

CHAPTER-1

PROFILE OF PANCHAYATI RAJ INSTITUTIONS

1.1 Background of Panchayati Raj Institutions

The 73rd Constitution Amendment Act accorded constitutional status to the Panchayati Raj Institutions (PRIs) and established a uniform structure of self governing institutions at the rural level, with regular elections and flow of funds through Finance Commissions. 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 listed in the 11th Schedule of the Constitution were to be devolved to PRIs, alongwith 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 State 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. In Himachal Pradesh functions relating to 15 line departments have been assigned to PRIs but matching funds and functionaries have not been provided to the PRIs¹.

1.2 Audit mandate of the CAG

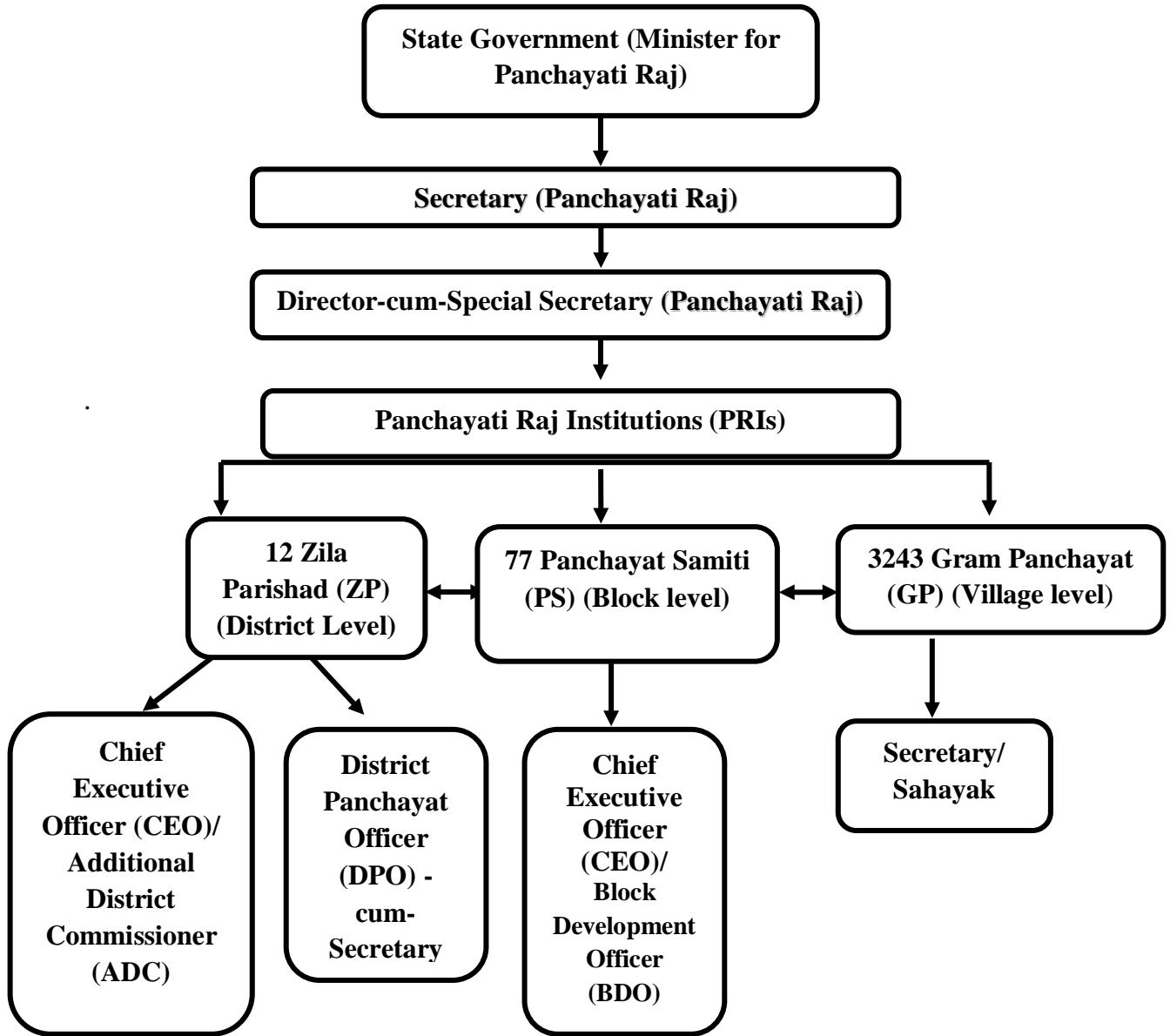
In Himachal Pradesh, primary audit of Panchayati Raj Institutions (PRIs) is being undertaken by the audit wing of the Director, Panchayati Raj Department. The State Government has entrusted (March 2011) audit of PRIs to the CAG with the responsibility of providing technical guidance and support under 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.

