

CHAPTER - II

2.1 Twelfth Finance Commission- Utilisation of grants by Panchayat Raj Institutions

Highlights

There was delay in release of funds by Government of India ranging between 106 to 940 days which had a cascading effect as the State Government in turn could release funds to PRIs belatedly affecting the programme implementation at the PRI level.

Paragraph-2.1.6.1

The State Government neither adhered to the time schedule of 15 days for release of TFC funds to the PRIs nor released the penal interest in full for delayed release of TFC grants to the PRIs.

Paragraph-2.1.6.2

The State Government forwarded the utilization certificates of the TFC grants to the Government of India for full amount of funds transferred to the PRIs without any reference to the actual utilization and obtaining of utilization certificates from ZPs and GPs indicating that U.Cs were perfunctorily sent to GOI.

Paragraph-2.1.6.3

ZPs did not prepare any long term strategy for solid waste management and instead on the request of individuals selected places for implementation of solid waste management programmes. No progress report as to the quantum of waste collected and treated was on record indicating that the project was taken up only as a means to incur expenditure than to inculcate a behavioral change of the households in handling of waste as the garbage continued to be dumped in open and jhoras in indiscriminate manner.

Paragraph-2.1.7.1

Implementation of Rural Water Supply Scheme was characterized by absence of proper planning at GP level before taking up the implementation, non opening of separate bank account, non compilation of list of Rural Water Supply works for repairs and above all absence of inventorisation of all Rural Water Supply Schemes even after termination of TFC period (2005-10) in total disregard of TFC guidelines.

Paragraph-2.1.7.2

The position of maintenance of accounts in the ZPs and the PRIs continued to be poor despite an expenditure of ₹ 20 lakh within 2005-10 under TFC grants. The Chartered Accountant firm appointed for the purpose could neither train the Panchayat functionaries for preparation of accounts nor could prepare the accounts for the entire period.

Paragraph-2.1.7.4

Audit scrutiny revealed (April 2011) that the revenue base had not shown any remarkable improvement as the PRIs continued to get only 1.7 per cent of plan funds as against the State Government commitments to transfer atleast 10% of the plan funds by each of the implementing departments.

Paragraph-2.1.7.5

The High level Committee constituted by the State Government met only thrice as against the mandatory requirement of 20 times in a span of five years indicating a shortfall of at least 17 meetings in absence of which strict vigilance and monitoring by the sufficiently high level officers as expected in the TFC recommendations was not forthcoming.

Paragraph-2.1.8

2.1.1 Introduction

The Twelfth Finance Commission (TFC) was appointed (November 2002) by the President to make recommendations on (i) the measures of distribution of the net proceeds of taxes between the Union and the States; (ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution; and (iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. The TFC submitted its report on 30 November 2004 covering the period from 2005 to 2010. TFC recommended a sum of ₹ 20,000 crore for Panchayats.

The Government of Sikkim was allocated ₹ 13 crore for supplementing the resources of the Local Bodies Grants during 2005-10. This was meant for financial assistance to PRIs for repair of water supply schemes (₹ 8.26 crore), solid wastes management (₹ 3.54 crore), creation of database in PRIs (1 crore) and maintenance of accounts of the PRIs (₹ 20 lakh).

Besides, the TFC recommended for adoption of following best practices by the State Governments. The grants to the Local Bodies were required to be transferred by the state government within 15 days from the date of release of the same by the Central Government.

