



सत्यमेव जयते

**Annual Technical Inspection Report
on Panchayat Raj Institutions
and
Urban Local Bodies**

for the year ended 31 March 2014



Government of Sikkim

Office of the Principal Accountant General (Audit), Sikkim



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PREFACE

This Report for the year 2013-14 deals with the results of audit of the accounts of Panchayat Raj Institutions and Urban Local Bodies in the State of Sikkim.

This report has been prepared for submission to the Government of Sikkim in accordance with the terms and conditions of the Technical Guidance and Support (TGS) on audit of the accounts of Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) as entrusted by the State Government to the Comptroller and Auditor General of India under Section 20(1) of CAG's DPC Act 1971.

The cases mentioned in the report are among those which came to notice mainly in course of audit of accounts of Zilla Panchayats, Gram Panchayats and Urban Local Bodies for the year 2013-14.

The purpose of this report is to give an overview of the functioning of PRIs and ULBs in the State of Sikkim and to draw the attention of the executive Departments, PRIs and ULBs for remedial actions and improvement wherever necessary.

This is the seventh Technical Inspection Report for the PRIs and ULBs of the State of Sikkim.

OVERVIEW

OVERVIEW

This report contains four Chapters. Chapter I has two sections, Section 'A' gives an overview of the Panchayat Raj Institutions in the State and Section 'B' contains audit comments on Financial Reporting. Chapter II and IV contain Compliance Audit Paragraphs related to PRIs and ULBs respectively. Chapter III has two sections, Section 'A' gives an overview of the Urban Local Bodies in the State and Section 'B' contains comments on Financial Reporting.

1. An overview of Panchayat Raj Institutions

Sikkim Panchayat Act, 1993 provides for collection of taxes under Section 39(1) and 40(1). The information in this regard was received from 114 GPs out of which 22 GPs had neither initiated any steps to identify the areas for levying taxes nor collected any revenue.

(Paragraph 1.6.1)

Out of 14 Departments, only one Department (RMDD) released funds of ₹ 3.63 crore to PRIs during 2013-14 against the mandatory release of ₹ 16.11 crore. The other 13 departments had not released the mandatory fund transfer of ₹ 147.36 crore during 2013-14 to PRIs. In the absence of a sound basis for transfer of funds to the PRIs by the departments, the PRIs could not formulate any plan with certainty. Thus, the planning at the PRI level was on an ad-hoc basis.

(Paragraph 1.8)

The State Government was to delineate the role and responsibilities of each tier of the PRIs by transferring 29 subjects along with devolution of all the functions listed in the XIth schedule of the Constitution. However, only 15 subjects were transferred to the PRIs.

(Paragraph 1.9.1)

Scrutiny of records of 84 GPs revealed that basic records and registers were not maintained properly as required under the Sikkim Gram Panchayat (Financial) Rules, 2004.

(Paragraph 1.14)

Despite provision under Sikkim Panchayat Act, 1993, 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.

(Paragraph 1.15)

2. Compliance Audit Paragraphs of PRIs

The decision of the ZP (East) to incur expenditure of ₹ 55 lakh from District Innovation Fund towards plastic chairs and sound system was neither in conformity with the TFC guidelines nor in consonance with Annual Plan and Strength, Weaknesses, Opportunity and Threat (SWOT) analysis of the district, leading to injudicious expenditure.

(Paragraph 2.1)

Expenditure of ₹ 79.51 lakh incurred towards repair of water harvesting tank at Tamley lake was unwarranted as the lake failed to serve as a source of drinking water for nearby villages.

(Paragraph 2.2)

The ZP, East in contravention of Ministry's sanction unauthorisedly diverted ₹ 16 lakh. As a result, people of the Amba Gram Panchayat were deprived of the facilities of crematorium shed.

(Paragraph 2.3)

3. Section "A"- An overview of the Urban Local Bodies

The revenue income showed an increasing trend during 2013-14 as compared to previous year (2012-13) except in the case of two Nagar Panchayats (i.e. Mangan, Jorethang) and Gangtok Municipal Corporation.

(Paragraph 3.4.4)

Out of 18 functions listed in the XIIth Schedule of the Constitution, only three functions viz. Public health, sanitation conservancy and solid waste management; Urban poverty alleviation; and public amenities including street lighting, parking lots, bus stops and public conveniences were partially transferred by the State Government to the ULBs as of March 2014.

(Paragraph 3.6)

3. Section "B"- Financial Reporting

The Sikkim Urban Local Bodies Accounting Manual based on the National Municipal Accounting Manual (NMAM) had not been approved by the Government.

(Paragraph 3.9.2)

The ULBs were required to prepare their budgets. However, none of the four ULBs test checked in audit had prepared their budget till 2012-13 and expenditure was incurred without preparation and approval of the budget.

(Paragraph 3.9.3)

4. Compliance Audit Paragraphs of ULBs

Expenditure of ₹ 6.16 lakh incurred from Swarna Jayanti Shahari Rozgar Yojana fund by the Gangtok Municipal Corporation did not result in providing employment security to unemployed urban poor as envisaged in the scheme guidelines and resulted in wasteful expenditure.

(Paragraph-4.1)

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, holding of regular 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-governance. 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 District level were established. As of March 2014, 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 was 6.11 lakh of which male population was 3.23 lakh (53 *per cent*) and female population was 2.87 lakh (47 *per cent*). The rural population in the State was 4.56 lakh (75.03 *per cent*). Sikkim had 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 ***Appendix 1.1***:

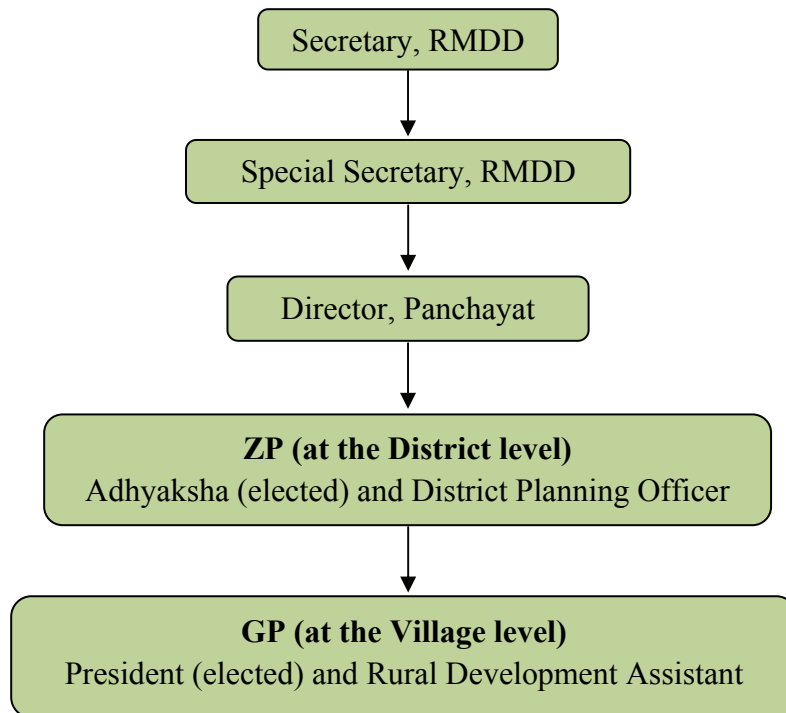
¹ North, East, South and West.

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 following organogram chart depicts the organisational structure of the Department and the PRIs.

Chart – 1.1

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 84 test checked GPs are given in table 1.1:

Table – 1.1

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 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 operationalisation of the Water Safety Plan; preparation of proposal for submission to District for financing had not been initiated.
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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 included Members of the Legislative Assembly whose major part of the constituencies fell within the District; three members of the Zilla Panchayat besides the *Adhyaksha* and Members of Parliament of both the Houses. 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 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 grass root level for the 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 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.

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

1.5.1 Overall financial position of PRIs

The RMDD could not furnish (March 2014) 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 2013-14. Audit obtained the information directly from ZPs/GPs. According to information furnished by two ZPs and 114 GPs, a total of ₹ 78.21 crore was available, of which ₹ 54.53 crore was spent during 2013-14, leaving a balance of ₹ 23.68 crore as shown in table 1.2:

Table 1.2

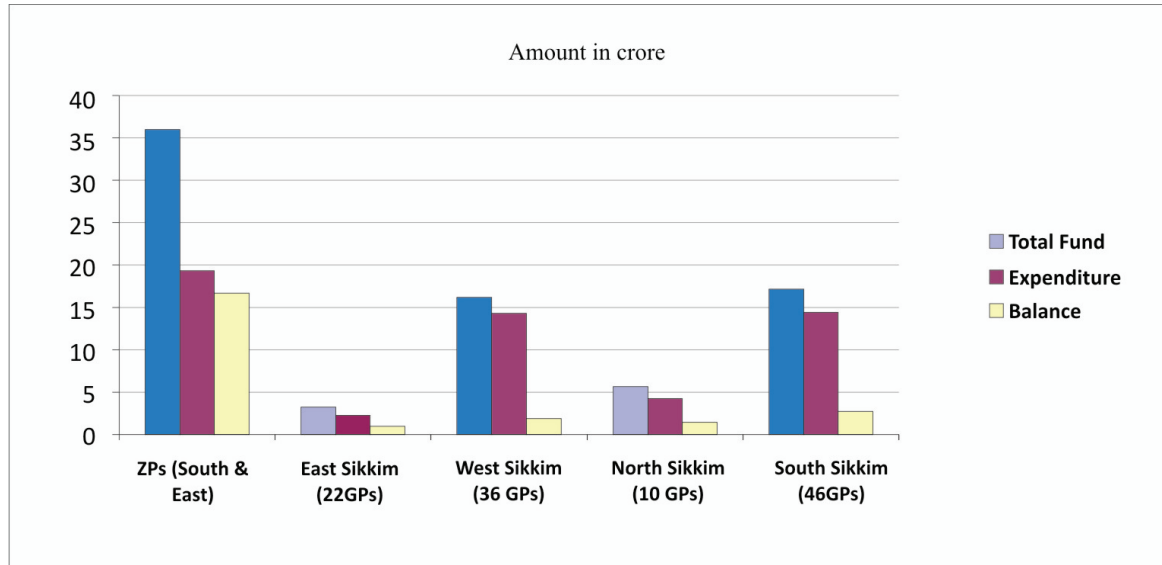
ZP / GP	Total fund available	Expenditure	Balance
ZPs (South & East)	35.98	19.31	16.67
East Sikkim (22 GPs)	3.24	2.26	0.98
West Sikkim (36 GPs)	16.17	14.30	1.87
North Sikkim (10 GPs)	5.67	4.24	1.43
South Sikkim (46 GPs)	17.15	14.42	2.73
Total	78.21	54.53	23.68

(₹ in crore)

Source: Information furnished by ZPs & GPs

The position is also shown in the Bar graph below:

Chart-1.2
Chart showing Fund utilization by PRIs



The funds were neither surrendered nor utilized due to lack of planning to utilize the funds through execution of works in time.

