

PART – A
PANCHAYATI RAJ INSTITUTIONS

Chapter-I

Overview of Panchayati Raj Institutions

1.1 Background of Panchayati Raj Institutions

The Constitution (Seventy Third Amendment) Act, 1992 accorded constitutional status to Panchayati Raj Institutions (PRIs) and established a three tier structure with regular elections of Panchayats every five years, constitution of State Finance Commission to make recommendations regarding the financial powers of the Panchayats, *etc.* The act envisaged a three tier system of PRIs namely Gram Panchayat (GP) at Village level, Panchayat Samiti (PS) at Block level and Zila Parishad (ZP) at District level. As a follow up, the States were required to entrust these bodies such powers, functions and responsibilities as to enable them to function as institutions of self-government. In particular, the PRIs were required to prepare plans for economic development and social justice as per the functions enumerated in the Eleventh Schedule of the Constitution.

Accordingly, a three tier Panchayati Raj System was established under the Punjab Panchayati Raj Act, 1994 with elected bodies at the village, block and district levels. The latest elections of PRIs were held in July 2013.

1.1.1 Audit mandate of CAG of India

The Thirteenth Finance Commission (TFC) recommended that the State Government must put in place an audit system for all tiers of PRIs. Based on the recommendations of TFC, the State Government entrusted (August 2011) the test audit of PRIs to the Comptroller and Auditor General of India (CAG) under Section 20 (1) of the CAG's (Duties, Powers and Condition of Service) Act, 1971 and for providing Technical Guidance and Support (TGS) over the work of the Examiner, Local Fund and Accounts, Punjab (ELFA) with regard to audit of PRIs. An Annual Technical Inspection Report (ATIR) on the audit of PRIs conducted during preceding year is sent by the Pr. Accountant General (Audit) to State Government to be laid before the State Legislature.

1.1.2 Accounting system in Panchayati Raj Institutions

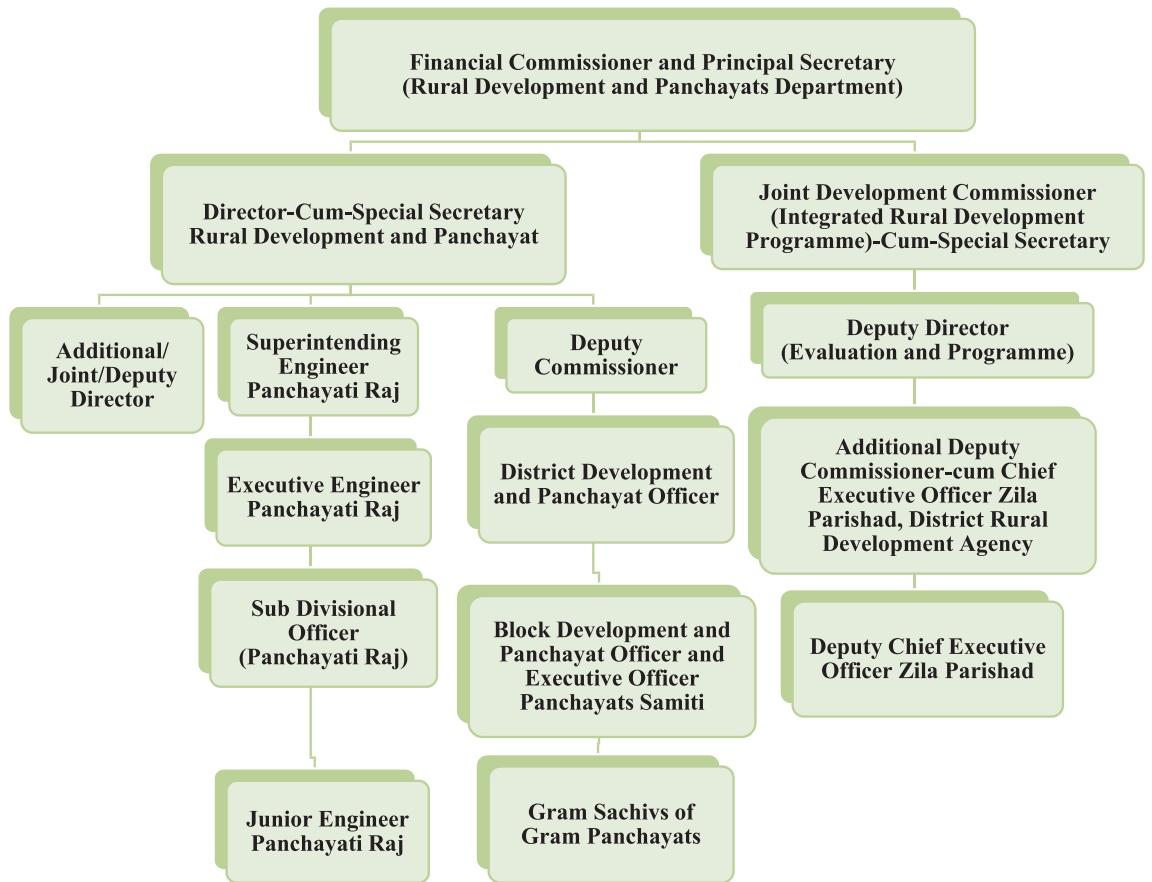
The Deputy Chief Executive Officer was responsible for the maintenance of accounts of ZP with the assistance of the Accounts Officer. The BDPO-cum-Executive Officer maintained the accounts of Panchayat Samiti while Gram Sachiv/ Secretary maintained accounts of GP. The certification of accounts was being done by Deputy Chief Executive Officer, Executive Officer and Sarpanch in respect of ZPs, PSs and GPs respectively. ELFA being a statutory auditor was responsible for conducting audit of PRIs.