1.3 Organisational structure of Panchayati Raj Institutions

There are 12 Zila Parishads (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.

¹ Stated by Director, Panchayati Raj (July 2016).

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 the monthly meetings of ZPs.

1.3.1 Standing Committees

The various Standing Committees in PRIs and their roles 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 Committees	Role and responsibilities of the Standing Committee
Zila Parishad	Chairman	General Standing Committee	Performs functions relating to establishment matters, communications, buildings, etc.
		Finance, Audit and Planning	Performs functions relating to finances of the 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 the National and State plans.
		Agriculture and Industries Committee	Performs functions relating to agricultural production, animal husbandry, co-operation and village and cottage industries.
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 relating to promotion of educational, economic, social, cultural and other interests of the SCs/STs/OBCs.
Gram Panchayat	<i>Pradhan or Up-Pradhan</i>	Works Committee	All development works of the Gram Panchayats are executed by this committee.
		Budget Committee	Prepares the annual budget of the GP and submits 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 4,883 sanctioned posts of various cadres, 4,501 persons were in position and 382 posts² were lying vacant as of March 2016. At present 200 posts of panchayat chowkidar are vacant. During 2015-16, 1,513 Panchayat Secretaries/ Sahayaks were imparted 33 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 State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central

² Junior Engineer: 16, Assistant Engineer: one, Panchayat *Sahayak* : 365.

Government grants for development activities and implementation of schemes. The funds allotted to the PRIs through different sources are kept in banks.

While Central and State grants are utilized by the PRIs for execution of Central and State sponsored schemes as per guidelines issued by Government of India and State Government, the own receipts of PRIs are utilized 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 (MGNREGS)	GOI and State Government transfer their respective shares of MGNREGS funds in a bank account, called State Employment Guarantee Fund (SEGF) which is set outside the state accounts. Divisional Commissioner, State Rural Employment Guarantee Schemes is the custodian of the SEGF and authorises transfer of funds directly from SEGF to the beneficiary account.
2.	Swachh Bharat Mission- Gramin (SBM-G)	SBM-G is a centrally sponsored scheme. Funds are released by the Ministry of Drinking Water and Sanitation (MDWS), GoI to the Rural Development Department. Rural Development Department releases the funds to the District Rural Development Agencies (DRDAs) on the basis of District Plans, extent of demand generation in the district, expenditure pattern and balance funds. The District Rural Development Agencies release the funds to Block Development Officers who further distribute them to Gram Panchayats for various activities to be taken up.
3.	Integrated Watershed Management Programme (IWMP)	The IWMP is a centrally sponsored scheme funded on a cost-sharing basis between the GoI and the State Government in the ratio of 90:10. The nodal ministry (Ministry of Rural Development)/ Department (Department of Land Resources) allocates the budgetary outlay for the projects amongst the States keeping in view the prescribed criteria and past performance of the States (physical and financial) viz. unspent balance, outstanding utilisation certificates, percentage 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 criteria.
4.	Indira Awas Yojana (IAY)	The Indira Awas Yojana is a centrally sponsored scheme, funded on a 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 who further release them to the 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 Swarajgar 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 2011-12 to 2015-16 are detailed in **Table-3**.

Table-3: Time series data on resources of PRIs

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenue	31.52	82.55	92.35	72.88	65.38
Grants from State Government	72.88	70.40	81.55	142.91	162.31
Grants from Central Government	113.15	131.16	202.07	167.04	197.87
GOI grants for CSS	735.20	488.57	163.68	511.86	403.36
State Government grants for State schemes	22.20	15.80	15.97	17.99	23.64
Other receipts	1.00	1.00	0.67	0.25	0.42
Total	975.95	789.48	556.29	912.93	852.98

Source: Director, Panchayati Raj and Rural Development Department, Himachal Pradesh and Economic Adviser, Economics and Statistics Department, Himachal Pradesh

Audit observed that figures relating to own revenue of PRIs have not been maintained by the Directorate (PR) from the year 2012-13 onwards. The Department stated (April 2016) that the figures relating to own revenue of PRIs have not been compiled as they are now being compiled by the Department of Economics and Statistics, Himachal Pradesh. The figures have, therefore, been obtained from the Department of Economics and Statistics.

1.4.3 Application of resources: trends and composition

The application of resources by PRIs for the period from 2011-12 to 2015-16 are detailed in **Table-4**.

