CHAPTER-II

PERFORMANCE AUDIT ON UTILISATION OF THIRTEENTH FINANCE COMMISSION GRANTS BY LOCAL BODIES IN SIKKIM

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The Performance Audit of 'Utilisation of Thirteenth Finance Commission (TFC) Grants by Local Bodies in Sikkim' was conducted during July-August 2016. The Performance Audit revealed that the State Government had initiated a number of good practices such as preparation of Village development Action Plan (VDAP) for all the Gram Panchayats, submission of photographs of works sites before and after completion of works, appointment of Lokayukta and Ombudsman, setting up of service level bench mark for Urban Local Bodies, etc. to ensure proper implementation of TFC. The State was also adjudged 3rd Best State in Panchayati Raj in 2006-07 and 2010-11 and 2nd Best State in 2009-10. The State Government had also involved the beneficiaries in implementation of TFC.

Notwithstanding the above positives, the Performance Audit disclosed certain deficiencies relating to planning, financial management and programme implementation as detailed below. The planning required to be initiated beforehand to ensure maximum utilisation of TFC fund as per recommendation of TFC was lacking and resulting in curtailment of funds and delayed release of funds. The fund utilisation of 75 per cent compared unsatisfactorily with Nagaland (100 per cent), Manipur (100 per cent) and Mizoram (83 per cent). Financial management was characterised by irregular expenditure of TFC fund towards ongoing schemes of State Plan Schemes, diversion of funds towards salary and wages, etc. Similarly, analysis of programme execution disclosed delay in completion of projects, non-commencement of projects, avoidable and extra expenditure, etc. Monitoring mechanism was also found to be inadequate as State High Level Monitoring Committee convened only seven meetings against the requirement of 19 and rarely discussed the affairs of Local Bodies; while field monitoring report were not available, utilisation certificates were not submitted in time to GOI.

Highlights

The State failed to fulfil the conditions imposed by TFC in full resulting in short release of fund of ₹ 50.18 crore to PRIs and ₹ 0.79 crore to ULBs.

(Paragraph-2.7.2)

Fund of ₹ 2.39 crore was irregularly diverted towards funding ongoing works of State Government against the prescription of TFC guidelines.

(Paragraph 2.8.3 & 2.8.4)

The 15 projects were not completed even after recording a delay of 5 to 25 months. Non completion of projects led to postponement of intended benefits despite incurring ₹ 3.46 crore on these incomplete projects.

(Paragraph 2.9)

State High Level Monitoring Committee (SHLMC) convened only seven meeting (July 2010 to March 2016) to dwell upon the responsibilities against stipulation of 19 meetings and rarely discussed the affairs of LBs.

(Paragraph 2.10.1)

2.1 Introduction

The Thirteenth Finance Commission (TFC) was appointed (November 2007) by the President to make recommendations on (i) the measures of distribution of the net proceeds of taxes between the Union and the States; (ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution; and (iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. The TFC submitted (December 2009) its report covering a period of five years (2010-15). TFC recommended a sum of ₹ 56,335.40 crore for Local Bodies towards General Basic grant and ₹ 29,826.10 crore as General Performance grant. The Government of Sikkim was in total allocated ₹ 186.97 crore towards General Basic grant (₹ 122.25 crore) and General Performance Grants (₹ 64.72 crore) for supplementing the resources of the Panchayati Raj Institutions during 2010-15. Total grant of ₹ 186.97 crore was to be apportioned between PRIs (₹ 184.39 crore) and the Urban Local Bodies (₹ 2.58 crore) for the period 2010-15.

The summarised position of TFC recommendations relating to Local Bodies is given below:

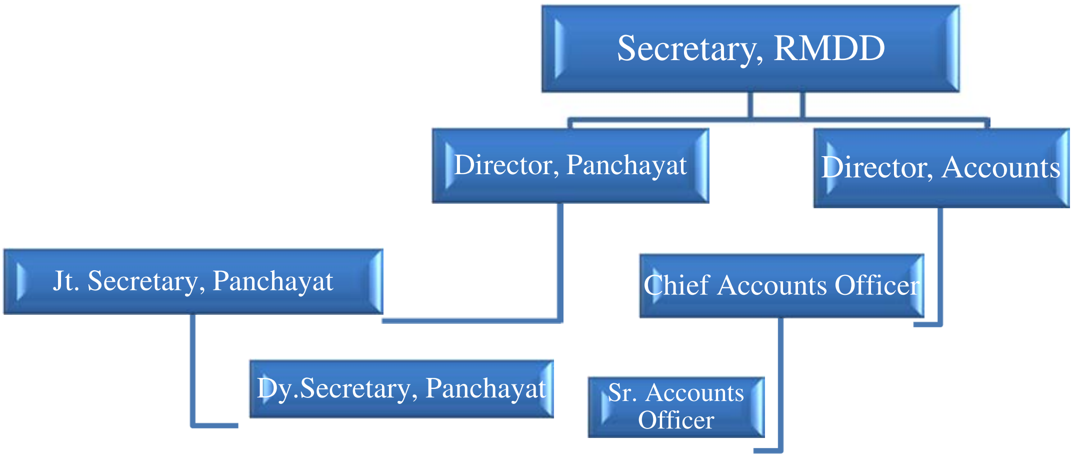
- The quantum of Local Body (LB) grants to be provided to the State Government as recommended by TFC towards General Basic grant, General Performance grant as well as the Special Areas Basic grant.
- State Governments will be eligible for the General Performance grant only if they comply with the stipulations in TFC recommendations.

- States may appropriately allocate a portion of their share of the General Basic grant and General Performance grant, to the 'excluded areas' in proportion to the population of these areas. This allocation will be in addition to the Special Area Basic grant and Special Area Performance grant recommended by TFC.
- State Governments should appropriately strengthen their local fund audit Departments through capacity building as well as personnel augmentation.
- The State Governments should incentivise revenue collection by LB through methods such as mandating some or all local taxes as obligatory at non-zero rates of levy; by deducting deemed own revenue collection from transfer entitlements of LB or through a system of matching grants.
- To buttress the accounting system, the finance accounts should include a separate statement indicating head-wise details of actual expenditure under the same heads as used in the budget for both PRIs and ULBs with effect from 31 March 2012.
- The Government of India and the State Governments should issue executive instructions that all their respective departments pay appropriate service charges to Local Bodies.
- A portion of income from royalty should be shared between State Government and Local Bodies in whose jurisdiction such income arises.
- State Governments should ensure that the recommendations of State Finance Commission (SFCs) are implemented without delay and that the Action Taken Report is promptly placed before the Legislature.
- Best Practices should be adopted by State Government.

2.2 Organisational set-up

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

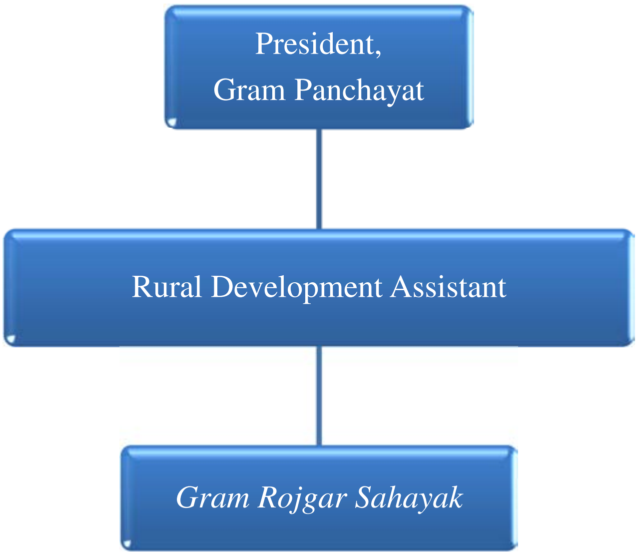
At State Level



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

At District level

At Gram Panchayat level



Similarly, responsibility for utilisation of TFC grant pertaining to Urban Local Bodies (ULBs) rested with the Secretary, Urban Development and Housing Department (UDHD), who was assisted by Municipal Commissioner and other Municipal Executive Officers (MEOs) at ULB level as shown below:

2.3 Scope of Audit

The scope of Audit included checking of release and utilisation of TFC grants relating to PRIs (ZPs and GPs) and ULBs for the period 2010-15. Records relating to two (out of four) ZPs and 25 *per cent* of the GPs (98 nos.) within the selected districts were examined. Similarly, three (out of seven) ULBs were test checked. The samples were selected through Simple Random Sampling without Replacement (SRSWR) after risk analysis of activities undertaken through TFC funding, materiality and significance of TFC funding and likely impact of the audit findings. Audit covered 25 *per cent* units of the selected PRIs and ULBs and 25 *per cent* of expenditure thereof. The details of sampled PRIs and ULBs are given in ***Appendix – 2.1***.

2.4 Audit Objectives

The Performance Audit was conducted with the objectives to assess whether:

- TFC grants relating to PRIs and ULBs were released timely by the Central and State Government;
- TFC grants were utilised in planned manner by PRIs and ULBs in Sikkim duly adhering to the guidelines of TFC and other related norms and conditions;
- Works and activities funded from TFC grants were carried out economically, efficiently and effectively; and
- Monitoring mechanism for ensuring proper utilisation of TFC grants were adequately prescribed and effectively executed.

2.5 Audit criteria

The Performance of the Local Bodies in Sikkim in relation to utilisation of TFC Grants was evaluated based on the following criteria:

- Guidelines prescribed by Thirteenth Finance Commission;
- Notification and circulars issued by Government of India relating to utilisation of TFC grants by Local Bodies;
- Circular/Notification issued by Government of Sikkim for utilisation of TFC grants by Local Bodies;
- Sikkim Financial Rules, Sikkim Public Works Code and Manual; and
- Monitoring mechanism prescribed by the State Government and TFC Report.

