Chapter I

Overview of Local Bodies of the State

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1. Introduction

The Government of India enacted the 73rd and 74th Constitutional Amendment Acts (73rd and 74th CAA) 1992, giving constitutional status to Panchayats (referred to as Panchayati Raj Institutions-PRIs) and Municipalities (referred to as Urban Local Bodies-ULBs) respectively. These amendments established a uniform structure, regular elections, funding through the Central and State Finance Commissions etc. for PRIs and ULBs. The Eleventh and Twelfth Schedules, enlisting 29 subjects for PRIs and 18 subjects for ULBs were also inserted in the Constitution.

Subsequently, the State Government enacted the Haryana Panchayati Raj Act, 1994 and framed the Haryana Panchayati Raj Rules, 1995 and the Haryana Panchayati Raj (Finance, Budget, Accounts, Audit, Taxation and Works) Rules, 1996 for PRIs. In Haryana, the three tiers of PRIs comprise the Zila Parishad (ZP) at the district level, Panchayat Samiti (PS) at the block level and Gram Panchayat (GP) at the village level.

Consequent to the 74th CAA, Articles 243 P to 243 ZG were inserted in the Constitution of India whereby the State legislature could endow Municipalities with certain powers and duties to enable them function as institutions of self-government and to carry out the responsibilities including those enlisted in the Twelfth Schedule of the Constitution. The ULBs are governed by the Haryana Municipal Act, 1973 and the Haryana Municipal Corporation Act, 1994. The three-tiers of ULBs include the Municipal Corporations, Municipal Councils, and Municipal Committees. The basic details about Haryana and the number of PRIs and ULBs as of March 2024 is indicated below:

Table 1.1: Basic information about Haryana

Particulars	Units	Value
Total Population	In Lakh	253.51
Area	Sq. Km	44,212
Population density	Person/Sq. Km	573
Rural Population	Percent	65.12
	In Lakh	165.09
Urban Population	Percent	34.87
	In Lakh	88.42
Rural Literacy rate	Percent	71.42
Urban Literacy rate	Percent	83.14
Per capita State Income (2023-24)	₹ in Lakh per year	2.97
Panchayati Raj Institutions	Zila Parishads	22
	Panchayat Samitis	143
	Gram Panchayats	6,225
Urban Local Bodies	Municipal Corporations	11
	Municipal Councils	23
	Municipal Committees	54

The details of PRIs and ULBs are given in ***Appendix 1.1*** and ***1.2*** respectively.

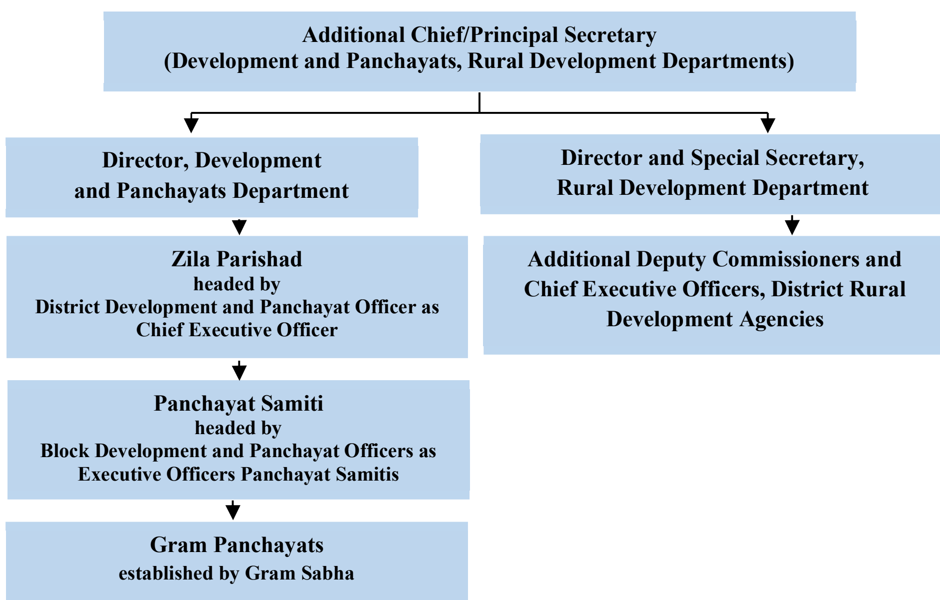
1.1 Panchayati Raj Institutions

An overview of organizational structure, functions, source of funds, expenditure etc. of PRIs in Haryana are discussed in the succeeding paragraphs.

