

CHAPTER 1

PROFILE OF PANCHAYATI RAJ INSTITUTIONS

1.1 Background of Panchayati Raj Institutions

The Seventy Third 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, etc. 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 included in the eleventh schedule of the Constitution.

Post seventy third amendment, 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) has been adopted by the State Government and Annual Accounts (Receipts and Expenditure) are to be maintained by the PRIs accordingly.

1.2 State Profile

The State of Himachal Pradesh came into existence in 1971. The comparative demographic and developmental picture of the state is given in **Table 1** below:

Table 1: Important statistics of the State.

Indicator	Unit	State value	National value	Rank amongst all States
Population in lakh	1,000s	6,856	1210,193	20
Population density	Sq.Km	123	382	22
Rural population	Per cent	89.96	68.84	01
Urban population	Per cent	10.04	31.16	35
Number of PRIs	Numbers	3332	246062	11
Number of District Panchayats ((DPs)	Numbers	12	543	09
Number of Block Panchayats (BPs)	Numbers	77	6087	09
Number of Village Panchayats (VPs)	Numbers	3243	239432	11
Number of Municipal Corporations	Numbers	01	139	06
Number of Municipal Councils	Numbers	25	1595	12
Number of Nagar Panchayats	Numbers	23	2108	16
Gender ratio	1,000s	974	940	10
Poverty ratio	Percentage	9.5	29.80	-
Literacy	Percentage	83.78	74.04	05

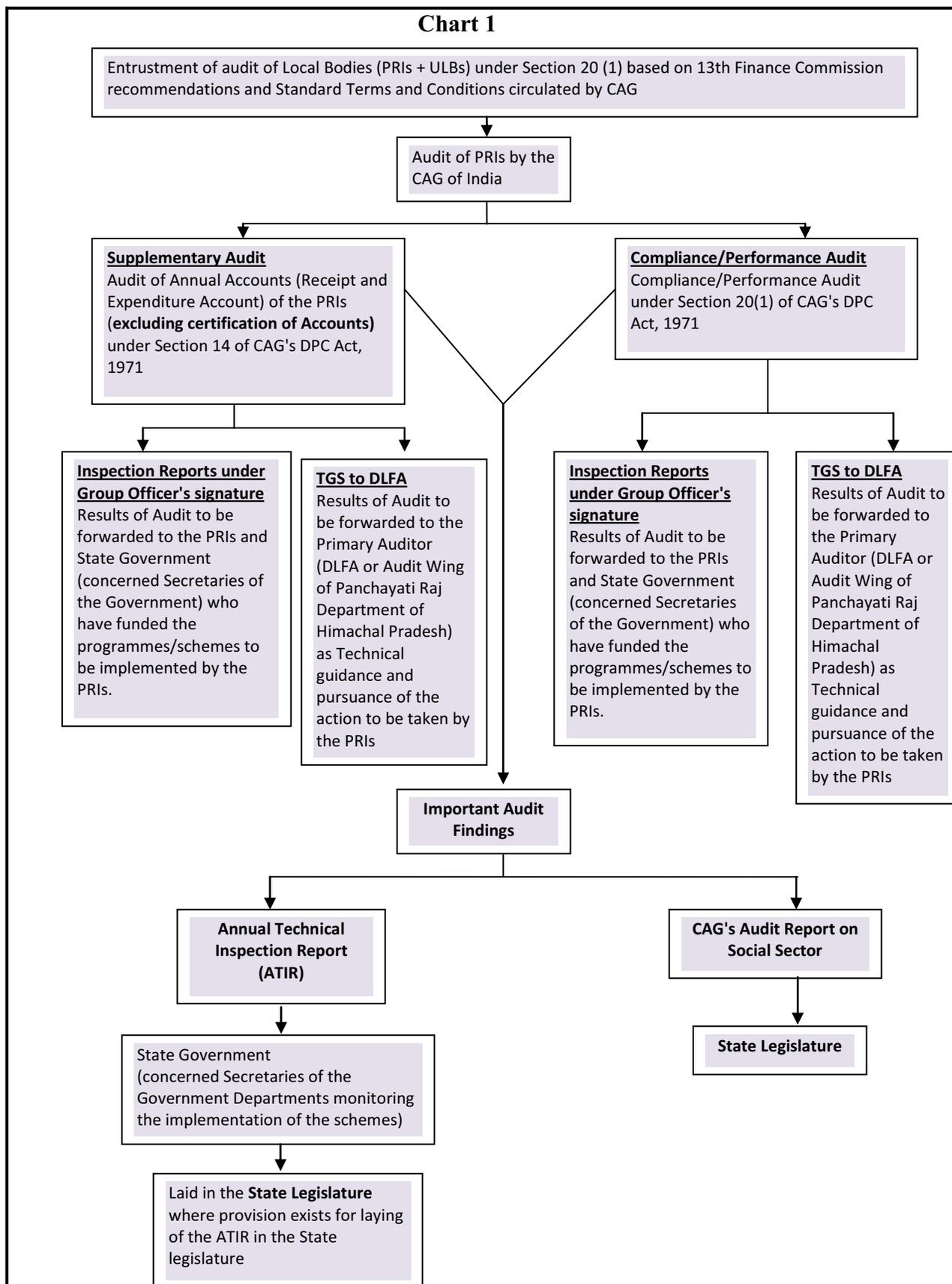
(Source: Census of India-2011(P) HP and Annexure to 13th Finance Commission Report)