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 (TFSC) Recommendations (March 2010), which were accepted by the State Government (November 2010), also stipulated for transfer of funds ranging

between 2 to 35 per cent of plan allocation made to the fourteen³ sectors of the State Government. It was, however, noticed that the fund allocations to the PRIs dipped down from 0.76 per cent in 2009-10 to 0.36 per cent in 2013-14 of the total plan allocation of these fourteen sectors. It had reached a peak during 2012-13. The position is exhibited in table 1.3.

Table 1.3

(₹ in crore)

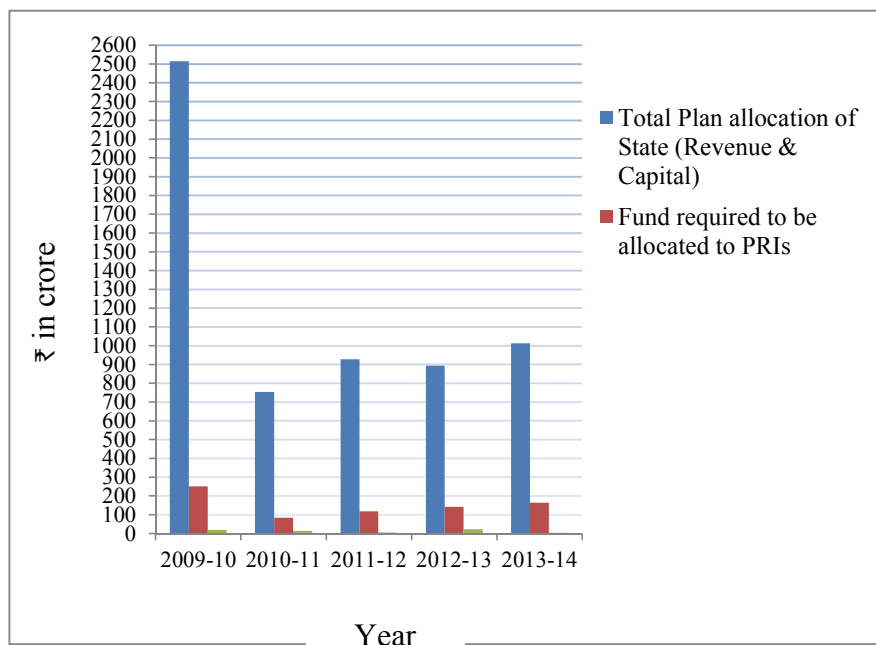
Year	Total plan allocation of State (Revenue & Capital)	Fund required to be allocated to PRIs	Fund actually allocated to PRIs	Percentage of fund actually allocated to total plan allocation of State Budget
2009-10	2,514.53	251.45	19.24	0.76
2010-11	754.48*	83.66	13.42	1.78
2011-12	927.64*	117.29	5.66	0.61
2012-13	894.18*	140.69	22.14	2.48
2013-14	1,012.65*	163.47	3.63	0.36
Total	6,103.48	756.56	64.09	

Source: Finance Accounts 2013-14 of Government of Sikkim

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

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

Chart – 1.3



³ (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

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 schemes meant for socio-economic development.

1.5.3 State Finance Commission recommendations not adhered to.

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

- Arrangements for distribution between the State and Panchayats as well as the Municipalities of the 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 TSFC of the State of Sikkim recommended (February 2010) certain measures for improving the fiscal health of Panchayats and Municipalities. The recommendations were accepted by the State Government in November 2010. However, their implementation left much to be desired as mentioned below:

- During 2009-10, ₹ 19.24 crore was released to PRIs against the stipulated transfer of ₹ 251.45 crore (10 % of plan fund) as per State Cabinet decision. Similarly, during 2010-11 to 2012-13 also, considering plan allocation to 14 sectors, the PRI allocation was not done as per recommendation of TSFC. While the Plan allocation for 14 sectors increased from ₹ 754.48 crore (2010-11) to ₹ 1,012.65 crore (2013-14), PRI allocation decreased from ₹ 13.42 crore for 2010-11 to ₹ 3.63 crore for 2013-14.
- The TSFC worked out 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 ₹ 5.72 crore for 176 GPs {to be met from 2.43 *per cent* of net proceeds of revenue (after deducting 25 *per cent* of total revenue collected as cost of collection) collected by 8 departments⁴} for administrative expenses, which was accepted by the State Government. However, only ₹ 4.57 crore was transferred to ZPs/GPs towards administrative expenditure from own revenue during 2013-14. Absence of transfer of full share of revenue constrained the PRIs to spend developmental fund for defraying administrative expenditure to that extent.
- TSFC also recommended (February 2010) for the year 2013-14, the transfer of (i) 2 to 35 *per cent* plan fund aggregating to ₹ 94.25 crore from 14 sectors towards

⁴ 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

‘Specific purpose grant’; and (ii) 20 per cent of State Plan budget under RMDD towards ‘General purpose Grant’ to PRIs. Specific purpose grant was allocated to the PRIs for taking up specific activity under the respective sectors.

Similarly, General purpose grant was allocated by RMDD as untied grants which are not linked to any specific programme or purpose and can be utilized at the discretion of PRIs towards meeting innovative / need based activity for GPs/ZPs.

Audit noticed that neither the RMDD nor the line departments allotted any fund during 2013-14 towards general purpose and specific purpose grants respectively. Thus, on the one hand, TSFC recommendations were largely not adhered to by the concerned departments; on the other hand, PRIs could not take up specific and innovative / need based activity under the respective sectors.

1.6 Source of Receipts

The broad sources of receipts of PRIs for the period from 2009-10 to 2013-14 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
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
2013-14	7.04	122.87	0	0	2.99	0.64	0	0	10.03	123.51
Total	80.98	499.28	7.43	7.75	17.31	14.54	10.37	15.63	116.09	537.20

Source: Information furnished by the RMDD, Government of Sikkim

The broad sources of receipts from Central Grants during the year 2009-10 to 2013-14 pertained to 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		2009-10	2010-11	2011-12	2012-13	2013-14	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	103.68	44.48	100.80	74.07	106.84	429.87
BRGF	ZP	11.59	6.41	1.12	19.51	2.60	41.23
	GP	0	7.55	2.61	0	6.07	16.23
Twelfth FC	ZP	1.49	0	0	0	0	1.49
	GP	3.49	0	0	0	0	3.49
Thirteenth FC	ZP	0	1.44	8.02	3.49	4.44	17.39
	GP	0	7.14	18.71	8.14	9.96	43.95
SGRY	ZP	20.87	0	0	0	0	20.87
	GP	0	5.74	0	0	0	5.74
Total		141.12	72.76	131.26	105.21	129.91	580.26

Source: Information furnished by the RMDD, Government of Sikkim

The decrease in grants during 2010-11 was due to less release under MGNREGS.

Share of receipts of PRIs from various sources during the period 2009-10 to 2013-14 is shown in table 1.5 B:

Table 1.5 B

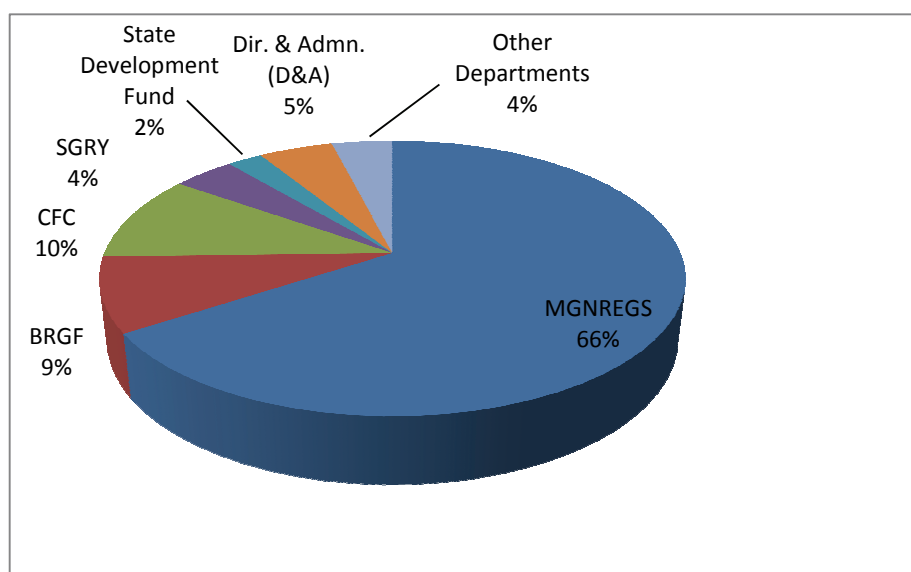
(₹ in crore)

Name of Scheme	ZP	GP	Total	Percentage contribution w.r.t. total receipts
MGNREGS	0	429.87	429.87	66
BRGF	41.23	16.23	57.46	9
Central Finance Commission (CFC)	18.88	47.44	66.32	10
Swarna Jayanti Gram Rojgar Yojana (SGRY)	20.87	5.74	26.61	4
State Grants (Development Fund)	7.43	7.75	15.18	2
Direction & Administration (D&A)	17.31	14.54	31.85	5
Fund transferred from other Departments	10.37	15.63	26.00	4
Total Receipt	116.09	537.20	653.29	100

Source: Information furnished by the RMDD, Government of Sikkim

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

Chart – 1.4



Audit analysis revealed that prescribed stipulation in TSFC and scheme guidelines were not adhered to in apportionment of funds between ZPs and GPs by RMDD. In case of BRGF, as against the stipulated allocation of funds in the ratio 30:70 between ZP and GP, the actual allocation worked out to be in the ratio 72 (₹ 41.23 crore): 28 (₹ 16.23 crore) during 2009-14. This resulted in excess allocation of ₹ 23.99 crore to the ZP and less allocation to GPs to that extent.

Similarly, in case of General and Specific purpose grants, the prescribed percentage of apportionment between ZP (10) and GPs (90) was also not adhered to leading to excess allocation of ₹ 13.68 crore to ZPs and less allocation to GPs to that extent.

RMDD, the nodal department for PRIs, responsible for fund allocation did not ensure adherence to norms as a result GPs were constrained of funds for undertaking developmental activities.

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 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 *kuchcha* construction per square feet of plinth area and other miscellaneous receipts by the Gram Panchayat.

It was, however, noticed that despite above enabling provisions, out of 114 GPs from whom information was received; 22 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 levying of taxes/fees and its collection by the PRIs was not prescribed to facilitate timely initiation of the levy and collection procedures, despite notification issued by the State Government (September 2010) based on the recommendations of the TSFC.

Had the PRIs initiated steps to identify the areas for levying and collection of taxes, the realized revenue could have been gainfully utilised by the PRIs towards meeting administrative expenditure, purchase of stationery, equipment, etc. besides incurring expenditure relating to functioning of Gram Prasasan Kendras⁵. In absence of requisite revenue realisation, the PRIs defrayed the above expenditure from scheme funds such as BRGF, TFC, etc.

