

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, holding of regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as 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.

The Sikkim Panchayat Act, 1993 was enacted to establish a two tier Panchayat Raj Institutions (PRIs) system at village and district levels in the State following the 73rd Constitutional Amendment. The system envisaged elected bodies at village (Gram Panchayats) and district level (Zilla Panchayats). The Act extended to whole of Sikkim except 12 small towns. As of March 2011, there were 4 ZPs¹ and 163 GPs in the State.

1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1** below. As per 2011 Census, the total population of the State is 6.08 lakh of which male population is 3.22 lakh (53 *per cent*) and female population is 2.86 (47 *per cent*). The rural population in the State is 4.81 lakh (88.90 *per cent*). Sikkim has a total literacy rate of 82.20 *per cent* compared to 74.04 *per cent* of the nation. The service sectors along with the agricultural sector dominate the State's economy. The vital statistical information of the State is given in Table no.1.1 below:

¹North, East, South and West.

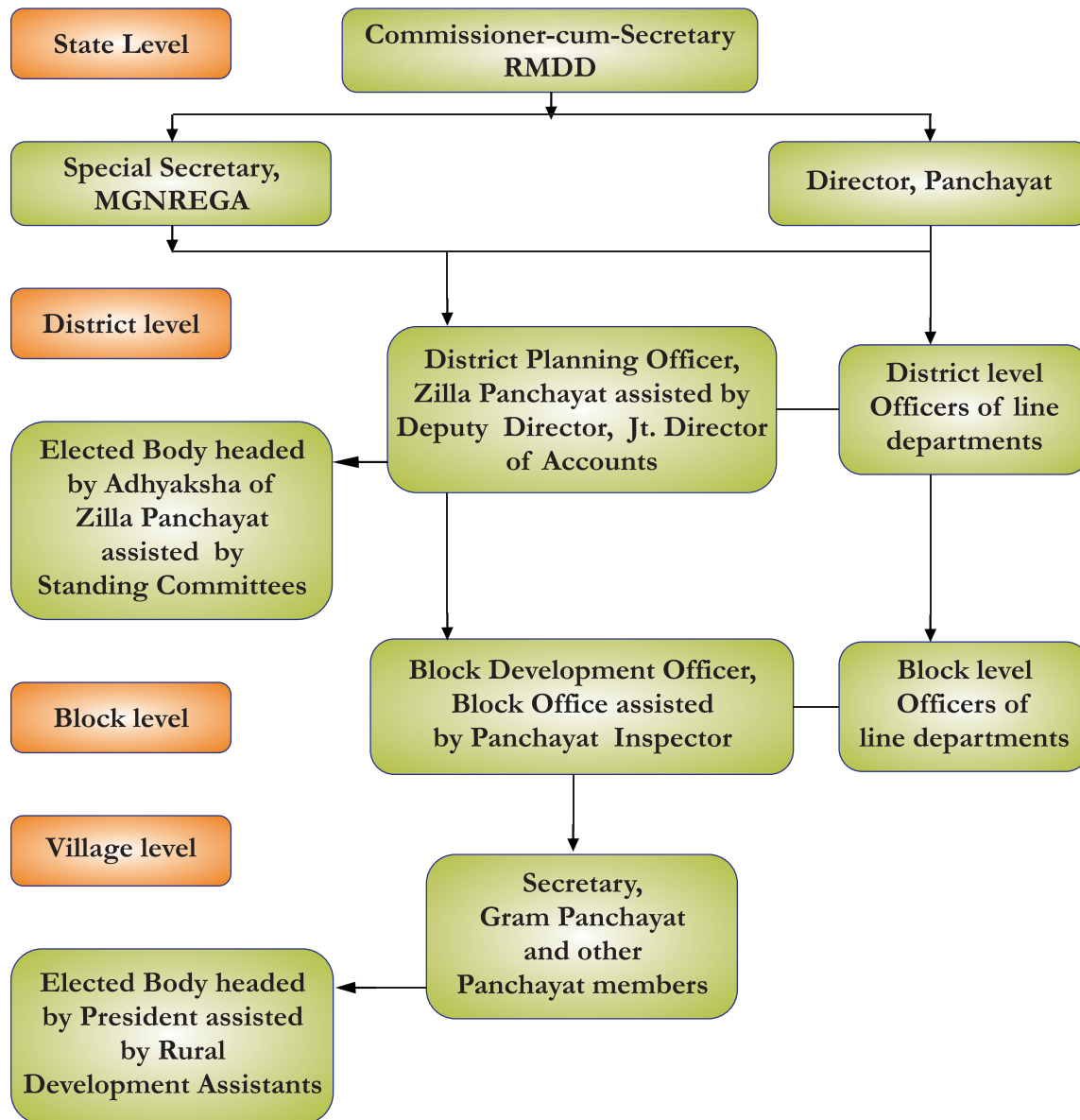
Table - 1.1
Important statistics of the State