1.1.1 Functioning and Organisational Structure of PRIs

The Additional Chief Secretary/Principal Secretary to the Government of Haryana, Development and Panchayats Department is the administrative head at the Government level. The Director, Development and Panchayats is the departmental head and is responsible for monitoring the affairs of PRIs through District Development and Panchayat Officers (DDPOs) at the district level and Block Development and Panchayat Officers (BDPOs) at the block level. The elected members of ZP, PS and GP are headed by President, Chairman and Sarpanch respectively. They convene and preside over the meetings of the Standing Committees and General Body. The organizational structure of the Development & Panchayat and Rural Development Departments is depicted below:

Chart-1.1



The Chief Executive Officer (CEO) of the Zila Parishad is responsible for carrying out the policies and directives of the ZP, discharging all statutory duties, and exercising control over its officers and officials. The CEO also maintains custody of all records, papers and documents of the ZP and is authorised to draw and disburse its funds. At the block level, the Block Development and Panchayat Officer-cum-Executive Officer, Panchayat Samiti (BDPO-cum-EOPS), is responsible for maintaining the accounts of the Panchayat Samitis. At the village level, the Gram Sachiv or Secretary is entrusted with the maintenance of accounts and records of the Gram Panchayats.

1.1.2 Brief overview of Devolution

The 73rd Constitutional Amendment Act, 1992 envisaged devolution of funds, functions and functionaries to the PRIs. The Eleventh Schedule of the Constitution mandated devolution of 29 functions for the PRIs. In Haryana, despite lapse of more than 33 years since the enactment of 73rd CAA, only five functions are fully devolved; in other five functions, the PRI have a limited role, while the PRIs are the mere implementing agency in respect of six functions and they have insignificant role in the remaining thirteen functions (***Appendix 1.3***).

1.1.3 Position of manpower

The position of human resources in the PRIs as of March 2024 is given below:

Table 1.2: Sanctioned Strength and Men in Position

PRIs	Designation	Sanctioned posts	Posts filled	Vacant posts	Vacancy (*per cent*)
Zila Parishads	Deputy Chief Executive Officer, Zila Parishad	22	13	9	41
Panchayat Samitis	Block Development and Panchayat Officer (BDPO)	143	115	28	20
Gram Panchayats	Gram Sachiv	4,487	4,419	68	2

It is evident from above that vacancy positions in the Zila Parishads and Panchayat Samitis were 41 *per cent* and 20 *per cent* respectively, whereas the actual position of manpower in the Gram Panchayats was largely good, without any significant vacancy position.

1.1.4 Sources of Funds

The sources of PRIs broadly include own source revenue and non-tax revenue, transfers from the State Finance Commissions and Central Finance Commissions, other budgetary transfers from the State Government, and grants-in-aids. Apart from these sources, funds received by PRIs through the Central Sponsored Schemes (CSS) and State Sponsored Schemes (SSS) are also a part of the resource envelope. The position of receipts and expenditures of the PRIs during 2019-20 to 2023-24 is indicated below:

Table 1.3: Receipt of PRIs during 2019-20 to 2023-24

(₹ in crore)

Description	2019-20	2020-21	2021-22	2022-23	2023-24
Own Revenue	342.47	467.01	354.20	393.14	582.76
Central Finance Commission devolutions	1,048.53	1,264.00	780.30	660.96	1,150.49
State Finance Commission devolutions	1,500.00	1,340.00	440.00	1,100.00	2,545.50
Grants for CSS (Centre and State Share)	529.62	871.50	613.42	416.25	251.93
State Government grants for state schemes/programmes	1,563.77	1,585.89	1,499.20	1,294.13	471.50
Total	**4,984.39**	**5,528.40**	**3,687.12**	**3,864.48**	**5,002.18**

Note: Data for the years from 2019-20 to 2022-23 has been taken from the Online Budget Allocation Monitoring & Analysis System of the Development and Panchayats Department, Haryana and Rural Development Department Haryana and for the year 2023-24 information provided by the department and for own sources information is provided by the department for the year 2019-20 to 2023-24.