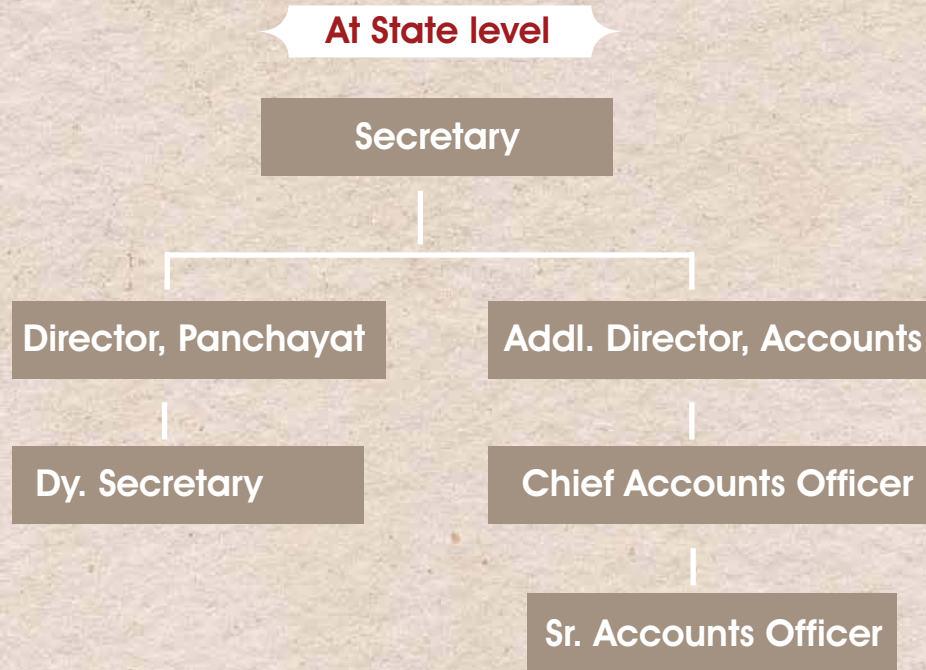
Objective of the grants

The main objective of the TFC grants meant for PRIs were:-

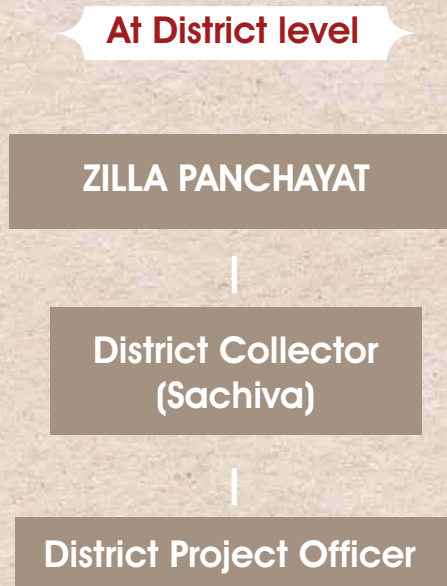
- to encourage to take over the assets relating to water supply and sanitation and utilise the grants for repairs/rejuvenation as also the O&M costs. The PRIs should, however, recover at least 50 percent of the recurring costs in the form of user charges.
- Priority should be given to expenditure on the O&M costs of water supply and sanitation, This will facilitate Panchayats to takeover the Schemes and operate them.

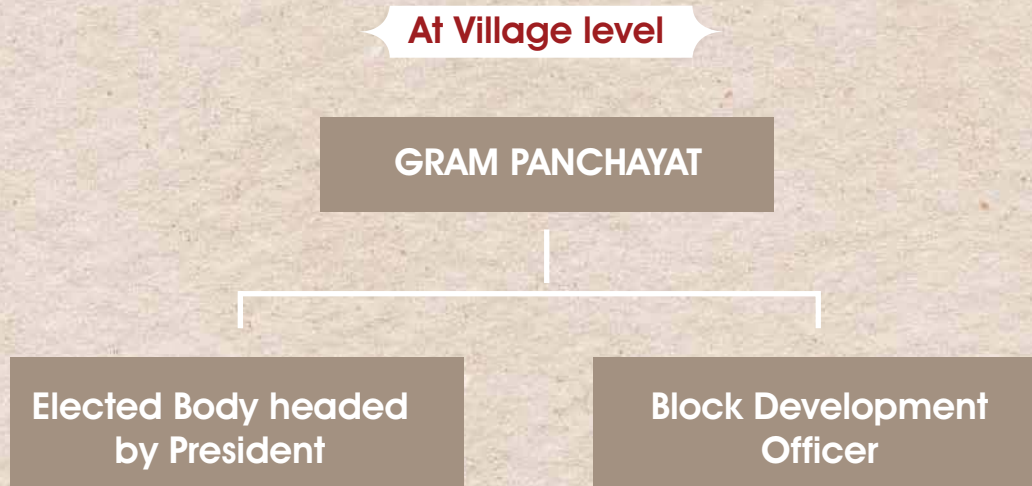
2.1.2 Organizational set-up

The responsibility of managing and incurring an expenditure of the TFC fund rested with the Secretary, Rural Management & Development Department who was assisted by Director, Panchayat; Joint Director (Accounts); and other officers as shown in the chart below:



Besides, at the District level, Adhyaksha, ZP was the head who was assisted by District Planning Officer, Divisional Engineer and Jt. Director (Accounts). Similarly, at GP level, President was the head who was assisted by Rural Development Assistant and Gram Rozgar Sahayak as shown in the chart below:





2.1.3 Scope of Audit

The scope of Audit included checking of release and utilization of TFC grants relating to panchayati raj (ZPs and GPs) for the period 2005-10. Records relating to three ZPs and 40 GPs were test checked between March and April 2011. Out of total grants of ₹ 13 crore, ₹ 5.27 crore was test checked in audit denoting 40 per cent of total grants.

