CHAPTER-I

AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

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SECTION 'A'

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1.1 Introduction

The 73rd Constitutional Amendment gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, holding of regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust the PRIs with such powers, functions and responsibilities to enable them to function as institutions of self-governance. In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice, including those enumerated in the Eleventh Schedule of the Constitution.

Consequent to the 73rd amendment of the Constitution, the Government of Sikkim enacted the Sikkim Panchayat Act, 1993. Under this Act, a two tier system of PRIs viz., Gram Panchayat at Village level and Zilla Panchayat at District level were established. As of March 2014, there were 4 ZPs[1] and 176 GPs in the State.

Article 243 of the Constitution of India provides that elections in Panchayats and Municipalities shall be held once in every five years. Elections to the PRIs in the State were last conducted on 6th November 2012.

1.2 State profile

As per 2011 Census, the total population of the State was 6.11 lakh of which male population was 3.23 lakh (53 *per cent*) and female population was 2.87 lakh (47 *per cent*). The rural population in the State was 4.56 lakh (75.03 *per cent*). Sikkim had a total literacy rate of 82.20 *per cent* (2011 Census) compared to the All India literacy rate of 74.04 *per cent.* The service sectors along with the agricultural sector dominate the State's economy. The important statistical information of the State is given in ***Appendix 1.1***:

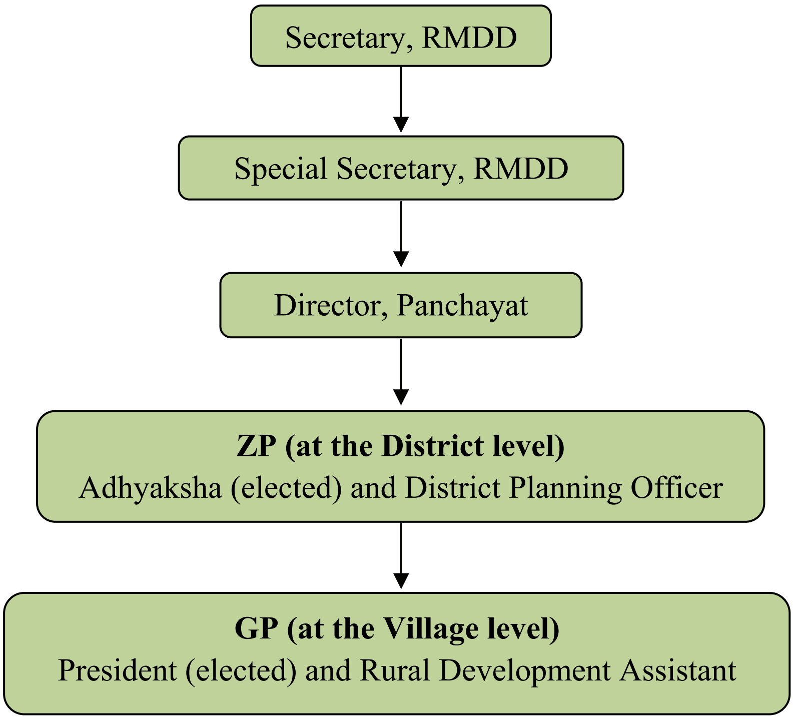
[1] *North, East, South and West.*

1.3 Organisational structure of PRIs

The Secretary, Rural Management & Development Department (RMDD), is the administrative head of PRIs. He is assisted by the Special Secretary and Director (Panchayat) in exercising overall control and supervision of PRIs in the State. The following organogram chart depicts the organisational structure of the Department and the PRIs.

Chart – 1.1

Organisational chart of PRIs



1.3.1 Standing Committees

The State Government constituted a number of committees such as Social Audit-cum-Vigilance Committee; Disaster Management Committee; Block Development Committee; Village Health & Sanitation Committee; District Technical Support Committee; Water Supply & Sanitation Committee for smooth functioning of the Gram Panchayat, Block, etc. The position of various committees along with their assignments in respect of 84 test checked GPs are given in table 1.1:

Table – 1.1

Sl. No.	Committee	Assignment	Audit Comment
1	Social Audit-cum-Vigilance Committee	To ensure that the works are executed at Panchayat level as per estimate and also to monitor the quality of works. The Committee consisted of a wide spectrum of stake holders, users and marginalised and vulnerable sections of society, including women and senior citizens of the Gram Panchayat.	The Committee certifies the works executed by Gram Panchayats. However, day-to-day monitoring to ensure the quality of work was not done by the Committee.
2	Disaster Management Committee	To prepare disaster mitigation and preparedness plan, conduct mock drills twice a year, generate awareness among the residents on disaster preparedness and manage and facilitate training of Disaster Management Team.	Disaster mitigation and preparedness plans were not prepared by GPs. Preparatory exercises such as conducting mock drills twice a year, generating awareness among the residents on disaster preparedness, management and facilitating training of Disaster Management Team were not carried out.
3	Block Development Committee	Identifying schemes and scrutinising them for overall development of the Gram Panchayat and Block, taking up schemes for implementation by ensuring proper monitoring and maintenance as well as projecting them to the District Planning Committee (DPC) so that the development/benefits generated at the lowest level (Gram Panchayat) is in overall interest of the Block through participation of the beneficiaries.	Monitoring and maintenance of schemes was not adequately done.
4	Village Health Sanitation Committee (VHSC)	Responsible for the overall sanitation facilities in the village and health condition of the villagers, formulation of village level health plan, analysing health issues, conducting household surveys and submitting reports.	VHSC was not adequately functional as it did not carry out household surveys before implementing the sanitation programme.
5	District Technical Support Committee	Preparation of District Perspective Plan for each sector; coordinating with the Gram Panchayat functionaries and its working groups to provide technical inputs for preparation of GP plan; assisting in formulation of ZP Plan and preparation of projects in collaboration with the Zilla Panchayat and scrutiny of technical aspects of the GP/ZP plan and submitting its observations to the DPC.	Estimates prepared by GPs were not technically vetted by District Technical Support Committee. This resulted in deficiency in preparation of estimate and also execution of a number of works without estimates being prepared.