Table 1.4: Expenditure of PRIs during 2019-20 to 2023-24

(₹ in crore)

Expenditure	2019-20	2020-21	2021-22	2022-23	2023-24
Own revenue	NA	NA	NA	NA	NA
Central Finance Commission devolution	1,048.53	1,264.00	467.50	660.96	1,150.49
State Finance Commission devolution	1,417.48	1,277.29	0	727.50	1,690.01
GoI grants for CSS	410.75	706.86	467.47	413.90	251.93
State Government Grants for State schemes	1,050.89	1,284.67	1,089.89	946.56	444.80
Total	**3,927.65**	**4,532.82**	**2,024.86**	**2,748.92**	**3,537.23**

Source: Online Budget Allocation Monitoring & Analysis System, Haryana.

The own revenue of the PRIs registered an irregular trend ranging from ₹ 342.47 crore (2019-20) to ₹ 582.76 crore (2023-24), though it was substantially less than the other sources of revenue. The Central Finance Commission devolutions were highest at ₹ 1,264 crore (2020-21), then dropped to ₹ 660.96 crore (2022-23) and subsequently increased to ₹ 1,150.49 crore (2023-24). Similarly, the State Finance Commission grants were highly fluctuating, as low as ₹ 440 crore (2021-22) and as high as ₹ 2,545.50 crore (2023-24). The grants for CSS showed a declining trend from ₹ 529.62 crore (2019-20) to ₹ 251.93 crore (2023-24), which indicates the reduced reliance or availability of CSS grants. The State Government Grants for State schemes were ₹ 1,563.77 crore in 2019-20 but decreased to ₹ 471.50 crore in 2023-24, highlighting the shrinking state scheme support. Overall, the PRIs continued to be highly dependent on the inter-governmental transfers, indicating limited fiscal autonomy and uncertainty in fund availability. Reasons for the same has been sought from the department which is still awaited.

Further, the overall receipts of the PRIs from various sources ranged from ₹ 3,687.12 crore to ₹ 5,528.40 crore during 2019-20 to 2023-24, whereas the overall expenditure varied between ₹ 2,024.86 crore to ₹ 4,532.82 crore during the same period. This highlighted that the expenditure incurred by the PRIs was less than the receipts of the PRIs. The information regarding expenditure from the own source revenue is awaited (May 2026), therefore it has been shown as Not Available (NA).

1.1.5 Constitution and grants of State Finance Commission

Article 243 (I) of the Constitution requires that the State Finance Commission (SFC) be appointed every fifth year. Total six State Finance Commissions have been constituted in Haryana to date. The sixth State Finance Commission was constituted in September 2020, to make recommendations for sharing State's revenues with PRIs and ULBs and to suggest measures for augmenting their internal resources during the period 2021-22 to 2025-26. The SFC submitted its report in December 2021. The SFC funds allotted to PRIs are shown below:

Table 1.5: Details of SFC funds allocated to PRIs

(₹ in crore)

Year	Amount transferred to PRIs
2019-20	1,500.00
2020-21	1,340.00
2021-22	440.00
2022-23	1,100.00
2023-24	2,545.50

It is evident from the above that the allocation of SFC funds to the PRIs declined sharply from ₹ 1,500 crore in 2019-20 to ₹ 440 crore in 2021-22, representing a decline of 70.67 *per cent* over the two-year period. This decline was ostensibly due to the impact of the COVID-19 pandemic and the expiration of the five-year term of the Gram Panchayats in Haryana in February 2021. However, the allocation subsequently increased to ₹ 2,545.50 crore in 2023-24, reflecting a strong upward trend over the following two years, with an increase of 478.52 *per cent*.

1.1.6 Maintenance of Accounts by PRIs and their Audit

As per para 2.3 of the Model Accounting System (MAS), the accounts of a PRI would consist of annual Receipts and Payments account duly supported by a set of prescribed forms Consolidated Abstract (Form-II), Reconciliation Statement (Form-III), Statement of Receivable and Payable (Form-IV), Register of Immovable Property (Form-V), Register of Movable Property (Form-VI), Inventory Register (Form-VII) and Register of Demand, Collection and Balance (Form-VIII).

As per the report (December-2021) of the sixth State Finance Commission of Haryana, the MAS can be used appropriately when the records are maintained through a computerized system. However, the accounts at the GPs, PSs and ZPs level are still mostly maintained under the conventional single-entry system, on manual basis.