2.1.4 Audit objectives

The Audit objectives were to assess whether the:

- TFC grants relating to panchayat raj was released appropriately and timely by the Central and State Government;
- TFC grants were utilized duly adhering the provisions of TFC and other related norms and conditions;
- Target were appropriately fixed and achievements were in consonance with the target;
- State Finance Commissions were constituted in time and its recommendations appropriately built into improvement of panchayat raj in Sikkim;
- Works and activities were carried out economically, efficiently and effectively; and
- Monitoring mechanisms were adequately prescribed and functional.

2.1.5 Audit criteria

The following criteria were used to assess the performances of the panchayati raj in Sikkim in relation to utilization of TFC grants for the period 2005-10:

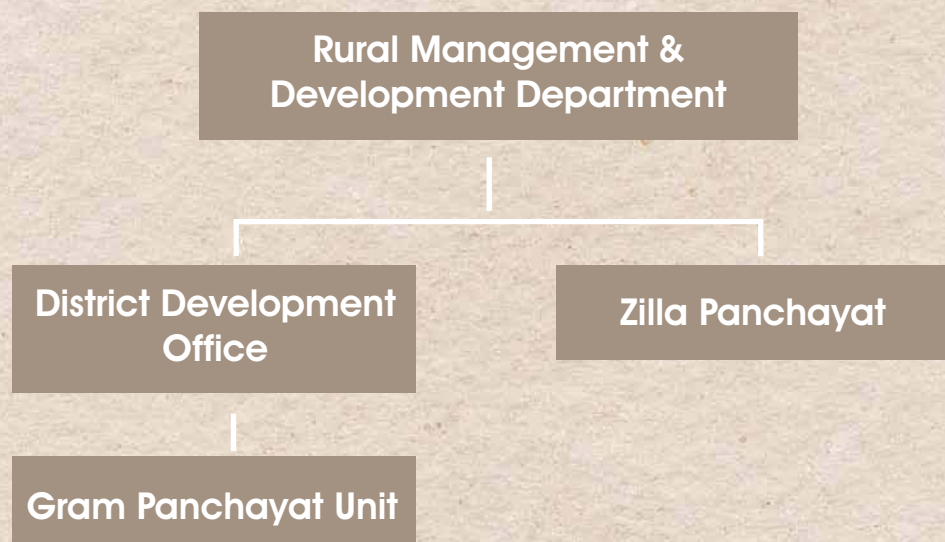
- Guidelines prescribed by Twelfth Finance Commission;
- Sikkim Financial Rules, Sikkim Public Works Code and Manual;
- Notification and circulars issued by Government of India and Government of Sikkim relating to utilisation of TFC grants on panchayati raj;
- Guidelines issued by State Government for utilization of TFC grants on panchayat Raj; and
- Monitoring mechanism prescribed in TFC guidelines and the State Government.

AUDIT FINDINGS

2.1.6 Financial management

A total of ₹ 13 crore was released to the Panchayat Raj Institutions in Sikkim under the 12th Finance Commission Grants for the period 2005-10. The fund was utilized by the Panchayat Raj Institutions for operation and maintenance of water supply scheme and sanitation programme besides preparation of accounts and creation of data base. The fund was operated by Rural Management & Development Department and Sachiva (for ZPs) and DDOs (for GPs) as shown in the flow chart below:

Fund flow chart of Twelfth Finance Commission Grant



Year-wise receipt of grants and their utilization are given below:

Table-2.1

(₹ in lakh)

Year	Grants received	Retained by RMDD for creation of data base and maintenance of accounts	Released to GPs for water supply	Release to ZPs for solid waste management
2005-06	130.00	-	-	-
2006-07	130.00	-	182.00	78.00
2007-08	260.00	-	182.00	78.00
2008-09	260.00	98.00	113.40	48.60
2009-10	520.00	22.00	348.60	149.40
Total	1,300.00	120.00	826.00	354.00

2.1.6.1 Release of funds by Central Government

According to TFC Guidelines, local bodies' grants would be released in two equal installments in July and January every year by the Central Government. Except for the first six monthly installments for the year 2005-06, all installments would be released by Central Government only after receipt of certificate from the State Government denoting the release of funds to the PRIs for the previous installments and the information about allocation of funds for the subsequent installments. Thus the utilization of local bodies' grants of the previous installments was required to be submitted to the Central Government for release of subsequent installments by the State Government.