2.6 Audit methodology

The Performance Audit commenced with an Entry Conference (19 May 2016) with Secretary, nodal department of the Local Bodies. The minutes of the meeting is placed in ***Appendix-2.2.*** This was followed by issue of questionnaires, test check of records in sampled ZPs/GPs/ULBs, gathering of evidences in support of audit observations, etc. Physical verification of 20 (out of 35) assets/works (***Appendix-2.3***) were also carried out by Audit in association with PRI/ULB functionaries. The Performance Audit was concluded with Exit conference (6 December 2016) with the State Government. The report was finalised after taking into consideration the replies/ views of the State Government.

Audit Findings

The audit findings are given below:

2.7 Allocation and release of TFC grants

Audit Objective-1:

Whether TFC Grants relating to PRIs and ULBs were released timely by the Central and State Government

As noted in preceding paragraph, the Commission had recommended (₹ 186.97 crore) General Basic grant and General Performance grant for Local Bodies in Sikkim. The position of allocation and release of funds by Government of India during 2010-15 is given below:

Table-2.1

Allocation and Release of 13th FC Grants by GOI

(₹ in lakh)

Year	Total Grants Allocated				Total Grants released (by GOI)				Short release (by GOI)			
	Basic Grant		Performance Grant		Basic Grant		Performance Grant		Basic Grant		Performance Grant	
	PRI	ULB	PRI	ULB	PRI	ULB	PRI	ULB	PRI	ULB	PRI	ULB
10-11	1,716.77	24.07	0	0	1,696.00	12.03	0	0	20.77 (1)	12.04 (50)	0	0
11-12	1,990.88	27.91	680.71	9.54	1,834.53	11.77	0	0	156.35 (8)	16.14 (58)	680.71 (100)	9.54 (100)
12-13	2,326.91	32.62	1,596.83	22.38	1,501.86	15.00	106.00	1.66	825.05 (35)	17.62 (54)	1,490.83 (93)	20.72 (93)
13-14	2,756.96	38.65	1,883.54	26.40	2,721.77	15.00	0	3.12	35.19 (1)	23.65 (61)	1,883.54 (100)	23.28 (88)
14-15	3,264.25	45.76	2,221.73	31.15	2,920.79	17.14	1,259.16	5.17	343.46 (11)	28.62 (63)	962.57 (29)	25.98 (83)
Total	12,055.77	169.01	6,382.81	89.47	10,674.95	70.94	1,365.16	9.95	1,380.82	98.07	5,017.65	79.52

Source: Information furnished by State Government and cross checked by Audit with reference to Bank statements; Cash Books, etc.

As would be seen, out of total allocation of ₹ 186.97 crore, ₹ 121.21 crore was released by GOI during 2010-15 leading to short release of ₹ 65.76 crore (35%). The short release was more towards General Performance grants (₹ 50.97 crore) and General Basic grants (₹ 14.79 crore) indicating 77 and 23 *per cent* respectively. A further segregation between PRI and ULB revealed that shortage was more towards PRI in case of General Performance Grants (98%) and General Basic Grants (63%).

Audit analysis of grants released vis-à-vis grants allocated revealed that there was no release of General Performance Grants during 2011-12 and 2013-14 to PRIs and during 2011-12 to ULBs. The release of grants ranged between 0 and 99 *per cent* during 2010-15 as shown in graph below:

Chart-2.1

Details of grants allocated in % to PRIs

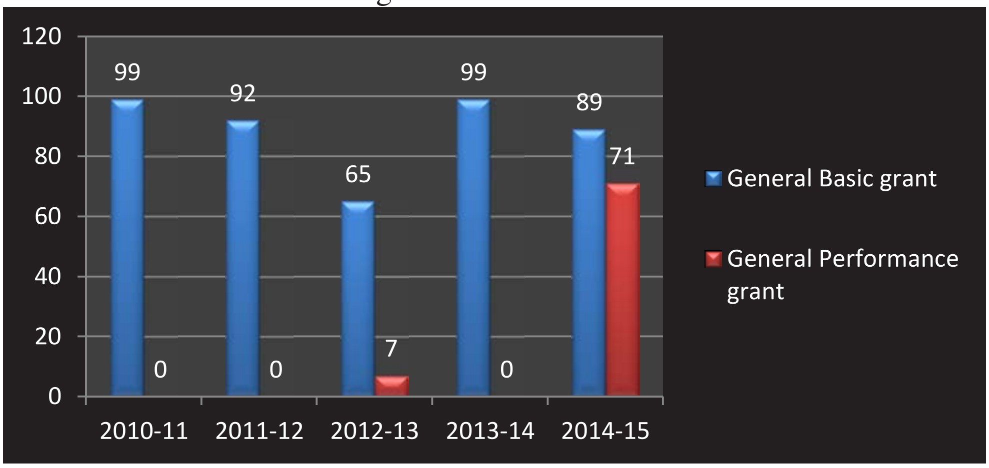
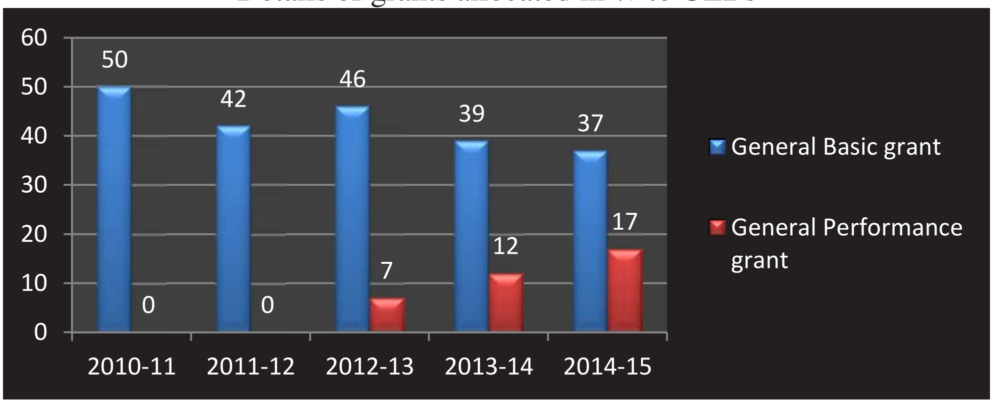


Chart-2.2

Details of grants allocated in % to ULBs



The General Performance Grant was not released in full to the State due to deficiency in fulfilment of conditions such as (i) Budget, Finance and Accounts, (ii) Transfer of TFC Funds within 10 days, (iii) Levy of Property Tax imposed by TFC for release of General

Performance grants in case of PRIs. Similarly, the General Basic grant was not released in full by GOI due to non-submission of Utilisation Certificates (UC) in time. Details are mentioned in ***Appendix-2.4***.

Thus, release of funds to ULBs was at the lowest during 2014-15 (37%), followed by 2013-14 (39%), 2012-13 (46%) for General Basic grants. Similarly, release was nil during 2011-12 in case of General Performance grants. The situation although improved for General Basic grants, the position was far from satisfactory level for General Performance grants. This led to low availability of funds at the State level for onward release to PRIs and ULBs.

Table-2.2

Comparison between various NE States with Sikkim for short release of fund

Name of State	Total allocation		Total released		Short release	
	General Basic Grant	General Performance Grant	General Basic Grant	General Performance Grant	General Basic Grant	General Performance Grant
Assam	1197.20	633.80	950.15	506.55	247.05(21)	127.25(20)
Mizoram	193.30	102.30	69.05	18.83	124.25(64)	83.47(82)
Meghalaya	257.20	136.10	NA	NA	NA	NA
Tripura	228.20	120.80	201.24	NA	26.96(12)	NA
Nagaland	249.70	132.20	46.03	7.44	203.67(82)	124.76(94)
Arunachal Pradesh	199.90	105.80	89.76	NA	110.14(55)	NA
Sikkim	122.25	64.72	107.46	13.75	14.79(12)	50.97(79)

Source: Information obtained from State Accountants General of respective State
Figures in parentheses indicates percentage.

The details of short releases are mentioned in succeeding paragraphs:

2.7.1 Short release of General Basic Grant by GOI

Against the total allocation of ₹ 122.25 crore, ₹ 107.46 crore was released to Government of Sikkim by GOI during 2010-15 towards General Basic grants as detailed below:

Table-2.3

Short release of fund to State Government

(₹in lakh)

Year	Allocation		Release		Short release		Total short release
	PRI	ULB	PRI	ULB	PRI	ULB	
2010-11	1,716.77	24.07	1,696.00	12.03	20.77	12.04	32.81 (2)
2011-12	1,990.88	27.91	1,834.53	11.77	156.35	16.14	172.49 (9)
2012-13	2,326.91	32.62	1,501.86	15.00	825.05	17.62	842.67 (36)
2013-14	2,756.96	38.65	2,721.77	15.00	35.19	23.65	58.84 (2)
2014-15	3,264.25	45.76	2,920.79	17.14	343.46	28.62	372.08 (11)
Total	**12,055.77**	**169.01**	**10,674.95**	**70.94**	**1,380.82**	**98.07**	**1478.89 (12)**

Source: Information furnished by State Government (RMDD and UDHD)

The short release ranged between 2 and 36 *per cent* between 2010-11 and 2014-15 and aggregated to ₹ 14.79 crore by 2010-15.

