CHAPTER-1

PROFILE OF PANCHAYATI RAJ INSTITUTIONS

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1.1 Background of Panchayati Raj Institutions

The 73rd Constitutional amendment accorded 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 the 11th Schedule of the Constitution were devolved to the PRIs. However, funds were not being devolved by the departments. The Director, Panchayati Raj stated (September 2015) that the functions relating to 15 line departments have been assigned to PRIs but the matching funds and functionaries have not been provided to the PRIs.

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. The Joint Director (PRI) stated (December 2015) that the State Government had adopted, with effect from March 2011, the Model Accounting system as prescribed by the Comptroller and Auditor General (CAG) of India and Ministry of Panchayati Raj (MOPR), Government of India (GOI) through a software named PRIAsoft, developed jointly by the National Informatics Centre (NIC) and Ministry of Panchayati Raj.

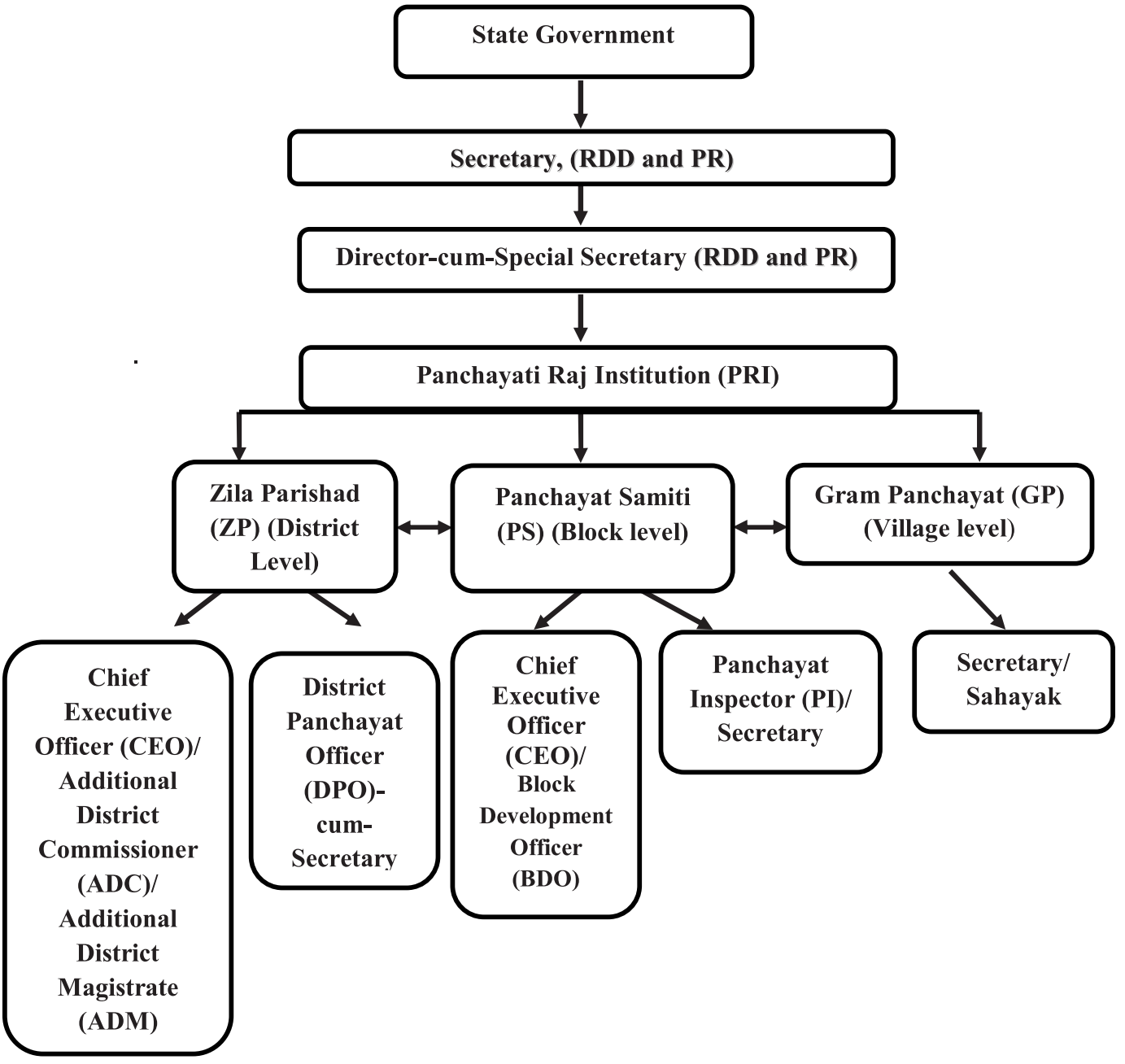
1.2 Audit mandate of the CAG

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 CAG of India 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 Parishad (ZPs), 77 Panchayat Samitis (PSs) and 3,243 Gram Panchayats (GPs) in the State. 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:

Organisational Set up



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 Committee	Role and responsibilities of the Standing Committee
Zila Parishad	Chairman	General Standing Committee	Performs the functions relating to establishment matters, communications, building, 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 and 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 agricultural production, animal husbandry, co-operation and village and cottage industries.
Panchayat Samiti	Chairman	General Standing Committee	Performs the functions relating to the establishment matters and communications.
		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.
Gram Panchayat	*Pradhan* or *Up-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 4,944 sanctioned posts of various cadres, 4,582 persons were in position and 362[1] posts were lying vacant as of March 2015.

Panchayat *Chowkidars* are appointed by the GPs and honorarium at the rate of ₹ 1,850/- and ₹ 150/- per month is provided by the State Government and GPs (from Panchayat Nidhi) respectively. At present all the GPs have appointed Panchayat *Chowkidars*.

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 funds allotted to the PRIs through different sources are kept in banks.

[1] Junior Engineers: 16, Assistant Engineers: one, Panchayat Sahayaks: 345.

