

CHAPTER-1
PROFILE OF PANCHAYATI RAJ
INSTITUTIONS

PART-A PANCHAYATI RAJ INSTITUTIONS (PRIs)

CHAPTER-1 PROFILE OF PANCHAYATI RAJ INSTITUTIONS

1.1 Background

The Constitution (73rd Amendment) Act, 1992 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. The Act came into force in April, 1993. To implement the provisions of the said Act, 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. 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 Eleventh Schedule of the Constitution were to be devolved to PRIs, along with 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 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 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 PRIs¹.

1.2 Audit mandate of the CAG

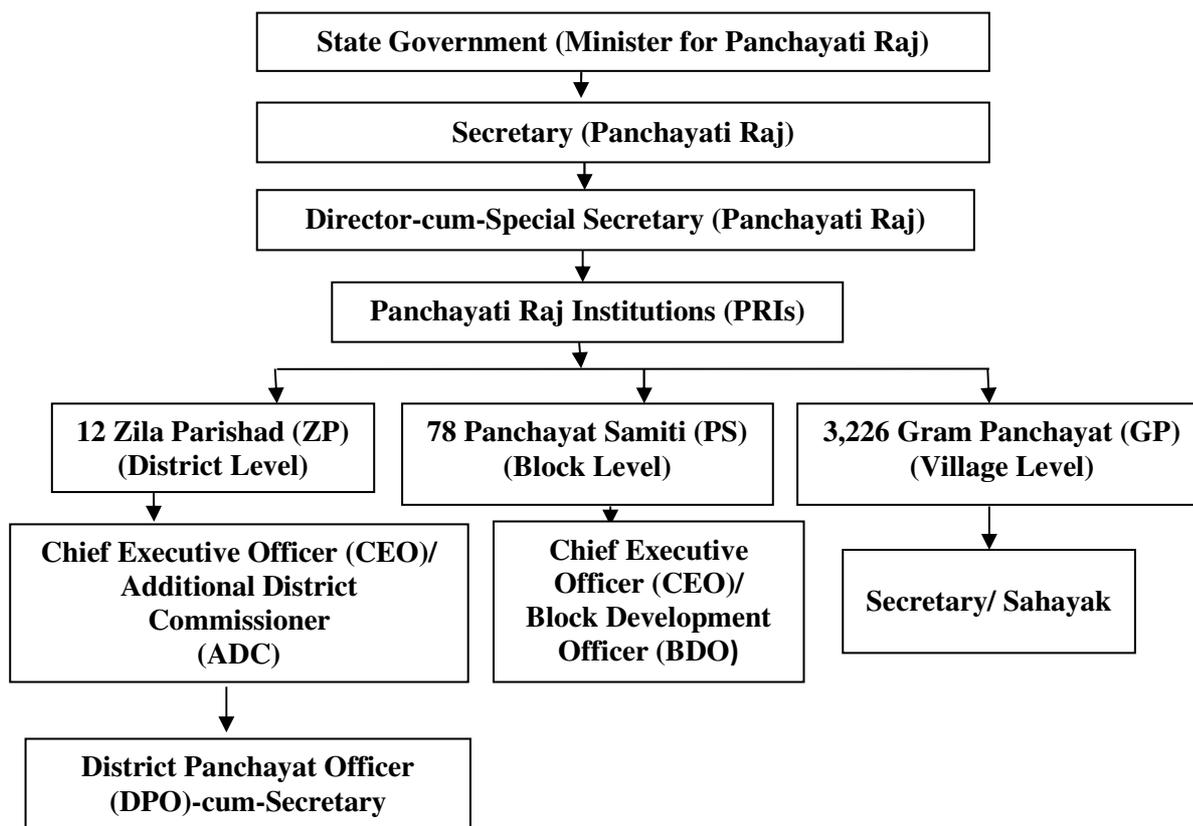
In Himachal Pradesh, primary audit of Panchayati Raj Institutions (PRIs) is being undertaken by the Director, HP State Audit Department (HP SAD). The State Government has entrusted (March 2011) audit of PRIs to the Comptroller and Auditor General (CAG) with the responsibility of providing technical guidance 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. The Annual Technical Inspection Report for the year ended 31 March 2017 has been placed in the State Legislature on 29 August 2019.

1.3 Organisational structure of Panchayati Raj Institutions

There are 12 Zila Parishads (ZPs), 78 Panchayat Samitis (PSs) and 3,226 Gram Panchayats (GPs) in the State, as of March, 2019. 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.

