

CHAPTER - I

AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

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SECTION 'A'

AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Introduction

The 73rd Constitutional Amendment gave the constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure; holding of regular elections; devolution of 29 functions listed in the Eleventh Schedule of the Constitution; 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 2012, there were 4 ZPs¹ and 165 GPs in the state.

1.2 State profile

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 4.56 lakh (75.03*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.

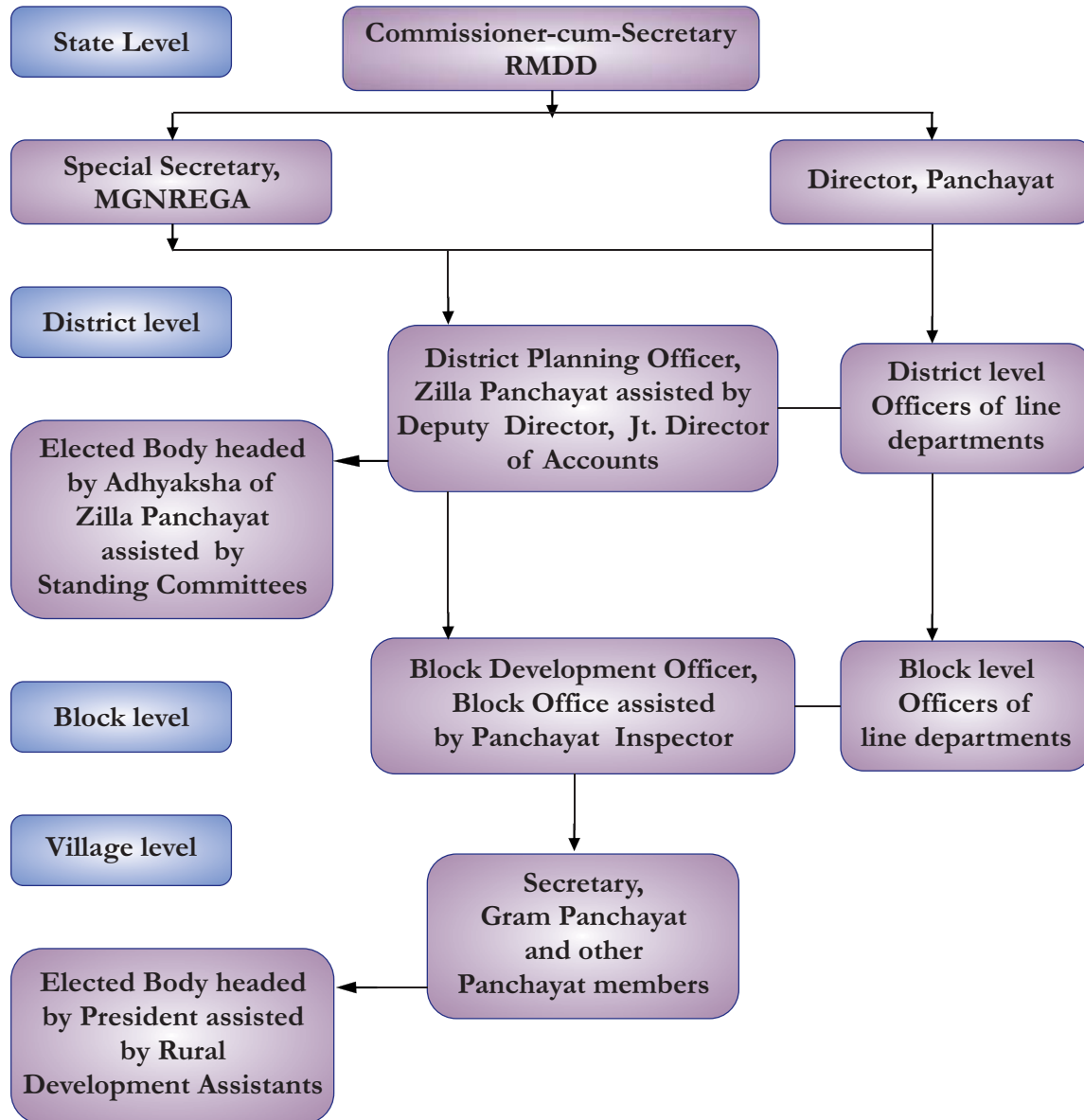
Table 1.1
Important statistics of the State