Audit scrutiny revealed that short release by GOI was mainly due to failure of the State Government to submit Utilisation Certificates on time to GOI. Details are shown in Table-2.12.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the short release was not because of failure of the State Government to submit Utilization Certificates on time to GOI as observed by audit. The release was reduced by ₹ 14.79 crore without assigning any reason by the Ministry of Panchayati Raj, GOI.

The reply is not acceptable as the UC was not submitted in time which was one of the criteria for release of funds by GOI.

2.7.2 Short release of General Performance grants by GOI

As mentioned in preceding paragraph (2.7) the release of General Performance grant to PRIs and ULBs ranged between 0 and 71 *per cent*. Audit noticed that General Performance grant of ₹ 64.72 crore to PRI (₹ 63.83 crore) and to ULBs (₹ 0.89 crore) were allocated by GOI on the condition that State would fulfil six conditions in case of PRIs and nine conditions in case of ULBs as detailed in *paragraph 2.8.1*. It was noticed that State failed to comply with three out of six conditions for PRIs and three out of nine for ULBs in time. This resulted in short release of fund of ₹ 50.18 crore to PRIs and ₹ 0.79 crore to ULBs as detailed below:

Table-2.4
Short release of fund to State Government

(₹in lakh)

Year	Allocation		Release		Short release		Total short release
	PRI	ULB	PRI	ULB	PRI	ULB	
2011-12	680.71	9.54	0	0	680.71	9.54	690.25 (100)
2012-13	1,596.83	22.38	106.00	1.66	1,490.83	20.72	1511.55 (93)
2013-14	1,883.54	26.40	0	3.12	1,883.54	23.28	1906.82 (99)
2014-15	2,221.73	31.15	1,259.16	5.17	962.57	25.98	988.55 (44)
Total	**6,382.81**	**89.47**	**1,365.16**	**9.95**	**5,017.65**	**79.52**	**5097.17 (79)**

Source: Information furnished by State Government (RMDD and UDHD)

Audit analysis revealed that short release was primarily due to non-fulfillment of three conditions (out of 6) relating to (i) enabling of LBs to levy property tax (including tax for all types of residential and commercial properties) and removal of hindrances, if any, (ii) Constituting Property Tax Board by State Governments at state level to assist all ULBs for assessing property tax in an independent and transparent manner; and (iii) to put in place standards for delivery of all essential services provided by all the local bodies; etc.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the State Government complied with almost all the conditions except for Ombudsmen to look into complaint of corruption and mal administration during the initial years of the award period. The Ombudsman was appointed during February 2014.

Despite the efforts, the State could only receive the General Performance Grant of ₹ 1,365.16 lakh against the recommended amount of ₹ 6,382.81 lakh.

The reply is not acceptable as Property Tax Board was not constituted and Service Level benchmark was provided only for one ULB (Gangtok Municipal Corporation) that too for solid waste management alone.

2.7.3 Delay in release of funds by GOI

According to TFC recommendation (Para-10.157) the Local Bodies grants are released in two instalments every year- in July and January. It was noticed that there were delays in release of General Basic Grants to PRIs by GOI ranging between 14 and 425 days as detailed below:

Table-2.5
TFC basic grants received by RMDD from GOI

(₹ in lakh)

Year	Installments	Amount	Due date of receipt of funds	Date of receipt of Fund from GOI	Delay (in days)
2010-11	1st	858.00	1.7.2010	15.7.2010	**14**
	2nd	838.00	1.1.2011	10.8.2011	**221**
2011-12	1st	1,075.00	1.7.2011	21.9.2011	**82**
	2nd	1,098.00	1.1.2012	1.3.2012	**59**
2012-13	1st	1,163.38	1.7.2012	27.9.2012	**88**
	2nd	1,281.18	1.1.2013	6.9.2013	**226**
2013-14	1st	1,440.59	1.7.2013	20.12.2013	**172**
	2nd	1,379.56	1.1.2014	2.3.2015	**425**
2014-15	1st	1,541.23	1.7.2014	25.3.2015	**267**
Total		**10,674.95**			

Source: Information furnished by State Government (RMDD letter No. 485/RMDD/P dated 24.2.2016)

Similarly, there was delay in release of Basic Grants to ULBs by GOI ranging between 14 and 265 days as shown below:

Table-2.6
TFC basic grants received by UDHD from GOI

(₹ in lakh)

Year	Instalments	Amount	Due date of receipt of funds	Date of receipt of Fund from GOI	Delay (in days)
2010-11	1st	12.03	1.7.2010	15.7.2010	**14**
2011-12	1st	11.77	1.7.2011	22.3.2012	**265**
2012-13	1st	15.00	1.7.2012	21.8.2012	**51**
	2nd	1.66	1.1.2013	31.3.2012	**--**
2013-14	1st	15.00	1.7.2013	12.3.2014	**255**
	2nd	3.12	1.1.2014	24.4.2013	**--**
2014-15	1st	17.14	1.7.2014	19.3.2015	**262**
	2nd	5.17	1.1.2015	24.3.2015	**82**
Total		**80.89**			

Source: Information furnished by State Government (UDHD letter No. 112/Acctts/UDHD dated 15.2.2016)

This was primarily due to non- submission of Utilisation Certificates (UC) by State Government in time as State Government failed to release fund to Local Bodies.

As would be noticed that in respect of release of grants to ULBs there were delays in almost all cases barring two occasions in 2012-13 (2nd instalment) and 2013-14 (2nd instalment). The delay in release by GOI was due to non-submission of UC on time by the State Government as the Department released the fund to PRIs and ULBs belatedly. The UCs were submitted by State Government belatedly ranging between 16 and 171 days as detailed in para 2.10.3. In respect of release of grants to PRIs the delay was noticed in all occasion without exception during 2010-15, involving a fund release of ₹ 106.75 crore.

2.7.4 Delay in release of funds by State Government

According to TFC recommendation (Para-10.157), the grants should be transferred to Local Bodies within 15 days of receipt of fund by the State Government failing which interest at Bank rate (RBI) would be payable to Local Bodies by the State Government. It was noticed that grants were not released within stipulated time by State Government on many occasions. Detailed analysis is given in succeeding paragraphs.

➢ ***Delay in release by RMDD***

The Rural Management and Development Department (RMDD) is the custodian of TFC funds of PRIs and responsible for transfer within stipulated time frame. It was noticed that the grants were released belatedly by RMDD to PRIs. The delay ranged from four to 98 days as shown below:

Table-2.7
General Basic grants released by RMDD to PRIs

(₹ in lakh)

Year	Amount	Date of receipt of Fund from GOI	Date of release of fund to ZP/GP	Delay (in days)	Interest paid by State Government (RMDD)	Remarks (Interest not paid by State Government)
2010-11	858.00	15.7.2010	16.8.2010	17		**3.50**
	838.00	10.8.2011	12.8.2011	--		
2011-12	1075.00	21.9.2011	1.10.2011	--		
	1098.00	1.3.2012	31.3.2012	15	**7.07 dt. 14.8.2012**	
2012-13	1163.38	27.9.2012	18.1.2013	98		**27.33**
	1281.18	6.9.2013	13.9.2013	--		
2013-14	1440.59	20.12.2013	9.1.2014	4	**3.11 dt. 20.5.14**	
	1379.56	2.3.2015	11.3.2015	--		
2014-15	1541.23	25.3.2015	31.3.2015	--		
Total	**10,674.94**					

Source: Information furnished by State Government (RMDD)

As would be noticed that fund amounting to ₹ 106.75 crore were released belatedly (4 to 98 days) by RMDD to PRIs during 2010-15. Audit analysis of reason for delay in release of grants to PRIs revealed that RMDD, which is Nodal Department for TFC funds of PRIs, had not initiated action on time to place the proposal of fund transfer to High Level Monitoring Committee and also to State Cabinet. Delayed release by State Government also led to avoidable interest payment of ₹ 41 lakh to PRIs, of which ₹ 10.17 lakh was paid and ₹ 30.83 lakh for the year 2010-11 (17 days) and 2012-13 (98 days) were yet to be paid.

➢ ***Delay in release of funds by UDHD***

Similarly, Urban Development and Housing Department (UDHD) was the custodian of TFC funds of ULBs. Audit noticed that UDHD also released funds to ULBs belatedly. The delay ranged between four and 52 days as shown below:

Table-2.8

General Basic grants released by UDHD to ULBs

(₹ in lakh)

Year	Amount	Date of receipt of fund from GOI	Date of release of fund to ZP/GP	Delay (in days)	Interest paid by State Government (UDHD)
2010-11	12.03	15.7.2010	21.9.2010	52	**(14,996)**
2011-12	11.77	22.3.2012	31.3.2012	--	--
2012-13	15.00	21.8.2012	12.9.2012	8	**5,064 (12 days) dt. 26.2.14**
	1.66	31.3.2012	30.4.2012	15	**Paid by FRED**
2013-14	15.00	12.3.2014	31.3.2014	4	**3,596 (10 days) 10.3.2015**
	3.12	24.4.2013	2.5.2013	--	--
2014-15	17.14	19.3.2015	31.3.2015	--	--
	5.17	24.3.2015	2.5.2015	24	**(2,975)**
Total	**80.89**				

Source: Information furnished by State Government (UDHD)

As would be noticed that fund amounting to ₹ 48.86 lakh was released belatedly during 2010-15, leading to avoidable interest liability of ₹ 26,631 of which ₹ 8,660 was paid and ₹ 17,971 for the year 2010-11 and 2014-15 were yet to be paid.