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

⁵ Gram Prasasan Kendra works as an office for Gram /Village where Panchayat perform administrative functions and hold Gram Sabha.

(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(I) of the Constitution of India, the State Government constituted 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 2.43 *per cent* of net proceeds of tax to PRIs, ₹ 4.57crore was transferred to PRIs against the due share of ₹ 5.72 crore ⁶ shown in table 1.6:

Table 1.6
Actual transfer of funds to PRI during 2013-14 vis-à-vis TSFC recommendation

(₹ in crore)					
Sl. No.	Head	Tax receipt	Net proceeds (75 % of tax receipt)	2.43% of Net proceeds	Tax Transferred
1.	Land Revenue	3.39	2.54	0.061	0
2.	Stamp & Registration	6.46	4.84	0.117	0.15
3.	Taxes on Sales, Trades etc.	286.33	214.74	5.218	4.41
4.	Animal Husbandry	0.85	0.64	0.015	0
5.	Forestry & Wild Life	14.27	10.70	0.260	0
6.	Minor Irrigation	0.22	0.17	0.004	0
7.	Village & Small Industries	0.08	0.06	0.001	0
8.	Tourism	2.65	1.99	0.048	0.01
	Total	314.25	235.68	5.724	4.57

Source: Finance Accounts 2013-14, and information furnished by Finance, Revenue & Expenditure Department.

Out of eight sectors, in five sectors (Land Revenue, Animal Husbandry, Forestry & Wild Life, Minor Irrigation and Village & Small Industries), no tax transfer was effected during 2013-14. In the remaining three sectors, the percentage of transfer ranged between 0.83 (Tourism) and 91 (Taxes on Sale, Trades, etc.) *per cent* of the funds required to be transferred.

1.8 Sectoral Analysis

Mention was made in previous Annual Technical Inspection Reports, the last being 2012-13 (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 RMDD. The above position still persists, thereby making it difficult to analyse the progress of work done in these sectors.

⁶ 2.43 *per cent* of net proceeds of ₹235.68 crore (75% of tax receipt of ₹314.25 crore) = ₹ 5.72 crore

Audit observed that release of funds by various sectors 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 allocation vis-à-vis allocation to PRIs during 2013-14

(₹ in crore)

Name of Department	Total Plan allocation (Revenue and Capital)	Percentage to be transferred to PRIs as recommended by Third State Finance Commission (In per cent)	Amount to be transferred to PRIs	Actual fund released to PRIs
Health & Family Welfare	167.64	26.62	44.63	Nil
Social Welfare	81.10	19.96	16.19	Nil
Tourism	69.98	19.96	13.97	Nil
Commerce & Industries	24.07	19.96	4.80	Nil
Energy	105.96	19.96	21.15	Nil
Irrigation & Flood Control	41.29	19.96	8.24	Nil
Co-operation	5.58	13.31	0.74	Nil
Agriculture & Allied Services	44.59	26.62	11.87	Nil
Animal Husbandry	17.34	33.27	5.77	Nil
Human Resource Development	261.84	2.66	6.96	Nil
Forest	49.55	19.96	9.89	Nil
Rural Management & Development	121.04	13.31	16.11	3.63
Land Revenue	2.00	19.96	0.40	Nil
Culture	20.67	13.31	2.75	Nil
Total	1,012.65		163.47	3.63

Source: Finance Accounts 2013-14, and information furnished by the RMDD, Government of Sikkim.

Out of 14 Departments, only one Department (RMDD) released funds of ₹ 3.63 crore to PRIs during 2013-14 against the mandatory release of ₹ 16.11 crore. The other 13 departments had not released the mandatory fund transfer of ₹ 147.36 crore during 2013-14 to PRIs. 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 Mapping⁷

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

⁷ 'Activity Mapping' is an exercise to devolve various functions to be discharged by the GPs and ZPs.

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 1.2**. 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 2014 is detailed in **Appendix 1.3**.

Analysis revealed that transfer of important subjects such as land improvement, health and sanitation, fisheries, public distribution system, minor forest produce, small scale industries, khadi, village and cottage industries and non-conventional energy sources had not taken place as of March 2014.

Not only the subjects were not transferred in full, but even in the cases where subjects were transferred, adequate funds were not released by the Departments concerned. Thereby, the PRIs could not initiate various activities mandated in the 73rd Constitutional Amendment.

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 1.4**. Besides, the Sikkim Panchayat Act (SPA) also entrusts the State Government with the following powers 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 which are discussed in this chapter.

1.10.1 Social Audit

The Government of Sikkim initiated social audit in 2007-08 as envisaged in MGNREG Act, 2005 (Rule 17). Thereafter in compliance to MGNREGA Audit of Scheme Rules, 2011 the State Government established Social Audit Unit (SAU) by designating one NGO as SAU in December 2011. An independent Social Audit Director was also appointed (Dec. 2012) to head the SAU. Four District Resource Institutes have also been designated in four districts. During 2013-14, a total of 89 GPs were covered under Social Audit with involvement of State Resource Persons⁸, District Resource Persons⁹ and beneficiaries. The Social audit was fully functional in the state with independent SAU and full time Director of SAU with adequate number of resource persons at state and district levels.

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 (CAG). Further, 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 neither appointed any Auditor under Section 48(2) of the Sikkim Panchayat Act, 1993 as yet, nor carried out audit of PRIs during the year 2009-14.

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 CAG 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 Accountant General (Audit), Sikkim, as per the methodology and procedure enshrined in the Auditing Standards and the Guidelines issued by the CAG from time to time. During April 2013 to March 2014, the Accounts of 88 PRIs (4 ZPs and 84 GPs) were audited.

1.10.3 Internal control system in PRIs

Internal control mechanism is an integral function of an organisation which helps it to govern its activities effectively and achieve the objectives of the organisation. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and Bye-laws. Various internal control measures would minimise the risk of errors and irregularities. It also provides reasonable assurance that the general objectives of

⁸ *Members of the Social Audit Unit. They take the lead in planning, training of DRIs, training material, finalising all the formats and review of the Social Audit Reports prepared by the DRIs.*

⁹ *Facilitators of Social Audit in Gram Panchayat and members of the District Resource Institution. They prepare the Social Audit Report following prescribed process and format in co-ordination with the SAU.*

organisations are achieved duly fulfilling accountability obligations; compliance of applicable rules and regulations and implementation of programmes in an orderly, economical, efficient and effective manner.

1.10.3.1 Deficiencies in internal control mechanism in PRIs

The internal control system at the level of each PRIs had been designed by Government of Sikkim through the Sikkim Panchayat Act, 1993, Sikkim Zilla Panchayat (Financial) Rules, 2001, and Sikkim Gram Panchayat (Financial) Rules, 2003; besides application of State Government's own rules and policies relating to finance, budget and personnel matters. Significant provision of internal control mechanism vis-à-vis position in test checked PRIs are given in *Appendix 1.5*. The deficiencies as summerised in *Appendix 1.5* indicated weak internal control mechanism in PRIs.

1.10.3.2 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 L.Bs. 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. Thus, an important check towards accountability in ensuring proper compliance of rules and procedures as envisaged in the relevant Acts/Rules was not accorded due importance. It is therefore, recommended that the Internal Audit may be commenced forthwith for PRIs in the State.

1.10.3.3 Audit coverage by Director of Local Fund Audit (DLFA)

DLFA is the primary auditor to conduct the audit of the PRIs and ULBs of Sikkim. Based on information furnished by DLFA (August 2014), 129 PRI units and 3 ULB units were planned for audit. The year-wise position of units planned to be audited and those actually audited are given in table 1.8:

Table 1.8
Units planned for audit and actually audited

Year	No. of units planned for audit		No. of units audited		No. of reports issued	
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
Upto 2012-13	Not available	Not available	47	6	47	6
2013-14	129	3	0	0	0	0
Total	129	3	47	6	47	6

Source: Information furnished by DLFA, Government of Sikkim

Analysis revealed that while figures for unit planned for audit was not available for 2012-13, no units were audited despite planning for 132 units in 2013-14.

1.10.3.4 Response to Audit

Inspection Reports (IRs) were issued to audit PRIs authorities with a copy of each to the State Government. PRIs authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within three months from the date of issue of IRs. Important audit findings were processed for inclusion in the ATIR.

The details of outstanding IRs and paragraphs in respect of PRIs, as of 31 March 2014 are shown in Table 1.9.

Table 1.9
Outstanding IRs and Paragraphs

Year	No. of Inspection Reports	No. of outstanding paras
Up to 2008-09	169	577
2009-10	41	283
2010-11	30	166
2011-12	51	55
2012-13	2	14
2013-14	75	247
Total	368	1,342

Source: Outstanding para register maintained in Office of the AG (Audit), Sikkim

The increased accumulation of old outstanding paras indicated that the PRIs had not taken adequate measures to initiate corrective actions pointed out through the IRs. This also indicated weak internal control mechanism for addressing the issues mentioned in the IRs.

1.10.3.5 Vigilance mechanism

Social Audit-cum-Vigilance Committees were formed (February 2008) to ensure that the schemes/projects are implemented properly at the Panchayat level, tenders are invited and finalised appropriately, and projects are implemented in a qualitative manner. 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). Important functions like land improvement, fisheries, minor forest produce, small scale industries, khadi, village and cottage industries, non-conventional energy sources, health and sanitation, and public distribution system were still not transferred. 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; etc., for smooth functioning of the Gram Panchayat,

Block, etc. However, their functioning left much to be desired. 2 ZPs and 92 GPs (out of 2 ZPs and 114 GPs) from whom information was received had initiated steps to levy taxes and collected revenue of ₹ 72.23 lakh. Rest of the GPs failed to furnish details of revenue.

Audit observed that the 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 grassroots level for the overall District Development Plan. The line departments did not transfer adequate funds to the PRIs as envisaged during the period 2009-10 to 2013-14. As a result, fund allocation to the PRIs ranged between 0.36 to 2.48 *per cent* of the total expenditure of the State Government during the period 2009-10 to 2013-14. This fund allocation was far less than the prescribed percentage. Against the recommendation of TSFC to transfer ₹ 5.72 crore for PRIs, ₹ 4.57 crore was transferred during 2013-14. Similarly, TSFC recommendation for transfer of ₹ 94.25 crore from 14 departments towards 'Specific purpose grant' and 20 *per cent* of State Plan budget under RMDD towards General Purpose Grant was also not followed during the year 2013-14.

As the PRIs did not initiate adequate steps to identify the areas for levying and collection of taxes, the administrative expenditure, expenditure relating to functioning of Gram Prasaran Kendras, purchase of stationery, equipment, etc. were mostly met from scheme funds such as BRGF, TFC, etc. The internal control in the GPs was lacking in respect to preparation of budget, maintenance of accounts in appropriate format, internal audit by DLFA, supervision by Sachiva of Zilla Panchayat, etc.