Further, Rule 23(1) of Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996 and Guidelines for Financial Audit of PRIs, issued by CAG, stipulates that, at the end of each year, the Panchayat Samiti shall prepare its Annual Accounts in Form-VIII, showing its annual income and expenditure under each of the budget heads and send it to Zila Parishad by the following 15th May for transmission to the State Government. Similarly, the Zila Parishad shall prepare its Annual Accounts and send to the Director, Local Audit and the State Government by the following 15th May. Position of accounts and audits of PRIs is given below:

Table 1.6: Status of Accounts and Audits of PRIs

PRI	Total PRIs	Accounts completion status				Accounts certification/audit Status			
		No. of PRIs where accounts completed		*Per cent* completed		No. of PRIs where audit completed		*Per cent* completed	
		2022-23	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24
Zila Parishads	22	22	22	100	100	Nil	Nil	Nil	Nil
Panchayat Samitis	143	142	138	99	97	Nil	Nil	Nil	Nil
Gram Panchayats	6,225	603	1,723	10	28	131	512	22	30

It is evident from above that the accounts have been completed by all the ZPs during 2022-23 and 2023-24, however, there were shortfalls in preparation of accounts at Panchayat Samitis and Gram Panchayats level. There were no audits by the Local Audit Department for Zila Parishad and Panchayat Samitis during 2022-23 and 2023-24, whereas the completion of audit for Gram Panchayats ranged from 22 to 30 *per cent* during this period. The preparation of accounts and audit coverage of the PRIs contributes to improved transparency and governance.

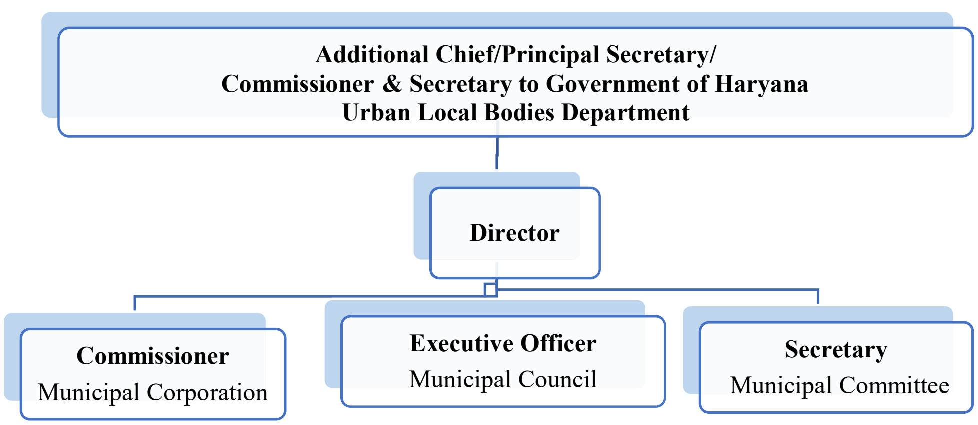
1.2 Urban Local Bodies

An overview of organizational structure, functions, source of funds, expenditure etc. of ULBs is indicated in the succeeding paragraphs.

1.2.1 Functioning and Organisational Structure of ULBs

At State Government level, the Additional Chief Secretary or Principal Secretary or Commissioner & Secretary to the Government of Haryana, Urban Local Bodies Department is the administrative head. The Directorate of Urban Local Bodies (DULB) functions as an interface between the State Government and ULBs. The organizational set-up for the ULBs is depicted below:

Chart 1.2



The area under each Corporation, Council, and Committee is divided into territorial constituencies, known as wards, which are determined and notified by the State Government for the purpose of electing members. In addition to electing members from each ward, members are also nominated by the State

Government. The details of elected and executive heads of the ULBs are detailed below:

Table 1.7: Details of elected and executive heads of Municipal bodies

Municipal Body	Elected head	Executive Head
Municipal Corporation	Mayor	Municipal Commissioner
Municipal Council	President	Executive Officer
Municipal Committee	President	Secretary

1.2.2 Devolution of Functions to ULBs

The Twelfth Schedule of the Constitution enlisted 18 functions to be devolved to the ULBs. However, out of 18 functions, only four functions are fully devolved; in three functions, the ULBs have overlapping role with other departments/authorities, while in other four functions, the ULBs are mere implementing agencies and in five functions, ULBs have limited role. The ULBs have virtually no role in the remaining two functions (***Appendix 1.4***).

