



CHAPTER-I
AN OVERVIEW OF
PANCHAYAT RAJ INSTITUTIONS



CHAPTER-I

SECTION 'A'

AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Introduction

The 73rd Constitutional Amendment gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, 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-government. 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 the District level were established. As of March 2013, there were 4 ZPs¹ 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 is 6.11 lakh of which male population is 3.23 lakh (53 *per cent*) and female population is 2.87 lakh (47 *per cent*). The rural population in the State is 4.56 lakh (75.03 *per cent*). Sikkim has 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 Table 1.1:

¹ North, East, South and West.

Table 1.1
Important statistics of the State

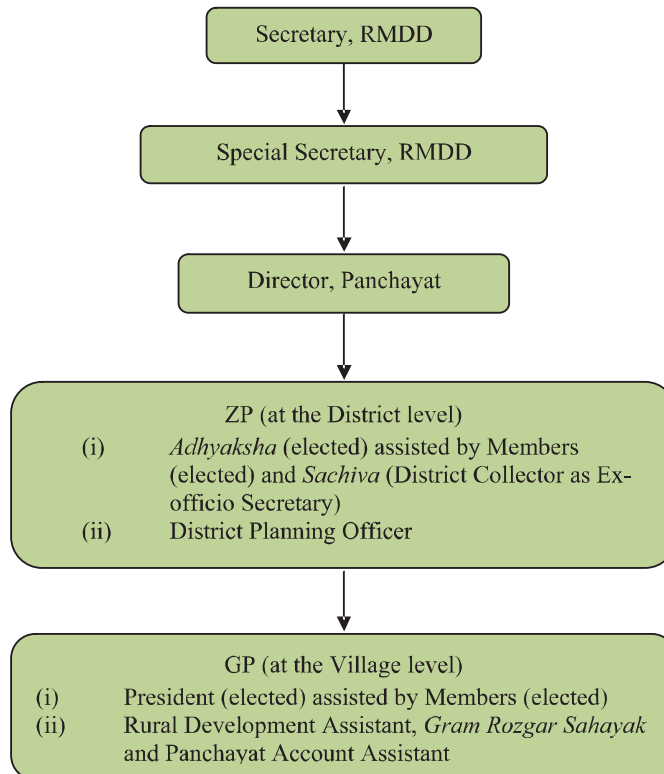
Indicator	Unit	State value	National value
Area	Sq.km.	7,096	32,87,263
Rural area	Per cent	88.90	72.20
District	Numbers	4	640
Village	Numbers	453	6,38,588
Population	In lakh	6.11	12,101.93
PRIs	Numbers	176	2,46,062
Municipal Corporation	Numbers	1	139
Municipal Council	Numbers	1	1,595
Nagar Panchayat	Numbers	5	2,108
Gender Ratio	1000 male	889	940
Poverty	Per cent	19.33	26.10
Literacy	Per cent	82.20	74.04
Total Households	Numbers	1,29,006	19,35,79,954

Source: Census report 2011 and information furnished by the State Government

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 organogram given below depicts the organisational structure of the Department and the PRIs.

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 83 test checked GPs are given below:

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 District Planning Committee (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 ; preparation 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 personalisation 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 consisted of Members of the Legislative Assembly whose major part of the constituencies fell within the District; three members of the Zilla Panchayat besides the *Adhyaksha*, which shall include one member from Nagar Panchayat, an economist/ Sr. Administrative Officer appointed by the State Government, District Collector and Additional District Collector (Development) –cum- Panchayat Officer. 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 other members of the Committee consisted of Members of Parliament of both the Houses. 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 grassroot level for the overall District Development Plan. It also did not forward the same to the State Government for integration with the

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

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.