1.12 Recommendation

- The left out functions should be transferred to the PRIs as expeditiously as possible by the State Government.
- Adequate devolution of funds for the subjects transferred to the PRIs should be ensured.
- The Control mechanism should be strengthened in the PRIs, especially through Internal Audit.

SECTION 'B' – FINANCIAL REPORTING

1.13 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.

1.14 Accounting system in Gram Panchayats

➤ Model Accounting Structure not followed

The Ministry of Panchayat Raj in consultation with Comptroller & Auditor General of India prescribed (January 2009) new accounting formats for Panchayat Raj. The TFC recommended (December 2009) implementation of new accounting formats with effect from 2010-11.

The Rural Management & Development Department (RMDD), Government of Sikkim informed (April 2010) the Government of India that it had adopted the new accounting formats with effect from 2010-11. For implementation of the new accounting formats, the State Government imparted (July – September 2010) training to Rural Development Assistants (RDAs) at the State Institute of Rural Development (SIRD), Karfectar and also appointed (April – September 2010) 166 Panchayat Accountant Assistants (PAAs).

The accounts of the PRIs were, however, not maintained in the new accounting formats as prescribed by the Ministry of Panchayat Raj. Thus, the PRI accounts continued to be maintained in old pattern as the accounts did not reflect transactions of all receipts and expenditure relating to Panchayat Fund, Provident Fund, loans, deposits, etc.

➤ Non/improper maintenance of records

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 84 GPs revealed that many records and registers as indicated above were either not maintained or maintained improperly. Details are shown below:

- Maintenance of Cash Books in 84 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, Advance Registers, Annual Receipts and Payments Accounts and Registers for Moveable and Immovable Assets were not maintained in any of 84 test checked GPs; and
- None of the 84 test checked GPs prepared Balance Sheet during the period under report.

1.15 Financial Reporting issues

1.15.1 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 Accountant General for auditing. However, the General Body Meetings were not convened by PRIs due to administrative constraints. None of the four ZPs and 84 (out of 176) GPs which were test checked forwarded annual accounts for the period 2009-10 to 2013-14 to the Accountant General. The position persisted despite being pointed out in earlier Annual Technical Inspection Reports (ATIRs).

1.15.2 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, RMDD of the State Government. It was noticed that no budget proposals were prepared by the GPs except Mellidara Paiyong Gram Panchayat under Sumbuk Gram Vikas Kendra. 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 DPC to consolidate the PRI budget into respective ZPs for integrating into the State Budget. Funds were released to all PRIs without even preparation of budget.

1.15.3 Maintenance of community assets and Asset register

The Sikkim Panchayat Act {Rule 7(2)(d) of Sikkim ZP(Financial) Rule 2001 and Rule 7(2) (f) of the Sikkim GP (Financial) Rules 2003} 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.

1.16 Placement of ATIR before the State Legislature

The ATIRs of the years 2007-09, 2009-10, 2010-11, 2011-12 and 2012-13 were placed in the State Legislature. However, the State Government had not amended the Sikkim Panchayat Act to provide mechanism for discussion of ATIR in the Legislative Assembly. Neither the Public Accounts Committee discussed the ATIRs nor a separate committee of State Legislature was constituted to discuss the same as recommended by Second Administrative Reform Commission.

As none of the ATIR could be discussed in the State Legislature. Thus, accountability and financial control in the functioning of Local Bodies could not be ensured by the State Government.

1.17 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 either not maintained or maintained improperly in PRIs. None of the PRIs adopted the Accounting Format for PRIs prescribed by the Ministry of Panchayat Raj in 2009 for maintenance of accounts. The budget proposals were not prepared by PRIs as required under the provisions of the respective Acts/Rules. Similarly Annual Accounts were also not forwarded to the Accountant General (Audit), Sikkim. Non-preparation of even basic registers, budget and non-maintenance of audited accounts showed low level of accountability in the PRIs and needs to be taken cognizance of by the District Administration.

1.18 Recommendation

- Important records such as Receipt and Payment Register, Balance Sheet, Assets Register, Advance Register, etc. should be maintained as prescribed in the relevant rules.
- Budget proposals should invariably be prepared by the PRIs as required under the provisions of the respective Acts/Rules.
- Annual Accounts should be forwarded to the Accountant General (Audit), Sikkim as expeditiously as possible.

CHAPTER-II

AUDIT OF TRANSACTION OF PANCHAYAT RAJ INSTITUTIONS

CHAPTER-II

AUDIT ON TRANSACTIONS OF PANCHAYAT RAJ INSTITUTIONS

2.1 *Injudicious expenditure towards purchase of plastic chairs and sound system*

The decision of the ZP (East) to incur expenditure of ₹ 55 lakh from District Innovation Fund towards plastic chairs and sound system was neither in conformity with the TFC guidelines nor in consonance with Annual Plan and SWOT analysis of the District, leading to injudicious expenditure.

The Thirteenth Finance Commission (TFC) recommended for formulation of District Innovation Fund (DIF¹⁰) with a view to support and promote innovation for better alternatives, reducing costs, increasing the efficiency of capital assets, improving service delivery and governance. The guidelines envisaged drawing up of an Annual Plan for utilisation of fund after carrying out Strength, Weakness, Opportunity and Threat (SWOT) analysis to trigger innovative measures with a view to make Government accountable and accessible to all section of the society.

Audit noticed that ₹ 55 lakh (out of ₹ 1 crore) was incurred by Zilla Panchayat (ZP), East towards purchase of plastic chairs and sound system on the plea that the assets would help in dissemination of information about welfare schemes and would also generate revenue to the Gram Panchayats through rentals to private/NGOs/Government, etc. Audit scrutiny of records revealed that incurring of expenditure on plastic chairs and sound system was, however, not in consonance with the Annual Plan and SWOT analysis of the district which indicated tourism, horticulture, floriculture, dairy development, etc. as the potential areas for development. Moreover, no rental income was generated from the above asset during the period covered under audit.

Thus, the decision of the ZP (East) was neither in conformity with the TFC guidelines nor in consonance with Annual Plan and SWOT analysis, leading to injudicious expenditure of ₹ 55 lakh from DIF.

The matter was reported to the ZP (East)/Government (October 2014); their reply was awaited (May 2015).

2.2 *Unwarranted expenditure on construction of water harvesting structure at Tamley*

Expenditure of ₹ 79.51 lakh incurred towards repair of water harvesting tank at Tamley lake was unwarranted as the lake failed to serve as a source for drawing drinking water for nearby villages.

The Rural Management & Development Department (RMDD) (through ZP, South) developed Water harvesting structure at Tamley lake during 1998-99 to provide potable water to three villages viz. Mungram, Guptigaon, Sirubari and Rajarukgaon. Villagers of

¹⁰ Fund provided through 13th Finance Commission for filling in vital gaps in public infrastructure already available in the district, which is not being fully utilised for want of a relatively small investment.

these three villages requested (2008-09) State Government to restore the water facility to villages as there was deposit of debris at Tamley lake and structural damage to Water harvesting structure. Accordingly, RMDD, Jorethang, prepared (February 2008) an estimate of ₹ 79.51 lakh to be met from State Fund which *inter-alia* included repairing of hand packed (HP) soling¹¹, cement concrete mix 1:1.5:3, 12 mm thick plaster, providing, fitting and fixing of barbed wire fencing, renovation of existing water supply system, etc. in the lake. The repair work was taken up (March 2008) and completed (February 2010) at a cost of ₹ 79.51 lakh.

Audit noticed that the lake which was developed as Water harvesting structure did not serve as source of water to the nearby villages. Instead, water was conveyed through pipe to the villages from a distant source by resorting to repair of existing pipes at a cost of ₹ 2.08 lakh. Thus, the expenditure of ₹ 79.51 lakh on repair of Water harvesting structure at Tamley lake was unwarranted as the lake failed to serve as the source for drawing drinking water for nearby villages.

The matter was reported to the ZP/Government (October 2014); their reply was awaited (May 2015).

2.3 Diversion of BRG Fund of ₹ 16 lakh

The ZP, East, in contravention of Ministry's sanction unauthorisedly diverted ₹ 16 lakh. As a result, people of the Amba Gram Panchayat were deprived of the facilities relating to crematorium shed.

The Zilla Panchayat (ZP), East submitted (June 2010) a proposal for 'Construction of Crematorium Shed at Phirpheray' in Amba Gram Panchayat at an estimated cost of ₹ 16 lakh to Government of India (GOI) for funding under Backward Region Grant Fund (BRGF) under the components 'Burials and burial grounds'. The scope of work included construction of shed, footpath and resting place to enable people to perform last rituals. The GOI accorded sanction (October 2010) of ₹16 lakh and also released (November 2010) the fund from BRGF. The BRGF guidelines do not permit diversion of funds for any other purpose than that of intended purpose for which the sanction is accorded.

The work was tendered (February 2012) by ZP (East) for ₹ 16 lakh and awarded (February 2012) to the lowest bidder with stipulation to complete the work within nine months (i.e. November 2012). The contractor executed the work and fund of ₹ 16 lakh was released to the contractor between December 2012 and July 2013.

Audit scrutiny revealed that the ZP (East) instead of executing work of 'Construction of Crematorium shed' for which the approval and sanction was accorded by GOI (Ministry of Panchayati Raj) executed 'Construction of Community Centre' with the same amount.

¹¹ Packing & laying of stones by manual means.

The funding agency (i.e. Ministry of Panchayati Raj) in the GOI was not even informed of the changes in the scope of work from 'Crematorium shed' to 'Community Centre' let alone obtaining their approval for the deviation.

Thus, the action of the ZP (East) to utilise the fund of ₹16 lakh towards construction of Community centre instead of approved and sanctioned work of construction of Crematorium shed was irregular, leading to unauthorised diversion of scheme fund.

The matter was reported to the ZP/Government (October 2014); their reply was awaited (May 2015).

CHAPTER-III
AN OVERVIEW OF
URBAN LOCAL BODIES

CHAPTER-III

SECTION "A" AN OVERVIEW OF URBAN LOCAL BODIES

3.1 Introduction

Consequent upon the 74th Constitutional Amendment, the Urban Local Bodies (ULBs) were made full-fledged institutions of Local Self Governments and witnessed a significant increase in responsibilities with greater powers and distinct sharing of resources with the State Government. The amendment empowered ULBs to function efficiently and effectively and to deliver services for economic development and social justice with regard to 18 subjects listed in the XIIth Schedule of the Constitution. The Government of Sikkim enacted the Sikkim Municipalities Act, 2007 empowering ULBs to function as institutions of Self Government and to accelerate economic development in urban areas.

Article 243 of the Constitution of India provides that elections in Panchayats and Municipalities shall be held once in every five years. Elections of the ULBs in the State were conducted on 30th April 2010.

The category-wise ULBs in the State as of March 2014 are shown in table 3.1:

Table 3.1
Category-wise ULBs in Sikkim

Sl. No.	ULBs	Number of ULBs
1	Municipal Corporation	1
2	Municipal Council	1
3	Nagar Panchayats	5
	Total	7

The ULBs are governed by the Sikkim Municipalities Act, 2007. Each ULB area is divided into a number of wards, which is determined and notified by the State Government.