1.2.3 Position of manpower in ULBs

The position of human resources in the ULBs as of March 2024 is given below:

Table 1.8: Position of manpower in ULBs

Category of ULBs		Municipal Corporation	Municipalities	Total
Sanctioned		21,165	9,826	30,991
Working	Regular	4,895	2,503	7,398
	Non-regular	15,445	7,789	23,234

As of March 2024, the ULBs had 30,991 sanctioned posts, against which only 7,398 (23.87 *per cent*) regular posts were filled in the Municipal Corporations and Municipalities. To meet the shortfalls in manpower requirements, ULBs were engaging the contractual and outsourced employees.

1.2.4 Source of Funds

The ULBs play a significant role in providing urban infrastructure, public and urban amenities within its jurisdiction, which require huge financial resources due to growing urbanisation. The own financial resource of the ULBs such as taxes, rent, fees, license fee etc. were not sufficient to meet their revenue expenditure, making them dependent on grants/transfers from various sources including the grants from Government of India, and the State Government as per the recommendations of the Central Finance Commission, State Finance Commission, and grants for implementation of various Centrally and State Sponsored Schemes. The position of receipts and expenditures of the ULBs during the period from 2019-24 is indicated below:

Table 1.9: Receipt of ULBs during the year 2019-20 to 2023-24

(₹ in crore)

Description	2019-20	2020-21	2021-22	2022-23	2023-24
Own source revenue	1,580.04	1,516.71	2,495.88	3,396.27	2,852.61
Central Finance Commission devolutions	972.00	609.00	606.00	477.00	434.00
State Finance Commission devolution	936.42	1,493.00	1,500.00	2,102.00	2,002.00
GoI grants for CSS	1,047.93	1,107.00	1,421.03	843.66	744.56
State Government Grants for State schemes	1,039.87	1,405.53	1,211.64	1,467.99	904.30
Total	**5,576.26**	**6,131.24**	**7,234.55**	**8,286.92**	**6,937.47**

The substantial portion of the ULBs resources come from grants-in-aid provided by the Central and State Governments and their own source revenue is substantially less, which necessitates greater emphasis on enhancing revenue generation capabilities of the ULBs. The receipt of funds from own source revenue of the ULBs decreased from ₹ 3,396.27 crore in the year 2022-23 to ₹ 2,852.61 crore in 2023-24. Reasons for the same are awaited (May 2026) from the State Government.

Table 1.10: Expenditure of ULBs during the year 2019-20 to 2023-24

(₹ in crore)

Expenditure	2019-20	2020-21	2021-22	2022-23	2023-24
Own source revenue	2,391.44	3,116.14	3,284.26	2,892.62	2,180.75
Central Finance Commission devolution	730.11	561.00	362.48	400.25	228.65
State Finance Commission devolution	936.42	1,493.00	1,351.51	2,001.33	2,002.00
GoI grants for CSS	839.16	910.05	1,020.63	721.77	640.59
State Government grants for State schemes	700.43	752.16	1,837.63	1,184.16	765.81
Total	**5,597.56**	**6,832.35**	**7,856.51**	**7,200.13**	**5,817.80**

It was noted that the grants received from the Central and State Governments are utilised mainly for the execution of Central and State sponsored schemes, whereas the own source revenue of ULBs are utilised for administrative expenses and execution of schemes or works formulated by the ULBs. The above table depicts that the total spending of ULBs went up till 2021-22 (₹ 7,856.51 crore) and then fell to ₹ 5,817.80 crore in 2023-24. The expenditure from own source revenue dropped in later years i.e. 2022-23 and 2023-24. The expenditure on the Centrally Sponsored Schemes and State Sponsored Schemes has also declined. During the financial year 2019-20, 2020-21 and 2021-22, the ULBs used the unutilised grants of previous years to meet the excess expenditure. Overall, the ULBs are relying more on the funds/grants-in-aid provided by the Central and State Governments, therefore, it is essential for ULBs to augment their own source revenues.

1.2.5 Constitution and grants of State Finance Commission

As indicated in para 1.1.5 above, total six State Finance Commissions have been constituted till date. Position of the SFC provided to the ULBs during 2019-20 to 2023-24 is depicted below:

Table 1.11: Details of SFC funds released to ULBs

(₹ in crore)

Year	SFC funds released
2019-20	936.42
2020-21	1,493.00
2021-22	1,351.51
2022-23	2,001.33
2023-24	2,002.00
Total	**7,784.26**

The above table shows that amount of SFC grants released to ULBs gradually increased from ₹ 936.42 crore in 2019-20 to ₹ 2,002 crore in 2023-24, which were largely utilised by the ULBs in the respective year.