➢ ***Comparison with North-eastern States***

A comparison of status of delay in release of funds with other NE States was attempted and the position is given in table below:

Table-2.9

Statement showing delay in release of funds by NE states to PRIs and ULBs

(₹ in crore)

Year	Assam	Arunachal	Mizoram	Nagaland	Sikkim
2010-11	125.97	25.20 (88 days)	9.39 (146 days)	15.82 (111 days)	8.58 (17 days)
2011-12	213.58	32.20 (188 days)	11.88 (25 days)	17.97 (276 days)	10.98 (15 days)
2012-13	306.01	32.28 (35 days)	13.37 (63 days)	NA	11.63 (98 days)
2013-14	341.81	NA	4.59 (18 days)	NA	14.41 (4 days)
2014-15	469.34	NA	NA	NA	No delay

Source: Information obtained form State Accountants General of respective State

While the delay for Assam was not readily available, delay in case of Arunachal Pradesh ranged between 35 and 188 days, in case of Mizoram it ranged between 18 and 146 days and in case of Nagaland it ranged between 111 to 276 days.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the standard operating procedure for release of funds required obtaining of approval from State High Level Monitoring Committee, release of resources by State Finance Department and clearance of bills by the Treasuries. Fulfilment of above requirement was time consuming, leading to some delay in release of funds, which could not be avoided.

2.7.5 Utilisation of funds

Consolidated position of total expenditure by the PRIs and ULBs was not available with the State Government. Accordingly, Audit attempted to consolidate the figure by obtaining information/records directly from ZPs, GPs and ULBs. One ZP (out of 4), 96 GPs (out of 176) furnished information in response to Audit requisition which was compiled to arrive at overall position as detailed below:

Table-2.10

Receipt and Expenditure of 13th FC Grants by Government of Sikkim

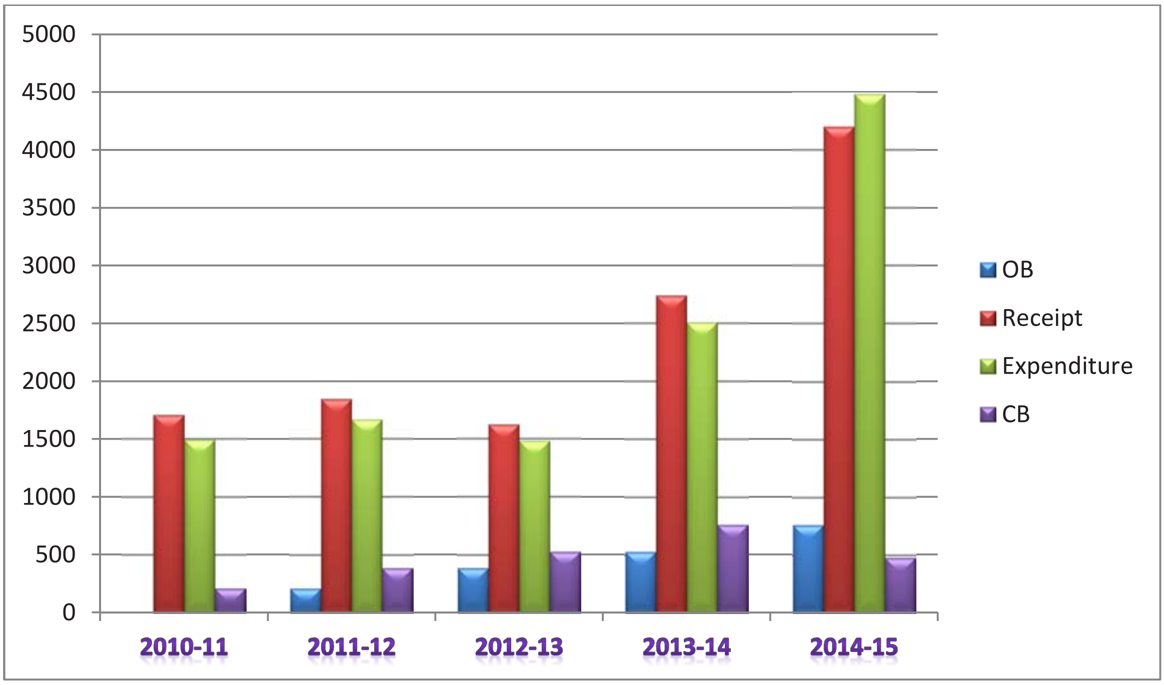
(₹ in lakh)

Year	OB	Receipt	Total	Expenditure	CB
2010-11	0	1,708.03	1,708.03	1,494.45	213.58
2011-12	213.58	1,846.30	2,059.88	1,668.60	391.28
2012-13	391.28	1,624.52	2,015.80	1,483.97	531.83
2013-14	531.83	2,739.89	3,271.72	2,508.11	763.61
2014-15	763.61	4,202.26	4,965.87	4,485.13	480.74
Total	0	12,121.00	14,021.30	13,540.56	480.74

Source: Information collected from cash book of GPs and ZPs and cross checked by Audit with reference to Bank statements; Cash Books, etc.
OB: Opening Balance, CB: closing Balance

Analysis revealed that the Local Bodies could not utilise the allocated funds and the closing balances ranged between ₹ 2.14 crore (2010-11) to ₹ 7.64 crore (2013-14) as shown in the graph below:

Chart -2.3



A further analysis revealed that the absorption capacity of ZP ranged between 45 and 60 *per cent*, and GPs 55 and 70 *per cent* and that of ULBs 75 and 88 *per cent* indicating that LBs in Sikkim had not initiated adequate measures beforehand to utilise TFC funding to the maximum. These inadequacies were compared with other North Eastern States where fund utilisation was 100 *per cent* (Nagaland and Manipur) and 83 *per cent* (Mizoram) as shown below:

Table-2.11

Statement showing absorption capacity of various States

(₹ in lakh)

State	Fund released	Fund utilised	% utilised
Mizoram	91.48	76.29	83
Nagaland	58.13	58.13	100
Manipur	102.81	102.81	100
Tripura	201.24	109.96	55
Sikkim	121.21	90.91	75

Source: Information obtained form State Accountants General of respective States

2.7.6 Utilisation certificates not submitted by State Government in time

Government of India vide Notification (September 2010) stipulated that release of instalment for grants under TFC would be subject to submission of Utilisation Certificates for previous instalment drawn (Para 6.2). It was noticed that the State Government had not submitted utilisation certificates in time as detailed below:

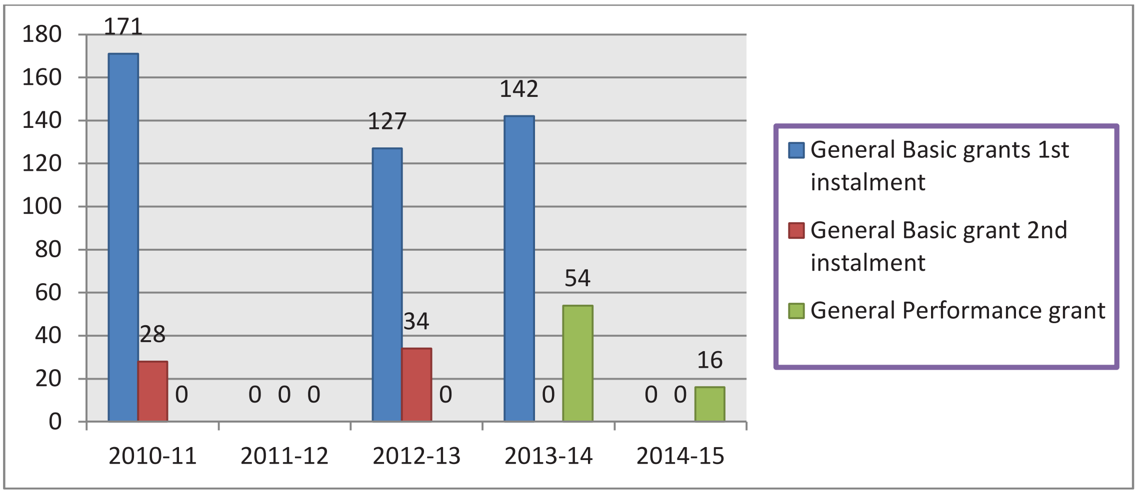
Table-2.12
Statement of Financial position of TFC with submission of Utilisation Certificate
(₹ in lakh)

Year	Inst. No.	Amount released	Date of release by GOI		Date of release by State Government		Date of submission of UC to GOI	
			Due	Actual	Due	Actual	Due	Actual
2010-11	Basic Grant I	858.00	1.7.10	15.7.10	30.7.10	16.8.10	21.8.10	10.2.11(171)
	Basic Grant II	838.00	1.1.11	9.8.11	24.8.11	10.8.11	15.8.11	13.9.11(28)
2011-12	Basic Grant I	1075.00	1.7. 11	30.9.11	15.10.11	NA	NA	NA
	Basic Grant II	1098.00	1.1.12	1.3.12	15.3.12	31.3.12	NA	NA
2012-13	Basic Grant I	1163.38	1.7.12	27.9.12	12.10.12	25.1.13	30.1.13	7.6.13(127)
	Basic Grant II	1281.18	1.1.13	6.9.13	21.9.13	28.9.13	3.10.13	6.11.13(34)
	Performance Grant	106.00	NA	NA	NA	NA	NA	NA
2013-14	Basic Grant I	1440.59	1.7.13	20.12.13	5.1.14	9.1.14	14.1.14	6.6.14(142)
	Basic Grant II	1379.56	1.1.14	2.3.14	17.3.14	11.3.14	16.3.14	12.3.14 (NA)
	Performance Grant	344.16	1.7.13	31.3.14	15.4.14	7.4.14	12.4.14	6.6.14(54)
2014-15	Basic Grant I	1541.23	1.7.14	25.3.15	9.4.15	8.4.15	13.5.15	6.4.15 (NA)
	Basic Grant II							
	Performance Grant	915.00	1.7.14	31.3.15	15.4.15	2.5.15	7.5.15	26.5.15(16)
Total	**Basic Grant**	**10,674.94**						
	Performance Grant	**1,365.16**						

Source: Information collected from files/records of RMDD and UDHD, Government of Sikkim
Figure in parenthesis indicate delay in number of days

The delay in submission of UCs ranged between 16 and 171 days. The delay was most pronounced in case of General Basic grants for the year 2010-11 (171 days), followed by 2013-14 (142 days) as shown in graph below:

Chart -2.4



This not only resulted in delayed release of funds ranging between 14 to 425 days but also short release of General Basic grants of ₹ 13.81 crore during 2010-15.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the submission of UCs by the RMDD is subject to receipt of UCs along with the Statement of Expenditure by all the PRIs including those in the far flung remote areas of the State. Submission of UCs was delayed as the PRIs had to wait for completion of work and incurring of expenditure against the work.