Scrutiny of records revealed (March 2011) that the TFC grants were released by the Central Government in all the five years as shown below:

Table-2.2

Year	Installments	Amount	Due date of receipt of funds	Date of receipt of Fund from GOI	Delay (in days)
2005-06	1st	130.00	July 2005	24.3.2006	240
	2nd	130.00	January 2006	28.08.2008	940
2006-07	1st	130.00	July 2006	7.7.2006	---
	2nd	130.00	January 2007		---
2007-08	1st	130.00	July 2007	23.2.2009	571
	2nd	130.00	January 2008		387
2008-09	1st	130.00	July 2008	24.11.2008	
	2nd	130.00	January 2009		
2009-10	1st	130.00	July 2009	28.10.2009	106
	2nd	130.00	January 2010		
Total		1,300.00			

As would be seen the delay ranged between 106 and 940 days which had a cascading effect as the State Government in turn could release funds to PRIs belatedly. Audit analysis of the reasons for delay revealed that it was primarily owing to non submission of utilisation certificates of previous installment and non release of penal interest to PRIs for the delayed release of funds by the State Government. The inordinate delay obviously affected the programme implementation at the PRI level as the programme could not begin in absence of required amount of funds. The State Government neither analysed the reasons for delayed release of funds by the Central Government nor took up the issue with the concerned Ministry for expeditious release of TFC grants.

2.1.6.2. Release of funds by State Government

The 12th Finance Commission recommendation (para 6.1) stipulated unequivocally that the State must transfer the grants released by the Centre to the PRIs within 15 days of receipt of funds failing which State Government would be required to pay penal interest at RBI rate.

Audit scrutiny revealed that the State Government had not adhered to this recommendation of transfer of funds to the PRIs within the prescribed time limit of 15 days. The funds were belatedly released to PRIs on each of the occasion except for 2007-08, the delay ranged between 106 and 446 days as shown in table below:

Table-2.3

(₹ in lakh)

Year	Amount	Date of receipt of Fund from GOI	Date of release of fund to ZP/ GP	Delay (in days)	Interest required to be paid for delayed release
2005-06	130.00	24.3.2006	22.7.2006	122	2.39
	130.00	28.08.2008	31.3.2007	-	-
2006-07	260.00	7.7.2006	9.4.2008	276	11.90
2007-08	260.00	23.2.2009	3.3.2009	-	-
2008-09	260.00	24.11.2008	12.2.2010	446	19.06
2009-10	260.00	28.10.2009	12.2.2010	106	4.53
Total	1300.00				37.88

Audit analysis revealed that the delay in release of funds to PRIs by the State Government was essentially due to delay in execution of works at PRIs level. The RM&DD instead of stressing upon the PRIs for expeditious completion of works

delayed in release of funds. Not only RM&DD did not release the funds in time but also defaulted in making payment of penal interest in disregard of the TFC guidelines (para 6.1). As against the interest liability of ₹ 37.88 lakh, the State Government transferred the interest payment of ₹ 2.39 lakh only to the PRIs during 2005-06. The Nodal Department had not made any attempt to expedite the process of release of funds to the PRIs to eliminate the delay despite the ever increasing delay in release of funds upto 2008-09.

2.1.6.3 Non-submission of utilisation certificates (UCs)

Twelfth Finance Commission recommendations (Para 6.2) stipulated that utilization certificates must invariably be submitted by the State Government for release of subsequent installments. It was however, noticed in audit that the nodal department submitted the utilization certificate (UCs) to the Government of India without ascertaining the actual utilization of funds by the ZPs and GPs. Audit noticed that the Director, Panchayat Raj (PR) released ₹ 11.80 crore to four ZPs (₹ 3.54 crore) and 163 GPs (₹ 8.26 crore) during 2005-10 for various purposes such as operation and maintenance of rural water supply scheme, sanitation work within the jurisdiction of PRIs, preparation of accounts and creation of database. Although the ZPs/GPs were required to submit the UCs in respect of the fund incurred by them to the Nodal Department, the Nodal Department never stressed submission of utilization certificates by the PRIs functionaries. The District Development Officer and Sachiva (District Collector) were responsible for collection and collation of data for the GPs and the ZPs respectively and its onward submission to the Director, Panchayat. Both these functionaries however, failed in submission of utilization certificates. Only on the insistence of Secretary, RM&DD, the DDOs forwarded the utilization certificate for the period 2006-07 to 2009-10.

The details of the utilization certificates sent to the Nodal Department by ZPs and GPs are given in **Appendix-III**.

Audit analysis revealed that the DDOs had not obtained the utilization certificates from the GPs concerned and instead submitted the utilization certificate for the full amount of grants without any reference to the actual utilization of funds. Thus, the entire process of submission of utilization certificates by the State Government to the Central Government to ensure that the funds were utilized for the intended purposes and the PRIs were in a position to absorb the subsequent installment of the TFC grants were faulty and defeated the very purpose of submission of utilization certificates.