Table-4: Sector-wise application of resources

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Expenditure from grants from the State Government and Central Government	187.02	202.52	284.29	244.74	307.57
Expenditure on CSS	591.35	544.51	161.86	547.24	516.11
Expenditure on State Schemes	21.49	16.26	14.31	17.65	19.02
Total	799.86	763.29	460.46	809.63	842.70

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 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 (August 2012) PRIASoft, a software developed by MoPR, for maintaining the accounts of PRIs as per the Model Accounting Structure. The Deputy Director (PRI) stated (July 2016) that accounts are maintained on PRIASoft as recommended by the CAG of India and Ministry of Panchayati Raj (MoPR), GoI.

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 provide that PRIs are required to maintain certain records, registers, forms and accounts. Discrepancies noticed in the internal control system of the PRIs are discussed in Chapter -2.

1.7 Primary audit of PRIs

Although the Local Audit Department (LAD) has been empowered to conduct the primary audit of PRIs as per Section 118 of the Himachal Pradesh Panchayati Raj (HPPR) Act, 1994, the LAD is unable to undertake such audit owing 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 ensure proper financial control on income and expenditure. The position of internal audits conducted by the Audit wing under Director, Panchayati Raj during April 2015 to March 2016 is given in **Table-5**.

Table-5: Position of Internal Audits

Name of Institution	Total units	No. of units planned for audit	No. of units audited	No. of units not audited	Percentage of shortfall
Panchayat Samitis	77	39	11	28	72
Gram Panchayat	3,243	1,622	1,067	555	34

Source: Director, PRI.

It was also noticed that the audit wing under Director, Panchayati Raj had not planned internal audit of any of the ZPs.

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 year 2015-16 were received from the Primary Auditor (Director, PRI) and noted for the process of audit planning in this office.

Primary Auditor (Director, PRI) 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 the year 2015-16, 52 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. Income and expenditure of last three years may be shown in tabular format.
- ii. Income from own sources and grants may be shown separately.
- iii. Reference to Rules may be given in the paras while raising objections in audit.
- iv. Audit memos may be issued to the auditee unit and audit paras may also incorporate the reply of the Secretary, Gram Panchayat.

Every year, meetings are held with the officers of the Panchayati Raj Department to discuss various issues pertaining to PRIs and guidance under TGS. During 2015-16, two meetings were held with the Secretary, (Panchayati Raj), Director, Panchayati Raj and other officers of the Panchayati Raj Department on 19th May and 6th August 2015 to discuss issues relating to Social Audit and TGS.

Every year, two days' training is imparted to the audit staff of Local Audit Department (LAD) as per their requirement. During 2015-16, 18 participants from LAD were imparted training on the topics of audit planning, selection of audit topics, performance audit, documentation and reporting.

1.9 Audit coverage

During the year 2015-16, 155 PRI units were test checked by the office of the Principal Accountant General (Audit) and reports issued to the respective PRIs. Audit of accounts of four ZPs (out of 12), 22 PSs (out of 77) and 129 GPs (out of 3,243) was conducted by the Principal Accountant General (Audit), Himachal Pradesh during 2015-16 (**Appendix-1**). 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, 2,159 inspection reports (IRs) containing 14,448 paras were issued by the office of Principal Accountant General (Audit), Himachal Pradesh to the PRIs concerned as of March 2016. Of these, five IRs and 197 paras were settled leaving 2,154 IRs and 14,251 paras pending compliance as of March 2016. The details are given in **Table-6**.

Table-6: Outstanding inspection reports and audit paras

(In numbers)

Sl. No.	Year of issue of Inspection Reports	IRs/ Paras Outstanding as on 31 March 2015		Addition (No. of IRs/ paras issued during the year)		Total		No. of IRs/ paras settled during 2014-15		No. of IRs/Paras outstanding as on 31 March 2016.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2011-12	1,639	10,506	--	--	1,639	10,506	4	137	1,635	10,369
2.	2012-13	117	883	--	--	117	883	--	26	117	857
3.	2013-14	148	1,002	--	--	148	1,002	1	32	147	970
4.	2014-15	100	726	--	--	100	726	--	2	100	724
5.	2015-16	--	--	155	1,331	155	1,331	--	--	155	1,331
	Total	2,004	13,117	155	1,331	2,159	14,448	5	197	2,154	14,251

The issue of settlement of paras was discussed in the meetings held on 19th May and 6th August, 2015 with the Director (PRI). In addition to this, correspondence was also being undertaken to settle outstanding IRs/ Paras but 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 remains a matter of concern.