While Central and State grants are utilised 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 utilised for execution of schemes/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 (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 the SEGF and authorises onward transfer of funds to ZPs, PSs and GPs.
2.	Integrated Watershed Management Programme (IWMP)	The IWMP is a centrally sponsored scheme funded on cost-sharing basis between the GOI and the State Government in the ratio of 90:10. The nodal ministry (Ministry of Rural Development)/ department (Deparment of land resources) allocates the budgetary outlay for the projects among the States keeping in view the prescribed criteria and past performance of the State (physical and financial) viz. unspent balance, outstanding utilisation certificates, percentages 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 creiteria.
3.	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 Rural Development Agency 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 13th Finance Commission or from any other funds of the State duly permitted by it.
4.	Indira Awas Yojana (IAY)	The Indira Awas Yojana is a centrally sponsored scheme, funded on 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 the custodian of these funds. The DRDAs release the funds to BDOs and the BDOs to GPs. Further, GPs transfer funds directly to the beneficiaries' accounts in two instalments. Second instalment is released after construction reaches the lintel level.
5.	Swarnjayanti Gram Swarojgar 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.

1.4.2 Resources: trends and composition

The resources of PRIs for the period from 2010-11 to 2014-15 are detailed in **Table-3:**

Table-3
Time series data on resources of PRIs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Own Revenue	7.81	31.52	NA	NA	NA
Grants from State Government	71.65	72.88	70.40	81.55	142.91
Grants from Central Government	82.79	113.15	131.16	202.07	167.04
GOI grants for CSS	818.56	735.20	488.57	163.68	511.86
State Government grants for state schemes	33.24	22.20	15.80	15.97	17.99
Other receipt	3.60	1.00	1.00	0.67	0.25
Total	**1017.65**	**975.95**	**706.93**	**463.94**	**840.05**

Source: Director, Panchayati Raj and Rural Development Department, Himachal Pradesh.
NA: Not available.

Audit observed that figures relating to own revenue of PRIs have not been maintained by the Directorate (PRI) from the year 2012-13 onwards. The Department stated (April 2016) that the figures relating to own revenue of PRIs have not been compiled during 2012-15 as the same are now being compiled by the department of Economic and Statistics. The reply does not explain as to why the figures have not been sought by the Directorate from the said department during 2012-15.