2.1.7 Programme Management

Government of India (Ministry of Finance) Department of Expenditure prescribed (June 2005) guidelines for release and utilization of grants recommended by Twelfth Finance Commission for augmentation of the consolidated fund of the States for supplementing the resources of the rural and urban local bodies (Local Bodies Grants) for adherence by all the State Governments. The guidelines inter-alia prescribed that the grants for PRIs should be used to improve the service delivery by the panchayat in respect of water supply and sanitation. Panchayats need to be encouraged to take over water supply assets created under the Swajal Dhara Programme and maintain them with the help of the programme. A high priority needed to be assigned for creation of data base and maintenance of accounts at the grass root level. Based on these stipulations, the State Government (Rural Management & Development Department) framed (August 2006) a working guidelines for utilization of grants for 'Solid Waste Management' by Zilla Panchayats and 'Operation and maintenance of water supply schemes by Gram Panchayats' under Twelfth Finance Commission and circulated (August 2006) to Sachiva of Zilla Panchayats and District Development Officer for adherence during execution of the above programme.

The Audit checks of implementation of these two programmes revealed following:

2.1.7.1 Solid waste management

According to State Government (Rural Management & Development Department) prescription (August 2006), the ZP would utilize the TFC grants for implementation of 'Solid Waste Management' programme' and would follow under mentioned procedures for its implementation:

- The ZPs would prepare a long term strategies for solid waste management rather than addressing individual demands of its constituents. Such strategies would consider, among other things, public participation and eventual handover of the management to the people, preferably by 2009-10, which was the final year of Twelfth Finance Commission.
- The grants under solid waste management would be utilised by the ZPs for construction of collection bins, its repair, segregation, treatment and disposal of wastes duly taking into consideration the environmental concerns.
- At least 50 per cent of all recurring cost of the TFC funded works should be generated in the form of user charges by the ZPs and GPs through mobilizing public participation in operation and maintenance Solid Waste Management.

Audit scrutiny of records revealed following:

- None of the three test checked ZPs (East, North and South) had prepared long term strategies for solid waste management and instead on the request of individuals, selected places within the ZP territorial constituency for waste disposal.



- Solid Waste Management**
Committees were formed in each of the villages which were selected for treatment of solid waste. A token provision of Rs. 50,000 per Solid Waste Management Committee was released for implementation of solid waste management programme without keeping any tab over the actual execution of the programme. Similarly, handover of the solid waste management to the people, the ultimate beneficiaries by 2009-10, was also not done as of March 2011.



- While the ZP (East) selected 33 places, the ZP (North) selected 45 places within the ZP territorial constituency and constituted equal number of Committees for implementation of solid waste management programme in the respective villages. The Committees constructed one each of the garbage disposal pits in GPUs and Schools, collection bins, composite bins and one incinerator. The work was completed by

March 2010 and accordingly utilization certificate was submitted to the Director, Panchayat, Rural Management & Development Department. No follow up as to the success or otherwise programme was on record.

- The ZP and GP functionaries, the Sachiva of the ZP, the District Development Officers responsible for monitoring of implementation by GPs and also the Departmental officers of the RM&DD had not kept any vigil over the actual execution of the programme. As a result, no follow up as to the success or otherwise of the programme was on record. Audit checks, however, revealed that the solid waste management programme had not achieved desired success

in absence of proper follow up by any of the concerned authorities in the Government or the PRI functionaries. The garbage continued to be dumped into open, in drains and jhoras in the most indiscriminate manner by the households despite availability of garbage disposal pits and incinerators. This was further confirmed during the physical verification of the various sites by the Audit in presence of PRI functionaries. The garbage was disposed off on way side, near jhoras and such other places as seen in the photographs.



- ❶ No progress report as to the quantum of waste collected and treated was either insisted upon by the ZP and Nodal Department nor any record maintained by the GP functionaries and the Solid Waste Management Committees indicating that the project was taken only as a means to incur expenditure than to inculcate a behavioural change of the

households for appropriate handling of waste.

- ❷ At least 50 per cent of the expenditure on 'Solid waste management programme' was required to be obtained as 'user charges' from beneficiary households to meet the maintenance cost of the assets created and recurring expenditure of Rs. 100 per day per was Muster Roll employees deployed for the purpose of regular work at garbage disposal site. The realisation of this mandatory user charges from beneficiary was the responsibility of the concerned solid waste management committees. Audit checks however revealed (March 2011) that no such 'user charges' were ever collected by any of the committees from the beneficiary households.



- ❸ The ZP and GP functionaries had also failed to take up the issue to convince the households for levy and collection of specified mandatory user charges.