6	Water Supply & Sanitation Committee	Preparation of Village Action Plan(VAP); preparation of the Water Safety Plan; conducting community mapping to describe the system; walk the system "Source to Mouth"[2]; opreparation and operationalisation of Water Safety Plan; preparation of proposal for submission to the District for financing.	The Committee remained largely ineffective as action for preparation of the Water Safety Plan; community mapping to describe the system; walk the system "Source to Mouth"; preparation and operationalisation of the Water Safety Plan; preparation of proposal for submission to District for financing had not been initiated.

1.4 District Planning Committee

In pursuance of Article 243ZD of the Constitution of India and Section 127 of the Sikkim Panchayat (SP) Act 1993, the State Government constituted (July 2008) the District Planning Committee (DPC). The Committee included Members of the Legislative Assembly whose major part of the constituencies fell within the District; three members of the Zilla Panchayat besides the *Adhyaksha* and Members of Parliament of both the Houses. The *Adhyaksha* will be the Chairman; the Mayor/President of Municipal Corporation/Council, the Vice-Chairman; and the Additional District Collector (Development)–cum-Panchayat Officer, the Member Secretary. The Committee was assigned the role and responsibility of consolidating the plans prepared by the ZPs, GPs, Nagar Panchayats and the Municipal Corporation in the District and preparing a draft development plan for the District as a whole.

Audit observed that the DPCs finalised the Annual District Development Plans (ADDPs) by merely consolidating the plan proposals received from the various line departments, without taking any inputs from the grass root level for the overall District Development Plan. It also did not forward the same to the State Government for integration with the State plan. The DPCs had also not adequately engaged technical experts from different fields during preparation of the development plans.

1.5 Financial profile

The PRIs are solely funded by the Government through grants-in-aid from Central and State Governments for general administration as well as developmental activities. Funds are initially reflected in the State budget against the outlay of various administrative departments under grants-in-aid. Individual departments thereafter transfer the funds to *Sachiva*, Zilla Panchayats for Zilla Panchayat and Additional District Collector (Development)–cum- Panchayat Officer for GPs as grants-in-aid. The ZPs and GPs, in turn, deposit their funds in the savings account maintained with nationalised banks.

[2] *"Source to Mouth" means the water supply from its originating place (source) to the consumer point (mouth).*

1.5.1 Overall financial position of PRIs

The RMDD could not furnish (March 2014) information on the opening balance, total receipts, total expenditure and closing balance regarding availability of funds and its utilisation by the Gram Panchayats and Zilla Panchayats during 2013-14. Audit obtained the information directly from ZPs/GPs. According to information furnished by two ZPs and 114 GPs, a total of ₹ 78.21 crore was available, of which ₹ 54.53 crore was spent during 2013-14, leaving a balance of ₹ 23.68 crore as shown in table 1.2:

Table 1.2

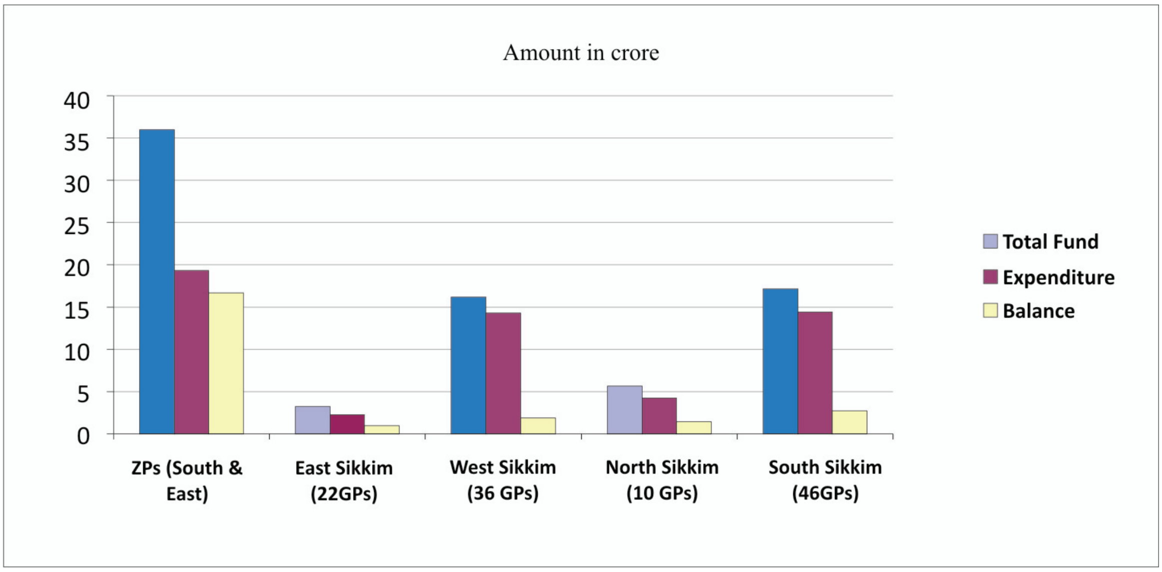
(₹ in crore)

ZP / GP	Total fund available	Expenditure	Balance
ZPs (South & East)	35.98	19.31	16.67
East Sikkim (22 GPs)	3.24	2.26	0.98
West Sikkim (36 GPs)	16.17	14.30	1.87
North Sikkim (10 GPs)	5.67	4.24	1.43
South Sikkim (46 GPs)	17.15	14.42	2.73
Total	**78.21**	**54.53**	**23.68**

Source: Information furnished by ZPs & GPs

The position is also shown in the Bar graph below:

Chart-1.2
Chart showing Fund utilization by PRIs



The funds were neither surrendered nor utilized due to lack of planning to utilize the funds through execution of works in time.

1.5.2 Inadequate release of fund to PRIs

As per Cabinet decision (March 2007), various departments of the State Government were required to transfer 10 *per cent* of the plan funds to the PRIs. The Third State Finance Commission (TFSC) Recommendations (March 2010), which were accepted by the State Government (November 2010), also stipulated for transfer of funds ranging between 2 to 35 *per cent* of plan allocation made to the fourteen[3] sectors of the State Government. It was, however, noticed that the fund allocations to the PRIs dipped down from 0.76 *per cent* in 2009-10 to 0.36 *per cent* in 2013-14 of the total plan allocation of these fourteen sectors. It had reached a peak during 2012-13. The position is exhibited in table 1.3.

