the SEGF and authorises transfer of funds directly from SEGF to the beneficiary account.
2.	Swachh Bharat Mission- Gramin (SBM-G)	SBM-G is a centrally sponsored scheme. Funds are released by the Ministry of Drinking Water and Sanitation (MDWS), GOI to the Rural Development Department. Rural Development Department releases the funds to the District Rural Development Agencies (DRDAs) on the basis of District Plans, extent of demand in the district, expenditure pattern and balance funds. The District Rural Development Agencies release the funds to Block Development Officers who further distribute them to Gram Panchayats for various activities.

Sl. No.	Scheme	Fund flow Arrangements
3.	Integrated Watershed Management Programme (IWMP)	The IWMP is a centrally sponsored scheme funded on a cost-sharing basis between the GOI and the State Government in the ratio of 90:10. The nodal ministry (Ministry of Rural Development)/ Department (Department of Land Resources) allocates the budgetary outlay for the projects amongst the States keeping in view the prescribed criteria and past performance of the States (physical and financial) viz. unspent balance, outstanding utilisation certificates, percentage of completed projects out of total projects, etc., except in those schemes where States have flexibility to allocate funds between watershed and other schemes. The State Level Nodal Agencies distribute funds to the districts keeping in view the prescribed criteria.
4.	Pradhan Mantri Awaas Yojana/ Indira Awas Yojana (IAY)	Pradhan Mantri Awaas Yojana (previously Indira Awaas Yojana) is a centrally sponsored scheme, funded on a cost-sharing basis between the GOI and the State Government in the ratio of 75:25. Funds are transferred by Ministry of Rural Development (MoRD), GOI to District Rural Development Agencies (DRDAs), who are custodian of these funds. The DRDAs release the funds to BDOs who release them to the GPs. GPs further, transfer funds directly to the beneficiaries' accounts in two instalments. Second instalment is released after construction reaches the lintel level.
5.	Swarnjayanti Gram Swarajgar Yojana (SGSY)/ National Rural Livelihood Mission (NRLM)	SGSY/ NRLM is a centrally sponsored scheme (CSS) implemented in all states. The total cost of project is to be shared between Centre and State in the ratio of 75:25.
6.	Deen Dayal Upadhyaya Gramin Kaushalya Yojna (DDU-GKY)	Deen Dayal Upadhyaya Gramin Kaushalya Yojna (DDU-GKY), a sub-mission under National Rural Livelihood Mission (NRLM) is an initiative launched by Ministry of Rural Development (MoRD), Government of India. Implementation of DDU-GKY involves State Government, technical support agencies like the National Institute of the Rural Development and Panchayati Raj (NIRD & PR) and Project Implementing Agencies (PIAs). DDU-GKY State Skill Missions, embedded within the State Rural Livelihood Missions (SRLMs), are envisioned to play a central role in providing co-funding and implementation support to DDU-GKY in the State. The ratio of Central and State Government share is 90:10.

#### 1.4.2 Resources: trends and composition

The resources of PRIs for the period from 2012-13 to 2016-17 are detailed in Table-3.

**Table-3: Time series data on resources of PRIs**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Own Revenue	82.55	92.35	105.32	96.50	88.33
Finance Commission (FC) grants from the State Government (State FC) and Central Government (Central FC)	201.56	283.62	309.95	360.18	515.83
GoI grants for CSS	488.57	163.68	511.86	403.36	659.99
State Government grants for State schemes	15.80	15.97	17.99	23.64	48.18
Other receipts	1.00	0.67	0.25	0.42	0.48
<b>Total</b>	<b>789.48</b>	<b>556.29</b>	<b>945.37</b>	<b>884.10</b>	<b>1,312.81</b>

Source: Director, Panchayati Raj and Rural Development Department, Himachal Pradesh and Economic Adviser, Economics and Statistics Department, Himachal Pradesh

Figures relating to own revenue of PRIs have not been maintained by the Directorate (Panchayati Raj) from the year 2012-13 onwards. The Department stated (April 2016) that the figures relating to own revenue of PRIs have not been compiled as they are now being compiled by the Department of Economics and Statistics, Himachal Pradesh. The figures have, therefore, been obtained from the Department of Economics and Statistics.