1.2.6 Maintenance of Accounts by ULBs and their Audit

Section 168 of HMC Act, 1994 contains provisions relating to maintenance of accounts and their scrutiny by the Examiner, Local Accounts (i.e. Local Audit Department). Further, section 203 N of HM Act 1973 read with Para 1.7 of the Municipal Account Code 1930 relates to the maintenance of accounts. The maintenance of accounts of ULBs in the State is governed by the Municipal Account Code 1930.

The Ministry of Urban Development, Government of India prepared (December 2004) the National Municipal Accounts Manual (NMAM) for reference of State Governments while drafting their state-specific municipal accounts manuals. The State Government has repealed the existing Municipal Account Code, 1930 and notified (May 2025) the Haryana Municipal Account Code, 2025. Position of accounts and audits of ULBs is given below:

Table 1.12: Status of Accounts and Audits of ULBs

Type of ULBs	Total ULBs	Accounts completion status		Audit Status (LAD audit)	
		No of ULBs where Accounts completed	Completion (In *per cent*)	No of ULBs where Audit completed	Completion (In *per cent*)
Municipal Corporations	11	11 (Up to 2022-23)	100	7 (Up to 2022-23)	64
		00 (Up to 2023-24)	0	00 (Up to 2023-24)	0
Municipal Councils	23	22 (Up to 2022-23)	96	14 (Up to 2022-23)	61
		00 (Up to 2023-24)	0	00 (Up to 2023-24)	0
Municipal Committees	54	53 (Up to 2022-23)	98	27 (Up to 2022-23)	50
		01 (Up to 2023-24)	2	01 (Up to 2023-24)	2

The review of the status of accounts and audits of ULBs up to 2022-23 showed that while the preparation of accounts had been completed in all ULBs except Municipal Council, Gohana, the audit coverage remained inadequate. Audit by the Local Audit Department was completed in respect of 64 *per cent* of Corporations, 61 *per cent* of Councils, and only 50 *per cent* of Committees. Furthermore, the non-completion of accounts for 2023-24 by almost all ULBs except Municipal Committee Sampla underscores systemic weaknesses in financial reporting and accountability. Strengthening audit coverage and ensuring timely preparation of accounts contributes to improved transparency and governance in ULBs.

2 Audit Mandate

The State Government, through successive orders issued in August 2008, February 2010 and December 2011, entrusted the CAG with the conduct of test audits of PRIs and ULBs under section 20 (1) of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3 Scope of Audit

Audit covered the compliance audit, subject-specific audit and function-based audits, assessing funds utilisation, adherence to laws, efficiency and internal controls, aiming for transparency and accountability in local governance, including checking proper accounting and performance of devolved functions in respect of PRIs and ULBs during 2022-23 and 2023-24.

4 Audit Criteria

The audit findings were benchmarked against the following major criteria:

- The Haryana Panchayati Raj Act, 1994 and the Haryana Panchayati Raj Rules, 1995.
- The Haryana Panchayati Raj (Finance, Budget, Accounts, Audit, Taxation and Works) Rules, 1996.
- The Haryana Right to Services Act, 2014.
- The Haryana Municipal Corporation Act, 1994 and the related rules, the Haryana Municipal Act, 1973 and the Municipal Accounts Code, 1930.
- The Operational Guidelines and the Manual for the implementation of the XV-FC recommendations on PRI grants (2021-26).
- The Prevention of cruelty to Animals Act, 1960.
- The Animal Birth Control (Dogs) Rules, 2001 (as amended in 2023).
- The Haryana Municipal (Regulation of Slaughterhouses) byelaws, 1977.

5 Overview of the Report

This Audit Report consists of four Chapters including Overview of Local Bodies of the State, Subject Specific Compliance Audit, Function-Based Audit of ULBs and Compliance Audit of Municipalities.

6 Acknowledgment

We acknowledge the cooperation and support extended by the State Government; Director, Development and Panchayats; Director, Urban Local Bodies; Director, Local Audit Department and all the selected PRIs and ULBs for providing the requisite information and facilitating the audits.