1.3 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 20(1) of the CAG's DPC Act, 1971. Significantly financed PRIs are also audited by CAG under section 14 of the CAG's (DPC) Act, 1971. The results of audit i.e. Technical Inspection Report of PRIs is sent to the Director, Panchayati Raj Department and Local Audit Department. Annual Technical Inspection Report (audit of PRIs conducted during preceding year) is sent by the Pr.Accountant General (Audit) to the State Government by the end of June every year for necessary remedial action. The action taken by the executive department on the Annual Technical Inspection Report (ATIR) is intimated to the office of the Principal Accountant General (Audit).

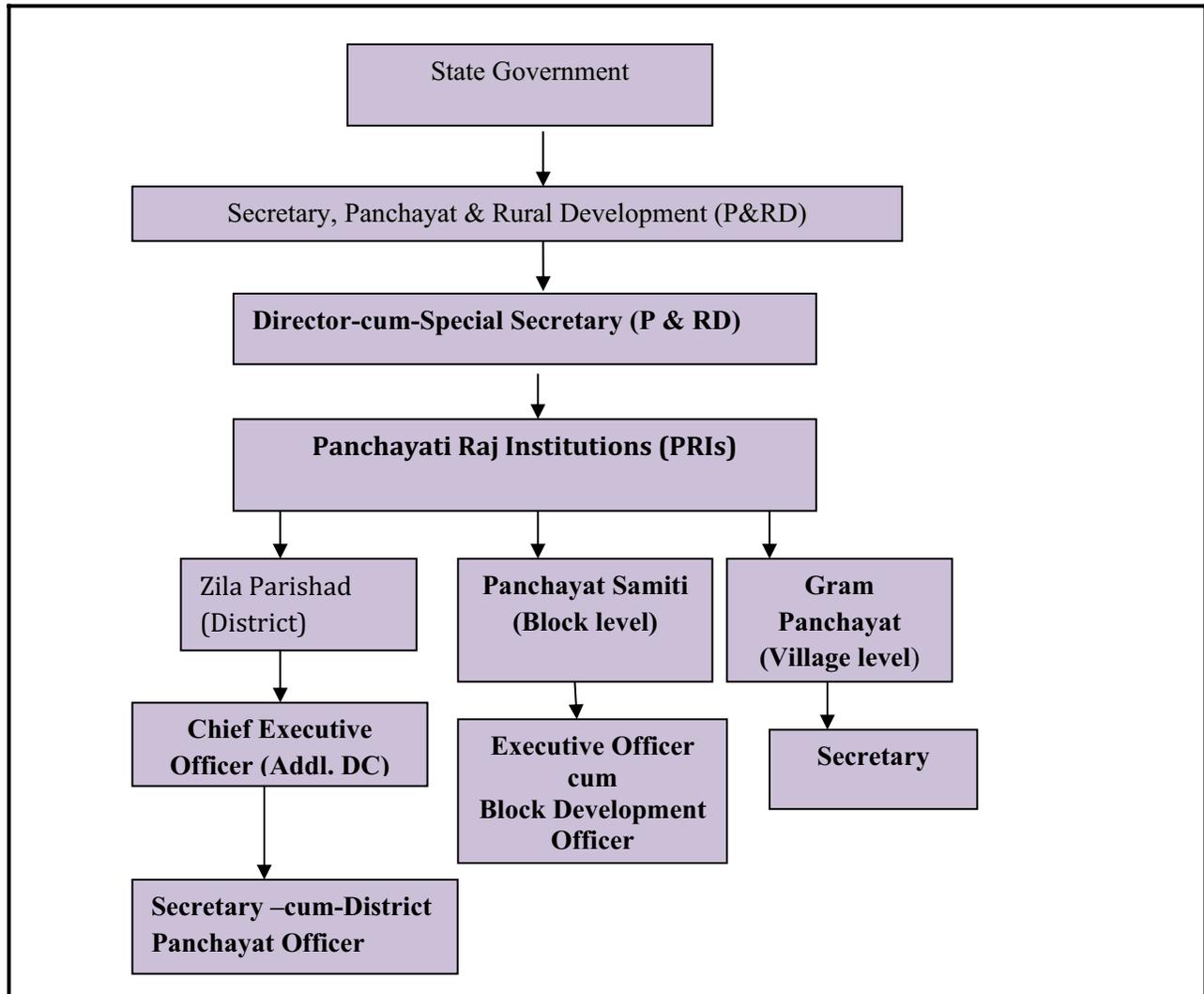
The procedure of audit of PRIs is depicted in **Chart 1** below:

Chart 1



1.4 Organizational structure of Panchayati Raj Institutions

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



The Chairpersons of ZP and PS and the Pradhan of GP are the elected members and heads the ZPs, PSs and GPs respectively.

1.4.1 Standing Committees

Brief introduction to the working of PRIs and various Standing Committees involved in financial matters and implementation of schemes is given in **Table 2** below:

Table 2: 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
District Panchayat	Chairperson	General Standing Committee	This Committee performs the functions relating to establishment matters, communications, buildings, etc.
		Finance, Audit and Planning Committee	This Committee performs the functions relating to the finances of the Zila Parishad.
		Social Justice Committee	This Committee performs the functions like promotion of education, economic, social, cultural and other interests of the SCs/STs/BCs.
		Education and Health Committee	This 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	This Committee performs the functions relating to agriculture production, animal husbandry, co-operation, village and cottage industries, etc.
Block Panchayat	Chairperson	General Standing Committee	This Committee performs the functions relating to the establishment matters and communications, etc.
		Finance, Audit and Planning Committee	This Committee performs the functions relating to the finance of the Panchayat Samiti.
		Social Justice Committee	This Committee performs the functions relating to promotion of education, economic, social, cultural and other interests of the SCs/STs/BCs, etc.
Village Panchayat	Pradhan	Works Committee	All developmental works of the Gram Panchayats are executed by this committee.
		Budget Committee	This Committee prepares the annual budget of the GP and submit the same to the Secretary

1.4.2 Institutional arrangements for implementation of schemes

The Panchayati Raj Institutions (PRIs) have technical and non-technical staff. Against 9256 sanctioned posts, 256 posts (Assistant Engineers: 4; Clerk: 9, Driver: 1 and Panchayat Sahayak: 242) are lying vacant as of 31 March 2012 (**Appendix-1(A)**). 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.

1.5 Financial profile

1.5.1 Fund flow to PRIs

Fund flow: Source and custody of fund 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 3 and Table 4** below:

Table 3: Fund flow: Source and custody of funds in PRIs.

Nature of Fund	DPs		BPs		VPs	
	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 in this regard, the own receipts of PRIs are utilized for execution of schemes/works formulated by the PRIs.