1.5.1 Overall financial position of PRIs

The Rural Management and Development Department (RMDD) could not furnish (March 2013) 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 2012-13. Audit obtained the information directly from ZPs / GPs. According to information furnished by two ZPs and 91GPs, a total of ₹ 67.34 crore was available, of which ₹ 50.48 crore was spent during 2012-13, leaving a balance of ₹ 16.86 crore as shown in table 1.2:

Table 1.2

ZP / GP	Total fund available	Expenditure	Balance
ZPs (North & East)	23.86	11.97	11.89
East Sikkim (23 GPs)	3.83	2.22	1.61
West Sikkim (8 GPs)	2.43	2.02	0.41
North Sikkim (21 GPs)	22.51	22.41	0.10
South Sikkim (39 GPs)	14.71	11.86	2.85
Total	67.34	50.48	16.86

Source: Information furnished by ZPs & GPs

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 Recommendations (March 2010), accepted by the State Government (November 2010), also stipulated for transfer of funds ranging between 2 to 35 *per cent* by various departments for the period 2010-11 to 2014-15. It was, however, noticed that the fund allocations to the PRIs ranged between 0.61 to 1.95 *per cent* of total Plan expenditure of the State Government during 2008-12. The fund allocations, however, improved marginally to 2.48 *per cent* of the total plan expenditure of the State Government during 2012-13, as shown in table 1.3:

Table 1.3

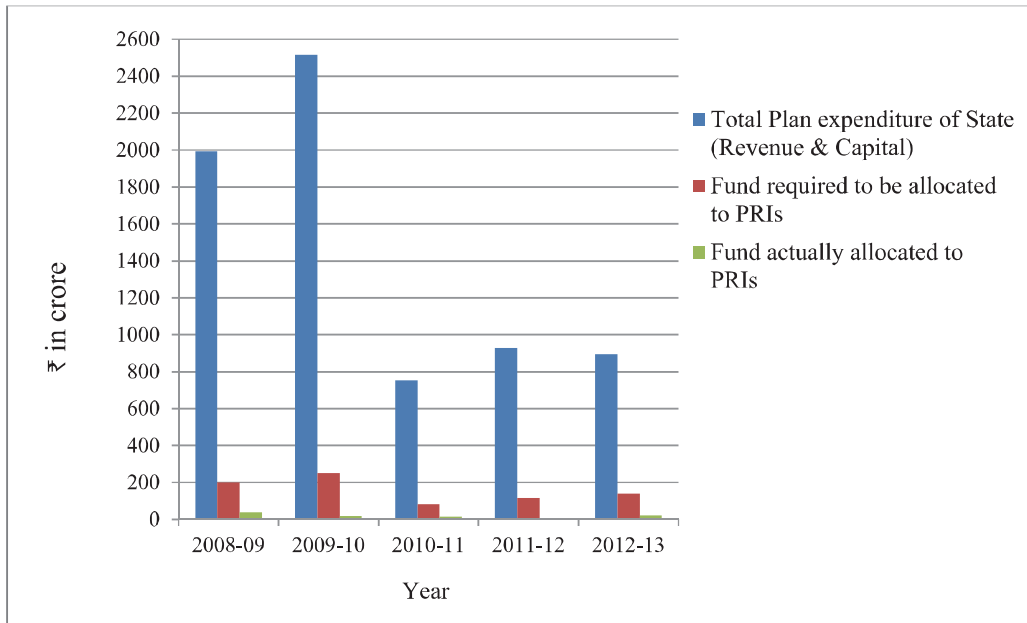
(₹ in crore)

Year	Total plan expenditure of State (Revenue & Capital)	Fund required to be allocated to PRIs	Fund actually allocated to PRIs	Percentage
2008-09	1,992.34	199.23	38.90	1.95
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
Total	7,083.17	792.32	99.36	

Source: Finance Accounts 2012-13 of Government of Sikkim

*Plan expenditure of only 14 Departments has been taken as per recommendation of the Third State Finance Commission.

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



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 welfare activities.