Table 1.3

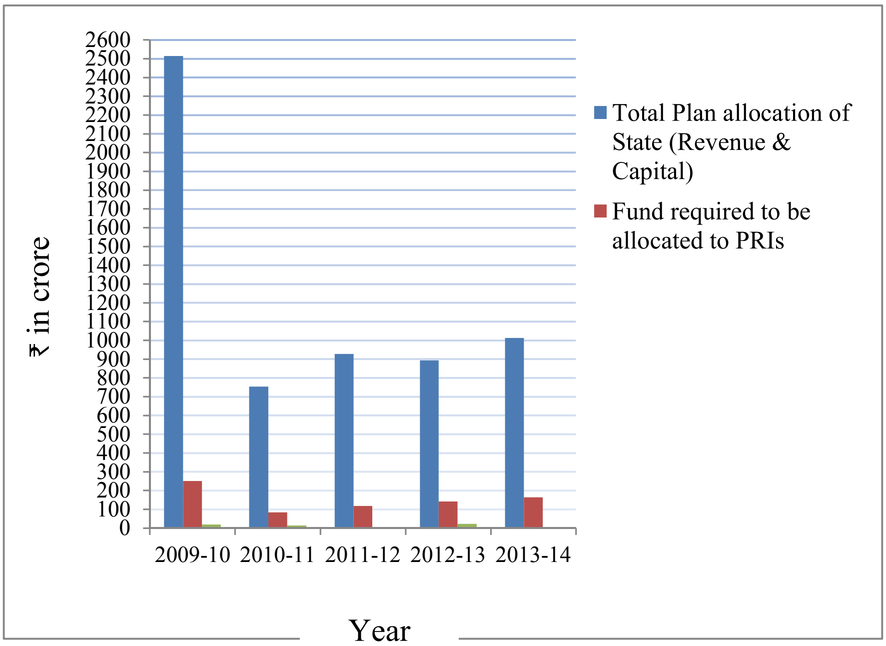
(₹ in crore)

Year	Total plan allocation of State (Revenue & Capital)	Fund required to be allocated to PRIs	Fund actually allocated to PRIs	Percentage of fund actually allocated to total plan allocation of State Budget
2009-10	2,514.53	251.45	19.24	0.76
2010-11	754.48*	83.66	13.42	1.78
2011-12	927.64*	117.29	5.66	0.61
2012-13	894.18*	140.69	22.14	2.48
2013-14	1,012.65*	163.47	3.63	0.36
Total	**6,103.48**	**756.56**	**64.09**	

Source: Finance Accounts 2013-14 of Government of Sikkim
**Plan allocation of only 14 sectors has been taken as per recommendation of the Third State Finance Commission.*

The total plan allocation of State (Revenue & Capital), the fund required to be allotted to PRIs, and fund actually allocated to PRIs are depicted in the following bar graph:

Chart – 1.3



[3] *(i) Agriculture and Allied services, (ii) Animal Husbandry, (iii) Human Resource & Development Department, (iv) Health, (v) Forest, (vi) Commerce and Industries, (vii) Disaster Management, (viii) Irrigation, (ix) Culture, (x) RMDD, (xi) Co-operative, (xii) Social Welfare, (xiii) Tourism, and (xiv) Power*

Thus, despite the Cabinet decision and State Finance Commission's recommendations for transfer of funds ranging from 2 to 35 *per cent* by various departments, the State Government departments did not release the requisite funds to the PRIs (except in 2012-13) resulting in non-availability of adequate funds for implementation of various schemes meant for socio-economic development.

1.5.3 State Finance Commission recommendations not adhered to.

State Finance Commission (SFC) is set up to recommend:

- Arrangements for distribution between the State and Panchayats as well as the Municipalities of the net proceeds of the taxes, duties and fees leviable by the State.
- The determination of taxes, duties and tolls which may be assigned to or appropriated by the Panchayats as well as the Municipal bodies.
- Grants-in-aid to the Panchayats as well as the Municipal bodies from the Consolidated Fund of the State.

Accordingly, the TSFC of the State of Sikkim recommended (February 2010) certain measures for improving the fiscal health of Panchayats and Municipalities. The recommendations were accepted by the State Government in November 2010. However, their implementation left much to be desired as mentioned below:

- During 2009-10, ₹ 19.24 crore was released to PRIs against the stipulated transfer of ₹ 251.45 crore (10 % of plan fund) as per State Cabinet decision. Similarly, during 2010-11 to 2012-13 also, considering plan allocation to 14 sectors, the PRI allocation was not done as per recommendation of TSFC. While the Plan allocation for 14 sectors increased from ₹ 754.48 crore (2010-11) to ₹ 1,012.65 crore (2013-14), PRI allocation decreased from ₹ 13.42 crore for 2010-11 to ₹ 3.63 crore for 2013-14.
- The TSFC worked out gap between administrative expenditure and own revenue of the PRIs (if the PRIs levied and collected all taxes as recommended by TSFC) and recommended the transfer of fund of ₹ 5.72 crore for 176 GPs {to be met from 2.43 *per cent of* net proceeds of revenue (after deducting 25 *per cent* of total revenue collected as cost of collection) collected by 8 departments[4]} for administrative expenses, which was accepted by the State Government. However, only ₹ 4.57 crore was transferred to ZPs/GPs towards administrative expenditure from own revenue during 2013-14. Absence of transfer of full share of revenue constrained the PRIs to spend developmental fund for defraying administrative expenditure to that extent.
- TSFC also recommended (February 2010) for the year 2013-14, the transfer of (i) 2 to 35 *per cent* plan fund aggregating to ₹ 94.25 crore from 14 sectors towards

[4] *i. Land Revenue, ii. Stamps and Registration, iii. Tax on Sale, Trade etc. iv. Animal Husbandry, v. Forestry and Wildlife, vi. Minor Irrigation, vii. Village and Small Industries and viii. Tourism*

'Specific purpose grant'; and (ii) 20 *per cent* of State Plan budget under RMDD towards 'General purpose Grant' to PRIs. Specific purpose grant was allocated to the PRIs for taking up specific activity under the respective sectors.

Similarly, General purpose grant was allocated by RMDD as untied grants which are not linked to any specific programme or purpose and can be utilized at the discretion of PRIs towards meeting innovative / need based activity for GPs/ZPs.

Audit noticed that neither the RMDD nor the line departments allotted any fund during 2013-14 towards general purpose and specific purpose grants respectively. Thus, on the one hand, TSFC recommendations were largely not adhered to by the concerned departments; on the other hand, PRIs could not take up specific and innovative / need based activity under the respective sectors.