The reply is not acceptable as the UCs were required to be submitted to GOI for the amounts which have been utilised without waiting for utilisation of entire available funds.

2.8 Utilisation of TFC Grants

Audit Objective-2:

Whether TFC Grants were utilised in planned manner by Local Bodies duly adhering to the provisions of TFC and other related norms and conditions

2.8.1 Planning

The State Government was required to initiate suitable steps before hand to utilise the TFC fund to the maximum and in the right spirit of the TFC guidelines. Important among them were to be prepared for being eligible for drawing the TFC General Performance grant, appropriate strengthening of Local Fund Audit Department, incentivise revenue collection by Local Bodies, etc. Position in this respect in the State is given below:

Table-2.13

Sl.	*Activities in the TFC guidelines*	*Action taken by State Government*
1	State Government will be eligible for the General Performance grant only if they comply with the stipulations in TFC recommendations.	The State Government failed to comply with the criteria laid down by GOI. Only six (out of 9) conditions were fulfilled. As a result, General Performance grant was not released in full as detailed in ***Appendix-2.4***.
2	State Government should appropriately strengthen their Local Fund Audit Department through capacity building as well as personnel augmentation.	The office of the Director, Local Fund Audit (DLFA) was created by the State Government as late as June 2012. Strengthening of the DLFA was not attempted as desired as augmentation in sanctioned strength and men in position had not taken place since the formation of the DLFA. While sanctioned strength was not delineated, men-in-position of DLFA was reduced from 18 (2013-14) to 13 (2015-16). As a result, only 94 (out of 500) units were audited during 2013-16. Similarly, capacity building of the DLFA staff was also not accorded due importance as none of the staff had been trained in auditing.
3	The State Government should incentivise revenue collection by Local Bodies through methods such as mandating some or all local taxes as obligatory at non-zero rates of levy; by deducting deemed own revenue collection from transfer entitlements of Local Bodies or through a system of matching grants.	The State Government had neither taken adequate steps to incentivise revenue collection by Local Bodies nor reduced its own revenue collection from transfer entitlements of Local Bodies or through a system of matching grants. This compared poorly with Mizoram which had initiated steps to incentivise revenue collection of LBs.

Sl.	Activities in the TFC guidelines	Action taken by State Government
4	To buttress the accounting system, the Finance Accounts should include a separate statement indicating head-wise details of actual expenditure under the same heads as used in the budget for both PRIs and ULBs from 2011-12.	A separate statement including head-wise details of actual expenditure under the same heads as used in the budget for both PRIs and ULBs was created in the Finance Accounts with effect from 2012-13 as Statement no. 43 and 46.
5	The Government of India and the State Governments should issue executive instructions that all their respective Departments pay appropriate service charges to Local Bodies.	State Government did not issue instructions to their respective Departments to pay appropriate service charges relating to work executed by PRIs on behalf of respective Departments to Local Bodies as of March 2016. The works such as construction of Community Recreation Centres, Gram Prasasan Kendras, Bridges, Water supply etc. were constructed by ZP on behalf of line Departments of State Government without any service charges. The contingent charges for unforeseen items pertaining to works were also not released by Departments to meet incidental charges of works by ZPs.
6	A portion of income from royalty should be shared between State Government and Local Bodies in whose jurisdiction such income arises.	No effort was taken by the State Government to share 'Royalty' between State Government and Local Bodies in whose jurisdiction such income arises as of March 2016. This is despite the fact that a number of forest quarry are functioning in the panchayat areas and power projects were also coming up in the vicinity of panchayat areas. The State Government collected forest royalty of ₹ 11.45 crore during 2010-15 from quarries situated in GPs.
7	State Governments should ensure that the recommendations of State Finance Commissions are implemented without delay and that the Action Taken Report is promptly placed before the legislature.	The recommendations of SFCs were not implemented in a number of cases such as adequate release of grants to ZP/GPs by line Departments despite acceptance (November 2011) by the State Government. As a result, release of grants to PRIs aggregated to ₹ 2.09 crore instead of mandatory ₹ 5.86 crore during 2010-15. Only few GPs had commenced steps to collect their own revenues despite empowered to do so. Had all the GPs initiated steps to collect own revenue, generation of ₹ 5.86 crore could have been achieved.

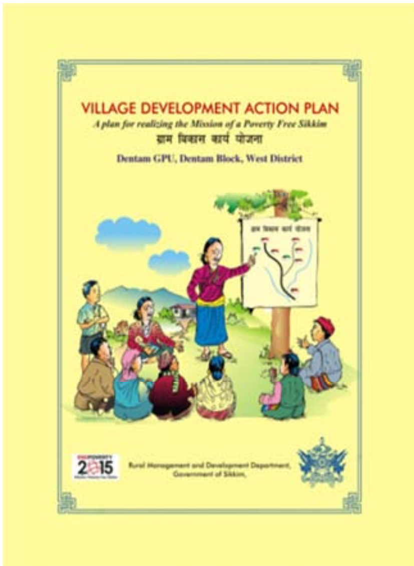
The above instances indicated that the State Government did not initiate suitable measures in adequate terms to be prepared for making full use of TFC funding. Not only the General Basic grant and General Performance grant was not released in full and in time, suitable strengthening of Local Bodies had also not taken place as of March 2016.

2.8.2 Village Development Action Plan (VDAP) not made use of

As mentioned in preceding paragraph (2.1), Government of Sikkim was allocated ₹ 122.25 crore and ₹ 64.72 crore from TFC towards General Basic grant and General Performance grant respectively for supplementing the resources of the PRIs during 2010-15. The fund was to be utilised towards provisioning of basic services such as sanitation, water supply, power, etc.

The State Government released fund to PRIs during 2010-11 to meet the cost of preparation of VDAP partially. VDAP helps to ensure estimation of available resources within the GPs and spend fund according to VDAP in most economic, efficient and effective manner for providing basic services.

Audit noticed that the GPs had prepared VDAP by incurring ₹ 17.80 lakh released by State Government under State Plan and initiated planning for execution of works as per VDAP. Also the State Government while transferring TFC fund of ₹ 20.46 crore during 2010-11 to 2014-15 to GPs intimated that the fund was to be utilised towards development works including implementation of VDAP (details in ***Appendix-2.5***). However, the Additional District Collector (Development) of respective districts, to whom the funds were released by State Government for onward release to GPs, directed (2011-13) the GPs to utilise TFC funds of ₹ 20.46 crore towards maintenance of civic amenities (₹ 10.43 crore) and salary of Panchayat Accounts Assistants etc. (₹ 3.17 crore) out of above fund.



As a result, the GPs could not utilise the TFC fund towards the thrust areas such as water supply, rural connectivity, sewerage etc. noted in respective VDAP. Instead, fund was utilised towards meeting salary of Panchayat Account Assistants (PAA), Barefoot Engineers, repair and construction of infrastructure, etc. It was also noticed that fund release order was accompanied by list of works to be executed as directed by Additional District Collector (Development) who were in charge of monitoring works of PRIs including TFC funding. Analysis revealed that the works assigned to GPs by ADC were different from what was passed by the respective Gram Sabhas in line with VDAP of the GPs concerned.

Thus, the works enshrined in the VDAP and approved plan could not be executed leading to unfruitful expenditure of ₹ 17.80 lakh on preparation of VDAP to a large extent. Besides, the TFC fund was not meant for these programmes but for basic services such as water supply, sewerage, and electricity etc. which was rightly envisaged in the plans prepared by the GPs.

2.8.3 TFC fund incurred towards meeting ongoing schemes of State Government

State Government took up construction of seven (7) Gram Prasasan Kendras (GPKs) between 2003-04 to 2007-08 under various debitable head such as Tribal Sub Plan (TSP), *Swarnajayanti Gramin Rojgar Yojana* (SGRY) and award money was released by GOI towards *nirmal puraskar* for sanitation. The construction works were tendered between April 2003 and March 2008 and awarded to the contractors with stipulation to complete (between April 2004 and March 2009) within one year from the date of work order. Details are shown in ***Appendix-2.6***. The works were not completed within stipulated time. As on March 2010, the progress ranged between 27 and 60 *per cent* after incurring expenditure of ₹ 52.07 lakh from original source of funding *i.e.* TSP, SGRY and award money. Adequate actions were not initiated by the nodal department (RMDD) to ensure completion of works within the stipulated time.