The Ministry of Panchayati Raj, Government of India in consultation with the Comptroller and Auditor General of India developed the Model Accounting Structure (MAS), 2009. The model formats developed under MAS was to benefit State Government in terms of tracking the flow and usage of funds while the Panchayats were to gain in terms of better financial management,

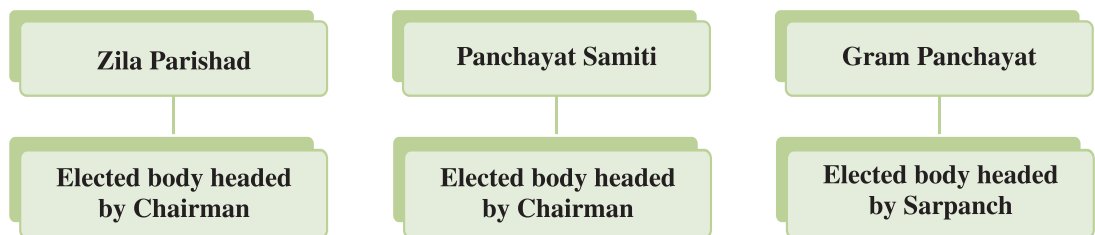
enhanced credibility and assessing Panchayat finances for devising strategies to make Panchayats financially viable. Subsequently, in December 2013, Director, Rural Development directed all the Additional Deputy Commissioners (Development) to create a data base on the basis of proformas as prescribed in MAS so as to make the MAS functional from April 2014. Accordingly, MAS has been adopted (April 2015) and voucher entries were being made in the software and the reports were being generated through the MAS.

1.2 Organizational structure of Panchayati Raj Institutions

(i) Executive level



(ii) Elected Level



1.2.1 Standing Committees

The details of various Standing Committees involved in financial matters and implementation of schemes are given in **Table 1.1**.