Indicator	Year	Unit	State value	National value
Area	2011	Sq.km.	7,096	32,87,263
Rural area	2011	Per cent	88.90	72.20
District	2001	Numbers	4	593
Village	2001	Numbers	453	6,38,588
Population	2011	In lakh	6.08	12,101.93
PRIs	2011	Numbers	163	2,40,000(approx)
Zilla Panchayats	2011	Numbers	4	593
Villages	2011	Numbers	453	6,38,588
Gender Ratio	2011	1000 male	889	933
Poverty	2011	Per cent	19.33	26.10
Literacy	2011	Per cent	82.20	74.04
Crude Birth Rate	2001	Per 1000	18.4	24.8
Crude Death Rate	2001	Per 1000	5.2	8.0
Infant Mortality Rate (IMR)	2001	Per 1000	33	60
Per capita expenditure on Education	2001	₹	1,288	65
Total Households	2001	Numbers	1,14,223	19,35,79,954
Per capita Outlay on Housing	2001	₹	463	27

Source: Census report for Sikkim 2001 & 2011

1.3 Organisational structure of PRIs

Commissioner-cum-Secretary, Rural Management & Development Department is the overall in-charge for effective functioning of the PRIs in the State. The organogram given below depicts the organisational structure of the Department and the 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 alongwith their assignments in respect of 46 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 wide spectrum of stake holders, users, marginalized and vulnerable sections of society including women and senior citizens of the Gram Panchayat.	The Committee certifies the works executed by Gram Panchayat. 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 amongst the residents on disaster preparedness, management 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 amongst the residents on disaster preparedness, management and facilitate training of Disaster Management Team were not carried out.
3	Block Development Committee	Identifying schemes and scrutinizing them for overall development of the Gram Panchayat and Block, taking up schemes for implementation by ensuring proper monitoring and their 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.	Proper monitoring and their maintenance of schemes were not done.
4	Village Health Sanitation Committee (VHSC)	Responsible for the overall sanitation facilities in the village and health condition of the villagers, develop village level health plan, analyse every issue for health, conduct household survey and submit reports.	VHSC was not functional. VHSC neither prepared any plan nor submitted any report. Household survey was also not conducted.
5	District Technical Support Committee	Preparation of district perspective plan for each sector; support and coordinate with the Gram Panchayat functionaries and its working groups to provide technical inputs for preparation of GP plan; assist in formulation of ZP Plan and make projects in collaboration with the Zilla Panchayat and scrutinize for technical aspects of the GP / ZP plan and submit the observations to the DPC.	Estimates prepared by GPs were not technically vetted by District Technical Support Committee. This resulted in defective preparation of estimate and execution of a number of works without framing of estimates.
6	Water Supply & Sanitation Committee	Preparation of Village Action Plan (VAP); preparation of the Water Safety Plan; community mapping to describe the system; Walk the system "source to Mouth"; 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 Decentralised planning

According to the Sikkim Panchayat (SP) Act 1993 (u/s 127) the DPC consisted of the Members of the Legislative Assembly constituencies comprised in the district, members (3) of the Zilla Panchayat of which one from Nagar Panchayat, an economist / Sr. Administrative Officer appointed by the State Government, District Collector, and the District Development Officer. The Adhyaksha will be the Chairman; Mayor/ President of Municipal Corporation/Council, the Vice-Chairman; and District Development Officer, the Member Secretary.