Failure of the Committees and the other concerned officers and the PRI functionaries led not only to idling of pits and garbage bins created under the programme as seen in the photograph. This was primarily because the behavioural change for proper disposal of wastes could not be inculcated in the minds of the people despite substantial expenditure on implementation of the programme.

2.1.7.2 Operation and maintenance of Water Supply Schemes

As mentioned in the preceding paragraph (2.1.7), the guidelines for release and utilization of TFC grants envisaged that the TFC grants for PRIs should be used to improve the service delivery by the Panchayats in respect of water supply and sanitation. Panchayats should be encouraged to take over the water supply assets created under the Swajaldhara Programme and maintain them with the help of grants provide under TFC. Accordingly, the State Government (Rural Management & Development Department) prescribed (August 2006) working guidelines stipulating inter-alia following:

- The Gram Panchayats would utilize the grant solely for operation and maintenance of Rural Water Supply Schemes (RWSS);
- All RWSS shall, henceforth, be taken over by the GPUs and its operation & maintenance shall be entrusted to the GPUs;
- Before taking up of operation and maintenance work, inventorisation of all RWS schemes shall be done GPU wise;
- The RM&DD will compile a list of demand received for repairs. The current grant shall be utilized to take up repair from this list after verification by the GPU members. After such verification, the GPU shall pass a resolution in its meeting to execute the necessary repairs and forwarded the resolution to the Sub-Divisional Development Officer (SDDO) for information and preparation of estimates. The SDDO shall direct the concerned AE/JE to prepare the estimates and thereafter forward the same to the Gram Panchayat to execute the works. The GPs shall be required to purchase materials as per specification and rates prescribed by the DDO to ensure quality and reasonability of rates.

Audit scrutiny of implementation of RWS project through TFC grants revealed following:

- During 2005-10, ₹ 8.26 crore was provided to 163 GPs through respective DDOs under TFC grants for operation and maintenance of water supply. GPs

were assigned the work of repair of existing water supply under their jurisdiction. The entire fund was incurred by the GPs towards the programme.

- Test check of records of 3 ZPs and 40 GPs showed that separate saving bank accounts in the State Bank of Sikkim or any nationalized bank as envisaged in the guidelines were not adhered by the GPs as none of them had opened bank accounts in SBS or the nationalized bank. It was however noticed that the three ZPs test checked during audit had opened the accounts as envisaged.
- The Nodal Department (RMDD) had also failed in discharge of its responsibilities as it did not compile the list of demand received for repairs. As a result, verification of list by the GPs as directed by the State Government did not arise.
- GPs in turn had also not forwarded the list of RWSS works proposed for necessary repairs under TFC grants to the SDDO for information and preparation of estimates.
- The respective GPs based on Gram Sabha resolution took up the execution of repairing work only after receipt of fund from Nodal department. Estimate was prepared on receipt of fund without the involvement of SDDO. Neither proper planning was done at GP level before execution of the work to ensure need based implementation of operation and maintenance work, inventorisation of all RWS schemes was also not attempted even after completion of entire TFC period (2005-10).
- No action was initiated for ensuring procurement of quality materials at reasonable rates as envisaged in the guidelines.
- As per utilization certificates sent to GOI, the State Government had incurred ₹ 8.26 crore towards operation and maintenance of water supply schemes through GPs. Accordingly, the GPs were to recover a minimum of 50 per cent of the recurring cost in the form of 'user charges' from the beneficiaries as their contribution. This was however not recovered by the GPs nor stressed by the concerned functionaries such as DDOs and the nodal department indicating non-adherence to the guidelines and non-involvement of the masses in the implementing processes so as to inculcate a sense of belongingness among them.
- As per TFC's recommendations assets related to water supply and sanitation

was to be transferred to PRIs for maintenance. However, in none of the test checked PRIs, these assets were transferred as of March 2011. No order for transfer of other water supply assets was issued by the State Government as of March 2011.