Table 4: Fund flow arrangements in major Centrally Sponsored flagship Schemes

Sl.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 from it 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 directly to the beneficiaries' accounts in two installments. Second installment is released after construction reaches the lintel level.
3	Integrated Watershed Development Programme (IWDP)	Funds are released by DRDA to Watershed Committee which opens an account in the bank. Flow of funds under this scheme is from Department of Watershed Development (DoWD) to District Rural Development Agency (DRDA), DRDA to Project

Sl.No.	Scheme	Fund flow Arrangements
		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. The funds are released by the BDOs 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 funds from GOI, the same alongwith matching share is released to the district's account by the RDD.

1.5.2 Resources: Trends and Composition

The resources of PRIs for the period from 2007-08 to 2011-12 are detailed in **Table 5** below:

Table 5: Time series data on resources of PRIs

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Own Revenue	6.34	7.35	7.72	7.81	31.52
CFC transfers (Finance Commission devolutions)	29.40	29.40	29.40	52.14	80.80
SFC transfers (State Finance Commission devolutions)	13.30	51.80	51.83	48.02	67.53
Grants from State Government	141.02	65.93	69.87	71.65	72.88
Grant from Central Government	87.92	61.76	58.57	82.79	113.15
GOI grants for CSS	207.72	528.57	505.29	818.56	735.20
State Government grants for state schemes	4.78	22.02	25.99	33.24	22.20
Other receipt	5.71	3.38	3.55	3.60	1.00
Total	496.19	770.21	752.22	1117.81	1092.76

1.5.3 Application of Resources: Trends and Composition

The application of resources of PRIs for the period from 2007-08 to 2011-12 are detailed in **Table 6** below:

Table 6: Application of resources sector-wise

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Expenditure from CFC transfers (Central Finance Commission devolutions)	29.40	29.40	29.40	52.14	80.80
Expenditure from SFC transfers (State Finance Commission devolutions)	13.30	51.80	51.83	48.02	67.53
Expenditure from grants from State Government and Centre Government.	241.19	138.42	128.44	154.44	187.02
Expenditure on CSS	176.09	398.80	643.58	594.89	591.35
Expenditure on State Schemes	4.78	21.31	25.24	32.18	21.49
Total	464.76	639.73	878.49	881.67	948.19

Source: Director, Panchayati Raj, 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.

1.6 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 (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. Accounts of ZPs are maintained by Government officials of the office of DPO-cum-Secretary, ZP. There are no arrears in the maintenance of accounts.

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 have recommended Model Accounting Structure for PRIs in 2009. The Director, Panchayati Raj Department stated (August 2012) that the State Government has 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.

1.7 Audit coverage

Audit of accounts of seven ZPs (out of 12), 19 PSs (out of 77) and 95 GPs (out of 3,243) was conducted by CAG during 2010-12 (**Appendix-1(B)**). Important audit findings are discussed in the following paragraphs:

1.8 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 is, thus, one of 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:

1.8.1 Primary Audit of PRIs

The Local Audit Department (LAD) of the Panchayati Raj Department has been empowered to conduct the audit of PRIs as per amendment made in Section 118 of the Himachal Pradesh Panchayati Raj (HPPRA) Act, 1994. Till date, audit of PRIs has not been conducted by the LAD due to shortage of staff. 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 during April 2010 to March 2012 is given in **Table 7** below:

Table: 7 Position of Internal Audit

Name of Institution	Total units	No. of units to be audited	No. of units audited	No. of units not audited	Percentage of short fall
1. Zila Parishad	12	06	05	01	17
2.Panchayat Samitis	77	56	30	26	46
3. Gram Panchayat	3243	1940	1053	887	46

Source: Director PRI

1.8.2 Non-preparation of Budget Estimates

Rule 38 of the Himachal Pradesh Panchayati Raj (HPPR) Rules, 2002 provides that the annual Budget estimates of ZPs and PSs showing the probable receipts and expenditure for the following year are required to be prepared and passed by the 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 seven ZPs), seven PSs (out of 19 PSs) and 6 GPs (out of 95 GPs) test checked, had not prepared the annual budget estimates for the period between 2008 and 2011. However, an expenditure of ₹ 9.80¹ crore had been incurred during this period without approval of the estimates which was contrary to the HPPR Rules, 2002 (**Appendix-2**).