Table 1.1 Roles and responsibilities of the Standing Committees

Level of PRIs	Standing Committee headed by	Name of the Standing Committee	Roles and responsibilities of the Standing Committee
District Panchayat	Chairman	General Committee	Performs functions relating to establishment matters, communications, buildings, etc.
		Finance Audit and Planning Committee	Performs functions relating to finances of the Zila Parishad .
		Social Justice Committee	Performs functions like promotion of education, economic, social, cultural and other interest of the Scheduled Castes (SCs) and Backward Classes (BCs), protecting SCs/BCs from social injustice, etc.
		Education and Health Committee	Performs functions relating to promotion of educational activities in the ZP, maintenance of health services, hospitals, water supply, family welfare, etc.
		Agriculture and Industry Committee	Performs functions relating to agriculture production, animal husbandry, village and cottage industries, promotion of industrial development of the district, etc.
Block Panchayat	Chairman	General Committee	Performs functions relating to establishment matters, communications, building, rural housing, etc.
		Finance, Audit and Planning Committee	Performs functions relating to finance of the Panchayat Samiti.
		Social Justice Committee	Performs functions relating to promotion of education, economic, social, cultural and other interests of the SCs/BCs, etc.
Village Panchayat	Chairman	Production Committee	Performs functions relating to agriculture production, animal husbandry, rural industries and poverty alleviation programmes.
		Social Justice Committee	Performs functions relating to promotion of education, economic, social, cultural and other interests of the SCs/BCs, etc.
		Amenities Committee	Performs functions relating to education, public health, public works, etc.

Source: Punjab Panchayati Raj Act, 1994

1.2.2 Staff position in PRIs

Panchayati Raj Institutions have technical and non-technical staff. Against 4,331 sanctioned posts, 1,903 posts were lying vacant under various cadres as on 31 March 2015 (*Appendix-I*). Two training centres, namely Community Development Training Centre, Batala and Gram Sevak Training Centre, Nabha are imparting training to the officials of PRIs to enhance their skills.

1.2.3 Devolution of functions

The Constitution (Seventy Third Amendment) Act, 1992, envisaged devolution of funds, functions and functionaries to the PRIs to enable them to work as institutions of self-government. Although the State Government had devolved all 29 functions included in the Eleventh Schedule of the Constitution to the three tiers of Panchayats as per the Punjab Panchayati Raj Act, 1994, only 13 functions viz. animal husbandry, rural housing, drinking water, education (including primary and secondary schools), libraries, cultural activities, markets and fairs, health and sanitation, family welfare, women and child development, social welfare including welfare of handicapped and mentally retarded, welfare of the weaker sections and in particular of the Scheduled Castes and the Scheduled Tribes and maintenance of community assets are actually being performed by the PRIs.

1.3 Financial profile

1.3.1 Fund flow to Panchayati Raj Institutions

The resource base of PRIs consists of own receipts, 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. 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 fund-wise sources and their custody for each tier are given in **Table 1.2**.

Table 1.2: Fund flow arrangement in Centrally Sponsored Schemes

Sr. No.	Scheme	Fund flow arrangement
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GOI and State Government transfer their respective shares of MGNREGA funds in a bank account, called State Employment Guarantee Fund (SEGF). Accounts of beneficiaries are being credited from the SEGF through Electronic Fund Management System.
2.	Indira Awaas Yojana (IAY)	The IAY is funded on cost-sharing basis between the GOI and the State Government in the ratio of 75:25. Funds are released to District Rural Development Agency (DRDA)/ ZP and there from funds are directly transferred to the beneficiaries' accounts.
3.	Integrated Watershed Development Programme (IWDP)	Funds are released to District Rural Development Agency (DRDA) which transfers it to Watershed Committee directly involved in implementation of the programme.
4.	Integrated Watershed Management Programme (IWMP)	
5.	National Rural Livelihood Mission (NRLM)/ Swarnjayanti Gram Swarozgar Yojana (SGSY) ¹	The total cost of the project is shared between Centre and State in the ratio of 75:25. Funds are released to DRDA and thereafter directly transferred to beneficiaries' accounts through BDPOs.

Source: Information provided by the Department

¹ Swarnjayanti Gram Swarozgar Yojana was restructured and was being implemented as National Rural Livelihood Mission since 2011-12.

1.3.2 Resources: Trends and Composition

The resources of PRIs for the period from 2010-15 are detailed in **Table 1.3**.

Table 1.3: Time series data on resources of PRIs

(₹ in crore)					
Year	2010-11	2011-12	2012-13	2013-14	2014-15
Own Revenue	313.05	362.66	415.31	456.84	272.90
CFC transfers (Central Finance Commission devolutions)	103.50	139.10	74.59	60.00	272.90
SFC transfers (State Finance Commission devolutions)	69.22	78.75	85.91	99.00	0.00
Grants from State Government*	1,055.26	1,172.51	1,298.14	1,440.93	9.10
GoI grant for CSS	267.56	201.85	165.85	299.17	214.55
Other Receipt (bank interest etc.)	9.75	10.30	10.89	11.43	5.33
TOTAL	1,818.34	1,965.17	2,050.69	2,367.37	774.78

Source: Figures provided by Department of Rural Development and Panchayats, Punjab

* includes State Government grants for State Schemes

1.3.3 Application of Resources: Trends and Composition

The application of resources of PRIs for the period from 2010-15 are detailed in **Table 1.4**.