1.5.3 Non-adherence to State Finance Commission recommendations

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

- Arrangements for distribution between the State and Panchayats as well as the Municipalities of 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 Third State Finance Commission (TSFC) recommended (February 2010) certain measures for improving the fiscal health of the Panchayats and Municipalities, which although accepted (November 2010) by the State Government, were not adhered to by the departments as detailed in the succeeding paragraphs:

It was noticed that the gap between allocations to PRIs and stipulation by the Cabinet i.e. transfer of 10 *per cent* of the plan funds to PRIs, had widened. While the State budget allocation increased from ₹ 1,992.34 crore (2008-09) to ₹ 2,514.53 crore (2009-10), the allocation for PRI decreased from ₹ 38.90 crore (2008-09) to ₹ 19.24 crore (2009-10). Similarly, during 2010-11 to 2012-13 also, considering the allocation to 14 departments (as recommended by TSFC), the PRI allocation was not commensurate with the stipulation. While the State budget for 14 departments increased from ₹ 754.48 crore (2010-11) to ₹ 894.18 crore (2012-13), the PRI allocation was only ₹ 13.42 crore for 2010-11 and ₹ 22.14 crore for 2012-13.

The Third State Finance Commission (TSFC) worked out the 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 ₹ 4.33 crore for 176 GPs {to be met from 2.28 *per cent* of net proceeds of revenue (after deducting 25 *per cent* of total revenue collected as cost of collection) collected by 8 departments³} for administrative expenses, which was accepted by the State Government. However, no fund was transferred to GPs towards administrative expenditure from this receipt head during 2012-13. Absence of transfer of full amount for administrative expenses constrained the PRIs to spend developmental fund for defraying establishment cost to that extent.

TSFC also recommended (February 2010) for the year 2012-13, the transfer of (i) 2.42 to 30.25 *per cent* plan fund aggregating to ₹ 92.91 crore from 14 sectors⁴ towards 'Specific purpose grant'; and (ii) 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant to PRIs. This, however, was not followed during the year 2012-13. The total allocation under 'specific purpose grant' was excluding teachers' salary. The quantum of grant fixed as 'General purpose grant' was 24.20 *per cent* of the State Plan budget under RMDD. This percentage of 'General purpose grant' was also recommended by TSFC as untied grant⁵ in addition to 'Specific Purpose Grant'.

³ 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

⁴ (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

⁵ Untied grants are not linked to any specific programme or purpose and can be utilised at the discretion of the PRIs towards meeting innovative/need based activity for GP/ZP.

1.6 Source of Receipts

The broad sources of receipts of PRIs for the period from 2008-09 to 2012-13 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
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
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
Total	73.94	389.56	9.72	12.72	17.32	14.95	19.93	33.66	120.91	450.89

Source: Information furnished by the Rural Management & Development Department, Government of Sikkim

The broad sources of receipts from Central Grants during the year 2008-09 to 2012-13 were from 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		2008-09	2009-10	2010-11	2011-12	2012-13	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	12.02	103.68	44.48	100.80	74.07	335.05
BRGF	ZP	0	11.59	6.41	1.12	19.51	38.63
	GP	0	0	7.55	2.61	0	10.16
Twelfth FC	ZP	0	1.49	0	0	0	1.49
	GP	1.13	3.49	0	0	0	4.62
Thirteenth FC	ZP	0	0	1.44	8.02	3.49	12.95
	GP	0	0	7.14	18.71	8.14	33.99
SGRY	ZP	0	20.87	0	0	0	20.87
	GP	0	0	5.74	0	0	5.74
Total		13.15	141.12	72.76	131.26	105.21	463.50

Source: Information furnished by the Rural Management & Development Department, Government of Sikkim

During 2009-10 and 2011-12, the considerable increase of Central grant was due to implementation of MGNREGS in all the four districts of the State.