1.4.3 Application of resources: trends and composition

The application of resources of PRIs for the period from 2010-11 to 2014-15 are detailed in **Table-4**:

Table-4
Sector-wise application of resources

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Expenditure from grants from the State Government and Central Government	154.44	187.02	202.52	284.29	244.74
Expenditure on CSS	594.89	591.35	544.51	161.86	547.24
Expenditure on State Schemes	32.18	21.49	16.26	14.31	17.65
Total	**781.51**	**799.86**	**763.29**	**460.46**	**809.63**

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

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 and Rural Development Department (P&RD) and Panchayat Sahayak, appointed on contract basis by the 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 Government officials of the office of District Panchayat Officer-cum-Secretary, ZP. Audit noticed that 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 Ministry of Panchayati Raj (MoPR), GOI had recommended a Model Accounting Structure for PRIs in 2009. The State Government had adopted (August 2012) PRIASoft, a software developed by MoPR, for maintaining the accounts of PRIs as per the Model Accounting Structure. As of March 2015, all the 12 Zila Parishads (ZPs) have started online voucher entries while only five out of 12 ZPs, 44 out of 77 PSs and 1,691 out of 3,243 GPs are maintaining their accounts on PRIAsoft. The Department attributed non-maintanence of accounts by all the PRIs to staff shortages and connectivity issues.

During test-check, it was noticed that the figures of receipts and expenditure furnished to the audit by the test-checked GPs for the year 2014-15 did not match with the figures uploaded on PRIAsoft. Huge difference between figures as depicted in the **Table-5** below shows that reliability and authenticity of financial reporting was not ensured by the Directorate office.

Table-5
Difference between figures of receipt and expenditure furnished to the Audit and that uploaded on PRIAsoft during 2014-15

(₹ in lakh)

Name of GP	Block	District	**Figures** supplied by the test-checked PRIs		**Figures uploaded on the PRIASoft**	
			Receipt	**Expenditure**	**Receipt**	**Expenditure**
Tabba	Una	Una	18.53	11.66	27.21	26.02
Kala Amb	Nahan	Sirmour	48.40	47.40	50.25	50.76
Majra	Poanta Sahib	Sirmour	22.17	17.40	19.46	16.44
Naggar	Naggar	Kullu	70.51	40.18	72.22	54.42

Source: Figures furnished by the test-checked PRIs and compiled by audit from PRIASoft.

1.6 Audit coverage

Audit of accounts of seven ZPs (out of 12), 17 PSs (out of 77) and 76 GPs (out of 3,243) was conducted by the Principal Accountant General (Audit), Himachal Pradesh during 2014-15 (**Appendix-1)**. Important audit findings are discussed in the following paragraphs.

1.7 Technical Guidance and Support (TGS)

The audit of PRIs has been entrusted to the CAG of India under Section 20 (1) of the CAG's (DPC) Act, 1971 with the responsibility of providing suitable TGS to Primary Auditors as per Section 152-154 of Regulations on Audit and Accounts-2007 with regard to annual audit plans, audit methodology and procedures, returns, etc., training and capacity building. Two days training programme was organised by the Office of the Principal Accountant General (Audit) for two groups of audit staff of PRIs during October 2014 in which the participants were apprised of general principles and basic approach of audit, checking of financial statement, bank reconciliation, maintenance of cash book,

physical verification of work done, etc. Further, during the year 2014-15, 44 Inspection Reports of PRIs have been reviewed by Principal Accountant General (Audit) and necessary suggestions were provided for further improvement accordingly.

1.8 Financial reporting and accountability framework of PRIs (internal control system)

A sound internal control system contributes to efficient and effective governance of the PRIs by the State Government. 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. The following discrepancies were found in the internal control system of the PRIs.