After receipt of TFC grant, the expenditure of GPK was met from TFC fund with effect from April 2012. A total of ₹ 1.18 crore was incurred towards above works as of March 2016 from TFC funding. The change of source of funding of ongoing scheme to TFC was not permissible under TFC guidelines and hence the expenditure of ₹ 1.18 crore was irregular. This not only resulted in diversion of TFC fund of ₹ 1.18 crore to meet expenditure on the works executed from other schemes but also led to a loss of potential fund from GOI on account of original source of funding i.e. TSP, SGRY, etc.

Action of the State Government to utilise TFC funding towards ongoing scheme led to curtailment of works relating to improvement in basic services such as water supply and sanitation as envisaged in TFC guidelines. As a result, GPs trailed in providing basic services of water supply, sanitation, etc. as coverage ranged between 26 and 29 *per cent* of population for water supply and that of sanitation fell from 98 *per cent* (2010-11) to 87 *per cent* (2012-13).

The Director (Panchayat), Government of Sikkim stated (December 2016) that Gram Panchayat Infrastructure such as repairs of Gram Prasasan Kendra had been taken up by the PRIs to ensure judicious use of the TFC fund which cannot be classified as diversion of fund.

The reply is not acceptable as the funding of ongoing schemes is not permissible under TFC guidelines (Para-10.172).

2.8.4 TFC fund allocated towards BRGF

The Backward Regions Grant Fund was launched (2006-07) by GOI to bridge critical gaps in local infrastructure and other development requirements; strengthen Panchayat and Municipality level governance with more appropriate capacity building; provide professional support to local bodies for planning, implementation and monitoring their plans; and improve the performance and delivery of critical functions assigned to Panchayats.

During 2014-15, fund of ₹ 11.47 crore was sanctioned by GOI against the projection of ₹ 15.05 crore by the State Government. The GPs and ZPs accordingly invited (June 2014) tender for 406 works relating to construction of crematorium shed, repair of school building, etc. The work orders were issued (June 2014) to contractors with stipulation to complete the works within six months (between June 2014 and February 2015). The works were not completed within the stipulated period. The physical progress ranged between 40 and 55 *per cent* as on March 2015. Construction works were stopped between

March 2015 and March 2016 for want of fund. The ZPs and GPs did not take any action as stipulated in the agreement against the contractor to get the work completed in time. Thereafter, on receipt of TFC funding (March 2016), balance expenditure of 406 works amounting to ₹ 3.58 crore was partially met (April-May 2016) from TFC funding of ₹ 1.21 crore.

Audit analysis revealed that the GPs and ZPs instead of curtailing the execution of number of works to sanctioned amount (₹ 11.47 crore), issued work order for 406 works aggregating to entire projected requirement (₹ 15.05 crore). As a result, there was shortage of fund to the tune of ₹ 3.58 crore. The ZPs and GPs without ensuring the source of meeting this shortage of fund, issued work order for entire projected amount, indicating unplanned implementation. This also led to works remaining incomplete even after expiry of 21 months of scheduled date of completion as of September 2016.

Thus, action of the ZPs and GPs not only led to irregular utilisation of TFC funding of ₹ 1.21 crore but also incomplete works despite incurring substantial fund of ₹ 12.68

crore. The TFC fund of ₹ 1.21 crore could have been utilised towards improving basic services of the Gram Panchayat.

2.8.5 Diversion of TFC fund towards salary and wages by ULBs

The State Government released TFC fund of ₹ 80.89 lakh to ULBs during 2010-16. According to TFC recommendation (Para-10.141 to 10.143), the TFC fund was to be utilised by Local Bodies towards provisioning of core services such as solid waste management and street lights to an acceptable level of service. The LBs were expected to initiate suitable steps for utilisation of TFC funding to avoid diluting the quality of services for want of resources (Para-10.160-viii).

Audit noticed that the ULBs had not prepared any plan to utilise the TFC fund towards basic services such as sanitation, water supply, power, etc. Entire fund of ₹ 80.89 lakh was incurred towards meeting salary and wages of the employee of the respective ULBs. The utilisation of TFC fund towards salary and wages was irregular and in contravention to scheme guidelines which led to compromise in providing basic services to residents of ULBs.

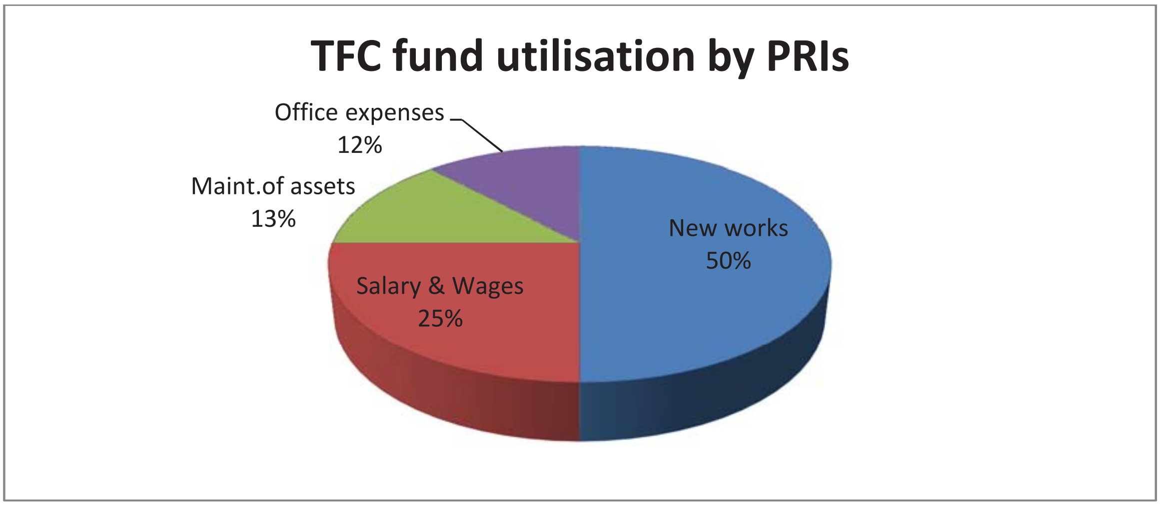
2.9 Programme Execution

Audit Objective-3:

Whether Works and activities funded from TFC grants were carried out economically, efficiently and effectively

Out of total fund availability of ₹ 121.21 crore, ₹ 120.40 crore was allocated to PRI (ZP ₹ 36.12 crore and GP ₹ 84.28 crore) and ₹ 0.81 crore to ULBs for execution of various works (78 no.). Out of the above fund, the sample (2 ZPs, 45 GPs and 3 ULBs) test checked in Audit incurred ₹ 30.15 crore during 2010-15. Analysis of above expenditure, separately for PRIs and ULBs, revealed that while ULBs had incurred major percentage of expenditure (74%) towards salary and wages, as mentioned in preceding paragraph (2.8.5); the PRIs had incurred 50% towards new work, 25% towards salary and wages, 13% towards maintenance of assets and 12 % on office expenses as shown in pie chart below:

Chart-2.5



As would be seen, major percentage (50%) of expenditure was towards construction of GPKs and CRCs. 36 works (out of 78 works) relating to construction of GPKs (29) and CRCs (7) of estimated cost of ₹ 14.75 crore was test checked in audit. The results are given below:

2.9.1 Works completed belatedly

The SPWD Manual (Para-22.2) and terms of contract (Para-14) enjoin upon the contractor to complete the work as agreed upon. Failure to complete the work within valid time extension attracts penalty on per day basis for unfinished portion of work. It was seen that most of the works of construction of GPKs, CRCs were not completed in time.

A total of 36 works relating to construction of GPKs (29) and CRCs (7) were taken up between 2010-11 to 2014-15 involving an estimated cost of ₹ 14.75 crore. The works were to be completed between November 2011 and November 2016. However, it was noticed that only 13 works were completed and 15 works were under progress (Physical progress ranging between 5 to 95%) as of March 2016. Remaining 8 works had not even commenced as of March 2016 owing to non- finalisation of land as detailed in ***Appendix-2.7.***

Audit analysis revealed that 13 works valuing ₹ 3.90 crore which were completed, also recorded a delay in completion ranging between 5 and 25 months from the scheduled date of completion. This was primarily due to late start and slow pace of work by contractors. Examples of such works are shown in photograph below:

	Name of work*: Construction of Rolep Lamaten GPK* Estimated cost*: ₹ 30 lakh* Expenditure*: ₹30 lakh* Date of commencement*: 01.01.2013* Due date of completion*: 30.06.2014* Actual date of completion*: 31.08.2015* Delay*: 14 months* Reason for delay*: Delay on part of contractor due to slow progress of work.*
	Name of work*: Construction of GPK Rateypani* Estimated cost*: ₹ 30 lakh* Expenditure*: ₹ 29.95 lakh* Date of commencement*: 13.05.2013* Due date of completion*: 12.01.2014* Actual date of completion*: 31.03.2015* Delay*:13 months* Reason for delay*: Delay on part of contractor due to slow progress of work.*
	Name of work*: Construction of GPK Turuk Mamring* Estimated cost*: ₹ 30 lakh* Expenditure*: ₹ 29.95 lakh* Date of commencement*: 06.01.2012* Due date of completion*: 05.10.2012* Actual date of completion*: 04.09.2013* Delay*: 9 months* Reason for delay*: Delay in finalisation of land*
	Name of work*: Construction of GPK Perving Dovang* Estimated cost*: ₹30 lakh* Expenditure*: ₹ 29.95 lakh* Date of commencement*: 06.01.2012* Due date of completion*: 05.10.2012* Actual date of completion*: 04.09.2013* Delay*: 9 months* Reason for delay*: Delay on part of contractor due to slow progress of work.*

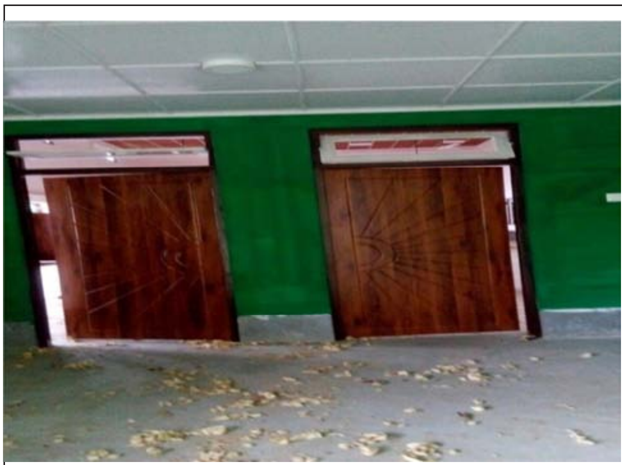
However, neither any action was initiated by ZP authorities against the contractors for late start and slow pace of works nor penalty of ₹ 11.75 lakh[7] was levied on contractors for delay in execution of works. Delay in completion of works led to postponement of intended benefit of providing a common place to villagers for recreation such as playing games, organizing cultural activities, etc.