1.6 Source of Receipts

The broad sources of receipts of PRIs for the period from 2009-10 to 2013-14 are given in table 1.4:

Table 1.4

(₹ in crore)

Year	Central Grant		State Grants				Total Fund transferred from other Departments		Grand Total	
			Development Fund		Direction & Administration					
	ZP	*GP*	*ZP*	*GP*	*ZP*	*GP*	*ZP*	*GP*	*ZP*	*GP*
2009-10	33.95	107.17	2.70	2.71	2.07	1.45	5.78	13.46	44.50	124.79
2010-11	7.85	64.91	0.12	0.07	4.47	2.00	4.59	2.17	17.03	69.15
2011-12	9.14	122.12	0	0	3.67	2.00	0	0	12.81	124.12
2012-13	23.00	82.21	4.61	4.97	4.11	8.45	0	0	31.72	95.63
2013-14	7.04	122.87	0	0	2.99	0.64	0	0	10.03	123.51
Total	**80.98**	**499.28**	**7.43**	**7.75**	**17.31**	**14.54**	**10.37**	**15.63**	**116.09**	**537.20**

Source: Information furnished by the RMDD, Government of Sikkim

The broad sources of receipts from Central Grants during the year 2009-10 to 2013-14 pertained to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Backward Region Grant Fund (BRGF), Twelfth/Thirteenth Finance Commission and *Swarna Jayanti Gram Rojgar Yojana* as shown in table 1.5 A:

Table 1.5 A

(₹ in crore)

Year		2009-10	2010-11	2011-12	2012-13	2013-14	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	103.68	44.48	100.80	74.07	106.84	429.87
BRGF	ZP	11.59	6.41	1.12	19.51	2.60	41.23
	GP	0	7.55	2.61	0	6.07	16.23
Twelfth FC	ZP	1.49	0	0	0	0	1.49
	GP	3.49	0	0	0	0	3.49
Thirteenth FC	ZP	0	1.44	8.02	3.49	4.44	17.39
	GP	0	7.14	18.71	8.14	9.96	43.95
SGRY	ZP	20.87	0	0	0	0	20.87
	GP	0	5.74	0	0	0	5.74
Total		**141.12**	**72.76**	**131.26**	**105.21**	**129.91**	**580.26**

Source: Information furnished by the RMDD, Government of Sikkim

The decrease in grants during 2010-11 was due to less release under MGNREGS.

Share of receipts of PRIs from various sources during the period 2009-10 to 2013-14 is shown in table 1.5 B:

Table 1.5 B

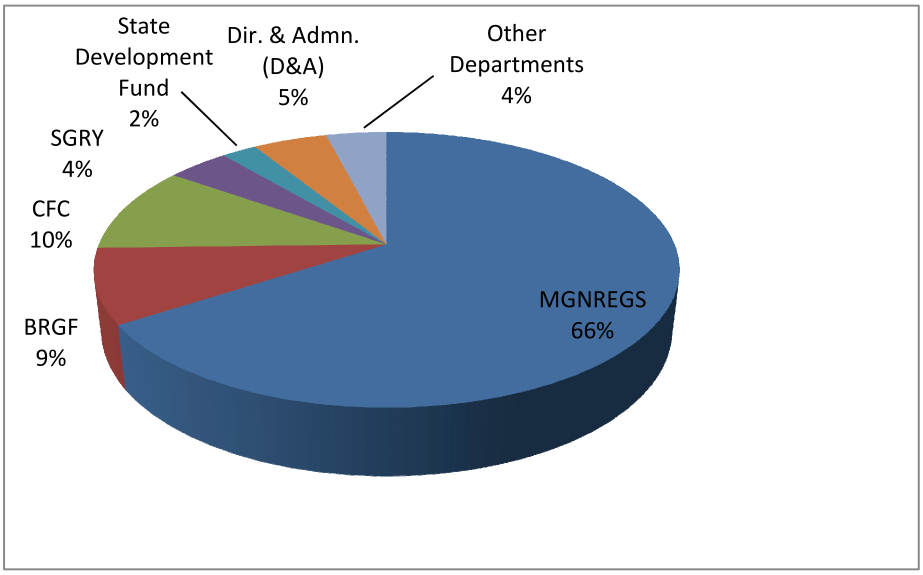
(₹ in crore)

Name of Scheme	ZP	GP	Total	Percentage contribution w.r.t. total receipts
MGNREGS	0	429.87	429.87	66
BRGF	41.23	16.23	57.46	9
Central Finance Commission (CFC)	18.88	47.44	66.32	10
Swarna Jayanti Gram Rojgar Yojana (SGRY)	20.87	5.74	26.61	4
State Grants (Development Fund)	7.43	7.75	15.18	2
Direction & Administration (D&A)	17.31	14.54	31.85	5
Fund transferred from other Departments	10.37	15.63	26.00	4
Total Receipt	**116.09**	**537.20**	**653.29**	**100**

Source: Information furnished by the RMDD, Government of Sikkim

The position relating to percentage contribution is shown in the following pie chart:

Chart – 1.4



Audit analysis revealed that prescribed stipulation in TSFC and scheme guidelines were not adhered to in apportionment of funds between ZPs and GPs by RMDD. In case of BRGF, as against the stipulated allocation of funds in the ratio 30:70 between ZP and GP, the actual allocation worked out to be in the ratio72 (₹ 41.23 crore): 28 (₹ 16.23 crore) during 2009-14. This resulted in excess allocation of ₹ 23.99 crore to the ZP and less allocation to GPs to that extent.

Similarly, in case of General and Specific purpose grants, the prescribed percentage of apportionment between ZP (10) and GPs (90) was also not adhered to leading to excess allocation of ₹ 13.68 crore to ZPs and less allocation to GPs to that extent.

RMDD, the nodal department for PRIs, responsible for fund allocation did not ensure adherence to norms as a result GPs were constrained of funds for undertaking developmental activities.

1.6.1 Non-levy of taxes

Sections 39 (1) and 40 (1) of Sikkim Panchayat Act, 1993, envisages constitution of Gram Panchayat Fund and levy of taxes, rates, and fees on the subjects mentioned in clauses (a) to (i) of Rule 40(1) by the GPs, subject to the rates fixed by the State Government. Similarly, ZP may also levy taxes, rates and fees with the approval of the State Government on the subjects mentioned in clauses (a) to (j) of section 77(1) of Sikkim Panchayat Act, 1993.