Share of receipts of PRIs from various sources during the period 2008-09 to 2012-13 is shown in table 1.5 B:

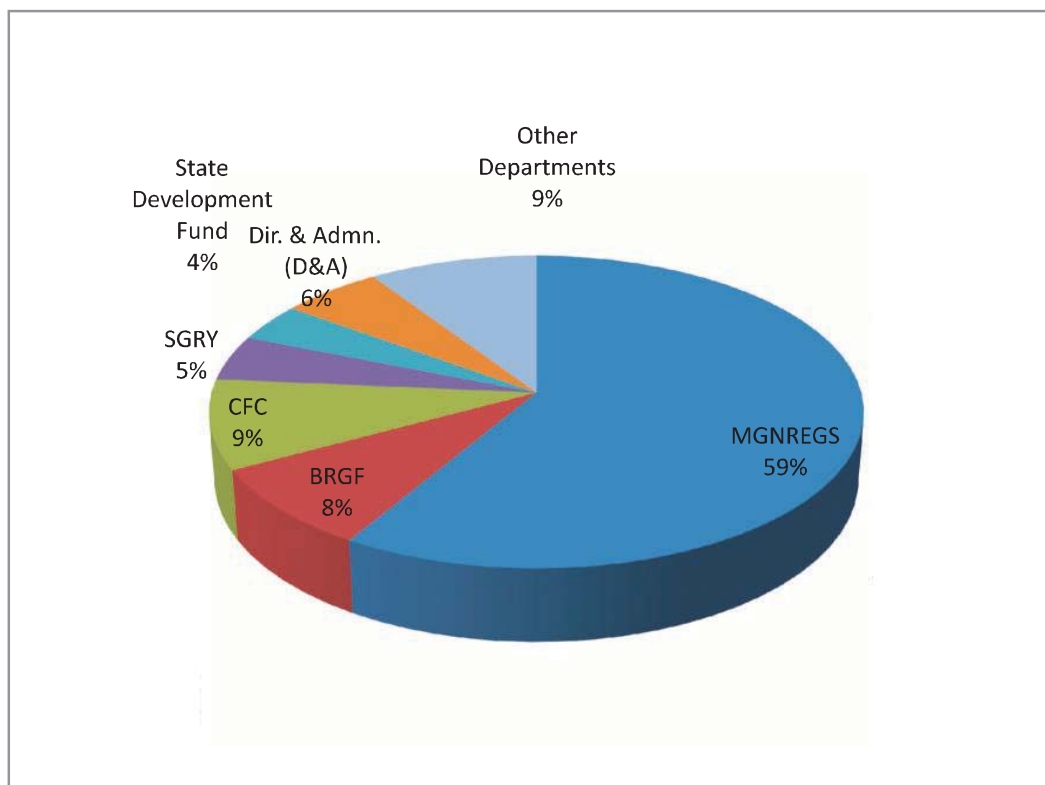
Table 1.5 B

(₹ in crore)

Name of Scheme	ZP	GP	Total	Percentage contribution w.r.t. total receipts
MGNREGS	0	335.05	335.05	58.60
BRGF	38.63	10.16	48.79	8.53
Central Finance Commission (CFC)	14.44	38.61	53.05	9.28
Swarna Jayanti Gram Rojgar Yojana (SGRY)	20.87	5.74	26.61	4.65
State Grants (Development Fund)	9.72	12.72	22.44	3.92
Direction & Administration (D&A)	17.32	14.95	32.27	5.64
Fund transferred from other Departments	19.93	33.66	53.59	9.37
Total Receipt	120.91	450.89	571.80	

Source: Information furnished by the Rural Management & Development Department, Government of Sikkim

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



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 Third State Finance Commission (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 kutchha construction per square feet of plinth area and other miscellaneous receipts by the Gram Panchayat.

It was, however, noticed that despite the above enabling provisions, 126 out of 176 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 the levy of taxes/fees and its collection by the PRIs were not prescribed to facilitate timely initiation of the levy and collection procedure, despite notification issued by the State Government (September 2010) based on the recommendations of the TSFC.