### 1.4.3 Application of resources: trends and composition

The application of resources (amounts released to PRIs by Department of Panchayati Raj, and amount of actual expenditure incurred by PRIs out of the funds released by Department of Rural Development) by PRIs for the period from 2012-13 to 2016-17 is detailed in **Table-4**.

**Table-4: Sector-wise application of resources**

Particulars	₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Expenditure from Finance Commission grants from the State Government (State FC) and Central Government (Central FC)	202.52	284.29	244.74	307.57	439.37
Expenditure on CSS	544.51	161.86	547.24	516.11	711.72
Expenditure on State Schemes	16.26	14.31	17.65	19.02	35.41
<b>Total</b>	<b>763.29</b>	<b>460.46</b>	<b>809.63</b>	<b>842.70</b>	<b>1,186.50</b>

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

The utilisation of funds in 140 test-checked PRIs for the period 2013-14 to 2015-16 ranged between 75 and 78 per cent as detailed in **Table-5** below.

**Table-5: Utilisation of funds in test checked PRIs**

Year	₹ in crore)	
	Receipts	Expenditure
2013-14	97.78	75.92 (78)
2014-15	103.57	77.76 (75)
2015-16	126.79	97.61 (77)

Source: Figures furnished by the test-checked PRIs

### 1.5 Accounting system in PRIs

The PRIs maintain their accounts in the proforma prescribed under the 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 Department, and Panchayat Sahayak, appointed on contract basis by the Chief Executive Officer-cum-Block Development Officer. In case of Panchayat Samitis, the accounts are maintained by the accountants of development blocks. Accounts of ZPs are maintained by the District Panchayat Officer-cum-Secretary, ZP.

The Eleventh Finance Commission (EFC) had recommended that the CAG exercise control and supervision over maintenance of accounts of all the three tiers of PRIs. The CAG and Ministry of Panchayati Raj (MoPR), GoI had recommended a Model Accounting Structure for PRIs in 2009. The State Government adopted (August 2012) PRIASoft, a software developed by MoPR, for maintaining the accounts of PRIs as per the Model Accounting Structure. The Deputy Director (PRI) stated (October 2017) that

accounts are maintained on PRIASoft as recommended by the CAG and Ministry of Panchayati Raj (MoPR), GoI.

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

A sound internal control system contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting on the status of such compliance is 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 to the stakeholders. Himachal Pradesh Panchayati Raj (HPPR) Rules, 2002 provide that PRIs are required to maintain certain records, registers, forms and accounts. Discrepancies noticed in the internal control system of the PRIs are discussed in Chapter -2.

### **1.7 Primary audit and Internal audit of PRIs**

The Local Audit Department (LAD) has been empowered to conduct the primary audit of PRIs as per Section 118 of the Himachal Pradesh Panchayati Raj (HPPR) Act, 1994. During the year 2016-17, 286 PRIs were audited by the LAD.

Sub-section (i) of section 118 of the HPPR Act, 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 ensure proper control on income and expenditure. The position of internal audits conducted by the Audit Wing under Director, Panchayati Raj during April 2016 to March 2017 is given in **Table-6**.

**Table-6: Position of Internal Audits during 2016-17**

Name of Institution	Total units	No. of units planned for audit	No. of units audited	No. of units not audited	Percentage of shortfall/ Excess
Panchayat Samitis	78	39	28	11	(-) 28
Gram Panchayat	3,243	1,622	1,666	--	(+) 03

Source: Director, PRI.

It was noticed that the audit wing under Director, Panchayati Raj had not planned internal audit of any of the ZPs. Deputy Director (PR) stated (July 2018) that internal audit of Zila Parishads was not planned by the department as all ZPs were already being audited by Local Audit Department; however, the department would start conducting internal audit of ZPs from 2018-19.