Based on the TSFC recommendations (February 2010), the State Government notified (September 2010) for levying of Household Tax (₹ 5 to ₹ 15 per month); Water & Sanitation Tax (₹ 1 per month for each household); Village Road & Environment Tax (₹ 1 per month per household); Panchayat Recommendation/Clearance/Certificate Fees @ ₹ 20 per case/application; Sale of Tender forms at the rate prescribed by SPWD/RMDD/other Government departments; Building Construction Fees @ ₹ 2 for *pucca* construction and ₹ 1 for *kuchcha* construction per square feet of plinth area and other miscellaneous receipts by the Gram Panchayat.

It was, however, noticed that despite above enabling provisions, out of 114 GPs from whom information was received; 22 GPs had neither initiated any steps to identify the areas for levying taxes nor collected any revenue. It was also noticed that the control mechanism for levying of taxes/fees and its collection by the PRIs was not prescribed to facilitate timely initiation of the levy and collection procedures, despite notification issued by the State Government (September 2010) based on the recommendations of the TSFC.

Had the PRIs initiated steps to identify the areas for levying and collection of taxes, the realized revenue could have been gainfully utilised by the PRIs towards meeting administrative expenditure, purchase of stationery, equipment, etc. besides incurring expenditure relating to functioning of Gram Prasasan Kendras[5]. In absence of requisite revenue realisation, the PRIs defrayed the above expenditure from scheme funds such as BRGF, TFC, etc.

1.7 Allocation of Funds as per recommendation of State Finance Commission

The 73rd Constitutional amendment provides for appointment of a Finance Commission by the State Government to review the financial position of the Panchayats and recommend the:

(i) sharing pattern of the net proceeds of taxes, duties, tolls and fees leviable by the State between the State and the Panchayats;

(ii) assignment of taxes, duties, tolls and fees to the Panchayats; and

[5] *Gram Prasasan Kendra works as an office for Gram /Village where Panchayat perform administrative functions and hold Gram Sabha.*

(iii) amount of grants-in-aid to be given to the Panchayats.

The report of the Commission together with a memorandum of action on it is to be laid before the State Legislature.

In pursuance of Article 243(I) of the Constitution of India, the State Government constituted TSFC in March 2009. The TSFC submitted its recommendations to the Government during February 2010. Among accepted recommendations, the following were not complied with:

- User charges were not levied by most of the PRIs to augment their resources as pointed out in para 1.6.1.
- Against mandated recommendation of TSFC for transfer 2.43 *per cent* of net proceeds of tax to PRIs, ₹ 4.57crore was transferred to PRIs against the due share of ₹ 5.72 crore [6] shown in table 1.6:

Table 1.6

Actual transfer of funds to PRI during 2013-14 vis-à-vis TSFC recommendation

(₹ in crore)

Sl. No.	Head	Tax receipt	Net proceeds (75 % of tax receipt)	2.43% of Net proceeds	Tax Transferred
1.	Land Revenue	3.39	2.54	0.061	0
2.	Stamp & Registration	6.46	4.84	0.117	0.15
3.	Taxes on Sales, Trades etc.	286.33	214.74	5.218	4.41
4.	Animal Husbandry	0.85	0.64	0.015	0
5.	Forestry & Wild Life	14.27	10.70	0.260	0
6.	Minor Irrigation	0.22	0.17	0.004	0
7.	Village & Small Industries	0.08	0.06	0.001	0
8.	Tourism	2.65	1.99	0.048	0.01
	Total	**314.25**	**235.68**	**5.724**	**4.57**

Source: Finance Accounts 2013-14, and information furnished by Finance, Revenue & Expenditure Department.

Out of eight sectors, in five sectors (Land Revenue, Animal Husbandry, Forestry & Wild Life, Minor Irrigation and Village & Small Industries), no tax transfer was effected during 2013-14. In the remaining three sectors, the percentage of transfer ranged between 0.83 (Tourism) and 91 (Taxes on Sale, Trades, etc.) *per cent* of the funds required to be transferred.

1.8 Sectoral Analysis

Mention was made in previous Annual Technical Inspection Reports, the last being 2012-13 (para 1.8) regarding maintenance of inadequate data on budget provisions, release of fund and expenditure incurred under Plan and Non-Plan head under important sectors like education, health, nutrition, social forestry, solid waste management, sanitation, water and housing etc., by RMDD. The above position still persists, thereby making it difficult to analyse the progress of work done in these sectors.

[6] *2.43 per cent of net proceeds of ₹235.68 crore (75% of tax receipt of ₹314.25 crore) = ₹ 5.72 crore*

Audit observed that release of funds by various sectors to the PRIs appeared to be based on the discretion of the Departments, as against any rationale, as seen from the figures reflected in table 1.7:

Table 1.7

Sector-wise total allocation vis-à-vis allocation to PRIs during 2013-14

(₹ in crore)

Name of Department	Total Plan allocation (Revenue and Capital)	Percentage to be transferred to PRIs as recommended by Third State Finance Commission (In *per cent*)	Amount to be transferred to PRIs	Actual fund released to PRIs
Health & Family Welfare	167.64	26.62	44.63	Nil
Social Welfare	81.10	19.96	16.19	Nil
Tourism	69.98	19.96	13.97	Nil
Commerce & Industries	24.07	19.96	4.80	Nil
Energy	105.96	19.96	21.15	Nil
Irrigation & Flood Control	41.29	19.96	8.24	Nil
Co-operation	5.58	13.31	0.74	Nil
Agriculture & Allied Services	44.59	26.62	11.87	Nil
Animal Husbandry	17.34	33.27	5.77	**Nil**
Human Resource Development	261.84	2.66	6.96	Nil
Forest	49.55	19.96	9.89	Nil
Rural Management & Development	121.04	13.31	16.11	3.63
Land Revenue	2.00	19.96	0.40	Nil
Culture	20.67	13.31	2.75	Nil
Total	**1,012.65**		**163.47**	**3.63**

Source: Finance Accounts 2013-14, and information furnished by the RMDD, Government of Sikkim.