In pursuance of Article 243 ZD of the Constitution of India and Section 127 of the SP Act 1993, the State Government constituted (July 2008) District Planning Committee (DPC). While the Adhyaksha of the ZP is the Chairman, the Mayor / President of the Municipal Corporation/ Municipal Council having jurisdiction over the headquarters of the district is the Vice-Chairman and the District Planning Officer is the Member Secretary of the Committee. The other members of the Committee consisted of Member of Parliament of both Lok Sabha and Rajya Sabha, MLAs having constituency within the district, Zilla Panchayat members and District Collector. The Committee was assigned the role and responsibility of consolidating the plans prepared by the ZPs, GPs, Town Panchayats and the Municipal Corporation in the district and prepare 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 visualising the plan for the district development as a whole. It also did not forward the same to the State Government for integration with the State plan. The DPCs had also not adequately engaged technical experts in different fields during the 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 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, deposit their funds in the savings account maintained with the nationalized banks.

1.5.1 *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. It was however, noticed that the fund allocations to the PRIs ranged between 0.76 to 2.84 *per cent* of total expenditure of the

State Government as shown in table below:

Table - 1.2

(₹ in crore)

Year	Total plan expenditure of State (Revenue & Capital)	Funds required to be allocated to PRIs	Funds actually allocated to PRIs	Percentage
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	2,514.53	251.45	19.24	0.76
2010-11	754.48*	75.45	13.42	1.78
Total	8,124.38	812.43	137.41	1.69

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

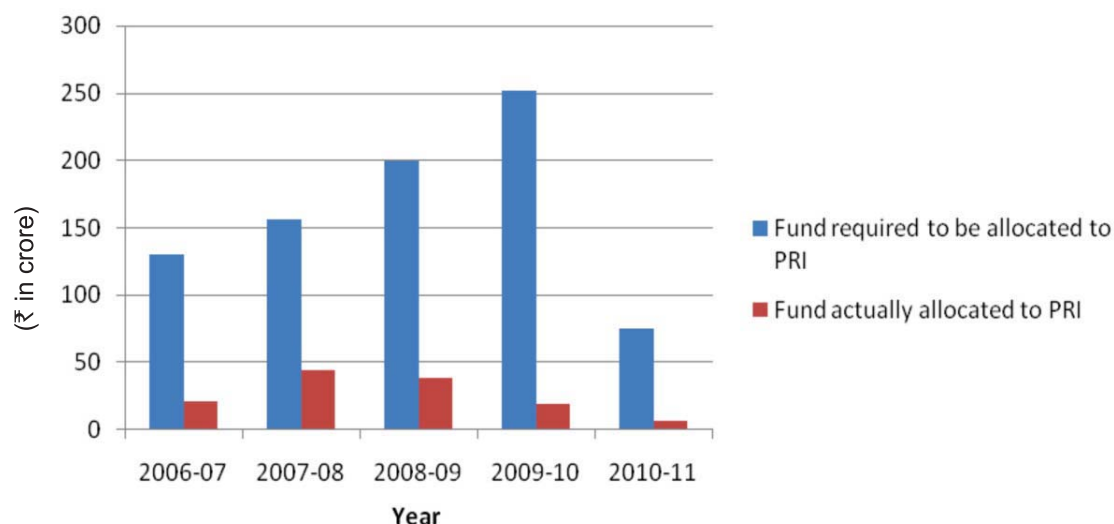
1.5.2 Non-adherence to State Finance Commission recommendation

State Finance Commission (SFCs) are 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 Consolidated Fund of the State.