Table 1.4: Expenditure from resources (sector-wise)

(₹ in crore)					
Description	2010-11	2011-12	2012-13	2013-14	2014-15
Expenditure from own revenue	313.05	362.66	415.31	456.84	272.90
Expenditure from CFC transfers (Central Finance Commission devolutions)	103.50	139.10	74.59	60.00	272.90
Expenditure from SFC transfers (State Finance Commission devolutions)	69.22	78.75	85.91	99.00	0.00
Expenditure from grants from State Government*	1,055.26	1,172.51	1,298.14	1,440.93	9.10
Expenditure on CSS	267.51	236.88	185.49	281.76	269.34
Expenditure from Other Receipt	9.75	10.30	10.89	11.43	0.87
TOTAL	1,818.29	2,000.20	2,070.33	2,349.96	825.11

Source: Figures provided by Department of Rural Development and Panchayats, Punjab

* includes State Government grants for State Schemes

The above figures were provided by the Department of Rural Development and Panchayats, Punjab on the basis of grants disbursed to PRIs. No record in respect of actual expenditure incurred by the PRIs was maintained by the department except for expenditure on Centrally Sponsored Schemes (CSS).

Table 1.5: Statement showing expenditure incurred under major CSS.

(₹ in crore)

Schemes	2010-11	2011-12	2012-13	2013-14	2014-15
MGNREGS	166.98	162.82	157.76	262.56	210.48
IAY	77.79	53.94	17.41	4.72	32.53
SGSY	17.49	11.42	4.56	0.00	0.00
NRLM	0.00	0.21	1.06	3.14	7.82
IWDP	3.26	1.41	1.09	0.19	0.00
IWMP	1.99	7.29	4.67	10.16	18.51

Source: Figures provided by Department of Rural Development and Panchayats, Punjab

Note: SGSY scheme closed on 31 March 2013 and IWDP scheme closed on 31 December 2012.

1.4 Accountability framework of Panchayati Raj Institutions (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 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 deficiencies were found in the internal control system:

1.4.1 Primary Audit of PRIs

Examiner, Local Fund and Accounts (ELFA) has been empowered to conduct the audit of all tiers of PRIs. ZPs and PSs are audited under Rule 100 of the Punjab Panchayat Samitis and Zila Parishads (General) Financial, Budget, Accounts and Audit Rules, 1964 framed under sections 83 and 115 (i) of the Punjab Panchayat Samitis and Zila Parishads Act, 1961 whereas GPs are audited under Rule 33 (i) of the Punjab Gram Panchayat Rules, 1995 framed under section 101(i) of the Punjab Gram Panchayat Act, 1952. The position of internal audit conducted during 2014-15 is given in **Table 1.6**.

Table 1.6: Position of internal audit

Name of the institution	Total units	No. of units to be audited as per manual*	No. of units planned	No. of units audited	No. of units not audited	Percent-age of shortfall
Zila Parishad	22	11	5	5	6	54.55
Panchayat Samitis	145	72	34	40	32	44.44
Gram Panchayats	13,109	6,550	2,700	1,914	4,636	70.78
Total	13,276	6,633	2,739	1,959	4,674	

Source: Figures provided by Examiner, Local Fund and Accounts, Punjab

* Manual of the Local Audit Department, Punjab

Analysis of table shows that against 6,633 units required to be audited by the ELFA, only 1,959 units (29.54 per cent) were actually audited during

2014-15. The department attributed the shortfall to shortage of staff. On being enquired about the follow up action taken on the audit findings it was stated (March 2016) that a committee of two members namely, the District Development and Panchayat Officer (DDPO) of the Department of Rural Development and Panchayats, Punjab and Regional Deputy Director of Examiner, Local Fund and Accounts had been constituted² for pursuing audit findings in respect of PRIs.

