

## CHAPTER - I

# AN OVERVIEW OF THE PANCHAYAT RAJ INSTITUTIONS

### 1.1 Introduction

The Sikkim Panchayat Act, 1993 in keeping with 73rd amendment of the Constitution was enacted to establish a two tier Panchayat Raj Institution (PRI) system at village and district levels in the state. The system comprises elected bodies- Gram Panchayats (GPs) at village level and Zilla Panchayats (ZPs) at district level. As per 2001 census, the total population of the state was 5.41 lakh of which rural population constituted 4.81 lakh (88.90 *per cent*). The Act extended to whole of Sikkim except 12 small towns. As of March 2010, there were 4 ZPs<sup>1</sup> and 163 GPs in the state.

Besides functioning as units of local self government, the PRIs also aim to promote participation of people and effective implementation of various developmental programmes in the rural areas. The GPs and ZPs have accordingly been assigned with the overall supervision, coordination and implementation of developmental schemes at village and district levels and preparation of plans for areas of their jurisdictions.

### 1.2 Organizational structure of the PRIs

Rural Management & Development Department (RMDD) is the overall in-charge for effective functioning of the PRIs in the State. The organogram given below depicts the organizational structure of the department and the PRIs:

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<sup>1</sup>North, East, South and West

**At State Level**

Secretary, Rural Management and Development Department



Director, Panchayat

**At District level**

ZILLA PANCHAYAT



Zilla Panchayat elected body headed by a Zilla Adhakshya

District Collector (Sachiva)

**At Village level**

GRAM PANCHAYAT



Elected Body headed by President

Block Development Officer



### 1.3 Powers, functions and duties vested with the PRIs

The broad details of powers, functions and duties vested with the PRIs as per the Sikkim Panchayat Act, 1993 are as under:

| Authority                                     | Rule/ Act   | Function   |
|---|---|--|
| Zilla Panchayat & Gram Panchayat              | Section 69 and Section 34 of Sikkim Panchayat Act 1993 (Amended 1995) | Preparation of budget and Annual Action Plan, implementation of schemes for economic development and social justice and collection of revenue for development works. |
| Gram Sabha                                    | Section 11 of Sikkim Panchayat Act 1993 (Amended 2005)                | Approval of works/development plans, identification of beneficiaries for extending benefits of social sector schemes.  |
| District planning Committee                   | Section 127 of Sikkim Panchayat Act 1993 (Amended 1995)               | Consolidation of plans prepared by the panchayats into the draft district plan of the district.  |
| GP level Social Audit cum Vigilance Committee | Notification no.29/RMDD/2008 dated 12 Feb 2008                        | Compulsory inspection of works as per estimate and in a qualitative manner and submission of completion certificate before passing the bills.                        |
| Gram planning Forum                           | No.50/RMDD/P dated:19.08.2006   | Preparation of Annual Plan, prioritizing the works and monitoring of all works being implemented by GP.  |
| State Government                              | No. 35(2)97-98/38/RDD/ P(II) Dated 13.05.1998                         | Sanction of grants, approval of budget, audit of accounts, allocation of property, transfer of assets, fixation and regulation of rates of taxes and fees.           |
| District Technical Support Committee          | No.51/RMDD/2004 dated:19.08.2006                                      | Technical support for preparation of GP, ZP and draft district plans. Preparation of district perspectives for each of the sector and timely submission to GP/ZP.    |
| GP Disaster Management Committee              | No.35(110)05-06/ RM&DD/ P/35 dated:24.01.06                           | Preparation of disaster mitigation and preparedness plan.  |
| Block Development Officers                    | No. 627 / RM&DD dated 12.1.2007                                       | Overall smooth functioning of GPs within their Jurisdiction.   |

### 1.4 Audit arrangement for PRIs

As per Section 48(2) of the Sikkim Panchayat Act, 1993 the State Government is required to appoint Auditor for audit of the accounts of GP. Section 48 (3) of the Act also provides audit of accounts of Gram Panchayat by C&AG. 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 (3) in such manner as may be prescribed. The State Government has not yet appointed any auditor under Section 48(2) of Sikkim Panchayat Act, 1993.

In keeping with the recommendations of Eleventh Finance Commission and guidelines issued by Ministry of Finance, the Government of Sikkim has entrusted audit of accounts of Panchayati Raj Institutions to C&AG under Section 20(1) of C&AG's DPC Act 1971 in August 2001. Accordingly, audit of the GP is being conducted triennially and ZPs annually by the office of the Accountant General since May 2003 as per the methodology and procedure enshrined in Auditing Standards and the Guidelines issued by C&AG from time to time. The State Government, however, has not carried out internal audit of PRIs during the years 2009-10.