Out of 14 Departments, only one Department (RMDD) released funds of ₹ 3.63 crore to PRIs during 2013-14 against the mandatory release of ₹ 16.11 crore. The other 13 departments had not released the mandatory fund transfer of ₹ 147.36 crore during 2013-14 to PRIs. Non-transfer of adequate funds to the PRIs by the Departments put constraints on the PRIs in formulating any plan with certainty. Thus, the planning at the PRI level was done on *ad-hoc* basis.

1.9 Devolution of Funds, Functions and Functionaries (3Fs)

1.9.1 Activity Mapping[7]

A function should be performed by a tier to which it belongs and a mechanism for inter-tier co-ordination exists in case of overlapping functions. In order to operationalise administrative decentralisation of funds, functions and functionaries among PRIs, the Ministry of Rural Development, GOI constituted (July 2001) the Central Task Force (CTF) for suggesting the manner of transfer to each tier of PRIs so that devolution of all the 29 functions listed in the XIth Schedule of the Constitution could be completed by March 2002. Section 69 of the Sikkim Panchayat Act, 1993 has enabling provision for

[7] *'Activity Mapping' is an exercise to devolve various functions to be discharged by the GPs and ZPs.*

transfer of these functions to different tiers of PRIs. The department-wise list of 29 functions to be transferred to the PRIs by the State Government is detailed in ***Appendix 1.2.*** For effective functioning of both State Government and PRIs, it is necessary to delineate the role and responsibilities of the State Government and each tier of PRIs for each of the transferred subjects. This exercise was done through activity mapping in April 2010.

➢ ***Functions not transferred as per 73rd Constitutional Amendment***

Although the State Government delineated the role and responsibilities of each tier of PRIs by transferring 29 subjects for devolution of all the functions listed in the XIth Schedule of the Constitution to the PRIs, the same was not implemented completely and only 15 subjects were transferred to PRIs (April 2008). The department-wise position of schemes transferred to PRIs by the State Government as of March 2014 is detailed in ***Appendix 1.3.***

Analysis revealed that transfer of important subjects such as land improvement, health and sanitation, fisheries, public distribution system, minor forest produce, small scale industries, khadi, village and cottage industries and non-conventional energy sources had not taken place as of March 2014.

Not only the subjects were not transferred in full, but even in the cases where subjects were transferred, adequate funds were not released by the Departments concerned. Thereby, the PRIs could not initiate various activities mandated in the 73rd Constitutional Amendment.

1.10 Accountability framework

As per the Sikkim Panchayat Act, 1993, and Rules made thereunder, the State Government exercises its powers in relation to PRIs. Details regarding the power of PRIs are given in ***Appendix 1.4.*** Besides, the Sikkim Panchayat Act (SPA) also entrusts the State Government with the following powers to exercise control over functioning of the PRIs:

- call for any record, register, plan, estimate, information, etc., from the PRIs;
- inspect any office or any record or any document of the PRIs;
- inspect the works and development schemes implemented by PRIs;
- remove *Adhyaksha* and *Upadhyaksha* of ZP/GP after following the appropriate procedure; and

➢ take action for default of a Panchayat President, Secretary/District Planning Officer.

Despite the above empowerment of the State Government for the enhancement of quality of public service and governance, a number of deficiencies in the implementation of schemes, matters relating to finance, etc. were noticed which are discussed in this chapter.

1.10.1 Social Audit

The Government of Sikkim initiated social audit in 2007-08 as envisaged in MGNREG Act, 2005 (Rule 17). Thereafter in compliance to MGNREGA Audit of Scheme Rules, 2011 the State Government established Social Audit Unit (SAU) by designating one NGO as SAU in December 2011. An independent Social Audit Director was also appointed (Dec. 2012) to head the SAU. Four District Resource Institutes have also been designated in four districts. During 2013-14, a total of 89 GPs were covered under Social Audit with involvement of State Resource Persons[8], District Resource Persons[9] and beneficiaries. The Social audit was fully functional in the state with independent SAU and full time Director of SAU with adequate number of resource persons at state and district levels.

1.10.2 Audit Mandate

As per Section 48(2) of the Sikkim Panchayat Act, 1993, the State Government is required to appoint an Auditor for audit of the accounts of the GPs. Section 48 (3) of the Act also provides for audit of accounts of Gram Panchayats by the Comptroller & Auditor General of India (CAG). Further, as per Section 86 of the Act, the accounts of the funds of the Gram Panchayat or Zilla Panchayat shall be examined and audited by the Auditor appointed under Sections 48(2) and 48(3) in such manner as may be prescribed. The State Government has neither appointed any Auditor under Section 48(2) of the Sikkim Panchayat Act, 1993 as yet, nor carried out audit of PRIs during the year 2009-14.

In keeping with the recommendations of the Thirteenth Finance Commission and guidelines issued by the Ministry of Finance, Government of India, the Government of Sikkim has entrusted (June 2011) the audit of accounts of Panchayat Raj Institutions to CAG under Section 20(1) of CAG's DPC Act 1971, under standard terms and conditions of the Technical Guidance and Support module.

Accordingly, audit of the GPs is being conducted biennially and ZPs, annually, by the office of the Accountant General (Audit), Sikkim, as per the methodology and procedure enshrined in the Auditing Standards and the Guidelines issued by the CAG from time to time. During April 2013 to March 2014, the Accounts of 88 PRIs (4 ZPs and 84 GPs) were audited.

1.10.3 Internal control system in PRIs

Internal control mechanism is an integral function of an organisation which helps it to govern its activities effectively and achieve the objectives of the organisation. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and Bye-laws. Various internal control measures would minimise the risk of errors and irregularities. It also provides reasonable assurance that the general objectives of

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[8] *Members of the Social Audit Unit. They take the lead in planning, training of DRIs, training material, finalising all the formats and review of the Social Audit Reports prepared by the DRIs.*

[9] *Facilitators of Social Audit in Gram Panchayat and members of the District Resource Institution. They prepare the Social Audit Report following prescribed process and format in co-ordination with the SAU.*

organisations are achieved duly fulfilling accountability obligations; compliance of applicable rules and regulations and implementation of programmes in an orderly, economical, efficient and effective manner.

1.10.3.1 Deficiencies in internal control mechanism in PRIs

The internal control system at the level of each PRIs had been designed by Government of Sikkim through the Sikkim Panchayat Act, 1993, Sikkim Zilla Panchayat (Financial) Rules, 2001, and Sikkim Gram Panchayat (Financial) Rules, 2003; besides application of State Government's own rules and policies relating to finance, budget and personnel matters. Significant provision of internal control mechanism vis-à-vis position in test checked PRIs are given in ***Appendix 1.5.*** The deficiencies as summerised in ***Appendix 1.5*** indicated weak internal control mechanism in PRIs.