### **1.8 Technical Guidance and Support**

The audit of PRIs has been entrusted to the CAG under Section 20 (1) of the CAG's (DPC) Act, 1971 with the responsibility of providing Technical Guidance and Support (TGS) to the Primary Auditors as per sections 152-154 of Regulations on Audit and

Accounts, 2007 with regard to annual audit plans, audit methodology and procedures, training and capacity building, reporting and submission of returns.

Audit Plans for the year 2016-17 were received from the Primary Auditor (Director, LAD) and noted for the process of audit planning in this office.

Primary Auditor (Director, LAD) adhered to the audit methodology and procedures for audit as prescribed in Section 80 of the HPPR (Finance, Budget, Accounts, Audit, Works, Taxation and Allowance) Rules 2002.

During the year 2016-17, seven inspection reports from the audit of the PRIs conducted by the Primary Auditor were reviewed by the Office of the Principal Accountant General (Audit), Himachal Pradesh. Inspection Reports were evaluated and recommendations were made for improvement and subsequent follow-up. The following recommendations were made:

- i. Income and expenditure of last three years may be shown in tabular format.
- ii. Reference to rules may be given in the paras while raising objections in audit.
- iii. Audit memos may be issued to the auditee unit
- iv. Audit paras may incorporate the reply of the Secretary, Gram Panchayat.

It may be pointed out that similar recommendations for improvement had been made during previous years, but the shortcomings persisted indicating that LAD had not taken adequate steps to address the same.

Every year, two days' training is imparted to the audit staff of Local Audit Department (LAD) as per their requirement. During 2016-17, 18 participants from LAD were imparted training on 8<sup>th</sup> and 9<sup>th</sup> December 2016 on the topics: (i) Statutory provisions regarding finance, taxation and recovery of claims (ii) PRIs funds, their operation, application and investment (iii) Budget, expenditure and stores (iv) Audit and inspection (v) Panchayati Raj Public Works Rules; and (vi) Introduction to MGNREGA and its operational guidelines.

## **1.9 Audit coverage**

During the year 2016-17, test-check of accounts and records of 140 PRIs was conducted by this office and reports were issued to the respective PRIs. This included six ZPs (out of 12), six PSs (out of 78) and 128 GPs (out of 3,243) (**Appendix-3**) selected on the basis of periodicity and expenditure. Important audit findings are discussed in Chapter-2.

## **1.10 Inspection reports and audit paras pending compliance**

As a result of audit of PRIs under TGS, 2,294 inspection reports (IRs) containing 15,292 paras were issued by the office of Principal Accountant General (Audit), Himachal Pradesh to the PRIs concerned as of March 2017. Of these, four IRs and 110 paras were settled leaving 2,290 IRs and 15,182 paras pending compliance as of March 2017. The details are given in **Table-7**.

**Table-7: Outstanding inspection reports and audit paras**

(In numbers)

Sl. No.	Year of issue of Inspection Reports	IRs/ Paras Outstanding as on 31March 2016		Addition (No. of IRs/ paras issued during the year)		Total		No. of IRs/paras settled during 2016-17		No. of IRs/Paras outstanding as on 31 March 2017	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2012-13	1,752	11,226	---	---	1,752	11,226	2	65	1,750	11,161
2.	2013-14	147	970	---	---	147	970	1	16	146	954
3.	2014-15	100	724	---	---	100	724	1	13	99	711
4.	2015-16	155	1,331	---	---	155	1,331	0	5	155	1,326
5.	2016-17	---	---	140	1,041	140	1,041	0	11	140	1,030
	<b>Total</b>	<b>2,154</b>	<b>14,251</b>	<b>140</b>	<b>1,041</b>	<b>2,294</b>	<b>15,292</b>	<b>4</b>	<b>110</b>	<b>2,290</b>	<b>15,182</b>

Correspondence is being undertaken regularly with PRIs and Panchayati Raj Department to settle outstanding IRs/ Paras, but despite this the number of outstanding paras has increased. Increasing trend of outstanding inspection reports and paras is indicative of inadequate attention towards compliance to audit observations, and remains a matter of concern.