1.8.1 Primary audit of PRIs

The Local Audit Department (LAD) has been empowered to conduct the audit of PRIs as per Section 118 of the Himachal Pradesh Panchayati Raj (HPPR) Act, 1994. Audit of PRIs is not being conducted by the LAD due to shortage of staff. 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 ensuring proper financial control on income and expenditure. The position of internal audit conducted by the Audit wing under Director, Panchayati Raj during April 2014 to March 2015 is given in **Table-6**:

Table-6
Position of Internal Audit

Name of Institution	Total units	No. of units planned for audit	No. of units audited	No. of units not audited	Percentage of short fall
Panchayat Samitis	77	38	30	8	21
Gram Panchayat	3,243	1,531	1,717	---	---

Source: Director, PRI.

Audit also noticed that the Audit wing under Director, Panchayati Raj had not planned internal audit of any of the ZPs since 2012-13. The Deputy Director, PRI stated (May 2015) that the internal audit of ZPs could not be conducted due to vacant post of the Deputy Controller since June 2012. The fact, however, remained that 12 ZPs in the State had remained unaudited during the year.

1.8.2 Non-maintenance of registers

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

It was observed that in 35 GPs (46 *per cent* of the test-checked GPs), important registers like stock register, immovable property register, work register, muster roll register, etc., were not maintained during 2014-15 (**Appendix-2)**. Due to non-maintenance of the records, correctness of the financial transactions could not be ascertained in audit. The Panchayat Secretaries concerned admitted the facts (June 2014-March 2015) and assured to maintain these records in future.

1.8.3 Improper maintenance of accounts of income from own resources and grant-in-aid/ loans

Rule 4 of HPPR Rules, 2002 provides that every GP, PS and ZP is required to maintain separate accounts of income from own resources (Account 'A') and from grant-in-aid, funds allocated for development works or special purposes, loans, share of taxes/ fees/ cess and other income (Account 'B').

It was noticed that in 16 PRIs[2] (one PS and 15 GPs), 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.

1.8.4 Preparation of bank reconciliation statements

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

However, it was noticed that difference of ₹ 7.81 crore (**Appendix-3)** between cash books and bank pass books at the close of the year 2013-14 was not reconciled by 13 PRIs. The authenticity of accounts of these PRIs could not be ascertained in the absence of bank reconciliation. The officers of the concerned PRIs stated (June 2014-March 2015) that the differences would be reconciled.

1.8.5 Non conducting of Physical Verification

Under rule 73(1) of HPPR Rules, 2002, a physical verification of all stores shall be made by the Pradhan in the case of Gram Panchayat and by the Secretary concerned in case of Panchayat Samiti or a Zila Parishad, as the case may be, at least once in six months and invariably in April every year. The result of the verification shall be recorded in writing. During the verification in April, the condition of each article shall be indicated against it in the stock register.

Scrutiny of records showed that in 16 PRIs[3] (One ZP, two PSs and 13 GPs,) physical verification of store/ stock had not been carried out. Consequently, physical existence of the store/ stock could not be verified in audit**.** In reply, the Executive Officers/ Secretaries

[2] PS: Dharamshala, GPs: Ambota, Arniyala Lower, Arniyala Upper, Saloh, Wahdala, Baranda, Muhalkadchahdi, Shekhpura, Bhadech, Bhaloh, Goharma, Udaipur, Kot, Samaila, Lippa.

[3] ZP: Kullu; PSs: Dharmshala and Rampur; GPs: Badach, Bhaloh, Bharti, Bijhri, Dand, Farnohal, Goharma, Khhuni Panoli, Manikaran, Ropa, Saloh and Saproh.

of PRIs concerned stated (June 2014-March 2015) that the physical verification of stores/ stock would be conducted shortly.

1.8.6 Outstanding advances

Three GPs did not take action to recover/ adjust outstanding advances of ₹ 9.97 lakh.

Rule 30 of the HPPR Rules, 2002 provide that a record shall be kept of any advance given to officer/ official of the GP for carrying out the activities of the GP, in the register of Temporary Advances and such advances should be adjusted regularly and promptly.

Scrutiny of records of three GPs[4] brought out that advances of ₹ 9.97 lakh sanctioned during 2006-2011 to various office bearers such as *Pradhan*, *Up-Pradhan*, Panchayat members and non elected officials, for carrying out developmental activities remained unadjusted as of December 2014. No efforts were made to recover these advances and the same had remained outstanding for five to 14 years. Lack of effective action to recover/ adjust the outstanding advances may lead to misappropriation of ₹ 9.97 lakh. The Secretaries of concerned PRIs stated (July 2014-January 2015) that efforts would be made to recover the advances.