Accordingly, the Third SFC recommended (February 2010) certain measures for improving fiscal health of the Panchayat and Municipalities which although accepted (November 2010) by the State Government was not adhered to by the departments as detailed below:

- It was noticed that the gap between allocations to PRIs and stipulation by the Cabinet had widened. While the State budget allocation increased from ₹1,300.69 crore in 2006-07 to ₹2,514.53 crore in 2009-10, the PRI allocations ranged from ₹21.53 crore in 2006-07 to ₹19.24 crore in 2009-10 indicating a decrease of ₹2.29 crore (11 per cent) as against the enhancement of State budget to 93 per cent over the same period. Further, during 2010-11 only 1.78 per cent (₹13.42 crore) of plan expenditure of ₹754.48 crore relating to 14 departments was transferred to PRIs.
- The allocation to PRI vis-à-vis funds required to be allocated to PRIs are depicted in the graph below:



The Third State Finance Commission (TSFC) worked out the gap between administrative expenditure and own revenue of the PRIs (had the PRI levied all taxes as recommended by TSFC) and recommended for transfer of fund of ₹3.62 crore for 163 GPs (to be met from 2 *per cent* of revenue collected by 8 departments²) for Administrative expenses which was accepted by the State Government. However, only ₹2 crore was transferred to GPs towards administrative expenditure (salary, TA/DA, honorarium and office expenses) during 2010-11. Absence of transfer of full amount for administrative expenses constrained the PRIs to spend developmental fund for defraying establishment cost, resulting in diversion of scheme fund as indicated in Chapter III.

TSFC also recommended (February 2010) for transferring of (i) 2 to 35 *per cent* plan fund aggregating to ₹76.79 crore from 15 sectors³ towards 'Specific purpose grant'; (ii) 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant to PRIs. This, however, was not followed during the year 2010-11. The total allocation under specific purpose grant was excluding Teachers salary. The quantum of grant fixed as General purpose grant of 20 *per cent* of the State Plan budget under RMDD was also recommended by TSFC as untied grant in addition to Specific Purpose Grant.

1.6 Source of Receipts

The broad source of receipts of PRIs for the period from 2006-07 to 2010-11 are given below:

²(i) Land revenue, (ii) Stamps and registration, (iii) Tax on Sale, Trade etc. (iv) Animal Husbandry, (v) Forestry and Wild life, (vi) Minor Irrigation, (vii) Village and small industries, and (viii) Tourism

³(I) Agriculture, (ii) Horticulture, (iii) Animal Husbandry, (iv) Human Resource & Development Department, (v) Health, (vi) Forest, (vii) Commerce and Industries, (viii) Disaster Management, (ix) Irrigation, (x) Culture, (xi) RMDD, (xii) Co-operative, (xiii) Social welfare, (xiv) Tourism, and (xv) Power

Table - 1.3

(₹ 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
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
2010-11	7.85	64.91	0.12	0.07	4.47	2.00	4.59	2.17	17.03	69.15
Total	54.81	221.08	12.23	49.50	12.83	5.56	27.38	38.83	107.25	314.97

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

The broad source of receipts from Central grants during the year 2006-07 to 2010-11 was from Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Backward Region Grant Fund (BRGF), Twelfth / Thirteenth Finance Commission and Swarna Jayanti Gram Rojgar Yojana (SGRY) as shown in the table below:

Table - 1.4A

(₹ in crore)

Year		2006-07	2007-08	2008-09	2009-10	2010-11	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	2.61	11.85	12.02	103.68	44.48	174.64
BRGF	ZP	0	10.45	0	11.59	6.41	28.45
	GP	0	0	0	0	7.55	7.55
Twelfth FC	ZP	0	0.78	0	1.49	0	2.27
	GP	2.60	1.82	1.13	3.49	0	9.04
Thirteenth FC	ZP	0	0	0	0	1.44	1.44
	GP	0	0	0	0	7.14	7.14
SGRY	ZP	0	1.78	0	20.87	0	22.65
	GP	11.70	5.27	0	0	5.74	22.71
Total		16.91	31.95	13.15	141.12	72.76	275.89

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

Share of receipts of PRIs from various sources during the period from 2006-07 to 2010-11 is

shown in table below:

Table - 1.4B

(₹ in crore)

Name of Scheme	ZP	GP	Total	Percentage contribution of total receipts
MGNREGS	---	174.64	174.64	41
BRGF	28.45	7.55	36.00	9
Twelfth / Thirteenth Finance Commission (TFC)	3.71	16.18	19.89	4
Swarna Jayanti Gram Rojgar Yojana (SGRY)	22.65	22.71	45.36	11
State Grants (Development Fund)	12.23	49.50	61.73	15
Direction & Administration	12.83	5.56	18.39	4
Fund transferred from other Departments	27.38	38.83	66.21	16
Total Receipt	107.25	314.97	422.22	

1.6.1 Non-levy of taxes

Sections 39 (1) and 40 (1) of Sikkim Panchayat Act, 1993 envisaged levy of taxes, rates, and fees on the subjects mentioned at clause (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 at clause (a) to (k) of section 77(1) of Sikkim Panchayat Act, 1993.