1.4.2 Non-maintenance of record

Section 87(1) of the Panchayati Raj Act, 1994 provides that the Sarpanch, and in his absence, the Panch authorized by the GP or by the BDPO in this behalf shall be responsible for the safe custody of the movable property of the GP and such of its records as may be prescribed. Immovable property belonging to or vested in the GP shall also remain in his charge. Section 87 (2) further provides that Panchayat Secretary shall be responsible to maintain up to date all records of the GP in the custody of Sarpanch or the Panch as prescribed under Section 87(1).

Audit scrutiny of records of 114 GPs (**Appendix-II**) showed that basic records such as movable/immovable assets register, demand and collection register, advances/loans outstanding register, receipt book register, register of stores and stock with physical verification, cheque/draft register were not being maintained for the period from August 2011 to December 2014. In the absence of such record, proper accountal of the assets, material procured and advances made and its recovery could not be vouched safe in audit.

The concerned authorities stated (June 2014-January 2015) that necessary instructions would be issued to all the GPs and records would be maintained in future.

1.4.3 Non-reconciliation of withdrawals and deposits from/into banks

Rule 2.2(v) of Punjab Financial Rule (Volume-I) and Rule 27 of the Punjab Panchayati Raj (Gram Panchayat) Rules, 2012 provide that every Drawing and Disbursing Officer is required to reconcile with bank's record all the amounts drawn from bank and deposited into the bank during the month to check the accuracy of entries made in the cash book.

Audit scrutiny of records of 79 Gram Panchayats and one Panchayat Samiti showed (**Appendix-III**) that reconciliation with bank account was not carried out despite the fact that difference in balances as per cash book and pass book ranged between ₹ 153 and ₹ 5,63,805 in these 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 (June 2014-January 2015) that the necessary reconciliation would be carried out in future.

² Date of constitution of committee was not supplied by the department.

1.4.4 Operation of multiple bank accounts

Rule 24 of the Punjab Panchayati Raj (Gram Panchayat) Rules, 2012 provides that Gram Panchayat fund mentioned in section 86 of the Punjab Panchayati Raj Act, shall be kept in a savings bank account in the name of the Gram Panchayat in a nationalized bank. The Gram Panchayat may open a savings bank account for other schemes, if their terms and conditions provide so.

Audit scrutiny of records of 21 Gram Panchayats showed that more than one bank account was being operated for panchayat fund in violation of norms issued in this regard (*Appendix-IV*).

The concerned authorities while admitting the audit observation stated (April 2014-January 2015) that the accounts would be closed in due course of time. The matter was again referred (May 2016) to the concerned authorities, reply to which was awaited (May 2016).

1.4.5 Lack of response to audit observations

Details of audit paragraphs issued by the ELFA and outstanding as on 31 March 2015 are given in **Table 1.7**.

Table 1.7: Details of outstanding paras

Sr. No.	Since pending	Zila Parishad	Panchayat Samitis	Total
1.	Up to 5 years old	306	2,473	2,779
2.	5 to 10 years old	270	3,211	3,481
3.	More than 10 years old	610	15,612	16,222
Total		1,186	21,296	22,482

Source: Information supplied by Examiner, Local Fund and Accounts, Punjab (Information regarding details of outstanding paras in respect of Gram Panchayats was called for (July 2015); reply was awaited (May 2016)).

Besides this, on the entrustment of audit of PRIs to CAG in August 2011, the audit of three tiers of PRIs in Punjab State was taken up by Principal Accountant General (Audit), Punjab. During the year 2014-15, 239 units of PRIs (4 ZP, 15 PS and 220 GPs) were audited and the Inspection Reports (IRs) on the said PRIs containing 1,314 audit observations were issued between March 2014 and February 2015 to the concerned units of PRIs with a copy to Examiner, Local Fund and Accounts (ELFA) and Director Rural Development and Panchayat, Punjab for their comments. Two PRIs submitted their replies in respect of two paras whereas replies of the remaining 237 PRIs in respect of 1,312 paras were awaited (December 2015). The audit findings are summarized in Chapter-II.