1.10.3.2 Internal Audit

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control frame work in the L.Bs. However, there was no provision for Internal Audit in Sikkim Panchayat Act and a system of such audit does not exist in the PRIs of Sikkim. Thus, an important check towards accountability in ensuring proper compliance of rules and procedures as envisaged in the relevant Acts/Rules was not accorded due importance. It is therefore, recommended that the Internal Audit may be commenced forthwith for PRIs in the State.

1.10.3.3 Audit coverage by Director of Local Fund Audit (DLFA)

DLFA is the primary auditor to conduct the audit of the PRIs and ULBs of Sikkim. Based on information furnished by DLFA (August 2014), 129 PRI units and 3 ULB units were planned for audit. The year-wise position of units planned to be audited and those actually audited are given in table 1.8:

Table 1.8
Units planned for audit and actually audited

Year	No. of units planned for audit		No. of units audited		No. of reports issued	
	PRIs	**ULBs**	**PRIs**	**ULBs**	**PRIs**	**ULBs**
Upto 2012-13	Not available	Not available	47	6	47	6
2013-14	129	3	0	0	0	0
Total	**129**	**3**	**47**	**6**	**47**	**6**

Source: Information furnished by DLFA, Government of Sikkim

Analysis revealed that while figures for unit planned for audit was not available for 2012-13, no units were audited despite planning for 132 units in 2013-14.

1.10.3.4 Response to Audit

Inspection Reports (IRs) were issued to audit PRIs authorities with a copy of each to the State Government. PRIs authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within three months from the date of issue of IRs. Important audit findings were processed for inclusion in the ATIR.

The details of outstanding IRs and paragraphs in respect of PRIs, as of 31 March 2014 are shown in Table 1.9.

Table 1.9
Outstanding IRs and Paragraphs

Year	No. of Inspection Reports	No. of outstanding paras
Up to 2008-09	169	577
2009-10	41	283
2010-11	30	166
2011-12	51	55
2012-13	2	14
2013-14	75	247
Total	**368**	**1,342**

Source: Outstanding para register maintained in Office of the AG (Audit), Sikkim

The increased accumulation of old outstanding paras indicated that the PRIs had not taken adequate measures to initiate corrective actions pointed out through the IRs. This also indicated weak internal control mechanism for addressing the issues mentioned in the IRs.

1.10.3.5 Vigilance mechanism

Social Audit-cum-Vigilance Committees were formed (February 2008) to ensure that the schemes/projects are implemented properly at the Panchayat level, tenders are invited and finalised appropriately, and projects are implemented in a qualitative manner. The Committee consisted of a wide spectrum of stake holders, users and marginalised and vulnerable sections of society, including women and senior citizens of the Gram Panchayats. The Committees certified the completed works but day-to-day monitoring for ensuring quality and timeliness were not given adequate importance by the Committee.

1.11 Conclusion

The State Government transferred only 15 functions to PRIs out of the 29 functions as envisaged in the 73rd Constitutional amendment through activity mapping exercise (April 2008). Important functions like land improvement, fisheries, minor forest produce, small scale industries, khadi, village and cottage industries, non-conventional energy sources, health and sanitation, and public distribution system were still not transferred. The State Government constituted a number of committees such as Social Audit-cum-Vigilance Committee; Disaster Management Committee; Block Development Committee; Village Health Sanitation Committee; District Technical Support Committee; Water Supply & Sanitation Committee; etc., for smooth functioning of the Gram Panchayat, Block, etc. However, their functioning left much to be desired. 2 ZPs and 92 GPs (out of 2 ZPs and 114 GPs) from whom information was received had initiated steps to levy taxes and collected revenue of ₹ 72.23 lakh. Rest of the GPs failed to furnish details of revenue.

Audit observed that the DPC constituted (July 2008) in each district to ensure decentralised planning was not adequately effective. The DPC finalised the Annual District Development Plans (ADDPs) by merely consolidating the plan proposals received from the various line departments without taking any inputs from the grassroot level for the overall District Development Plan. The line departments did not transfer adequate funds to the PRIs as envisaged during the period 2009-10 to 2013-14. As a result, fund allocation to the PRIs ranged between 0.36 to 2.48 *per cent* of the total expenditure of the State Government during the period 2009-10 to 2013-14. This fund allocation was far less than the prescribed percentage. Against the recommendation of TSFC to transfer ₹ 5.72 crore for PRIs, ₹ 4.57 crore was transferred during 2013-14. Similarly, TSFC recommendation for transfer of ₹ 94.25 crore from 14 departments towards 'Specific purpose grant' and 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant was also not followed during the year 2013-14.

As the PRIs did not initiate adequate steps to identify the areas for levying and collection of taxes, the administrative expenditure, expenditure relating to functioning of Gram Prasasan Kendras, purchase of stationery, equipment, etc. were mostly met from scheme funds such as BRGF, TFC, etc. The internal control in the GPs was lacking in respect to preparation of budget, maintenance of accounts in appropriate format, internal audit by DLFA, supervision by Sachiva of Zilla Panchayat, etc.

1.12 Recommendation

- The left out functions should be transferred to the PRIs as expeditiously as possible by the State Government.
- Adequate devolution of funds for the subjects transferred to the PRIs should be ensured.
- The Control mechanism should be strengthened in the PRIs, especially through Internal Audit.

SECTION 'B' – FINANCIAL REPORTING

1.13 Legal Framework

Financial reporting in the PRIs is a key element of accountability. The best practices in matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the ZPs and GPs are governed by the provisions of the Sikkim Panchayat (SP) Act, 1993; Sikkim Zilla Panchayat (Financial) Rules, 2001; Sikkim Zilla Panchayat (Financial) Amendment Rules, 2004; Sikkim Gram Panchayat (Financial) Rules, 2003; Sikkim Gram Panchayat (Financial) Amendment Rules, 2005; Sikkim Financial Rules; Sikkim Public Works Accounts Code; Sikkim Public Works Manual; and Standing Orders and Instructions.

1.14 Accounting system in Gram Panchayats

- **Model Accounting Structure not followed**

The Ministry of Panchayat Raj in consultation with Comptroller & Auditor General of India prescribed (January 2009) new accounting formats for Panchayat Raj. The TFC recommended (December 2009) implementation of new accounting formats with effect from 2010-11.