3.2 Size of ULBs

The comparative position of ULBs in the State of Sikkim in terms of area and population is given in table 3.2:

Table 3.2
Statement showing area and population of ULBs

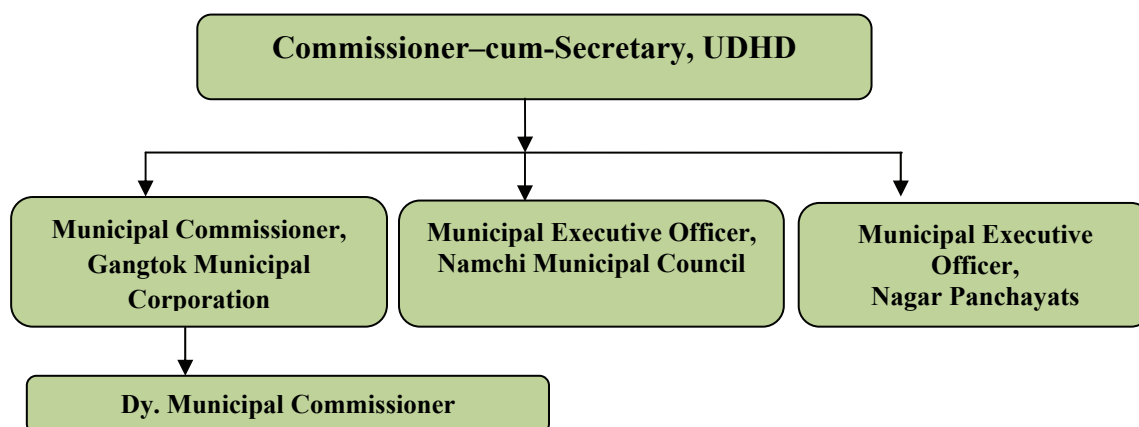
Sl. No.	Name of the ULBs	Area (in Sq. km.)	Total Population as per 2011 Census
1	Gangtok Municipal Corporation (GMC)	19.02	1,00,286
2	Namchi Municipal Council	11.00	12,190
3	Nagar Panchayats (all 5 together)	21.70	35,219

Source: Information furnished by the ULBs and Census Report 2011

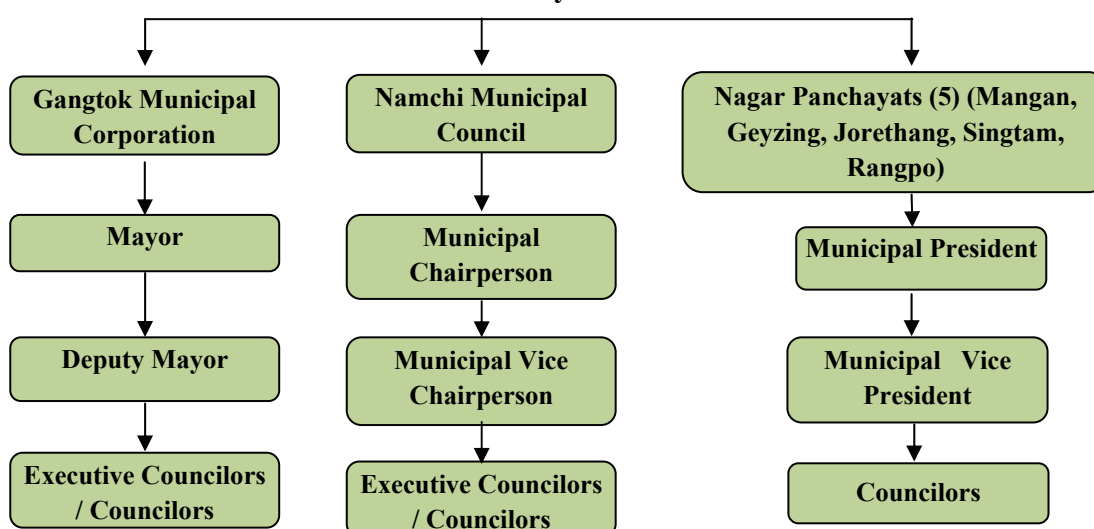
3.3 Organisational set up

The Commissioner-cum-Secretary, Urban Development & Housing Department (UDHD) is the overall in charge of Urban Local Bodies in the State. The organisational structure with respect to functioning of ULBs in the State is as under:

**Chart-3.1
Administrative Body**



**Chart-3.2
Elected Body**



3.3.1 Composition of ULBs

All the ULBs have a body comprising of Councilors /Members elected by the people under their jurisdiction. The Mayor presides over the meetings of Municipal Corporation and the Chairperson/President presides over the meetings of the Council/Nagar Panchayats and is responsible for overall functioning of the body.

The Municipal Commissioner is the executive head of the Gangtok Municipal Corporation (GMC) while the Council/Nagar Panchayats (NP) is headed by the

Municipal Executive Officer. They exercise such powers and perform such functions as prescribed in the Act and as per instructions of the Urban Development & Housing Department.

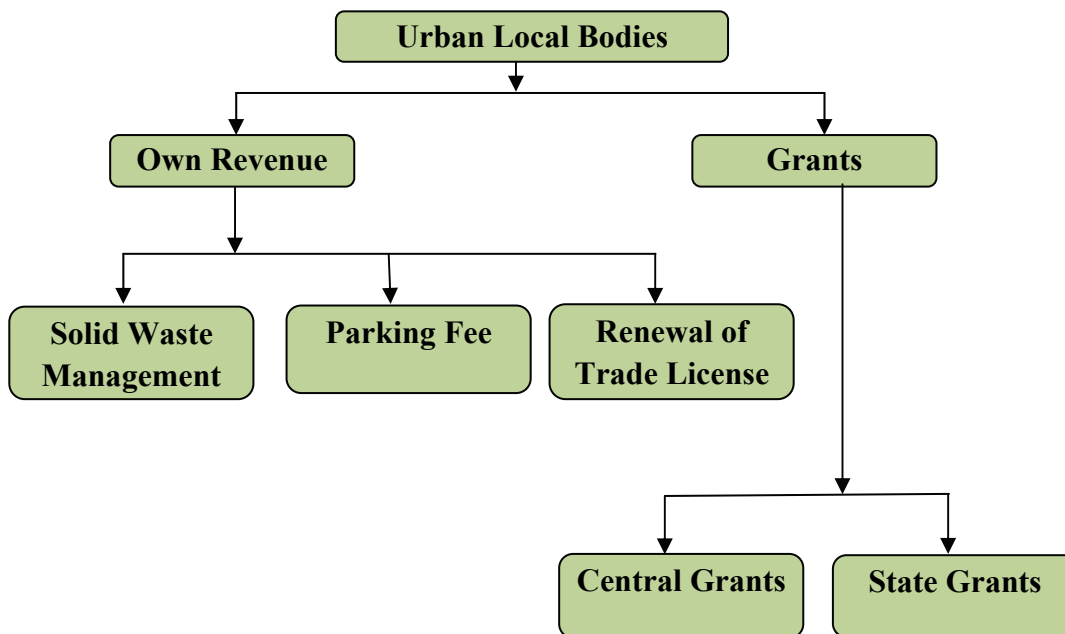
3.4 Financial Profile

3.4.1 Resources of ULBs

The Finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI) and State Government. State Government Grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemption, concessions, etc. are vested with the State Government. The own non-tax revenue of ULBs comprise of fee for solid waste management, parking fee and renewal of trade license, etc.

Grants and assistance released by the Governments are utilised for extending civic facilities to the urban population. Flow chart of finance of ULBs is as follows:

Chart-3.3



3.4.2 Custody of fund in ULBs

The grants received for implementation of various schemes/programmes are kept in bank accounts of the ULBs duly authorised by the State Government. The Drawing & Disbursing Officers under ULBs are empowered to draw the funds from the banks after obtaining sanction from the Municipal Commissioner/Municipal Executive Officer.

3.4.3 Position of funds of ULBs

The detailed position of funds of ULBs for the period from 2010-11 to 2013-14 are shown in table 3.3:

Table 3.3

Statement showing the position of funds of ULBs for the last three years

(₹ in lakh)

ULBs	GMC				Council / NPs			
	Year	Central Grants	State Grants	Own Revenue	Total	Central Grants	State Grants	Own Revenue
2010-11	0	282.84	64.14	346.98	1.02	132.77	32.44	166.23
2011-12	51.25	505.13	277.47	833.85	85.27	168.14	117.27	370.68
2012-13	54.82	387.93	554.15	996.90	155.74	109.53	151.89	417.16
2013-14	11.70	204.25	391.27	607.22	48.36	133.61	234.96	416.93

Source: Information furnished by the ULBs

3.4.4 Own revenue of ULBs

Own revenue of ULBs includes revenues from solid waste management, parking fee, and renewal of trade license, etc. Collection of own revenue in respect of seven ULBs during the last three years is shown in table 3.4:

Table 3.4

Statement showing collection of own revenue of seven ULBs

(₹ in lakh)

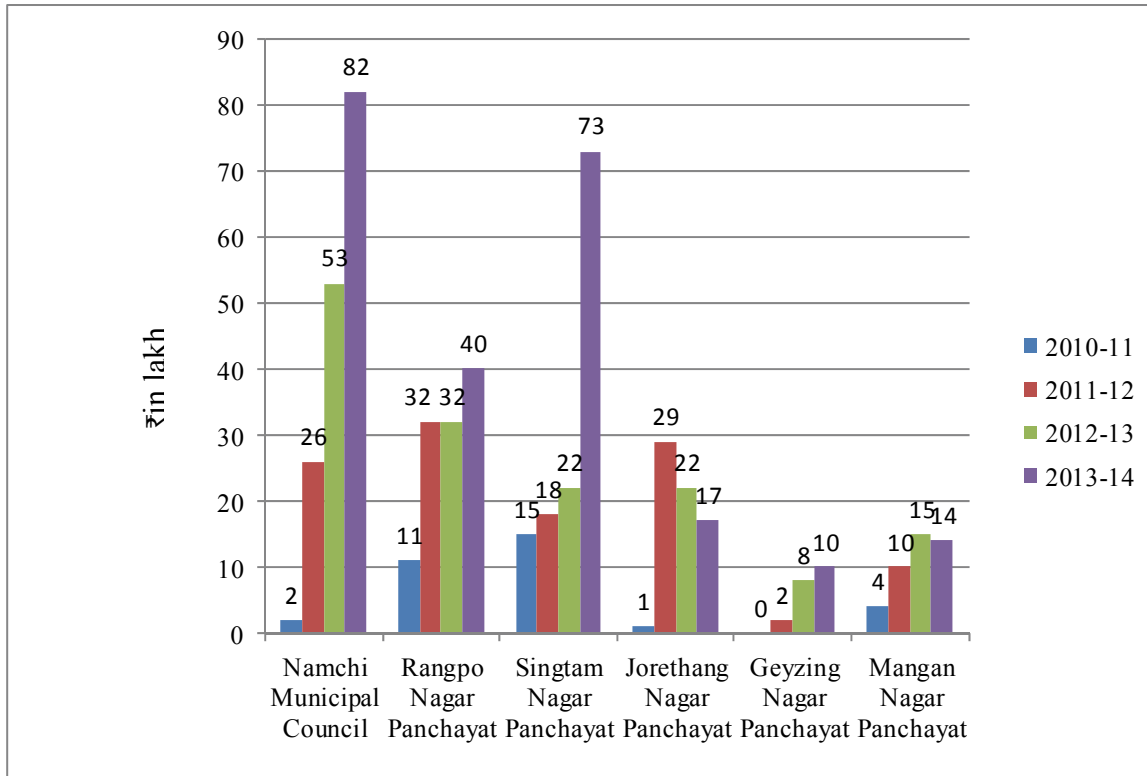
Sl. No.	Name of the ULB	2010-11	2011-12	2012-13	2013-14
1	Gangtok Municipal Corporation	64.14	277.47	554.15	391.27
2.	Namchi Municipal Council	2.24	25.60	53.05	81.76
3.	Rangpo Nagar Panchayat	10.63	32.28	31.73	39.92
4.	Singtam Nagar Panchayat	14.62	18.11	21.65	72.98
5.	Jorethang Nagar Panchayat	0.96	29.42	22.13	16.65
6.	Geyzing Nagar Panchayat	0.29	1.62	8.27	9.96
7.	Mangan Nagar Panchayat	3.70	10.24	15.06	13.69
	Total	96.58	394.74	706.04	626.23