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	2011	Numbers	4	640
Village	2001	Numbers	453	6,38,588
Population	2011	In lakh	6.08	12,101.93
PRIs	2011	Numbers	176	2,40,000(approx)
Gender Ratio	2011	1000 male	889	940
Poverty	2011	Per cent	19.33	26.10
Literacy	2011	Per cent	82.20	74.04
Crude Birth Rate	2011	Per 1000	17.8	22.10
Crude Death Rate	2011	Per 1000	5.6	7.2
Infant Mortality Rate (IMR)	2011	Per 1000	30	47
Per capita expenditure on Education	2009-10	₹	6,667	1,337
Total Households	2011	Numbers	1,28,131	19,35,79,954

Source: Census report 2011(provisional) and State Government

1.3 Organisational structure of PRIs

Commissioner-cum-Secretary, Rural Management & Development Department (RMDD) is the overall in-charge for effective functioning of the PRIs in the State. The organogram given below depicts the 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 59 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 adequately functional as it did not carry out household survey before implementation of sanitation programme.
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 operationalisation 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, three members of the Zilla Panchayat besides the Adhakshya which shall include 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 Additional District Collector (Development), 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 taking any inputs from the grass root level for overall district development plan. It also did not forward the same to the State Government for integration with the State plan. The DPCs had also not adequately engaged technical experts 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 Additional District Collector (Development) 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. Third State Finance Commission

Recommendation's (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 funds allocation to the PRIs ranged between 0.76 to 2.84 *per cent* of total expenditure of the State Government during 2007-08 and 2009-10. Similarly, during 2010-11 and 2011-12, the fund allocations to PRIs ranged between 0.61 to 1.78 *per cent* of the total expenditure of the State Government as shown in the table below:

Table 1.2

(*₹ in crore*)

Year	Total plan expenditure of State (Revenue & Capital)	Fund required to be allocated to PRIs	Fund actually allocated to PRIs	Percentage
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*	75.44	13.42	1.78
2011-12	927.64*	92.76	5.66	0.61
Total	7,751.33	775.11	121.54	

(Source: Finance Accounts of Government of Sikkim)

* *Plan expenditure of only 15 Departments has been taken as per recommendation of Third State Finance Commission.*

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 adequate funds to the PRIs resulting in non-implementation of various welfare activities planned.

1.5.2 Non-adherence to State Finance Commission recommendation

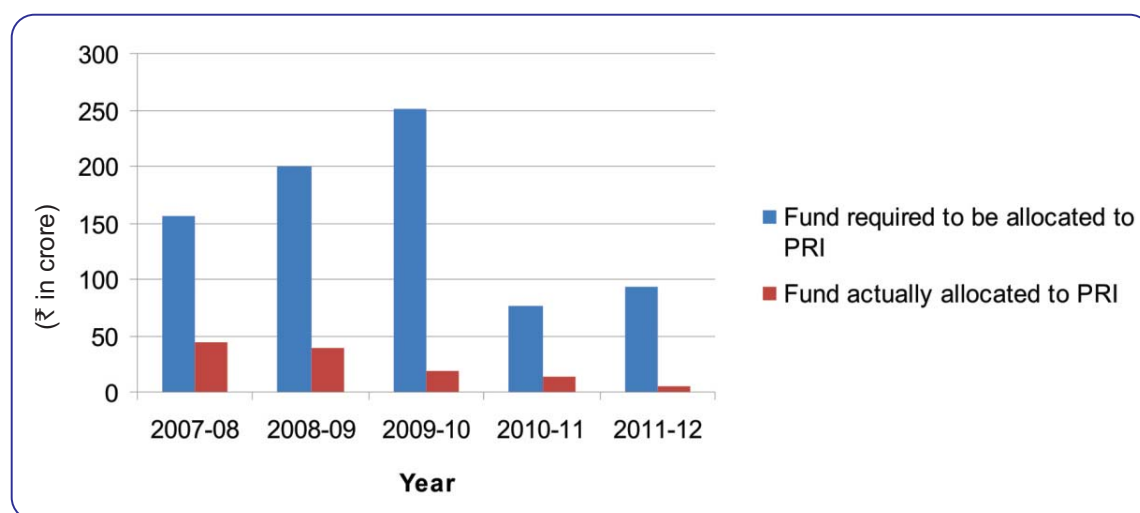
State Finance Commission (SFCs) is set up to recommend:

- 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 Consolidated Fund of the State.