### 1.5 Funding and parking of funds

The PRIs are solely funded by the Government through grants- in -aid from Central and State Governments for general administration as well as development 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 District Development Officer for GPs as grants-in-aid. The ZPs and GPs, in turn, park their funds in the savings account maintained with the nationalized banks.

Allocation to Panchayat Raj during 2005-06 to 2009-10 by the State Government is shown below:

**Table-1.1**

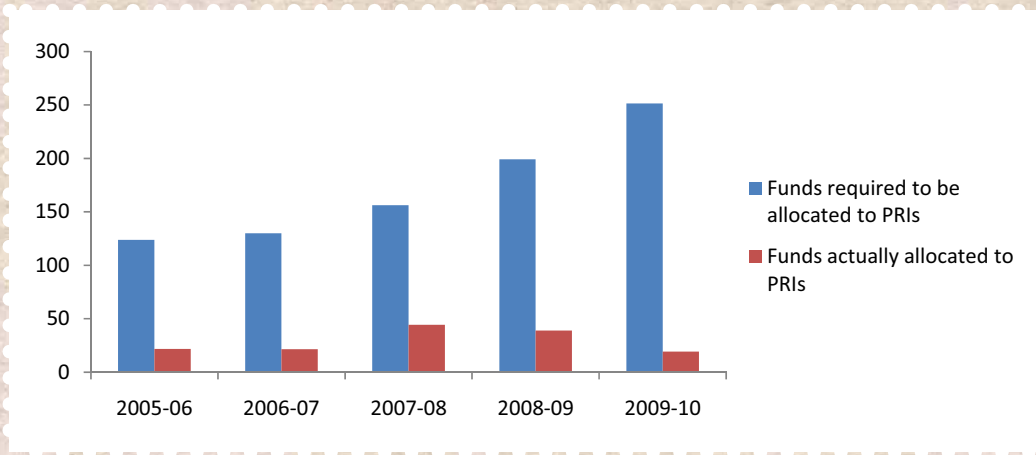
(₹ in Crore)

| Year    | Total plan expenditure of State (Revenue & Capital) | Funds required to be allocated to PRIs | Funds actually allocated to PRIs | Percentage |
|---------|---|--|----------------------------------|------------|
| 2005-06 | 1,237.17  | 123.72                                 | 21.86                            | 1.77       |
| 2006-07 | 1,300.69  | 130.07                                 | 21.53                            | 1.66       |
| 2007-08 | 1,562.34  | 156.23                                 | 44.32                            | 2.84       |
| 2008-09 | 1,992.34  | 199.23                                 | 38.90                            | 1.95       |
| 2009-10 | 2514.53   | 251.45                                 | 19.24                            | 0.76       |
| Total   | 8607.07   | 860.70                                 | 145.85                           | 1.70       |



As per Cabinet decision in March 2007 various departments of the State Government required to transfer 10 per cent of the plan funds to the PRIs. It would be noticed that the fund allocation to the PRIs ranged between 0.76 to 2.84 per cent of total expenditure of the State Government which is depicted in the graph below:

**Graph showing allocation to PRI vis-à-vis funds required to be allocated to PRIs**



It would be noticed that the gap between allocations to PRIs and stipulation has widened. While the state budget allocation increased from ₹ 1237.17 crore in 2005-06 to ₹ 2477.50 crore in 2009-10, the PRI allocations ranged from ₹ 21.86 crore in 2005-06 to ₹ 19.24 crore in 2009-10 indicating decrease of ₹ 2.62 crore ( 12 per cent) as against the enhancement of state budget to 100 per cent over the same period.