¹ Stated by Director, Panchayati Raj (July 2019).

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** below:

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 and promotion of industrial development of the district.

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.

Source: The Himachal Pradesh Panchayati Raj Act, 1994.

1.3.2 Institutional arrangements for the implementation of schemes

The Panchayati Raj Institutions (PRIs) have technical and non-technical staff in various cadres as per detail given in the table below:

Table: Details of Technical and Non-technical staff of PRIs

Technical and Non-technical staff		2018-19
Sanctioned Posts	Total	9,465
	Regular	2,755
	Contractual	6,710
In position	Total	9,052
	Regular	2,754
	Contractual	6,298
Vacant Posts	Total	413 (as of March 2019)
	Junior Engineer	30
	Assistant Engineer	01
	Panchayat Chowkidar	02
	Takniki Sahayak	86
	Panchayat Secretary	294

During 2017-19, 685 and 103 Panchayat Secretaries/ Sahayaks respectively were imparted basic computer training courses 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 (a) Central Finance Commission (CFC) grants, (b) State Finance Commission (SFC) grants, (c) Central Government grants and (d) State Government grants for developmental activities and implementation of schemes.

The funds allotted to the PRIs for the period from 2014-15 to 2018-19 are detailed in **Table-2:**

Table-2: Time series data on resources of PRIs

		(₹ in crore)					
Sr. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	
1.	Own Revenue	73.08	107.21	119.26	152.43	137.52	
2.	Loan	10.59	3.23	4.33	2.17	1.86	
3.	Finance Commission (FC) grants from Central Government (CFC) & grants from Central Government	167.03	197.87	306.05	312.60	361.63	
4.	Finance Commission (FC) grants from State Government (SFC) & grants from State Government	77.70	109.70	133.33	179.83	239.38	
5.	Grants for Centrally Sponsored Schemes	Centre Share	511.86	403.36	659.99	720.72	829.09
		State Share	65.21	52.61	76.46	36.62	138.49
6.	State Government grants for State Schemes	17.99	23.64	48.18	53.22	49.07	
7.	Other receipts	0.46	0.42	0.48	0.40	0.53	
Total		923.92	898.04	1,348.08	1,457.99	1,757.57	

Source: Director, Panchayati Raj and Rural Development Department, and Economics & Statistics Department.

Central Government grants: There are nine Centrally Sponsored Schemes namely (i) National Rural Livelihood Mission (NRLM) (ii) Swarnjayanti Gramin Swarojgar Yojna (SGSY) (iii) Rural Self Employment Training Institute (RSETI) (iv) Indira Awas Yojna (IAY)/ Pradhan Mantri Awas Yojna-G (PMAY-G) (v) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) (vi) Swachh Bharat Mission-G (SBM-G) (vii) Pradhan Mantri Krishi Sinchayee Yojna (PMKSY) (viii) Deen Dayal Upadhyaya Gramin Kaushalya Yojna (DDU-GKY) and (ix) Integrated Watershed Management Programme (IWMP). Non-release of funds under SBM during 2017-18 and 2018-19 was attributed (August 2021) by Rural Development Department to previous funds lying unspent in Districts/Blocks.

The position of funds allocated to PRIs under Centrally Sponsored Schemes is given in **Table-3** below:

Table-3: Position of funds allotted to the PRIs for Major Centrally Sponsored Schemes

		(₹ in crore)				
Name of scheme	2014-15	2015-16	2016-17	2017-18	2018-19	Total
IAY/PMAY(G)	19.10	34.10	30.47	58.16	20.53	162.36
NRLM/SGSY	--	1.08	4.79	12.04	18.91	36.82
MGNREGA	394.33	387.68	440.56	610.55	890.85	2,723.97
SBM	151.72	5.75	130.33	--	--	287.80
PMKSY	--	5.14	83.91	29.81	26.71	145.57
DDU-GKY	--	--	44.24	46.40	7.70	98.34
Total	565.15	433.75	734.30	756.96	964.70	3,454.86

Source: Director, Rural Development Department (RDD).