Accordingly, the Third State Finance Commission (TSFC) 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 i.e. transfer of 10 *per cent* of the plan funds to PRIs, had widened. While the State budget allocation increased from ₹ 1,562.34 crore in 2007-08 to ₹ 2,514.53 crore in 2009-10 and from ₹ 754.48 crore in 2010-11 (only 15 departments recommended by the TSFC) to ₹ 927.64 crore in 2011-12, the PRI allocations decreased from ₹ 44.32 crore in 2007-08 to ₹ 5.66 crore in 2011-12 indicating a decrease of ₹ 38.66 crore (82.23 *per cent*) as against the enhancement of State budget by 60.94 *per cent* from 2007-08 to 2009-10 and 22.95 *per cent* (only 15 departments recommended by the TSFC) from 2010-11 to 2011-12. Further, during 2011-12 only 0.61 *per cent* (₹ 5.66 crore) of plan expenditure (₹ 927.64 crore) relating to 15 departments was transferred to PRIs against the due share of ₹ 117.29 crore as mentioned at para no. 1.8.
- The allocation to PRI vis-à-vis fund required to be allocated to PRIs are depicted in the graph below:



The Third State Finance Commission (TSFC) worked out 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 ₹3.04 crore for 165 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 2011-12. Absence of transfer of full amount for administrative expenses constrained the PRIs to

²i. 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, viii. Tourism

spend developmental fund for defraying establishment cost to that extent.

TSFC also recommended (February 2010) for transferring of (i) 2 to 35 per cent plan fund aggregating to ₹ 84.47 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 2011-12. 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 2007-08 to 2011-12 are given below:

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
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
2011-12	9.14	122.12	0	0	3.67	2.00	0	0	12.81	124.12
Total	63.95	326.29	9.83	32.90	14.85	6.80	27.28	38.81	115.91	404.80

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

The broad source of receipts from Central Grants during the year 2007-08 to 2011-12 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 as shown in the table below:

³(I) Agriculture, (ii) Horticulture, (iii) Animal Husbandry, (iv) HRDD, (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 1.4A

(*₹ in crore*)

Year		2007-08	2008-09	2009-10	2010-11	2011-12	Total
MGNREGA	ZP	0	0	0	0	0	0
	GP	11.85	12.02	103.68	44.48	100.80	272.83
BRGF	ZP	10.45	0	11.59	6.41	1.12	29.57
	GP	0	0	0	7.55	2.61	10.16
Twelfth FC	ZP	0.78	0	1.49	0	0	2.27
	GP	1.82	1.13	3.49	0	0	6.44
Thirteenth FC	ZP	0	0	0	1.44	8.02	9.46
	GP	0	0	0	7.14	18.71	25.85
SGRY	ZP	1.78	0	20.87	0	0	22.65
	GP	5.27	0	0	5.74	0	11.01
Total		31.95	13.15	141.12	72.76	131.26	390.24

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

During 2009-10 and 2011-12 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 from 2007-08 to 2011-12 is shown in table below:

Table-1.4B

(*₹ in crore*)

Name of Scheme	ZP	GP	Total	Percentage contribution of total receipts
MGNREGA	0	272.83	272.83	60
BRGF	29.57	10.16	39.73	9
Central Finance Commission (CFC)	11.73	32.29	44.02	10
Swarna Jayanti Gram Rojgar Yojana (SGRY)	22.65	11.01	33.66	7
State Grants (Development Fund)	9.83	32.90	42.73	9
Direction & Administration (D&A)	14.85	6.80	21.65	5
Fund transferred from other Departments	0	0	0	0
Total Receipt	88.63	365.99	454.62	

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

1.6.1 Non-levy of taxes

Sections 39 (1) and 40 (1) of Sikkim Panchayat Act, 1993 envisaged constitution of Gram Panchayat Fund and 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 TSFC 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 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 except by 28 GPs. 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 TSFC.

1.7 Allocation of Funds as per recommendation of State Finance Commission (SFC)

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 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 most of the PRIs to augment their resources as pointed

out in para 1.6.1.

- Against mandated recommendation of TSFC for transfer of two *per cent* tax to PRIs, no amount was transferred to PRIs against the due share of ₹ 3.04 crore during 2011-12 as shown below:

Table-1.5

(₹ in crore)

Head	Tax receipt	2% of Tax receipt	Tax Transferred
Land Revenue	4.61	0.09	Nil
Stamp & Registration	8.27	0.16	Nil
Taxes on sales, trades etc.	124.19	2.48	Nil
Animal Husbandry	0.48	0.01	Nil
Forestry & Wild Life	12.53	0.25	Nil
Minor Irrigation	0.28	0.01	Nil
Village & Small Industries	0.10	0	Nil
Tourism	1.84	0.04	Nil
Total	152.30	3.04	Nil

(Source: Finance Accounts, Government of Sikkim)

Thus, the PRIs had not only levied user charges as recommended by the TSFC, further, the Government had also not mandatory transferred two *per cent* tax to PRIs.