## 1.6 Source of Receipts

The broad source of receipts for the period from 2005-06 to 2009-10 are given below:

**Table-1.2**

(₹ in crore)

| Year    | Central Grant |        | State Grants (Development Fund) |       | Direction & Administration |      | Total Fund transferred from other Departments |       | Grand Total |        |
|---------|---------------|--------|---------------------------------|-------|----------------------------|------|---|-------|-------------|--------|
|         | ZP            | GP     | ZP                              | GP    | ZP                         | GP   | ZP  | GP    | ZP          | GP     |
| 2005-06 | 0             | 12.36  | 2.00                            | 16.60 | 1.78                       | 1.16 | 0.26  | 0.06  | 4.04        | 30.18  |
| 2006-07 | 0             | 16.91  | 2.40                            | 16.60 | 1.65                       | 0.76 | 0.10  | 0.02  | 4.15        | 34.29  |
| 2007-08 | 13.01         | 18.94  | 4.72                            | 25.15 | 1.64                       | 0.30 | 7.35  | 5.15  | 26.72       | 49.54  |
| 2008-09 | 0             | 13.15  | 2.29                            | 4.97  | 3.00                       | 1.05 | 9.56  | 18.03 | 14.85       | 37.20  |
| 2009-10 | 33.95         | 107.17 | 2.70                            | 2.71  | 2.07                       | 1.45 | 5.78  | 13.46 | 44.50       | 124.79 |
| Total   | 46.96         | 168.53 | 14.11                           | 66.03 | 10.14                      | 4.72 | 23.04   | 36.73 | 94.25       | 275.99 |

(Source: Figures furnished by Rural Management & Development Department, Government of Sikkim)

The broad source of receipts during the year 2005-06 to 2009-10 from Twelfth Finance Commission, Swarna Jayanti Gram Rojgar Yojana National Rural Employment Guarantee Scheme, Backward Region Grant Fund, State grant, etc are shown in the table below:

**Table-1.3**

(₹ in crore)

| Name of Scheme                           | ZP    | GP     | Total  | Percentage contribution of total receipts |
|--|-------|--------|--------|---|
| NREGA                                    | 0     | 150.28 | 150.28 | 41  |
| BRGF                                     | 25.55 | 0      | 25.55  | 7   |
| Twelfth Finance Commission (TFC)         | 4.60  | 8.40   | 13.00  | 3   |
| Swarna Jayanti Gram Rojgar Yojana (SGRY) | 16.81 | 9.85   | 26.66  | 7   |
| State Grants (Development Fund)          | 14.11 | 66.03  | 80.14  | 22  |
| Direction & Administration (D&A)         | 10.14 | 4.71   | 14.85  | 4   |
| Fund transferred from other Deptt.       | 23.04 | 36.72  | 59.76  | 16  |
| Total receipt                            | 94.25 | 275.99 | 370.24 |   |



### 1.6.1 Non-levy of taxes

Sikkim Panchayat Act, 1993 (u/s 39 (1) and 40 (1) envisaged levy of taxes, rates, and fees on the subject mentioned at clause (a) to (i) of Rule 40 by the ZPs subject to the rates fixed by the State Government. Similarly, GP may also levy taxes, rates and fees with the approval of State Government on the subject mentioned at clause (a) to (k) of section 77(1) of Sikkim Panchayat Act, 1993.

As per Second State Finance Commission's recommendations, GPs were entitled to levy taxes such as (i) Dhuri Khajana<sup>2</sup> for RCC building at ₹ 50 per annum, Other houses at ₹ 20 per annum and Temporary huts at ₹ 5 per annum; (ii) user charges of ₹ 1 per tap from the user of water tap; (iii) water cess from user of irrigation at ₹ 25 per year for holding up to 5 acre, ₹ 50 per year for 5 to 8 acre, ₹ 100 per year for above 8 acre; (iv) fee for construction of house within panchayat at ₹ 50 for pucca house/ RCC, ₹ 10 for temporary house/huts; (v) fee for the occupation of hat areas under rural marketing centre from seller /grocery sellers. It was however noticed that despite the above provisions, the GPs had not initiated any steps to identify the areas for levying of taxes nor collected any revenue except for two (Melli-dara and Lunchok Kamrang) GPs. It was also noticed that control mechanism for levy and its collection by the PRIs were not prescribed to facilitate timely initiation of the levy and collection procedure despite recommendation (September 2003) by the Second State Finance Commission.

### 1.7 Allocation and Utilisation of State Finance Commission (SFC) grants

The 73<sup>rd</sup> 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) taxes, duties, tolls and fees may be assigned to the Panchayats; and (iii) grants-in-aid to the Panchayats. The report of the Commission together with a memorandum of action on it was to be laid before the State legislature.

In pursuance of Article 243(I) of the constitution (Seventy Third) Amendment Act, 1992 of the constitution, the State Government constituted the First State Finance Commission in 1998 and the Second State Finance Commission (SSFC) in 2003. The SSFC submitted its recommendations to Government during February 2006. Among accepted recommendations, the following were not complied:

- User charges etc were not levied by the PRIs to augment their resources as pointed out in para 1.6.1.