- It was also noticed that the repair of five Water Supply Scheme at a total cost of ₹ 80,500 (₹ 16,100 per work) was carried out by Block Administrative Centre, Temi on the plea that no major and minor works were carried out for the existing water supply scheme located under Bermiok Tokal GPU. The BAC justified the need for maintenance owing to heavy rain and landslide in the monsoon and lack of periodical maintenance leading to acute shortage of potable drinking water and chances of source pollution by random grazing of cattle and increase of population. The work of maintenance included (i) cutting and clearing of grass and bushes from work site, (ii) fitting and fixing local available wooden ballies for fencing water source to keep out of animal reach and plantation all complete, (iii) providing fitting and fixing bamboos for fencing runner to protect new plantation all complete (iv) providing and laying hand packed stone wall with local available stone and minor repair work all complete.
- Scrutiny of records revealed that five persons were engaged for execution of the maintenance work of five sources without any valid ground. As per Sikkim Financial Rule, work should be executed either by calling tender or directly through Gram Panchayat, which was not followed. No supporting vouchers/ records were seen in the file for the work (i) fitting, fixing local available wooden ballies (ii) fitting, fixing bamboos for runners. Photograph provided by Panchayat are also not supporting the execution of above two works. Thus, the works were not executed as per the estimate prepared by BAC, Temi.
- Similarly, ₹ 1,39,397 was released to Lungchok Kamrey GP to meet expenditure for repair of rural water supply. However, instead of incurring expenditure for the rural water supply, GP incurred (July 2008) the fund of ₹ 80,397 towards purchase of furniture for Panchayat Bhawan. This showed that GP was not in need of fund for repair of rural water supply.
- The ZP (East) incurred ₹ 70,900 towards repair of school buildings and construction of cement concrete footpath which were beyond the purview of TFC guidelines and led to diversion of fund.

2.1.7.3 Creation of Data Base in the PRIs

In consideration of the fact that the most states did not have credible information on the finances of their local bodies and they would continue to need funding support for building database and maintenance of accounts. States were required to assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by the TFC.

Audit scrutiny of records revealed (April 2011) that the Nodal Department had retained the fund with them with a view to utilize the same centrally for all the PRIs. The Nodal Department, however, neither could produce any records as to the creation of data base in the PRIs nor assessed the requirement of each local body in this regard and earmarked fund for each of the PRIs out of total fund (₹ 1 crore) released by TFC. The Audit checks of 3 ZPs and 40 GPs revealed (April 2011) that in none of the GPs database as envisaged in the TFC recommendations were created to facilitate assessment of their requirement of funds for basic civic and developmental functions and rational determination of the gap between the cost of maintenance of various services such as water supply, sanitation, roads, etc. and the revenue generation by them.

Thus, the funds released by TFC with a special purpose of enhancing the long term capacity building of the PRIs for better planning was defeated in the state owing to negligent approach of the Nodal department.

2.1.7.4 Maintenance of accounts of the PRIs

In keeping with the requirement of the Local Bodies an amount of ₹ 20 lakh was earmarked under TFC grants for maintenance of Accounts of the PRIs in Sikkim. Scrutiny of records revealed (April 2011) that the Noda Department instead of initiating any effort to built the capacity of the PRIs functionaries in maintenance of accounts, it choose to assign the work of maintenance of accounts to a Chartered Accountant for (M/s Marda & Associates) after its successful bidding in the quotation called by department for the job at a cost of ₹ 15 lakh based on the bid invited by the department. The assignment to the firm included:

- Maintenance of accounts of all Zilla Panchayat and Gram Panchayat Units;
- Training of Panchayat and RDAs in the process of maintenance of accounts;
- Preparation of annual accounts of all ZPs and GPUs;
- Submission of audited report of all ZPs and GPUs;

While the firm was paid ₹ 15 lakh for the work assigned to them, ₹ 5 lakh was retained by the Nodal Department for printing of registers etc. Audit checks revealed that only East ZP maintained accounts in prescribed format. The Chartered Accountant firm had not initiated any action for maintenance of accounts of the other two ZPs and the GPs. Training to Panchayat Members and Rural Development Assistant as envisaged in the assignment were neither initiated by the Chartered Accountant firm nor insisted upon by the Nodal Department. As a result, status of maintenance of accounts were poor and capacity building of the Panchayat functionaries towards maintenance of accounts could not take place as of March 2011.

Even the scrutiny of audited report prepared by Chartered Accountant firm revealed that the firm failed in its duties as Audit Report upto 2008-09 were only finalised and copy endorsed to the Accountant General, Sikkim among others. The audited report for the period subsequent to 2008-09 had not been finalized as of March 2011. Even the finalised accounts for which audited report were brought out revealed that the accounts were not finalized in the formats as suggested by the Comptroller & Auditor General of India and Ministry of Panchayati Raj, Government of India. The accounts only captured receipt and expenditure of PRIs and had no bearing on Assets and Liabilities, outstanding payment and amount due to be received, etc. Thus, the expenditure of ₹ 20 lakh (₹ 15 lakh on preparation of accounts by the CAs and ₹ 5 lakh on printing of register) did not yield desired result in form of improvement in maintenance of accounts by ZPs and GPs to provide credible information on finances of the Local Bodies.