Source: Information furnished by the ULBs

The above table indicates that the revenue collection had shown an increasing trend except in case of two Nagar Panchayats (Mangan and Jorethang) and GMC for the year 2013-14 as compared to 2012-13. The trend of own revenue collection by GMC and NPs are shown in the following bar graph:

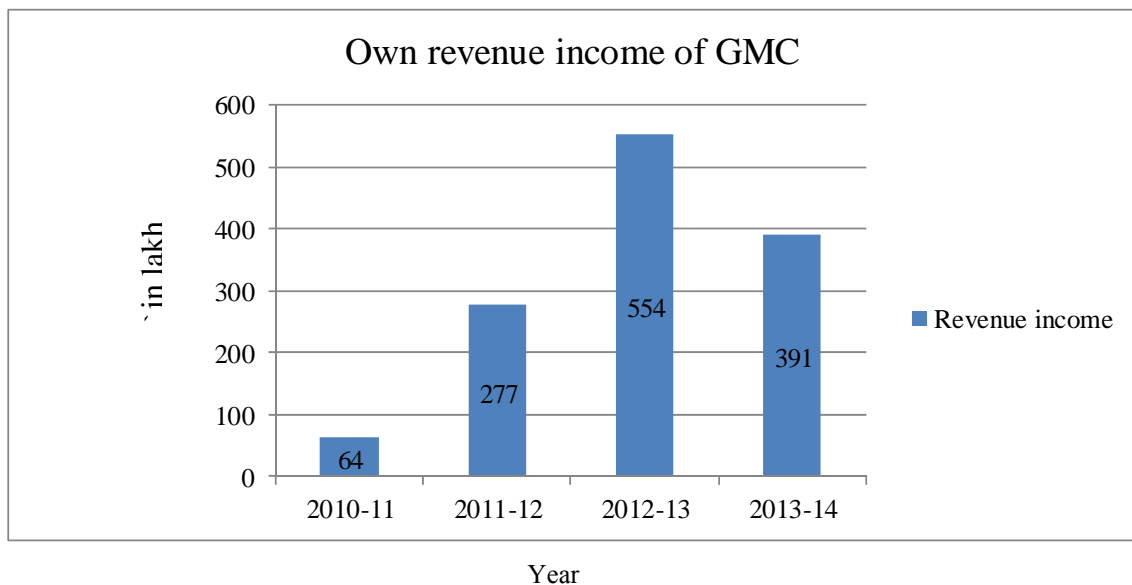
Trend of own Revenue Relation

Chart – 3.4



In case of GMC, the own revenue collection decreased from ₹ 554.15 lakh to ₹ 391.27 lakh during the period 2013-14 as compared to 2012-13 as shown in the following bar graph:

Chart – 3.5



Audit noticed that since ULBs were completely dependent upon State Government Grants, fall in assistance from State Government decreased the revenue of ULBs.

3.4.5 Grants received and expenditure therefrom

Receipts and expenditure by the GMC, Namchi Municipal Council and 5 NPs during the year 2013-14 are shown in table 3.5:

Table 3.5

Statement showing grants received and expenditure there from of ULBs during 2013-14

(₹ in lakh)

Type of ULBs	Grants received	Expenditure	Balance
Gangtok Municipal Corporation	215.95	165.43	50.52
Namchi Municipal Council	60.46	131.67	(-) 71.21 ¹²
Nagar Panchayats	121.51	157.42	(-) 35.91 ¹³
Total	397.92	454.52	(-) 56.60

Source: Information furnished by ULBs

From the above, it is seen that GMC could not utilize the full funds received during 2013-14 in absence of any plan to utilize the funds at their disposal.

3.5 Investment through major schemes

Receipt vis-a-vis expenditure incurred for major schemes implemented by ULBs during 2011-12 to 2013-14 are given in table 3.6:

Table 3.6

Statement showing receipts and expenditure of major schemes

(₹ in lakh)

Name of the Scheme	2011-12		2012-13		2013-14		Total	
	Receipts	Expenditure	Receipts	Expenditure	Receipt	Expenditure	Receipt	Expenditure
Swarna Jayanti Shahari Rojgar Yojana (SJSRY)	60.52	2.49 (4.11)	13.09	31.92* (243.85)	4.27	9.48* (222.01)	77.88	43.89 (56.36)
Backward Region Grant Fund (BRGF)	75.27	53.93 (71.65)	172.36	78.40 (45.49)	65.30	68.20 (104.44)	312.93	200.53 (64.08)
Thirteenth Finance Commission Fund	0.73	--	9.49	3.46 (36.46)	6.18	3.54 (57.28)	16.40	7.00 (42.68)
Total	136.52	56.42 (41.33)	194.94	113.78 (58.37)	75.75	81.22 (107.22)	407.21	251.42 (61.74)

Source: Information furnished by ULBs

* Expenditure also incurred from the previous year's unspent balances available under the schemes.
Figures in bracket indicate percentage.

Out of ₹ 77.88 lakh available for SJSRY, ₹ 43.89 lakh was utilised indicating 56.36 per cent utilisation. Similarly, ₹ 200.53 lakh and ₹ 7 lakh were utilised for BRGF and TFC as against the availability of ₹ 312.93 lakh and ₹ 16.40 lakh respectively. The expenditure of BRGF and TFC was 64.08 per cent and 42.68 per cent respectively. Reason for low utilisation of funds were neither reflected in records nor furnished to Audit.

¹² Excess expenditure done from last year's savings and own revenue.

¹³ Excess expenditure done from last year's savings and own revenue.

3.6 Status of devolution of functions

The Sikkim Municipalities Act, 2007 envisaged transfer of functions of various departments of the State Government to ULBs. Only three functions (viz. Public health, sanitation conservancy and solid waste management; Urban poverty alleviation; and public amenities including street lighting, parking lots, bus stops and public conveniences) out of 18 functions listed in the XIIth Schedule of the Constitution had been partially transferred by the State Government to the ULBs as of March 2014.

3.7 Accountability framework

3.7.1 Power of the State Government

Acts governing the ULBs entrusts the State Government with the following powers so as to enable the State to monitor the proper functioning of the ULBs:

- frame rules to carry out the objectives of the Sikkim Municipalities Act;
- dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties assigned to them;
- removal of difficulties in giving effect to the provisions of the Act; and
- creation, abolition, recruitment and placement of staff of State Government at the disposal of the Municipality.

3.7.2 Audit mandate

According to Section 60(1) of the Sikkim Municipalities Act, 2007, the municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by the Director, or any other person, as may be appointed by the State Government or an Auditor appointed by the Municipality from the panel of professional Chartered Accountants prepared in that behalf by that Government. According to Section 61(1) of the Sikkim Municipalities Act, 2007, as soon as practicable after the completion of audit of the accounts of the Municipality, but not later than the thirtieth day of September each year, the Auditor shall prepare a report of the accounts audited and examined and shall send such report along with the report of the results of the test check of accounts of the Comptroller & Auditor General (C&AG) of India to the Chief Municipal Officer. Based on the recommendations of the 13th Finance Commission, the State Government entrusted (June 2011) audit of all ULBs in the State under Technical Guidance and Support/Supervision arrangement (TGS) to the C&AG as per standard terms and conditions under section 20(1) of CAG's DPC Act, 1971. Accordingly, the audit of ULBs is being conducted from 2012-13, by the Accountant General (Audit), Sikkim.

3.8 Conclusion

The ULBs were yet to become fully functional in discharging various functions delegated to them. The utilisation of available funds ranged between 42.68 *per cent* and 64.08 *per cent* indicating inadequate absorption capacity of the ULBs. Revenue generation of the ULBs was not sufficient for defraying the establishment cost and for reducing dependence on Government grants.

SECTION “B”

FINANCIAL REPORTING

3.9 Legal Framework

3.9.1 Financial reporting is a key element of accountability. According to Section 57(1) and 58 (1) of the Sikkim Municipalities Act, 2007, the ULBs should prepare the Annual Financial Statements which would include Income and Expenditure Accounts for the preceding year within four months of the close of a financial year. The annual Balance Sheet of assets and liabilities in the prescribed form should be prepared within three months of the close of the financial year.

3.9.2 Accounting Reforms

Based on the recommendation of XIth Finance Commission, the Ministry of Urban Development, GOI in consultation with Comptroller and Auditor General of India developed the National Municipal Accounts Manual (NMAM) which is based on double entry accrual based system of accounting. The Urban Development & Housing Department, Government of Sikkim had drafted (March 2008) the Sikkim Urban Local Bodies Accounting Manual based on the NMAM. The Manual was not approved by the Government till date of audit. The accounts of ULBs were maintained under cash based Double Entry System.

3.9.3 Budget

Under Sections 51 (5), 53 (1) and 53 (2) of the Sikkim Municipalities Act, 2007, the Budget estimates of Municipality for a year should be prepared in the prescribed form and presented before a meeting of Municipality, especially convened for the purpose on the thirty-first day of August in each year and should be adopted after discussion by the thirtieth day of September in each year. A copy of the Budget estimates adopted by the Municipality should be sent to the State Government. The Budget estimates received by the State Government shall be returned to the Municipality before the thirty-first day of March of the year immediately preceding the year to which the budget estimate relates with or without modifications of the provisions thereof and the budget estimate for the current year shall be reviewed by the 31st day of October each year and a revised budget estimate for the year shall be prepared by 30th day of November each year and adopted by the councilors within the 31st day of December each year.