<sup>2</sup>Land Revenue



- One per cent of tax amounting to ₹ 7.94 crore for the period 2006-07 to 2009-10 was not transferred to PRI although accepted by the Government as per the recommendation of (2nd State Finance Commission) as shown below:

**Table-1.4**

(₹ in crore)

| Year    | Tax receipt | 1% of Tax receipt | Tax Transferred |
|---------|-------------|-------------------|-----------------|
| 2006-07 | 173.18      | 1.73              | Nil             |
| 2007-08 | 197.85      | 1.98              | Nil             |
| 2008-09 | 199.19      | 1.99              | Nil             |
| 2009-10 | 223.65      | 2.24              | Nil             |
| Total   | 793.87      | 7.94              | Nil             |

### 1.8 Sectoral Analysis

Mention was made in the ATIR for the year 2005-07 (para 1.9) and 2007-09 (para 1.8) regarding non maintenance of information on budget provision, release of fund and expenditure incurred under Plan and Non Plan on important sectors like education, health, nutrition, social forestry, solid waste management, sanitation, water and housing etc by Rural Management & Development Department. The above position still persists restricting audit in analyzing the progress of work done in these important sectors.

Audit however attempted to consolidate information based on available data and noticed that release of funds by various departments to the PRIs were not based on any sound rationale but as per their own discretion as would be noticed from following details.

**Table-1.5**

*Sector-wise total expenditure vis-à-vis allocation to PRIs*

(₹ in crore)

| Sector                        | 2005-06    |                   | 2006-07    |                   | 2007-08    |                   | 2008-09    |                   | 2009-10    |                   |
|-------------------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|
|                               | Total exp. | Allocation to PRI | Total exp. | Allocation to PRI | Total exp. | Allocation to PRI | Total exp. | Allocation to PRI | Total exp. | Allocation to PRI |
| Agriculture & allied services | 28.59      | 0.13              | 32.38      | 0.16              | 46.09      | 2.31              | 62.18      | 1.59              | 42.58      | 1.23              |
| HRDD                          | 73.41      | 0.00              | 79.02      | 0.00              | 94.62      | 0.08              | 117.85     | 0.08              | 178.32     | 0.00              |
| Health                        | 15.45      | 0.20              | 15.49      | 0.20              | 27.22      | 3.00              | 29.20      | 2.00              | 25.38      | 0.10              |
| RMDD                          | 29.91      | 0.00              | 30.90      | 0.00              | 31.84      | 7.80              | 40.61      | 0.00              | 48.06      | 11.50             |
| Total                         | 147.36     | 0.43              | 157.79     | 0.36              | 199.77     | 13.19             | 249.84     | 3.67              | 294.34     | 12.83             |



Absence of sound basis for transfer of funds to the PRIs by the departments constrained the PRIs to gauge the extent of fund availability with them in any particular year restricting them to make any plan with foreseeable certainty. The planning at the PRI level was therefore totally on ad-hoc basis.

### **1.9 District Planning Committee**

In terms of Article 243-ZD of the Constitution provides for the constitution of District Planning Committee (DPC) to consolidate the plans prepared by the Panchayat into the Draft Development plan for the district. The Constitution also envisages active involvement of the people (beneficiaries/user group) in formulation of District Plan and implementation of scheme/maintenance of assets created.

Keeping in view the above provision, DPC was constituted in all the four districts w.e.f. 25 September 2003 with the Adhyaksha, Zilla Panchayat as the Chairman and the MPs, MLAs, and others as members with stipulation to consolidate and forward the development plan as recommended by the DPC to the State Government for consideration, approval and implementation.

Annual Plans were neither submitted by the GPs nor sought by the ZP and thus the consolidated district plan could not be prepared by the ZP except for Backward Region Grant Fund (BRGF) plan for 2009-10. Thus, the planning process for development duly reflecting the aspirations of the people at the grass root levels as envisaged in the 74th amendment was compromised.

Similarly, the District Technical Support Committee (DTSC) constituted (2008) with the District Collector as chairperson and the entire district level Heads of offices as ex-officio members for preparation of sector-wise perspectives plan for GP and ZP had neither prepared district perspective plan nor provided any technical inputs to the GP and ZP for formulation of plans as envisaged. DPC also had not taken any initiative for availing the benefits of expertise of DTSC.