Based on Third State Finance Commission's recommendations (February 2010), the State Government notified (September 2010) for levying of Household Tax (₹5 to ₹15); 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 and ₹1 for kutcha per square feet of plinth area and Other miscellaneous receipts, etc., by the Gram Panchayat.

It was, however, noticed that despite the above enabling provisions, the GPs had neither initiated any steps to identify the areas for levying taxes nor collected any revenue excepting two GPs (Melli-dara and Lunchok Kamrang). It was also noticed that control mechanism for 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 State Government (September 2010) based on the recommendations of the Third State Finance Commission.

1.7 Allocation and utilization of State Finance Commission (SFC) grants

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) grants-in-aid to the Panchayats.

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

In pursuance of Article 243(I) of the Constitution of India, the State Government constituted 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 Government during February 2010. Among accepted recommendations, the following were not complied:

- User charges were not levied by the PRIs to augment their resources as pointed out in para 1.6.1
- Against mandated recommendation of TSFC of two *per cent* tax transfer to PRIs, only ₹1.86 crore was transferred to PRIs against the due share of ₹3.43 crore during 2010-11 as shown below:

Table - 1.5

(₹ in crore)

Head	Tax receipt	2% of Tax receipt	Tax Transferred
Land Revenue	7.33	0.15	Nil
Stamps & Registration	5.70	0.11	0.05
Taxes on Sales, Trade, etc.	142.73	2.85	1.80
Animal Husbandry	0.37	0.01	0.01
Forestry & Wild Life	12.24	0.24	Nil
Minor Irrigation	0.29	0.01	Nil
Village & Small Industries	0.07	-	Nil
Tourism	3.00	0.06	Nil
Total	171.73	3.43	1.86

Source: Finance Accounts 2010-11

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 provisions, release of fund and expenditure incurred under Plan and Non-Plan 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 persisted 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 the discretion of the departments as would be noticed from the figures reflected in the table below:

Table - 1.6

Sector-wise total expenditure vis-à-vis allocation to PRIs during 2010-11

(₹ in crore)

Name of Department	Total Plan Expenditure (Revenue and Capital)	Percentage to be transferred to PRI as recommended by TSFC (In per cent)	Amount	Actual fund released
Health & Family Welfare	68.50	20	13.76	---
Social Welfare	39.35	15	5.90	---
Tourism	56.89	15	8.53	---
Commerce & Industries	14.63	15	2.19	---
Energy	74.09	15	11.11	---
Irrigation & Flood Control	47.32	15	7.09	---
Co-operation	3.02	10	0.30	---
Agriculture & Allied Services	64.44	20	12.88	---
Animal Husbandry	15.19	25	3.79	---
Human Resource Development	258.45	2	5.16	---
Forest	34.13	15	5.11	---
Rural Management & Development	75.03	10	7.50	6.76
Land Revenue	0.05	15	0.01	---
Culture	3.32	10	0.33	---
Total	754.41			6.76

Source: Finance Accounts 2010-11

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 on ad-hoc basis.

1.9 Devolution of Funds, Functions and Functionaries

➤ *Activity Mapping*

Co-existence of various tiers of PRIs pre-supposes balanced distribution of powers and functions among them. The basic criteria for such distribution is 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 enlisted in the XIth Schedule of the Constitution can be completed by March 2002. The Sikkim Panchayat Act has enabling provision for transfer of these functions to different tiers of PRIs. Accordingly, the State Government through executive orders transferred (April 2008) functions to PRIs as detailed in **Appendix I**. However, 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 subject. This exercise was done through activity mapping (April 2010).

➤ *Functions not transferred as per 73rd Constitutional amendment*

Although the State Government delineated the role and responsibilities of the 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 13 subjects were transferred to PRIs. The department-wise position of schemes transferred to PRIs by State Government as of March 2011 under the 13 functions is detailed in **Appendix II**.