2.9.2 Incomplete works

The SPWD Manual (Para-22.2) and terms of contract (Para-14) enjoin upon the contractor to complete the work as agreed upon. Failure to complete the work within valid time extension attract penalty on per day basis for unfinished portion of work. However, 23 works taken up under TFC funding remained incomplete as of March 2016, of which eight works valuing ₹ 3.01 crore had not started due to non-finalisation of land, tendering, etc. As a result, TFC fund amounting to ₹ 3.46 crore incurred in partial execution of 15 works did not yield value for money. Some of the instances are shown below:

	Name of work*: Construction of Community Recreation Centre, Pabuik* Estimated cost*: ₹ 97.26 lakh* Expenditure*: ₹ 37.68 lakh* Date of commencement*: 19.08.2013* Due date of completion*: 18.05.2014* Physical progress as of March 2016*: 95 %* Reason for delay*: Land finalised belatedly.*
	Name of work*: Construction of CRC Subithang* Estimated cost*: ₹98.60 lakh* Expenditure*: ₹ 31.13 lakh* Date of commencement*: 19.08.2013* Due date of completion*: 18.05.2014* Physical progress as of March 2016*: 95%* Reason for delay*: Land finalised belatedly and slow progress of works by contractor.*

[7] *Penalty of 1% of the work value of ₹ 11.75 crore = ₹ 11.75 lakh.*

	Name of work*: Construction of CRC Central Pendam* Estimated cost*: ₹ 95.14 lakh* Expenditure*: ₹ 56.95 lakh* Date of commencement*: 05.09.2013* Due date of completion*: 04.06.2014* Physical progress as on March 2016*: 95%* Reason for delay*: Delay on part of contractor due to slow progress of work.*
	Name of work*: Construction of CRC Bermoik Berthang* Estimated cost*: ₹ 97.44 lakh* Expenditure*: ₹ 35.57 lakh* Date of commencement*: 21.11.2013* Due date of completion*: 26.01.2015* Physical progress as of March 2016*: 45%* Reason for delay*: Delay on part of contractor due to slow progress of work.*

Out of 15 works in progress, 10 works (₹ 8.59 crore) were to be completed by June 2016 and 5 works (₹ 1.50 crore) by November 2016. Against this, the progress was 25 to 95 % and 5 to 50% respectively as of March 2016. Thus, the works in progress were not completed even after recording a delay of 18 to 48 months from the scheduled date of completion despite incurring an expenditure of ₹ 3.46 crore. Non completion of works led to non-accrual of intended benefits of having a recreation centre and fully functional GPKs. The ZP had neither initiated suitable action to ensure completion of work on time by the contractor nor levied penalty to the contractors for delayed execution despite provision in the contract agreement (clause 14).

2.9.3 Work not started

Construction of 8 works valuing ₹ 3.01 crore had not started due to non-finalisation of land, tendering, etc indicating lack of preparedness by the ZP as detailed in ***Appendix-2.7***.

2.9.4 Extra expenditure

SPWD Manual (Para-60) envisaged upon the implementing Department to tender the work based on estimated cost prepared on the basis of applicable Schedule of Rates. It was however, noticed during the audit that the ZPs issued tender invitation notice in case of construction of ten Panchayat Ghar at various places in East and South Sikkim at the estimated cost of ₹ 25.49 lakh each aggregating to ₹ 2.55 crore which had an inbuilt component of cost escalation of ₹ 4.29 lakh each. The lowest tenderer in case of all ten works quoted *at par* the estimated cost and accordingly the agreement was drawn. The works were completed and payment of ₹ 30 lakh (including of escalation portion of ₹ 4.29 lakh) each aggregating to ₹ 3 crore was released to the contractors between October 2013 and March 2016 leading to aggregated extra expenditure of ₹ 42.90 lakh in ten works. Audit point was borne out of the fact that in all other works, the cost escalation portion, although factored in while preparing the estimate, was neither included while floating the tender nor allowed to the contractors for payment.

Thus, casual approach of the ZP official in failing to segregate the actual estimated cost with that of the probable estimated cost duly factoring in the cost escalation based on the tender bid led to loss of ₹ 42.90 lakh in case of ten works to the Government and undue favour of equivalent amount to the contractors.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the estimate of GPKs was prepared based on SOR 2006 during 2011-12. Although the tender was floated for ₹ 25.49 lakh and work was awarded to the contractors *at par*, cost escalation component of ₹ 4.29 lakh was released to the contractors based on their request as they could not complete the work at the approved cost (₹ 25.49 lakh).

The reply is not acceptable as the contractors were bound by the agreement to execute the work at the contract price of ₹ 25.49 lakh.

2.9.5 Avoidable expenditure

Government of India released TFC fund (September 2010 to March 2015) to State Government as General Performance grant and General Basic grant. Audit scrutiny revealed that ₹ 2 crore was utilised towards purchase of bookshelf and chair between November 2010 and March 2015. Audit scrutiny of records revealed that the Gram Panchayats (GPs) did not utilise the fund towards providing minimum level of services in water supply, sewerage, storm water drainage and solid waste management sectors and instead purchased furniture (2 book-selves, one table and one executive chair) for Gram Prasasan Kendras (GPKs).

Physical verification by Audit in presence of GP functionaries revealed (July 2016) that there was no space for keeping this furniture in the GPKs as shown in picture. Books were not even in circulation.

Thus, the action of the GPs to utilise TFC fund of ₹ 2 crore towards purchase of Library books and furniture was largely unfruitful and against the provision of TFC.

The Director (Panchayat), Government of Sikkim stated (December 2016) that based on the policy decision of the State Government to have a library in each Gram Panchayat, the PRIs had chosen to purchase relevant library books. He further assured that although almost all the GPs have infrastructure in place to store these items, RMDD shall look into the observation and explore possibilities of addressing the issue.

2.9.6 Estimate of works were enhanced

The ZPs took up (June 2011) construction of seven Community Recreation Centres (CRCs) across the State involving a cost of ₹ 3.70 crore based on SOR 2006. The agreement for execution of works was at par the estimated cost without any cost escalation. The construction was to commence from 2010-11 and 2011-12 and stipulated to be completed between 2011-12 and 2012-13. However, during the currency of execution, the ZPs allowed (June 2013) cost escalation of CRCs, raising it to ₹ 6.72 crore. This not only led to cost escalation of ₹ 3.02 crore but also deprived the execution of other basic services such water supply, sanitation and garbage disposal to this extent. Audit analysis revealed that the basic rate was changed from SOR-2006 to SOR-2012 on the direction of RMDD leading to cost escalation of ₹ 3.02 crore. The action of the ZP was irregular as rates were finalized and agreements drawn. The action was incongruent to para 10 of *Sikkim Public Works Department (SPWD) Manual* as rates once entered into cannot be changed. This led to extra avoidable expenditure of ₹ 3.02 crore and undue benefits to contractors.

The Director (Panchayat), Government of Sikkim stated (December 2016) that the estimate had to be revised based on the actual site condition to include provisions for protective works, site levelling, etc.

The reply is not acceptable as the cost escalation was primarily owing to change of base rate from SOR-2006 to SOR-2012 and not due to change in scope of works as contended by the State Government.

2.10 Monitoring and evaluation

Audit Objective-4:

Whether Monitoring mechanism for ensuring proper utilisation of TFC grants were adequately prescribed and effectively executed

2.10.1 Monitoring by State High Level Monitoring Committee (SHLMC)

Government of India (September 2010) directed State Governments to form SHLMC headed by the Chief Secretary and Finance Secretary and Secretaries of the concerned Departments as members. SHLMC shall be responsible for ensuring adherence to the specific conditions in respect of each category of grant, wherever applicable.

The SHLMC shall meet on quarterly basis and minutes of SHLMC meetings shall be forwarded to Government of India (Ministry of Finance) and to the Department of Justice (Para 9.2).

➢ SHLMC was constituted (2010) by State Government. The SHLMC convened only seven meeting[8] (July 2010 to March 2016) to dwell upon the responsibilities as against 19 meetings, thus recording a shortfall of 12 meeting. The matter relating to LBs was rarely discussed. It mostly dealt with common issues such as submission of UC on time. No monitoring therefore as stipulated by SHLMC was forth coming in the State. SHLMC did not evaluate proper utilisation of fund by LBs. As a result, deficiencies in utilisation of TFC grants such as diversion of TFC fund, non-completion of works in time, non-adherence of criteria fixed by GOI to release General Performance Grant and non-utilisation of TFC fund in timely manner by LBs was allowed to persist. States had also not prepared a perspective plan for 2010-15 and an action plan for each financial year for all the components with the approval of SHLMC.