2.1.7.5. Revenue Generation

The primary aim of the Twelfth Finance Commission recommendation were to enhance the revenue based PRIs and thereby strengthening and augmenting the resources of the PRIs to enable them plan and execute programmes for fulfilling the locally felt needs of the people. Accordingly TFC prescribed that:

- levy of certain major taxes and exploitation of non-tax revenue sources be made obligatory for the panchayats. The minimum rates for all such levies be fixed by the State Government;
- a minimum revenue collection from the panchayat taxes be insisted;
- incentive grants related to revenue collection beyond a prescribed minimum be introduced by the State Government;
- user charges be made obligatory levies;

- all common property resources vested in the village panchayats may be identified, listed and made productive of revenue;
- valuation of taxable lands and buildings should be done by a separate cell in the panchayati raj department of the State Government and not left to the panchayats;
- powers to levy a tax/surcharge/cess on agricultural holdings should be given to the district panchayats.
- revenue transfers from the state to panchayat in the form of revenue sharing/ revenue assignment be made statutory in nature.

Audit scrutiny revealed (April 2011) that the revenue based had not shown any remarkable improvement as the PRIs continued to get only 1.7 per cent of plan funds as against the State Government commitments to transfer atleast 10% of the plan funds by each of the implementing departments. Transfer of one per cent of tax amounting to ₹ 7.94 crore for the period 2005-10 was also not adhered to by the State Government as detail in para 1.7 of chapter - I. User charges were also not levied by the ZPs and GPs except two GPs (Lunchok Kamrey and Melli Dara).

2.1.7.6. Asset Management

The TFC recommendation prescribed that the PRIs should be encouraged to take over the assets relating to water supply and sanitation and utilize the grants for repairs/rejuvenation as also the O&M costs.

Audit scrutiny revealed that none of the assets had been formally handed over to the PRIs for operation and maintenance. This was despite the fact that the considerable fund of ₹ 11.80 crore was incurred by the PRIs under Twelfth Finance Commission grants for operation and maintenance for water supply schemes and sanitation programmes. This indicated that the ultimate aim of the 73rd constitution amendment to empower the PRIs for effective and need based management of resources at local level was still a distant reality.

2.1.8 Monitoring

TFC recommendation stipulated that a High Level Committee (HLC) headed by the Chief Secretary with Principal Secretary, Panchayati Raj, Principal Secretary, Finance and Director, Panchayati Raj as members should be constituted in each state to monitor the proper utilization of TFC grants including that of Local Bodies grants. The HLC was mandated to:

- Approve the projects to be undertaken in each sector, quantify the targets, both in physical and financial terms and lay down a time table for achievement of specific milestones at the beginning of every year;
- Monitor both physical and financial targets and ensure adherence to the specific conditionalities in respect of each grant, wherever applicable;
- Meet at least once in every quarter to review the utilization of grants and to issue directions for mid-course corrections, if considered necessary.

Audit scrutiny revealed that a HLC was constituted by the State Government headed by the Chief Secretary of the State. The members included Secretary, Rural Management & Development Department and Principal Secretary, Finance, Revenue and Expenditure Department among others. The HLC met only thrice as per the records made available by RM&DD as against the mandatory requirement of 20 times in a span of five years (2005-10). Thus there was a shortfall of at least 17 meetings in absence of which strict vigilance and monitoring by the sufficiently high level officers as expected in the TFC recommendations was not forthcoming. The minutes of the three meetings further revealed that due importance was not attached to the programmes executed by the PRIs as there were no mention of the shortfall in achievement of targets, if any, delay in release of funds to PRIs, no change in behavioural pattern of households in waste management, capacity building of PRI functionaries in maintenance of accounts, etc. The HLC also had not attempted any effort to fulfill its responsibilities in regards to approval of the projects to be undertaken in each sector, duly quantifying the targets in physical and financial terms and laying down time table for achievement of specific milestones at the beginning of every year; and monitor both physical and financial targets and ensure adherence to the specific conditionalities in respect of each grant. The HLC only stressed for submission of utilization certificate through State Finance Department and check the diversion of funds leaving the other areas of importance as highlighted above.

2.1.9 Conclusion

The TFC's two major recommendations viz., transfer of assets of water supply and sanitation to PRIs and creation of database and computerization of maintenance of accounts were not implemented even after lapse of over five years. The State Government did not issue order for taking over the assets of water supply and sanitation by the PRIs nor made any effort for computerization and creation of database. Monitoring was not effective as the High Level Committee dealt very scantily as the issues related to PRIs.

2.1.10. Recommendations

Following recommendations are made:

- The effective system of obtaining utilization certificates from PRIs functionaries may be instituted to report the actual utilization of funds to Government of India;
- The assets of water supply and sanitation may be handed over to the PRIs without further delay;
- Panchayats should levy the user charges on account of maintenance of water supply and sanitation;
- Computerisation and creating of data base should be taken on priority basis.