➤ *Non-transfer of schemes*

BRGF guideline (*para 4.12*) stipulates that the implementation of the works should be done by the Panchayats. Fund should be transferred to the concern Panchayat which is implementing particular work. Scrutiny of records revealed that works valuing ₹7.55 crore were sanctioned and transferred to Block Administrative Centres (BACs) for onward transmission to Panchayats. However, BACs themselves implemented the projects and utilized the fund at their own level.

1.10 Accountability framework

As per Sikkim Panchayat Act, 1993 and Rules made there under, the State Government exercises its powers in relation to PRIs as detailed in **Appendix III**. 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;
- to remove Adhyaksha and Upadhyaksha of ZP/GP after following the appropriate procedure; and
- take action for default of a Panchayat President, Secretary and District Planning Officer.

Despite the above empowerment of the State Government for the enhancement of quality of public service and governance, a number of defects in implementation of schemes, matters relating to finance, etc. were noticed. The details are mentioned in Chapter II and III of this Report.

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. The Social audits for MGNREGS 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 Auditor for audit of the accounts of GP. Section 48 (3) of the Act also provides for audit of accounts of Gram Panchayat by 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 (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, Government of India; the Government of Sikkim has entrusted (August 2001) audit of accounts of Panchayati Raj Institutions to C&AG under Section 20(1) of CAG's DPC Act 1971. Accordingly, audit of the GP is being conducted bi-annually and ZPs annually by the office of the Principal Accountant General, Sikkim since May 2003 as per the methodology and procedure enshrined in Auditing Standards and the Guidelines issued by C&AG from time to time. As recommended by the Thirteenth Finance Commission, the State Government entrusted audit of PRIs under Technical Guidance and Supervision Model as per standard terms and conditions under Section 20 (1) of CAG's DPC Act to the C&AG (June

2011). The State Government, however, has not carried out internal audit of PRIs during the year 2010-11.

1.10.3 Response to Audit

The compliance report on the observations issued by Audit is to be sent within four weeks. Details of inspection reports issued by Principal Accountant General (Audit), as of 31 March 2011, and awaiting settlement are given in table below:

Table - 1.7

Position of settlement of outstanding audit paragraphs during 2005-2011

Year	IR issued	Paragraph issued	Paragraph settled	Paragraph outstanding
Upto 2005-06	116	786	243	543
2006-07	67	320	52	268
2007-08	86	352	11	341
2008-09	56	234	20	214
2009-10	50	362	-	362
2010-11	33	192	-	192
Total	408	2,246	326	1,920

Source: Monthly Report of Outstanding Para Register

1.10.4 Vigilance mechanism

To ensure that the schemes/projects are implemented properly, tenders are invited and finalized appropriately at the Panchayat level and above all projects are carried out on qualitative manner; Social Audit cum Vigilance Committee has been formed (February 2008). The Committee consisted of wide spectrum of stake holders, users, marginalized and vulnerable sections of society including women and senior citizens of the Gram Panchayats. The Committee certified the completed works, but day to day monitoring to ensure the quality and timeliness aspects were not accorded due importance by the Committee.

1.11 Conclusion

The State Government did a commendable job of transferring of functions to PRIs as envisaged in the 73rd Constitutional amendments 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, and Water Supply & Sanitation Committee for smooth functioning of the Gram Panchayat, Block, etc.

Audit, however, observed that the District Planning Committee constituted (July 2008) in each district to ensure decentralized 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 visualising the plan for the district development as a whole. The line departments did not transfer the fund to the PRIs as envisaged during the period 2006-07 to 2010-11. As a result fund allocation to the PRIs ranged between 0.76 to 2.84 *per cent* of total expenditure of the State Government during the period from 2006-07 to 2010-11. Against the recommendation of TSFC to transfer of ₹3.62 crore for 163 GPs, only ₹2 crore was transferred during 2010-11. Similarly, TSFC recommendation for transfer of ₹76.79 crore from 15 sectors⁴ towards 'Specific purpose grant'; 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant was not followed during the year 2010-11. The GPs also had not initiated any steps to identify the areas for levying of taxes nor collected any revenue except for two GPs.