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
- (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(1) of the Constitution of India, the State Government constituted the First State Finance Commission in 1998, Second State Finance Commission (SSFC) in 2003 and Third State Finance Commission (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 of 2.28 *per cent* tax to PRIs, no amount was transferred to PRIs against the due share of ₹ 4.33 crore during 2012-13 as shown in table 1.6:

Table 1.6

(₹ in crore)

Head	Tax receipt	Net proceeds (75 % of tax receipt)	2.28% of Net proceeds	Tax Transferred
Land Revenue	5.65	4.238	0.097	Nil
Stamp & Registration	5.34	4.005	0.091	Nil
Taxes on sales, trades etc.	227.08	170.310	3.883	Nil
Animal Husbandry	0.72	0.540	0.012	Nil
Forestry & Wild Life	12.28	9.210	0.210	Nil
Minor Irrigation	0.20	0.150	0.003	Nil
Village & Small Industries	0.05	0.038	0.001	Nil
Tourism	2.13	1.598	0.036	Nil
Total	253.45	190.089	4.333	Nil

Source: Finance Accounts 2012-13, Government of Sikkim

1.8 Sectoral Analysis

Mention was made in previous Annual Technical Inspection Reports, the last being 2011-12 (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 Rural Management & Development Department. The above position still persists, thereby making it difficult to analyse the progress of work done in these sectors.

Audit observed that release of funds by various departments 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 expenditure vis-à-vis allocation to PRIs during 2012-13

(₹ in crore)

Name of Department	Total Plan Expenditure (Revenue and Capital)	Percentage to be transferred to PRI as recommended by Third Finance Commission (In per cent)	Amount to be transferred to PRI	Actual fund released to PRIs
Health & Family Welfare	159.37	24.20	38.57	---
Social Welfare	60.90	18.15	11.05	---
Tourism	61.23	18.15	11.11	---
Commerce & Industries	16.96	18.15	3.08	---
Energy	79.02	18.15	14.34	---
Irrigation & Flood Control	59.88	18.15	10.87	---
Co-operation	6.16	12.10	0.75	---
Agriculture & Allied Services	71.06	24.20	17.20	---

Animal Husbandry	16.78	30.25	5.08	---
Human Resource Development	171.12	2.42	4.14	---
Forest	17.60	18.15	3.19	---
Rural Management & Development	142.14	12.10	17.20	22.14
Land Revenue	4.00	18.15	0.73	---
Culture	27.96	12.10	3.38	---
Total	894.18		140.69	22.14

Source: Finance Accounts 2012-13, Government of Sikkim and information furnished by the Rural Management & Development Department

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 Mapping⁶

Co-existence of various tiers of PRIs pre-supposes balanced distribution of powers and functions among them. The basic criteria for such distribution are that 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 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 1.1*. 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 2013 under the 15 functions is detailed in *Appendix 1.2*.

⁶ 'Activity Mapping' is an exercise to devolve various functions to be discharged by the GPs and ZPs.

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 1.3*. Besides, the Sikkim Panchayat Act (SPA) also entrusts the State Government with the following powers to enable the State Government 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.

1.10.1 Social Audit

The State Government introduced (February 2008) social audit to enable people to have access to the works of their GP. Social audits for MNREGS works are functional in the State.

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 (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 48(3) in such manner as may be prescribed. The State Government has not yet appointed any Auditor under Section 48(2) of the Sikkim Panchayat Act, 1993. The State Government, however, has not carried out audit of PRIs during the year 2009-13.

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 C&AG 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 Principal Accountant General (Audit), Sikkim, as per the methodology and procedure enshrined in the Auditing Standards and the Guidelines issued by the C&AG

from time to time. During April 2012 to March 2013, the Accounts of 87 PRIs (4 ZPs and 83 GPs), were audited.

1.10.3 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 LBs. 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. This has affected the sense of accountability in ensuring proper compliance of rules and procedures as envisaged in the relevant Acts/Rules.

1.10.4 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 the Principal Accountant General (Audit) as on 31 March 2013 and awaiting settlement are given in Table 1.8.