2.10.2 Field monitoring reports not available

The District Development Officer (DDO) was re-designated (February 2011) as Additional District Collector (Development) {ADC (Dev)} by State Government and were assigned the field monitoring work. Although ADC (Dev) claimed to have visited the field to monitor the works done by PRIs/ULBs, records of monitoring and action taken report on the inspection reports, to initiate corrective action, if any, was not available on records for verification. The SHLMC had also not test checked the monitoring works done by ADC (Dev) to ensure proper monitoring.

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8 *Date of SHLMC meeting: 2.7.2010, 17.11.2010, 27.7.2011, 10.2.2012,20.9.2013,22.1.2015 and 6.2.2015*

2.10.3 Utilisation certificates not submitted by State Government in time

Government of India stipulated (September 2010) that release of instalment for grants under TFC would be subject to submission of UC for previous instalment drawn (Para 6.2). It was noticed that the State Government had not submitted utilisation certificates in time. This not only resulted in delayed release of funds but also short release of general basic grants. It was noticed that 7 UCs (out of 13) for which records were made available to Audit were submitted belatedly recording a delay ranging from 16 to 171 days.

Audit analysis of reasons for delayed submission of UC revealed that the State Government had adopted the procedure to transfer funds to executing departments and LBs only after discussion and approval in the SHLMC and after obtaining Cabinet approval. It was seen that the meeting of SHMLC was not convened in time as required (Para 7 of Guidelines). This led to delayed submission to Cabinet and consequent delay in transfer of funds to LBs. The UCs were to be submitted to GOI only after transfer of funds to LBs. Since transfer of funds to LBs were delayed (as detailed in Para 2.7.5), the submission of UC was also delayed. The delayed submission of UC in turn led to delay in release of funds by GOI.

2.11 Beneficiary survey

A survey was undertaken by Audit to assess the awareness level and level of satisfaction of beneficiaries and Panchayat functionaries relating to implementation of TFC. The survey revealed (July-August 2016) that:

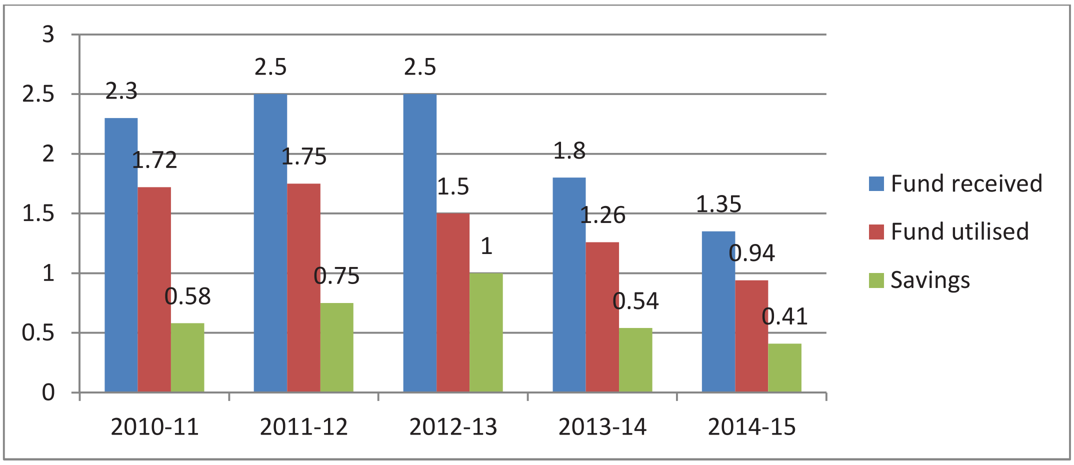
- 121 (out of 250) beneficiaries/villagers possessed awareness about implementation of TFC in their respective villages, had participated in the Gram Sabha for discussion relating to planning for utilisation of TFC funds and were generally satisfied with implementation of TFC. People in general were aware of potential revenue generating areas. However, it could not be tapped owing to inadequate initiatives from Panchayat functionaries. The beneficiaries were not paying tax for availing basic services provided by GPs in contravention of the TFC guidelines.
- Similarly, the survey of Panchayat functionaries revealed that out of 25 GPs only one GP (Mellidara Paiyong) had prepared Five year plan and Annual plan based on Gram Sabha for onward submission to District Planning Committee (DPC); gaps prevailing in basic services were not identified and executed by any of the GPs (except Mellidara Paiyong) so as to provide minimum standard of basic services as well as earn revenue on account of services rendered.

➤ GPs were allocated ₹ 10.45 crore during 2010-11 to 2014-15, by RMDD from TFC fund for utilisation as per VDAP. Survey revealed that 60 to 75 *per cent* of fund was utilised by GPs, resulting in saving ranging between 25 to 40 *per cent* as shown in graph below:

Chart-2.6

Chart showing year wise fund received, utilised and savings with GPs

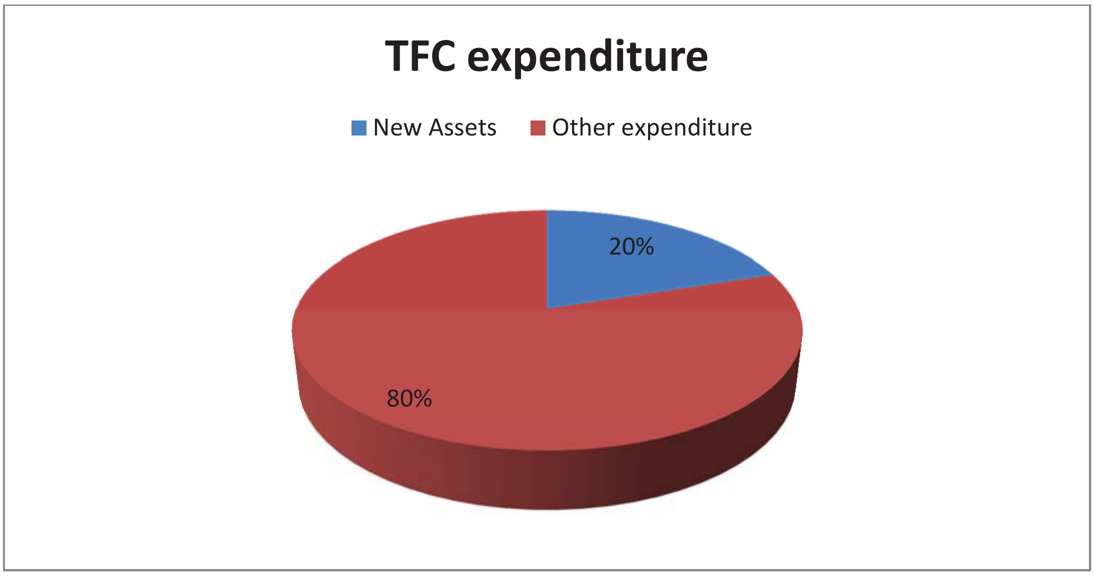
(₹ in crore)



➤ Out of total fund availability of ₹ 121.21 crore, ₹ 10.45 crore was allocated to GPs for Development fund including implementation of VDAP. Survey revealed that GPs spent fund for construction of assets (20%), maintenance of assets (45%), Office expenses (20%) and salary of PAA, Barefoot engineers etc. (15%) as shown below:

Chart-2.7

Chart showing per cent of TFC expenditure by GPs on various components



As depicted from chart only 20 *per cent* of TFC fund was utilised for creation of new assets and rest 80 *per cent* of fund was utilised for maintenance of assets such as GPK, water supply (45 *per cent*) and establishment expenditure (35 *per cent*). The GPs failed to utilise fund towards creating assets with potential of revenue generation to augment their revenue base.

2.12 Good Practices

Audit attempted to ascertain good practices followed by Sikkim in implementation of TFC. A comparison with other North-eastern States revealed that Assam adopted some good practices which included adoption and implementation of Municipal Accounting Manual, appointment of Lokayukta, and setting up of service level delivery benchmark.

It was noticed that Sikkim had also appointed Lokayukta and set-up service level delivery benchmark for Gangtok Municipal Corporation. Municipal Accounting Manual although prepared by UDHD had not been approved by the Government for adoption. Besides, Sikkim had introduced some other good practices such as preparation of VDAP, submission of photographs of works sites before and after completion of works, etc.

2.13 Conclusion

Maximum utilisation of CFC fund was not ensured by appropriate planning beforehand leading to curtailment of funds and delayed release of funds. The works were not completed within stipulated time. As a result out of 36 works taken up under TFC funding, 13 works were completed and 23 works remained incomplete. Out of 23 works, 8 works valuing ₹ 3.01 crore had not commenced and remaining 15 works were completed recording a delay. Local Bodies should take suitable steps to ensure that works were taken up and completed expeditiously to reap intended benefit of the projects. Monitoring by SHLMC was also required to be strengthened to ensure proper implementation of Central Finance Commission Grants.

2.14 Recommendations

- *The State Government may initiate suitable steps to utilise the Central Finance Commission (CFC) grants.*

- *Utilisation certificates should be submitted in time by Local Bodies to avoid delayed release of funds and short release of grants.*

- *Financial management should be strengthened to avoid diversion of fund, extra and avoidable expenditure.*

- *The programme execution should be strengthened to ensure completion of all works within stipulated time to avoid time and cost overrun to reap the intended benefit.*

- *Dedicated and effective monitoring system for Local Bodies should be established to facilitate timely corrective actions for effective programme implementation.*