1.8.7 Blocking of funds under 13th Finance Commission

Funds of ₹ 39.33 crore remained unutilised under 13th Finance Commission in 84 PRIs on account of incomplete works and non-start of works.

As per guidelines of the 13th Finance Commission (13th FC), the grant released by the GOI to the State Government was to be transferred to the PRIs within 15 days from the date of its credit into the account of the State and the works approved thereof were to be completed within a period of three months from the date of their sanction. Audit noticed that:

(i) Of ₹ 6.60 crore received under 13th FC during 2014-15, the ZP, Una had released/ utilised only ₹ 2.61 crore during the above period and ₹ 3.99 crore (60 *per cent*) had remained unutilised with the ZP depriving the beneficiaries of the intended benefits. The Secretary stated (February 2015) that due to late submission of work plans by the members of ZP, the grants were not released. The reply is not convincing as preparatory items of works should have been completed in time.

(ii) In 73 test-checked PRIs, against an amount of ₹ 82.41 crore received under 13th FC during 2010-15, an expenditure of ₹ 47.84 crore was incurred and the balance amount of ₹ 34.57 crore (42 *per cent*) was lying unutilised as of March 2015 **(Appendix-4).** Executive Officers/ Secretaries of concerned PRIs stated that efforts would be made to release the funds shortly. Thus, failure to utilise the available funds within the stipulated period led to blocking of funds and denial of intended facilities to the beneficiaries.

[4] GP Baglati, Nankhari Block, Shimla district: ₹ 3.04 lakh, GP Dyothi Majhgaon, Rajgarh Block, Sirmaur district: ₹ 0.66 lakh and GP Badhach, Nankhari Block, Shimla district: ₹ 6.27 lakh.

(iii) In 10 test-checked PRIs, 168 works (estimated cost: ₹ 0.77 crore) under 13th FC during 2010-14 had not been taken up for execution as of March 2014 **(Appendix-5)** due to non-completion of codal formalities. Evidently, ₹ 0.77 crore remained blocked with the PRIs as of March 2014. The Executive Officers/ Secretaries of concerned PRIs stated (November 2014-February 2015) that works could not be taken up for execution due to non-receipt of land papers/ no objection certificates (NOCs). The reply is not convincing as codal formalities should have been completed before the sanction of funds.

1.8.8 Outstanding inspection reports

Inadequate response to Audit observations resulted in erosion of accountability.

As a result of audit of PRIs under TGS, 2,006 inspection reports (IRs) containing 13,312 paras were issued by the office of Principal Accountant General (Audit), Himachal Pradesh to the concerned PRIs during 2010-15. Of these, two IRs and 195 paras were settled leaving 2,004 IRs and 13,117 paras outstanding as of March 2015. The details are given in **Table-7:**

Table-7
Outstanding inspection reports

(In numbers)

Sl. No.	Year of issue of Inspection Reports	Outstanding IRs/ Paras as on 31 March 2014		Addition (No. of IRs/ paras issued during the year)		Total		No. of IRs/ paras settled during 2014-15		No. of outstanding IRs/Paras as on 31 March 2015.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2010-11	1515	9677	--	--	1515	9677	2	145	1513	9532
2.	2011-12	126	993	--	--	126	993	0	19	126	974
3.	2012-13	117	897	--	--	117	897	0	14	117	883
4.	2013-14	148	1019			148	1019	0	17	148	1002
5.	2014-15	--	--	100	726	100	726	--	--	100	726
	Total	**1906**	**12586**	**100**	**726**	**2006**	**13312**	**2**	**195**	**2004**	**13117**

Matter regarding settlement of paras had been discussed in the quarterly meeting held on 12th November 2015 with the Director (PRI). Increasing trend of outstanding inspection reports and paras is indicative of non-compliance of audit observations, which resulted in erosion of accountability.

Audit findings were referred to the Government in March 2016. Reply had not been received (April 2016).