Table 1.8

Position of settlement of outstanding audit paragraphs during 2003-04 to 2012-13

Year	IR issued	Paragraph issued	Paragraph settled	Paragraph outstanding
Up to 2007-08	269	1,458	571	887
2008-09	56	234	106	128
2009-10	50	362	24	338
2010-11	33	192	22	170
2011-12	70	104	0	104
2012-13	87	87	0	87
Total	565	2,437	723	1,714

Source: Outstanding para register maintained in Office of the Pr. A.G. (Audit), Sikkim

1.10.5 Vigilance mechanism

To ensure that the schemes/projects are implemented properly at the Panchayat level, tenders are invited and finalised appropriately, projects implemented in a qualitative manner, and Social Audit-cum-Vigilance Committees formed (February 2008). 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). The State Government also 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. Only 50 out of 176 GPs initiated steps to levy taxes and collected some revenue.

Audit observed that the District Planning Committee (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 2008-09 to 2012-13. As a result, fund allocation to the PRIs ranged between 0.61 to 2.48 *per cent* of the total expenditure of the State Government during the period 2008-09 to 2012-13. This fund allocation was far less than the prescribed percentage. Against the recommendation of TSFC to transfer ₹ 4.33 crore for 176 GPs, no fund was transferred during 2012-13. Similarly, TSFC recommendation for transfer of ₹ 92.91 crore from 14 departments towards 'Specific purpose grant' and 24.20 *per cent* of State Plan budget under RMDD towards General Purpose Grant was not followed during the year 2012-13.

SECTION 'B' – FINANCIAL REPORTING

1.12 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.

1.13 Accounting system in Gram Panchayats

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 83 GPs revealed that many records and registers as indicated above were not maintained properly. The following deficiencies were seen:

- Maintenance of Cash Books in 83 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 were not maintained;
- Annual Receipts and Payments Accounts were not maintained;
- Registers for Moveable and Immoveable Assets were not maintained; and
- Balance Sheets were not prepared.

Besides, Advance Registers were not maintained by PRIs. Database formats as suggested by the C&AG were also not initiated by any of the GPs and the ZPs. The Model Accounting Structure for PRIs prescribed by the Ministry of Panchayat Raj, Government of India (2009) in consultation with the C&AG, was accepted (April 2010) by the State Government and the software PRIASoft for maintenance of accounts developed by NIC was also not adopted by any of the GPs and ZPs.

1.14 Financial Reporting issues

1.14.1 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 Principal Accountant General for auditing. However, the General Body Meetings were not convened by PRIs due to administrative constraints. None of the four ZPs⁷ and 83 (out of 176) GPs forwarded annual accounts for the period 2009-10 to 2012-13. The position persisted despite being pointed out in earlier Annual Technical Inspection Reports (ATIRs).

1.14.2 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, Rural Management and Development Department of the State Government. It was noticed that no budget proposals were prepared by the GPs. 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 District Planning Committee to consolidate the PRI budget into respective ZPs for integrating into the State Budget. In the absence of a Budget, the machinery to monitor excess/savings in expenditure over Budget provision in respect of ZPs/GPs was also non-existent. As the PRIs in Sikkim deal with low volume of funds, budget preparation exercise has not been accorded due importance by the PRIs, ever since the formation of PRIs. The funds were released to all PRIs without even preparation of budget.

1.14.3 Maintenance of community assets and Asset register

The Sikkim Panchayat Act 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.

⁷ East, North, West, South

1.15 Placement of ATIR before the State Legislature

The ATIRs of the years 2007-09, 2009-10, 2010-11 and 2011-12 were placed in the State Legislature. However, the State Government had not amended the Sikkim Panchayat Act to spell out the *modus operandi* for discussing the Report.

1.16 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 not maintained properly in PRIs. None of the PRIs adopted the New Accounting Format for PRIs prescribed by the Ministry of Panchayat Raj in 2009 for maintenance of accounts. Neither was the budget proposal prepared by PRIs as required under the provisions of the respective Acts / Rules nor were the Annual Accounts forwarded to the Principal Accountant General (Audit), Sikkim.