1.8 Sectoral Analysis

Mention was made in the previous Annual Technical Inspection Reports, the last being 2010-11 (para 1.8) regarding 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 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 2011-12
(₹ 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	150.87	20	30.17	---
Social Welfare	46.83	15	7.02	---
Tourism	61.99	15	9.30	---
Commerce & Industries	40.34	15	6.05	---
Energy	72.86	15	10.92	---
Irrigation & Flood Control	40.80	15	6.12	---
Co-operation	3.71	10	0.37	---
Agriculture & Allied Services	78.44	20	15.69	---
Animal Husbandry	25.16	25	6.29	---
Human Resource Development	216.62	2	4.33	---
Forest	36.78	15	5.52	---
Rural Management & Development	129.96	10	13.00	5.66
Land Revenue	3.69	15	0.55	---
Culture	19.53	10	1.95	---
Total			117.29	5.66

(Source: Finance Accounts, Government of Sikkim)

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

1.9.1 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 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 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 1.1**. 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 in 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 15 subjects were transferred to PRIs. The department-wise position of schemes transferred to PRIs by State Government as of March 2012 under the 15 functions is detailed in **Appendix 1.2**.

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 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;
- to 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 defects in 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. The 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 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 Panchayat Raj Institutions to C&AG under Section 20(1) of CAG's DPC Act 1971. Further, the State Government had again entrusted audit of PRIs under Technical Guidance and Support (TG&S) model as per standard terms and conditions under Section 20(1) of CAG's (DPC) Act to the C&AG (June 2011) as recommended by the Thirteenth Finance Commission.

Accordingly, audit of the GP is being conducted biennially and ZP 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. The State Government, however, has not carried out internal audit of PRIs during the year 2009-12.

1.10.3 Response to Audit

The compliance report on the observations issued by Audit is to be sent within three months. Details of inspection reports issued by Principal Accountant General (Audit), as on 31 March 2012 and awaiting settlement are given in Table No.1.7.

Table-1.7

Position of settlement of outstanding audit paragraphs during 2003-04 to 2011-12

Year	IR issued	Paragraph issued	Paragraph settled	Paragraph outstanding
Upto 2007-08	269	1,458	493	965
2008-09	56	234	102	132
2009-10	50	362	24	338
2010-11	33	192	0	192
2011-12	70	104	0	104
Total	478	2,350	619	1,731

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 Committees 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 could transfer only 15 functions to PRIs out of 29 functions 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; Water Supply & Sanitation Committee; etc., for smooth functioning of the Gram Panchayat, Block etc. 28 GPs (out of 165) from whom information received revealed that the GPs (28) had initiated adequate steps to levy taxes and collected some revenue.

However, Audit observed that the District Planning Committee (DPC) 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 taking any inputs from the grass root level for overall district development plan. The line departments did not transfer the fund to the PRIs as envisaged during the period 2007-08 to 2011-12. As a result fund allocation to the PRIs ranged between 0.61 to 2.84 *per cent* of total expenditure of the State Government during the period from 2007-08 to 2011-12. Against the recommendation of TSFC to transfer of ₹ 3.04 crore for 165 GPs, only ₹ 2 crore was transferred during 2011-12 for Administrative expenses. Similarly, TSFC recommendation for transfer of ₹ 84.47 crore from 15 departments towards 'Specific purpose grant'; 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant; was not followed during the year 2011-12.

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 59 GPs revealed that basic records and registers as indicated above were not maintained properly as evidenced from following:

- Maintenance of Cash Books in 59 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 not 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 Ministry of Panchayat Raj, Government of India in 2009 in consultation with C&AG 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 ZP⁴s and 165 GPs did not forward annual accounts 2009-10 to 2011-12.

1.14.2 Placement of ATIR before the State Legislature

The ATIRs of the year 2007-09, 2009-10 and 2010-11 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 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 its budget for submission to State Government. This was despite stipulation in para 8(1) of Sikkim Gram Panchayat (Financial) Rules, 2003 requiring District Planning Committee to consolidate the PRI budget into respective ZPs for integrating into State Budget. In the absence of Budget, the machinery to watch excess/savings in expenditure over Budget provision in respect of ZPs/GPs was also non-existent.

1.14.4 Maintenance of community assets and Asset register

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

⁴East, North, West, South

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

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 provision of Sikkim Panchayat Act, 1993 and other Rules etc. 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 Modal Accounting System for PRIs prescribed by Ministry of Panchayat Raj in 2009 for maintenance of accounts. No budget proposal was prepared by PRIs as required under the provisions of the respective Acts / Rules.