State Government grants: Four schemes namely (i) Rajiv Awas Yojna (RAY) (ii) Mukhya Mantri Awas Yojana (MMAY) (iii) Matri Shakti Bima Yojana (MSBY) and (iv) Mukhya Mantri Awas Repair Yojana (MMARY) are 100 per cent State Sponsored Schemes. No funds were released during 2018-19 under Rajiv Awas Yojana (RAY) because this scheme was merged with Mukhya Mantri Awas Yojana (MMAY) in 2018-19. The position of funds allotted to the PRIs under these schemes for the period from 2014-15 to 2018-19 is detailed in **Table-4** below:

Table-4: Position of funds allotted to the PRIs for Major State Schemes

						(₹ in crore)
Name of scheme	2014-15	2015-16	2016-17	2017-18	2018-19	Total
RAY/MMAY	10.00	17.50	36.00	41.00	42.19	146.69
MSBY	--	1.49	1.38	1.42	3.58	7.87
MMARY	--	--	--	3.00	3.30	6.30
Total	10.00	18.99	37.38	45.42	49.07	160.86

Source: Director, Rural Development Department (RDD).

While Central and State grants are utilised by the PRIs for execution of Central and State Sponsored schemes as per guidelines issued by the GOI² and State Government, the own receipts of PRIs are utilised for execution of schemes and works formulated by the PRIs. Central and State schemes are implemented by the Gram Panchayats which are under the control of Panchayati Raj Department, but the funds are released by the Rural Development Department to the Gram Panchayats directly or through District Rural Development Agencies (DRDAs). The District Rural Development Agencies release the funds to Block Development Officers who further distribute them to Gram Panchayats for various activities. The funds allotted to the PRIs through different sources are kept in banks.

1.4.2 Application of resources: trends and composition

The application of resources (amounts released to PRIs by Department of Panchayati Raj, and amount of expenditure incurred by PRIs out of the funds released by Department of Rural Development) by PRIs for the period from 2014-15 to 2018-19 is detailed in **Table-5** below:

Table-5: Sector-wise application of resources

							(₹ in crore)
Sr. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	
1.	Own Revenue	322.85*	313.51*	401.08*	470.31*	525.07*	
2.	Loan						
3.	Expenditure from Finance Commission (FC) grants from Central Government (CFC) & grants from Central Government	167.03	197.87	306.05	312.60	361.63	
4.	Expenditure from grants for Centrally Sponsored Schemes	562.85	516.11	711.73	702.73	961.17	
5.	Expenditure from Finance Commission (FC) grants from State Government (SFC) & grants from state govt	77.70	109.70	133.33	179.83	206.65	
6.	Expenditure from State Government grants for State Schemes	17.65	19.01	35.41	32.44	49.07	
7.	Expenditure from Other Receipts	0.46	0.42	0.48	0.40	0.53	
Total		1,148.54	1,156.62	1,588.08	1,698.31	2,104.12	

Source: Director, Panchayati Raj and RDD, Himachal Pradesh, and Economics & Statistics Department.

* Disaggregated figures are not available with the Department. These figures also include closing balance.

² Government of India.

It may be noted that all the funds provided by the Panchayati Raj Department to the PRIs have been shown as expenditure, instead of actual expenditure at ground level. The exact figures of expenditure by the PRIs were not available with the Panchayati Raj Department. Further, it was noticed that the Department had not prescribed any periodic returns to review/control expenditure by the PRIs, which resulted in weak control mechanism and irregularities in functioning of PRIs as discussed in Chapter-2.

The actual utilisation of funds in 57 PRIs test-checked by Audit for the period 2014-15 to 2016-17 ranged between 64 and 72 *per cent* and in 113 PRIs test-checked by Audit for the period 2015-16 to 2017-18 ranged between 57 and 61 *per cent* as detailed in **Table-6 (i)** and **(ii)** below:

Table-6 (i): Utilisation of funds in test-checked PRIs during 2017-18 for the period 2014-15 to 2016-17

(₹ in crore)				
Year	Budget Estimates	Actual Expenditure	Savings (-)/ Excess (+)	Percentage of expenditure
2014-15	55.23	38.26	16.97(-)	69
2015-16	89.40	64.33	25.07(-)	72
2016-17	88.74	56.77	31.97(-)	64

Source: Figures furnished by the test-checked PRIs.

Table-6(ii): Utilisation of funds in test checked PRIs during 2018-19 for the period 2015-16 to 2017-18

(₹ in crore)				
Year	Budget Estimates	Actual Expenditure	Savings (-)/ Excess (+)	Percentage of expenditure
2015-16	129.40	73.19	56.21(-)	57
2016-17	131.94	74.85	57.09(-)	57
2017-18	161.44	99.15	62.29(-)	61

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 (March 2011) PRIASoft, a software developed by MoPR, for maintaining the accounts of PRIs as per the Model Accounting Structure. The Deputy Director (PR Department) stated (July 2019) that accounts are maintained on PRIASoft as recommended by the CAG and MoPR, GOI. Audit observations in respect of implementation of PRIASoft are mentioned in Chapter-2.