⁴(I) Agriculture, (ii) Horticulture, (iii) Animal Husbandry, (iv) Human Resource & Development Department, (v) Health, (vi) Forest, (vii) Commerce and Industries, (viii) Disaster Management, (ix) Irrigation, (x) Culture, (xi) RMDD, (xii) Co-operative, (xiii) Social welfare, (xiv) Tourism, and (xv) Power

SECTION 'B'

FINANCIAL REPORTING

1.12 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) & (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 46 GPs revealed that basic records and registers as indicated above were not maintained properly as evidenced from following:

- Maintenance of Cash Books in 46 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 Payment Accounts were not maintained;
- Registers for Moveable and Immoveable Assets were not maintained; and
- Balance Sheets had not been prepared.

Besides, Advance Registers to indicate the position of outstanding advances, adjustment thereof was not maintained. Data base formats as suggested by C&AG were also not initiated by any of the GPs and the ZPs. Model Accounting Structure for PRI prescribed by C&AG and Ministry of Panchayati Raj, Government of India in 2009 were also not adopted by any of the

GPs and ZPs. None of the GPs had formed committees to arrive at the value of assets held by the GPs as required under the Rules.

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 General Body of PRIs within three months from the closure of the financial year and to be forwarded to the Principal Accountant General for auditing. The General Body meetings were not convened by PRIs in time due to administrative constraints. Reasons for non-preparation of annual accounts within the stipulated time were attributed to delay in passing the annual accounts. The delay in submission of annual accounts persisted despite being pointed out in earlier Annual Technical Inspection Report (ATIR). Four ZPs⁵ and 163 GPs did not forward annual accounts during 2010-11.

1.14.2 Placement of ATIR before the State Legislature

The ATIRs of the year 2007-09 and 2009-10 were placed in the State Legislature. However, State Government has not amended the Sikkim Panchayat Act or issued any order for placement of ATIR and modus operandi to discuss the Report.

1.14.3 Budget

Budget is the most important tool for financial planning, accountability and control. Sikkim Panchayat Act, 1993 read with Para 8 of Sikkim Gram Panchayat Rule, 2003 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 its budget for submission to State Government. This was despite stipulation in para 8(1) of Sikkim Gram Panchayat (Financial) Rule, 2003 requiring District Planning Committee to consolidate the PRI budget into respective ZPs for integrating into State Budget. In absence of Budget, the machineries to watch excess/savings in expenditure over Budget provision in respect of ZPs/GPs were also non-existent.

1.14.4 Maintenance of community assets and Asset register

The Sikkim Panchayat Act, 1993 provides the responsibility of maintenance of community assets to PRIs. All PRIs should maintain an asset register in prescribed form containing

⁵East, North, West, South

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 were also not carried out in any of the GPs/ZPs. Asset Registers were not maintained by any of the PRIs and hence the sufficiency of funds for maintenance of community assets could not be ascertained by Audit. The State Government also did not call for any return detailing the nature of assets, year of creation and monetary value of the assets held by the GPs / ZPs.

1.15 Conclusion

Post 73rd Constitutional amendments the Government of Sikkim had enacted the Sikkim Panchayat Act, 1993 and also transferred the activities as mentioned in Schedule XI of the Constitution to the PRIs. Activity mapping exercise was also initiated and departments were instructed to transfer 10 *per cent* of the developmental funds to the PRIs to enable them to execute the projects as per their perceived requirement.

Audit, however, noticed that functioning of PRIs in Sikkim lacked the desired impact as the required funds were not forthcoming from the departments concerned. The PRIs in turn also had not been able to generate their own resources, although mandated by the successive State Finance Commissions, not levied taxes and duties, fees, etc., on the users. The planning aspects required immediate attention as the planning for the PRIs were almost non-existent. The District Planning Committees also did not contribute towards integrating various GPs plans into District plans and forward the same to the State Government for integrating into State plans thereby flow of funds to the PRIs were restricted. The functioning of various committees formed for the purpose of improving the functioning of the PRIs was also not satisfactory.