Test check of records of 4 ULBs¹⁴ revealed that none of the ULBs had prepared the budget till date and expenditure was incurred without preparation and approval of the budget. Since preparation of budget is the basic tool of accountability, failure to do so indicated very low priority being given to good governance.

¹⁴ (i) Gangtok Municipal Corporation, (ii) Jorethang Municipal Council, (iii) Gyalshing Nagar Panchayat and (iv) Mangan Nagar Panchayat.

3.9.4 Certification of Accounts

The State Government has not made any provisions in the State Acts/Rules for certification of accounts of the ULBs.

3.10 Conclusion

The State Government was yet to approve the Sikkim Urban Local Bodies Accounting Manual. This is essential for preparation of budgets in accordance with Sikkim Municipalities Act, 2007 which would strengthen internal control and financial management in the ULBs. The ULBs did not prepare their budget and expenditure was incurred without preparation and approval of the budget which is the basic tool of accountability and good governance. This indicated that low priority was given to good governance.

CHAPTER-IV
AUDIT OF TRANSACTION OF
URBAN LOCAL BODIES

CHAPTER-IV

AUDIT OF TRANSACTION OF URBAN LOCAL BODIES

4.1 Wasteful expenditure

Expenditure of ₹ 6.16 lakh incurred from *Swarna Jayanti Shahari Rozgar Yojana* fund by the GMC did not result in providing employment security to unemployed urban poor as envisaged in the scheme guidelines and resulted in wasteful expenditure.

Government of India launched a programme “*Swarna Jayanti Shahari Rozgar Yojana* (SJSRY)” with the objectives of addressing urban poverty alleviation through gainful employment to the urban unemployed/underemployed poor by encouraging them to set up self-employment ventures either individually or in a group.

In Sikkim, the programme was implemented by Urban Development and Housing Department (UDHD), Government of Sikkim till September 2010. Thereafter, the implementation of SJSRY was transferred (October 2010) to Gangtok Municipal Corporation (GMC) by UDHD. A fund of ₹ 35.42 lakh was provided (2011-2013) by UDHD for implementation of SJSRY to GMC, of which ₹ 6.16 lakh was incurred by GMC towards construction of wall (₹ 5.97 lakh) and administrative expenses (₹ 0.19 lakh).

Audit analysis revealed that the construction of wall (₹ 5.97 lakh) and administrative expenses (₹ 0.19 lakh) was beyond the ambit of scheme guidelines as it did not help in generating gainful employment.

Thus, expenditure of ₹ 6.16 lakh incurred from SJSRY fund by the GMC did not result in providing employment security to unemployed urban poor as envisaged in the Scheme guidelines and resulted in wasteful expenditure.

The matter was reported to the Municipal Corporation/Government (October 2014); reply was awaited (May 2015).



(Vanlal Chhuanga)
Accountant General (Audit)
Sikkim

Gangtok
The

APPENDICES

Appendix - 1.1
Statement showing important statistics of the State
(Reference: Paragraph- 1.2: State Profile; Page: 1)

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	180	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

Appendix - 1.2
Statement showing transfer of 29 subjects to PRIs
(Reference: Paragraph- 1.9.1: Activity Mapping; Page: 12)

Name of Sector / Department	Activities under Zilla Panchayat	Activities under Gram Panchayat
1. Agriculture & Food Security	Identification of areas for all programmes; National Agricultural Insurance Scheme; extension and demonstration on organic farming; conducting crop competition demonstration; deconstruction programme; compensation for crop loss due to natural calamities; establishment of storage facilities; and generation of crop statistics.	Selection of beneficiaries for demonstration and organic manure production; assisting in organising crop competition & exhibition; selection of beneficiaries for special program of organic farming; generating yield data; reporting of crop loss; maintenance of infrastructures and organising & motivation for agriculture production.
2. Horticulture & Cash Crop	Extension & demonstration on organic farming related to horticulture; conducting crop competition & exhibition; training & demonstration of horticulture crops including fruits, vegetables, potato, ginger & cardamom; creating awareness in floriculture as commercial venture; assessment, verification and compensation of horticulture crop losses due to natural calamities; establishment of storage facilities; generation of horticulture crop statistics and motivation and implementation of crop insurance.	Extension & demonstration on organic farming related to horticulture and development of local entrepreneurs for production of organic manures; assisting in organising crop competitions & exhibitions; training & demonstration of horticulture crops through selection of right beneficiaries and areas; assessment and reporting of horticulture crop losses; maintenance of storage facilities; generating horticulture crop statistics; and motivation of crop insurance programme.

<p>3. Animal Husbandry, Livestock, Veterinary Services</p>	<p>Rabies control, vaccination & elimination of affected animals; distribution of preventive materials for control of animal diseases preventive measures; compilation of reports & dissemination of information; identification of areas for different types of animal development programme; quality monitoring; meat inspection & certification; programmes for fodder production; management of marketing of animal products; processing centres; training & awareness of animal husbandry related programmes; organising District level training workshops & programmes; cross breeding management of artificial insemination programmes; execution of works between ₹ 2 to ₹ 5 lakh; and identifying areas for various types of fisheries.</p>	<p>Identification of beneficiaries for various purposes under Animal Husbandry Sector; distribution of fodder; collection of products for large markets; assessment of production collection centres; supervision of delivery of Government services; identification of training needs of farmers; requisition of training programmes; distribution of high bred varieties of farm animals; execution of works up to ₹ 2 lakh; and supervision of implementation.</p>
<p>4. Education.</p>	<p>Overall supervision of Junior High School (JHS) except appointment and transfer of teachers; all repairs & maintenance of JHS; supporting state authorities in survey & related projects; literacy programmes; and monitoring the programmes.</p>	<p>Overall supervision of functioning of Primary School (PS) and Lower Primary School (LPS) except appointment and transfer of teachers; conducting all repairs & maintenance works up to ₹10 lakh; identification of learners; and assisting in Literacy Supervision programmes.</p>
<p>5. Health & Family welfare.</p>	<p>To facilitate the formation of village health and sanitation committees at the Gram Panchayat level; to ensure and help district health mission under NRHM to prepare a need based demand driven socio-demographic plan at the district level; to oversee effective implementation of health and family welfare programmes at the district level by monitoring and supervising the functions and functionaries, training, equipping and empowering Panchayat members suitably to manage and supervise the functioning of health care infra-structure and man-power</p>	<p>Form village health and sanitation committee comprising of Auxiliary Nurse Midwife (ANM) / Multipurpose Health Worker (Male) {MPHW(M)}, Accredited Social Health Activist (ASHA), Non- Government Organisations (NGOs) and village representatives with adequate representation for women members (Existing village sanitation campaign may be re-designated as Village Health and Sanitation Committees); to ensure and help village level health committees under NRHM to prepare an area specific, need based, demand driven, socio-demographic plan at the village/ sub-centre level; to grant approval and ensure proper utilisation of funds earmarked as untied funds under NRHM; to ensure selection of sincere and dedicated ASHA in village; to improve health care standard at the household level through female health activist (ASHA); to demonstrate exemplary performance in compulsory registration of births, deaths, marriage and pregnancies; ensuring safe deliveries to bring a reduction in Infant Mortality Rate (IMR) and Maternal Mortality Rate (MMR); identification of people in need of service and facilitate in providing service in collaboration with village level health workers in respect of National programmes like</p>

	and further co-ordinate works of different departments such as Health & Family Welfare, Social Welfare, Public Health Engineering, Rural Development, etc. at the district level; and to ensure unbiased selection of Accredited Social Health Activist (ASHA).	Reproductive and Child Health, Blindness, Tuberculosis (TB) Control, Sexually Transmitted Disease (STD) / Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Syndrome (AIDS), etc. keeping provision of fund for maternal and child health activities (referral of high risk cases, etc.) in the PRI budget; awareness generation regarding all health and family welfare related issues and to generate demand from the community for services under different National and State health programmes; and to increase service utilisation at different levels through different effective locally acceptable approaches.
6. Forests, Environment and Wildlife	Facilitation for marketing of saplings for Government & private plantation; providing marketing facilities for medicinal plants & other forestry products; training for cultivation; protection support to <i>Smriti Van</i> ¹⁵ ; support for control of forest fire, prevention & control; awareness and promotion on regulated grazing; promotion of Non-timber Forest Produce (NTFP) -bamboo plantations; promotion of timber substitutes-marketing; identification of Gram Panchayats for the programme; monitoring of the programme; and harvesting & distribution of fuel wood.	Establishment of community nurseries; establishment of medical plants gardens for commercial purpose; establishment of <i>Smritivans</i> ; control of forest fires; co-ordination with Joint Forest Management Committee (JFMC); control of grazing in forest land; implementation of regulated grazing; plantation of Non Timber Forest Produces (NTFP) production; micro-planning & implementation of soil conservation works; planning & implementation of Green mission works; planning & implementation of fuel wood plantation in community lands; identification of sites; and upkeep of parks & gardens.
7. Commerce & Industries.	Providing assistance to trained beneficiaries to start their own units including credit support; organizing entrepreneurial development programmes; providing marketing facilities for cottage and village products; and identifying locations for specific industrial & commercial activity.	Identification of beneficiaries for training; distribution of raw materials and promotion of cottage industries based on locally available materials.
8. Disaster management	Assisting in assessment of damages during natural calamity; providing training on rescue and relief operation; coordinating with District Relief Committee and Village Relief Committee; investment in preventive and preparedness measures; and maintenance & minor repair works between ₹ 10 to ₹ 20 lakh.	Awareness generation on disaster management; mock drill; and rescue & relief operation.
9. Irrigation	Creation of minor irrigation channels.	Identification of locations for minor irrigation channels; and all repairs of minor irrigation channels.

¹⁵ “*Smriti Van*” is a piece of land where medicinal plants have been planted through community participation.

10. Cultural activities	Identification and preservation of heritage sites.	Promotion of folk art; preservation of traditional culture and customs; and opening and maintenance of rural (village) Libraries.
11. Rural water Supply	All maintenance works and new schemes between ₹ 10 to ₹ 20 lakh.	Minor repairs and new schemes up to ₹10 lakh.
12. Rural bridges	All maintenance works and new schemes between ₹ 10 to ₹ 20 lakh.	Minor repairs and new schemes up to ₹10 lakh.
13. Rural sanitation	Promoting environment friendly means of disposal of solid and liquid waste; maintenance of environmental hygiene; construction and maintenance of institutional and community latrines and bathing places.	Conducting environment friendly waste management through Gram Panchayat level Water and Sanitation Committees; and construction and maintenance of Individual Sanitary latrines and bathing cubicles.
14. Cooperatives	Promotion of Co-operative movement in the district.	Generating awareness about cooperatives.
15. Miscellaneous	Regulating building construction; rural street lighting and its maintenance; establishment & maintenance of crematoriums and burial places; regulating disposal of carcasses; construction of Integrated Child Development Scheme (ICDS) Centres; disbursement of Old Age Pension (OAP) & Sumptuary Allowance (SA); implementation of Small Family Benefits Scheme; implementation of National Family Benefit Scheme; promotion of eco-tourism; maintaining tourist's infra-structure and amenities at the district level; identification of potential places for development of tourism; promotion of use of renewable energy sources; maintaining haat sheds at the Sub-divisional level markets not falling under the jurisdiction of ULBs; and assisting the State Govt. in collection of data / survey / maintenance of law & order and Information, Education and Communication (IEC) activities.	Enforcing regulation for building construction; establishing facilities for generation of renewable energy sources; reporting on presence of carcasses; supervision and maintenance of ICDS Centres; maintaining tourist infra-structure and amenities at the village level; regulating the use of <i>haat</i> sheds at the Sub- Divisional level markets not falling under the jurisdiction of ULBs; collection of data for the State Govt. and reporting to the District Administration of the Law & Order situation including potential dangers and disturbances.
All centrally sponsored schemes	As per guidelines given by the GOI.	As per guidelines given by the GOI.