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 are 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 provides that PRIs are required to maintain certain records, registers, forms and accounts. Discrepancies noticed in the internal control system of the PRIs resulting in irregular expenditure/ implementation of works, are discussed in Chapter -2.

1.7 Primary audit and Internal audit of PRIs

The Himachal Pradesh State Audit Department (HP SAD) has been empowered to conduct the primary audit of PRIs as per Section 118 of the Himachal Pradesh Panchayati Raj (HPPR) Act, 1994. During 2017-19, 457 PRIs were audited by the HP SAD.

Sub-section (1) 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 the years 2017-18 and 2018-19 is given in **Table-7** below:

Table-7: Position of Internal Audits during 2017-18 and 2018-19

Name of Institution	Total units	No. of units planned for audit		No. of units audited		No. of units not audited		Percentage of shortfall (-)/ excess (+)	
		2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
Zila Parishad	12	0	08	0	04	0	04	0	(-) 50
Panchayat Samiti	78	39	62	36	44	03	18	(-) 8	(-) 29
Gram Panchayat	3,226	1,613	2,821	2,140	2,703	--	118	(+) 33	(-) 4

Source: Director, Panchayati Raj Department.

It was noticed that the audit wing under Director, Panchayati Raj had not planned internal audit of ZPs during 2017-18.

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 years 2017-18 and 2018-19 were received from the Primary Auditor (Director, HP SAD) and noted for the process of audit planning in this office.

Primary Auditor (Director, HP SAD) 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 2017-19, 45 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. Reference to rules may be mentioned clearly in separate paragraphs while raising objections.
- ii. Audit memos may be issued to the auditee unit.
- iii. The reply of the Secretary, Gram Panchayat may be incorporated in audit paras.

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

Every year, two days training is imparted to the audit staff of HP State Audit Department (HP SAD) as per their requirement. During 2017-18, 24 participants from HP SAD were imparted training on 8th and 9th February 2018 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 MNREGA and its operational guidelines. During 2018-19, 25 participants from HP SAD were imparted training on 11th and 12th March 2019 on the topics: (i) PRIASoft (Accounting system in PRIs) (ii) Works Audit of ULBs and PRIs; and (iii) Drafting of audit requisitions, Key document and Audit Reports of ULBs and PRIs.

1.9 Audit coverage

During the year 2017-18, test-check of accounts and records of 57 PRIs was conducted by this office and reports were issued to the respective PRIs. This included three ZPs (out of 12), nine PSs (out of 78) and 45 GPs (out of 3,226) (**Appendix-3(i)**) selected on the basis of periodicity and expenditure. During the year 2018-19, test-check of accounts and records of 113 PRIs was conducted by this office and reports were issued to the respective PRIs. These included three ZPs (out of 12), seven PSs (out of 78) and 103 GPs (out of 3,226) (**Appendix-3(ii)**) 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, 2,454 inspection reports (IRs) containing 16,968 paras were issued by the Office of the Principal Accountant General (Audit), Himachal Pradesh to the PRIs concerned as of March 2019.

Of these, one IR and 86 paras were settled/ deleted leaving 2,453 IRs and 16,882 paras pending compliance as of March 2019. The details are given in **Table-8** below:

Table-8: Outstanding Inspection Reports and Audit Paras

Sl. No.	Year of issue of Inspection Reports	IRs/ Paras Outstanding as on 31 March 2018		Addition during the year 2018-19		Total		No. of IRs/ paras settled/ deleted during 2018-19		No. of IRs/ Paras outstanding as on 31 March 2019	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Up to 2014-15	1,989	12,754	-	-	1,989	12,754	1	74	1,988	12,680
2.	2015-16	155	1,322	-	-	155	1,322	-	7	155	1,315
3.	2016-17	140	1,019	-	-	140	1,019	-	1	140	1,018
4.	2017-18	57	506	-	-	57	506	-	1	57	505
5.	2018-19	-	-	113	1,367	113	1,367	-	3	113	1,364
Total		2,341	15,601	113	1,367	2,454	16,968	1	86	2,453	16,882

Correspondence is being undertaken regularly with PRIs and Panchayati Raj Department to settle outstanding IRs/Paras, 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 weak control mechanism. The Department should pay adequate attention towards compliance/ settlement and follow up of audit observations in order to minimise recurring nature of irregularities in the PRIs.