Thus, planning process duly reflecting the needs and aspiration of people at grassroots level through Gram Planning Forum, value addition at Block Development Officers and District Development Officers level and final consolidation by DPC after obtaining technical expertise from DTSC remained inoperative despite formation of Gram Planning Forum, DPC, DTSC, etc. This needs to be immediately revitalized and made functional and operative to avail the benefit of planned development.



## 1.10 Assets Management

The Sikkim Panchayat Act, 1993 (under Section 130) enjoins the PRI to maintain records for movable and immovable properties through maintaining Assets Register. Despite pointed out in the ATIR for the year 2005-07, there is no centralized system for account of value of assets created by the PRI. Out of 41 PRIs, test checked, 16 PRIs did not maintain moveable and immovable Assets registers duly reflecting moveable and immovable properties (*Appendix – I*). Thus, year wise position of value of assets created could not be ascertained in audit. Further there was no record to establish the account of transferred assets and liabilities. Despite codal provision and observations made by audit for physical verification of assets, the PRIs were yet to introduce the system. Further, register of all immovable government property including land and building within the jurisdiction of PRIs were not maintained by any of the GPs test checked in Audit although mandated as per the Government notification (July 2003). As a result, consolidated information on the assets created / acquired was not available with the PRIs so as to ensure their safe custody and timely maintenance.

## 1.11 Internal Control Mechanism

It is imperative on the part of GPs and ZPs to put in place an effective internal control mechanism for financial and budgetary management to ensure proper utilization of funds. There is no system of internal audit of GPs. The Accountant General, Sikkim conducts audit of PRIs. Audit however noticed that the PRIs were not attaching adequate importance to this aspect as evidenced from the following:

### 1.11.1 *Non-submission of budget estimates*

Sikkim Panchayat Manual, 1993 (u/s 46) read with government notification (May 1998) envisaged preparation of budget by the GPs and checking of such budget estimates by the District Planning Officer (DPO).

It was noticed that neither the GPs had prepared their budget estimates as envisaged nor the DPO insisted the PRIs for submission of budget estimates to check the same and suggest corrective measures for optimal utilization of funds. Various departments of the State Government although required to transfer 10 per cent of the developmental funds to the PRIs had transferred very small amount of funds ranging between 1 and 2 per cent of the funds during the period 2005-10 as would be noticed from the figures mentioned in Table 1.1 at para 1.5. Not only the funds were not released in full but were released at the fag end of the financial years. In absence of indication of quantum of funds likely to be received by the PRIs



from various departments and the time frame for its receipts constrained the PRIs to prepare an effective plan with any degree of certainty.

### **1.11.2 Maintenance of Accounts**

Sikkim Gram Panchayat Financial Rules 2004 [rule 7(1) & (2)] stipulated maintenance of various records such as (i) Cash Book, (ii) Monthly receipt and payment accounts, (iii) annual receipt and payment accounts, (iv) Monthly reconciliation statement, (v) Inventory register for moveable assets, (vi) Inventory register for immovable assets, (vii) Advance Register, (viii) Dead stock Register, (ix) Stock Register, etc for proper depiction of accounts of the Gram Panchayat Funds.

Scrutiny of records in 41 GPs revealed that that basic records and registers as indicated above were not maintained properly as evidenced from following:

- Maintenance of cash books in 26 GPs (Appendix-II) 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.
- Advance registers were not maintained and thus neither the position of outstanding advances could be ascertained nor were the delays in adjustment of outstanding advances depicted in the accounts.
- Data base formats as suggested by Comptroller and Auditor General of India were also not initiated by any of the GPs and the ZPs.
- Model Accounting Structure for PRI prescribed by C&AG and Ministry of Panchayat Raj, Government of India were not adopted by any of the GPs and ZPs.



**1.11.3 Response to Audit**

The compliance report on the observations issued by Audit is to be sent within three months. Details of inspection reports issued by Accountant General (Audit), as on 31 March 2010 and awaiting settlement are given in Table No.1.6.

**Table-1.6**

**Position of settlement of outstanding audit paragraphs during 2005-10**

| Year         | IR issued | Paragraph issued | Paragraph settled | Paragraph outstanding |
|--------------|-----------|------------------|-------------------|-----------------------|
| Upto 2005-06 | 116       | 786              | 216               | 570                   |
| 2006-07      | 67        | 320              | 37                | 283                   |
| 2007-08      | 86        | 352              | -                 | 352                   |
| 2008-09      | 56        | 234              | 2                 | 232                   |
| 2009-10      | 50        | 362              | -                 | 362                   |
| Total        | 375       | 2054             | 255               | 1799                  |