Appendix 1.3
Statement showing actual transfer of functions to PRIs
(Reference: Paragraph- 1.9.1: Activity Mapping; Page: 13)

Name of Sector / Department	Activities under Zilla Panchayat	Activities under Gram Panchayat
1. Animal Husbandry, Livestock, Veterinary Services	Training & awareness of animal husbandry related programmes; organizing District level training workshops & programmes; cross breeding management of artificial insemination programmes; execution of works between ₹ 2 to ₹ 5 lakh and identifying areas for various types of fisheries.	Distribution of fodder; distribution of high bred varieties of farm animals; execution of works up to ₹2 lakh; and supervision of implementation of Animal Husbandry sector programmes.
2. Education.	Overall supervision of JHS except appointment and transfer of teachers; repairs & maintenance of JHS; supporting State authorities in survey & related projects; literacy programmes and monitoring the programmes relating to Education.	Overall supervision of functioning of PS and LPS except appointment and transfer of teachers; repairs & maintenance of PS & LPS up to ₹ 10 lakh; identification of learners; and assisting in supervision of literacy programmes.
3. Health & Family Welfare.	To facilitate the formation of Village Health and Sanitation Committees at the Gram Panchayat level; to ensure and help District health mission under NRHM to prepare a need based demand driven socio-demographic plan at the District level; to oversee effective implementation of health and family welfare programmes at the District level by monitoring and supervising the functions and functionaries, by training, equipping and empowering Panchayat members suitably to manage and supervise the functioning of health care infrastructure and manpower and co-ordinate works of different departments such as Health and Family Welfare, Social Welfare, Public Health Engineering, Rural Development, etc. at the District level; to ensure un-biased selection of ASHA in each village by Panchayat members and to devise mechanism at the district level for monitoring of ASHA; awareness generation regarding all health and family welfare related issues and generate demand from the community regarding available provision of services under different National Programmes and State Service Provision; and to increase service utilisation at different levels through different effective, locally acceptable approaches.	Form Village Health and Sanitation Committee comprising of ANM/MPHW(M),ASHA, NGOs and village representatives with adequate representation for women members (Existing village sanitation campaign may be redesignated as village Health and Sanitation Committees); awareness generation regarding all health and family welfare related issues and to generate demand from the community for services under different National and State health programmes to each village by Panchayat members and to devise mechanism for monitoring of ASHA; to increase service utilisation at different levels through different effective, locally acceptable approaches.
4. Forests, Environment and Wildlife	Facilitation for marketing of saplings for Government and private plantation; and promotion of NTFP-bamboo plantations.	Co-ordination with Joint Forest Management Committee (JFMC); control of grazing in forest land; implementation of regulated grazing; and plantation of Non-timber Forest Produce (NTFP).

5. Commerce & Industries.	Providing assistance to trained beneficiaries to start their own units including credit support; and organising entrepreneurial development programmes.	Identification of beneficiaries for training and distribution of raw materials.
6. Disaster management	Assisting in assessment of damages during natural calamity; providing training on rescue and relief operation; and coordinating with District Relief Committee and Village Relief Committee.	Rescue and relief operation.
7. Irrigation	Creation of minor irrigation channels.	Identification of locations for minor irrigation channels; and all repairs of minor irrigation channels.
8. Cultural activities	Identification and preservation of heritage sites.	Opening and maintenance of rural (village) libraries.
9. Rural water Supply	All maintenance and new schemes between ₹ 10 to ₹ 20 lakh.	Minor repairs and new schemes up to ₹10 lakh.
10. Rural bridges	All maintenance and new schemes between ₹ 10 to ₹ 20 lakh.	Minor repairs and new schemes up to ₹10 lakh.
11. Rural sanitation	Promoting environment friendly means of disposal of solid and liquid waste; maintenance of environmental hygiene; and construction and maintenance of institutional and community latrines and bathing places.	Construction and maintenance of Individual Sanitary latrines and bathing cubicles.
12. Cooperatives	Promoting Co-operative movement.	Generating awareness about cooperatives.
13. Miscellaneous	Regulating building construction; and rural street lighting and its maintenance; establishment & Maintenance of crematoriums and burial places; regulating disposal of carcasses; construction of ICDS Centres; disbursement of Old Age Pension & Sumptuary Allowances; Small Family Benefits Scheme; National Family Benefit Scheme; promotion of eco-tourism; maintaining tourist's infra-structure and amenities at the District level; identification of potential places for development of tourism; promotion of use of renewable energy sources; maintaining <i>haat</i> sheds at the Sub-divisional level markets not falling under the jurisdiction of ULBs; and assisting the State Govt. in collection of data / survey / maintenance of law & order and IEC activities.	Supervision and maintenance of ICDS Centres; maintaining tourist infra-structure and amenities at the village level; regulating the use of <i>haat</i> sheds at the Sub-Divisional level markets not falling under the jurisdiction of ULBs.
All centrally sponsored schemes	As per guidelines given by the GOI.	As per guidelines given by the GOI.

Appendix 1.4
Statement of powers exercised by State Government in relation to PRIs
(Reference: Paragraph- 1.10: Accountability framework; Page: 13)

Sl. No.	Function / Scheme	Power of State Government
AGRICULTURE		
01.	Farmers' field seed Production	Selection and procurement of seeds & their technological supervision.
02.	Manure & fertilizers	Procurement of fertilizers.
03.	Plant protection	Procurement of pesticides and overall technical supervision.
04.	(A) Commercial crops (B) Other minor Commercial Crops (C) Spices (D) Tuber crops	Procurement of seeds having Inter district ramification.
05.	Extension & Training	Providing curriculum teaching aids and Other materials, organisation of more sophisticated training and training of trainers.
06.	(A) Oil seed production programme (B) Pulses production	As in item-4. As in item-4.
07.	Rejuvenation of old orchards	Technological support, supervision and annual physical verification.
08.	Planting new Orchards; integrated development of fruits, vegetable development, floriculture, etc.	Procurement of planting materials in case of Inter District Procurement.
09.	Subsidy of bank finance scheme	Formulation of scheme and allocation of funds.
ANIMAL HUSBANDRY		
1.	Prevention and control of animal diseases	Formulation of strategy for prevention & control of diseases; and provisioning of technology and medicine to Zilla Panchayats.
2.	Cattle improvement through (A) Natural Service and (B) Artificial Insemination.	Formulation of programme and policy and allocation of fund to Zilla Panchayats.
3.	Integrated Piggery Development Programme	Programme introduction guidelines and allocation of funds.
4.	Extension & training	Providing curriculum teaching aids and other materials, organisation of more sophisticated training and training of trainers.
5.	Minor works/ supervision/ maintenance	Allocation of funds to district.
MEDICAL AND PUBLIC HEALTH		
1.	Mass education	Allocation of funds to district.
2.	Rural family welfare services	Allocation of funds to district.
3.	Maintenance of Primary Health Sub Centre (PHSC)	Allocation of funds to district.
4.	ICDS	Women & Child Welfare Department to provide funds from their sources.
RURAL DEVELOPMENT DEPARTMENT		
1.	Maintenance of Panchayat Ghar	Fund allocation to district & monitoring.
2.	Sanitation	Formulation of programme for sanitation.
3.	New and Renewable Source of Energy (NRSE) National programme on Bio-gas development	Fund allocation to district and overall control.

EDUCATION DEPARTMENT		
1.	Non-formal education	Planning, Co-ordination and management of programmes as per GOI guidelines.
2.	Adult education	Planning, co-ordination & management of programmes as per GOI guidelines.
3.	Mid-Day Meals	Co-ordination & Monitoring.

Appendix – 1.5
Internal Control System at the level of LBs

(Reference: Paragraph- 1.10.3.1: Deficiencies in internal control mechanism in PRIs; Page: 15)

Provision	Authority	Gist of the provision	Actual position
Budget	Sec. 46 of the Sikkim Panchayat (SP) Act, 1993; Sec. 83 of the SP Act, 1993	Every GP / ZP shall prepare in each year a budget of its estimate receipts and expenditures for the next financial year and submit it to the Government for approval.	Budget not prepared by GPs/ZPs except one GP (Mellidara Paiyong).
Accounts	Sec. 48(1) of the SP Act, 1993; Sec. 85 of the SP Act, 1993	Accounts of receipts and expenditure of every GP/ZP shall be maintained in such forms and in such manner as may be prescribed.	Receipt and expenditure as recommended in Model Accounting Structure was not maintained by GPs.
Internal Audit	Sec. 48(2) of the SP Act, 1993; Sec. 86 of the SP Act, 1993	The accounts of the fund of a GP/ZP shall be examined and audited by an auditor appointed by State Government.	The DLFA had audited only 47 GPs and 6 ULBs as against the planned unit of 129 and 3 respectively.
Supervision	Sec. 68 (1) (2) of the SP Act, 1993	The Sachiva of a Zilla Panchayat appointed by the State Government shall have authority to supervise all records of every Gram Panchayats falling under the jurisdiction of a Zilla Panchayat of a concerned district.	Records relating to supervision of records by Sachiva was not available in the GPs.
Reporting of loss, wastage of money/ property	Sec. 90(2) (c) of the SP Act, 1993	To be reported by an auditor authorised to audit the documents of GPs/ZPs.	No such report was available in test checked GPs/ZPs.
Inspection	Sec. 109(1) of the SP Act, 1993	Government or any officer empowered by the Government may inspect any works which are being carried out by GP/ZP.	The inspection was carried out from time to time by various departments of State Government.
Reporting of the work	Sec. 122 of the SP Act, 1993	The GP/ZP concerned shall prepare and submit annually report on work done during previous years and the work proposed to be done during the following years.	No such report was available in test checked ZPs/GPs.
Asset Register	Rule 7(2)(d) of Sikkim ZP (Financial) Rules, 2001; Rule 7(2)(f) of the Sikkim GP (Financial) Rules, 2003	To be maintained in the format prescribed under the rule.	None of the ZPs/GPs test checked had maintained Asset Register as prescribed.

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