The Rural Management & Development Department (RMDD), Government of Sikkim informed (April 2010) the Government of India that it had adopted the new accounting formats with effect from 2010-11. For implementation of the new accounting formats, the State Government imparted (July – September 2010) training to Rural Development Assistants (RDAs) at the State Institute of Rural Development (SIRD), Karfectar and also appointed (April – September 2010) 166 Panchayat Accountant Assistants (PAAs).

The accounts of the PRIs were, however, not maintained in the new accounting formats as prescribed by the Ministry of Panchayat Raj. Thus, the PRI accounts continued to be maintained in old pattern as the accounts did not reflect transactions of all receipts and expenditure relating to Panchayat Fund, Provident Fund, loans, deposits, etc.

- **Non/improper maintenance of records**

The Sikkim Gram Panchayat (Financial) Rules, 2004 {Rule 7(1) & 7(2)} stipulated maintenance of various records such as (i) Cash Book, (ii) Monthly Receipt and Payment Register, (iii) Annual Receipts and Payment Accounts, (iv) Monthly Reconciliation Statement, (v) Inventory Register for Moveable Assets, (vi) Inventory Register for Immoveable Assets, and (vii) Balance Sheet for proper depiction of accounts of the Gram Panchayat Funds.

Scrutiny of records in 84 GPs revealed that many records and registers as indicated above were either not maintained or maintained improperly. Details are shown below:

- Maintenance of Cash Books in 84 GPs disclosed that (i) Cash Book balances were not certified in any of the GPs by the President of the GPs; (ii) none of the GPs had reconciled the Cash Book balances with the balances maintained by the Banks;

- Monthly Receipt and Payment Registers, Advance Registers, Annual Receipts and Payments Accounts and Registers for Moveable and Immovable Assets were not maintained in any of 84 test checked GPs; and
- None of the 84 test checked GPs prepared Balance Sheet during the period under report.

1.15 Financial Reporting issues

1.15.1 Arrears in Accounts

The Sikkim Panchayat Act, 1993 stipulated that annual accounts were to be passed by the General Body of PRIs within three months from the closure of the financial year and forwarded to the Accountant General for auditing. However, the General Body Meetings were not convened by PRIs due to administrative constraints. None of the four ZPs and 84 (out of 176) GPs which were test checked forwarded annual accounts for the period 2009-10 to 2013-14 to the Accountant General. The position persisted despite being pointed out in earlier Annual Technical Inspection Reports (ATIRs).

1.15.2 Budget

Budget is the most important tool for financial planning, accountability and control. The Sikkim Panchayat Act, 1993, read with the Sikkim Gram Panchayat (Financial) Rules, 2003 (*Para 8*), envisaged preparation of budget by the GPs indicating estimated receipts and expenditure for the next financial year by August each year for submission to the Secretary, RMDD of the State Government. It was noticed that no budget proposals were prepared by the GPs except Mellidara Paiyong Gram Panchayat under Sumbuk Gram Vikas Kendra. Similarly, the ZPs also failed to prepare their budgets for submission to the State Government. This was despite stipulation in para 8(1) of Sikkim Gram Panchayat (Financial) Rules, 2003, requiring the DPC to consolidate the PRI budget into respective ZPs for integrating into the State Budget. Funds were released to all PRIs without even preparation of budget.

1.15.3 Maintenance of community assets and Asset register

The Sikkim Panchayat Act {Rule 7(2)(d) of Sikkim ZP(Financial) Rule 2001 and Rule 7(2) (f) of the Sikkim GP (Financial) Rules 2003}gives the responsibility of maintenance of community assets to PRIs. All PRIs should maintain an asset register in the prescribed form, containing particulars of assets owned by them. The particulars should include description of asset, year of acquisition and amount incurred towards acquisition. The scheme guidelines in respect of TFC, BRGF, MGNREGS, etc., also stipulate recording of assets created under such schemes.

Despite this provision, none of the PRIs had maintained asset registers to indicate the assets possessed by the GPs/ZPs, cost of assets, maintenance cost, etc. Annual Physical Verification of assets, as required under the Financial Rules, was also not carried out in any of the GPs/ZPs. Asset Registers were not maintained by any of the PRIs and hence the sufficiency of funds for maintenance of community assets could not be ascertained by Audit. The State Government also did not call for any return detailing the nature of assets, year of creation and monetary value of the assets held by the GPs/ZPs.

1.16 Placement of ATIR before the State Legislature

The ATIRs of the years 2007-09, 2009-10, 2010-11, 2011-12 and 2012-13 were placed in the State Legislature. However, the State Government had not amended the Sikkim Panchayat Act to provide mechanism for discussion of ATIR in the Legislative Assembly. Neither the Public Accounts Committee discussed the ATIRs nor a separate committee of State Legislature was constituted to discuss the same as recommended by Second Administrative Reform Commission.

As none of the ATIR could be discussed in the State Legislature. Thus, accountability and financial control in the functioning of Local Bodies could not be ensured by the State Government.

1.17 Conclusion

The best practices in matters relating to drawal of funds, incurring expenditure, maintenance of accounts and records, rendering of accounts, etc. are governed by the provisions of the Sikkim Panchayat Act, 1993, and other Rules. However, audit noticed that basic records like Receipt and Payment Register, Balance Sheet, Assets Register, Advance Register, etc. were either not maintained or maintained improperly in PRIs. None of the PRIs adopted the Accounting Format for PRIs prescribed by the Ministry of Panchayat Raj in 2009 for maintenance of accounts. The budget proposals were not prepared by PRIs as required under the provisions of the respective Acts/Rules. Similarly Annual Accounts were also not forwarded to the Accountant General (Audit), Sikkim. Non-preparation of even basic registers, budget and non-maintenance of audited accounts showed low level of accountability in the PRIs and needs to be taken cognizance of by the District Administration.

1.18 Recommendation

- Important records such as Receipt and Payment Register, Balance Sheet, Assets Register, Advance Register, etc. should be maintained as prescribed in the relevant rules.
- Budget proposals should invariably be prepared by the PRIs as required under the provisions of the respective Acts/Rules.
- Annual Accounts should be forwarded to the Accountant General (Audit), Sikkim as expeditiously as possible.