While confirming the facts the concerned E.O./Secretaries stated (May 2011 to December 2011) that budget estimates could not be prepared due to engagement and pre-occupation of staff in Panchayat elections. They further stated that annual budget estimates would be prepared well in time in future. The reply is not acceptable as engagement of staff in Panchayat elections is for a small duration but budget estimates have not been prepared for a period of three years during 2008-11.

1.8.3 Non-maintenance of registers

Rule 31 of HPPR (Finance, Budget, Accounts etc) Rules, 2002 stipulates that every PRI shall maintain important records, register, forms, etc., as per detail mentioned in Rule 34 of HPPR. (General) Rules 1997.

¹ZPs: ₹ 0.22 crore; PSs: ₹ 6.90 crore and GPs: ₹ 2.68 crore.

It was observed that important registers like stock register, immovable property register, works register, muster roll register, etc. were not being maintained in four PSs² and 66 GPs audited during 2007-12 (**Appendix-3**). Due to non-maintenance of the records, correctness of financial transactions could not be ascertained. While advancing no reasons for non-maintenance of records, the concerned E.O./Secretaries stated (April 2011–February 2012) that the records will be maintained in future.

1.8.4 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 ₹ 5.14 crore (**Appendix-4**) between cash books and pass books at the close of the year 2010-12 was not reconciled by 78 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 2011 - February 2012) that the differences would be reconciled.

1.8.5 Maintenance of cash books

Following irregularities in maintenance of cash books were noticed in audit during scrutiny:

- (a) In ZP, Kullu, PS, Lahaul & Spiti at Kaza and seven GPs (Bamsan Block: Bajroj, Kotlansa, Lamboo; Kullu Block: Nashogi; and Shillai Block: Jakando, Kota Pao and Koti utrad) erasures and over writings were made in the cash books and the same were not attested as required under Rule 7 and 15 of HPPR Rules, 2002. In some of the GPs, the wrong entries in cash book were corrected by using correcting fluid. As such, the authenticity of these erasures and overwriting could not be verified in audit.
- (b) In Panchayat Samiti Banjar, surprise check of cash book was not conducted during 2008-11 as required under Rule 15(11) of HPPR Rules, 2002.
- (c) In PS, Basantpur and three GPs (Shillai Block: Jhakando, Kota Pao and Koti Utrad), entries of receipts and payments were not attested by EO/Pradhan as required under Rule 7 and 15 of HPPR Rules 2002.

The concerned ZPs/PSs and GPs stated (July 2011- September 2011) that cash book would be maintained as per rules in future.

² Bamsan, Bhoranj, Jubbal Kotkhai and Kaza.

1.8.6 Outstanding Inspection Reports

As a result of audit of PRIs by the erstwhile Local Bodies Audit and Accounts Office under TGS, 1647 Inspection Reports containing 11399 paras were issued to the concerned PRIs during 2007-12. Of these, only one Inspection Report and 197 paras were settled leaving 1644 IRs and 10956 paras outstanding as of March 2012. The details are given in **Table 8** below:-

Table 8: Outstanding Inspection Reports

Sr. No.	Year of issue of Inspection Reports	No. of IRs. /Paras issued		Outstanding IRs/ Paras as on 31.03.2010		Total		No. of IRs/ paras settled during 2010-12		No. of outstanding IRs/Paras as on 31.03.2012.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2007-08	531	2764	529	2607	529	2607	01	68	528	2539
2.	2008-09	320	2687	320	2630	320	2630	0	72	320	2558
3.	2009-10	336	2501	336	2469	336	2469	0	42	336	2427
4.	2010-11	334	2404	0	0	334	2404	0	15	334	2389
5.	2011-12	126	1043	0	0	126	1043	0	0	126	1043
	Total	1647	11399	1185	7706	1645	11153	01	197	1644	10956

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