

CHAPTER - I

AN OVERVIEW OF THE PANCHAYAT RAJ INSTITUTIONS

1.1 Introduction

The Sikkim Panchayat Act, 1993 in keeping with 73rd amendment of the Constitution was enacted to establish a two tier Panchayat Raj Institution (PRI) system at village and district levels in the state. The system comprises elected bodies- Gram Panchayats (GPs) at village level and Zilla Panchayats (ZPs) at district level. As per 2001 census, the total population of the state was 5.41 lakh of which rural population constituted 4.81 lakh (88.90 *per cent*). The Act extended to whole of Sikkim except 12 small towns. As of March 2009, there were 4 ZPs¹ and 163 GPs in the state.

Besides functioning as units of local self government, the PRIs also aim to promote participation of people and effective implementation of various developmental programmes in the rural areas. The GPs and ZPs have accordingly been assigned with the overall supervision, coordination and implementation of developmental schemes at village and district levels and preparation of plans for areas of their jurisdictions.

1.2 Organizational structure of the PRIs

Rural Management & Development Department (RMDD) is the overall in-charge for effective functioning of the PRIs in the State. The organogram given below depicts the organizational structure of the department and the PRIs:

¹North, East, South and West

At State Level

Secretary, Rural Management and Development Department

Director Panchayat

At District level

Zilla Panchayat elected body headed by a Zilla Adhakshya

District Collector (Sachiva)

At Village level

Elected Body headed by President

Block Development Officer

1.3 Powers, functions and duties vested with the PRIs

The broad details of powers, functions and duties vested with the PRIs as per the Sikkim Panchayat Act, 1993 are as under:

Authority	Rule/ Act	Function
Zilla Panchayat & Gram Panchayat	Section 69 and Section 34 of Sikkim Panchayat Act 1993 (Amended 1995)	Preparation of budget and Annual Action Plan, implementation of schemes for economic development and social justice and collection of revenue for development works.
Gram Sabha	Section 11 of Sikkim Panchayat Act 1993 (Amended 2005)	Approval of works/development plans, identification of beneficiaries for extending benefits of social sector schemes.
District planning Committee	Section 127 of Sikkim Panchayat Act 1993 (Amended 1995)	Consolidation of plans prepared by the panchayats into the draft district plan of the district.
GP level Social Audit cum Vigilance Committee	Notification no.29/RMDD/2008 dated: 12 Feb 2008	Compulsory inspection of works as per estimate and in a qualitative manner and submission of completion certificate before passing the bills.
Gram planning Forum	No.50/RMDD/P dated:19.08.2006	Preparation of Annual Plan, prioritizing the works and monitoring of all works being implemented by GP.
State Government	No. 35(2)97-98/38/RDD/P(II) dated: 13.05.1998	Sanction of grants, approval of budget, audit of accounts, allocation of property, transfer of assets, fixation and regulation of rates of taxes and fees.
District Technical Support Committee	No.51/RMDD/2004 dated:19.08.2006	Technical support for preparation of GP, ZP and draft district plans. Preparation of district perspectives for each of the sector and timely submission to GP/ZP.
GP Disaster Management Committee	No.35(110)05-06/RM&DD/P/35 dated:24.01.06	Preparation of disaster mitigation and preparedness plan.
Block Development Officers	No.627/RM&DD dated: 12.1.2007	Overall smooth functioning of GPs within their Jurisdiction.

1.4 Audit arrangement for PRIs

Sikkim Gram Panchayat (Financial) Rule, 2004 and Sikkim Zilla Panchayat (Financial) Rule, 2001 provide for proper maintenance of accounts for the GPs and ZPs respectively. As per provision of the Sikkim Panchayat Act, 1993 the State Government is required to appoint Auditor for audit of the accounts of ZP and GP. This Act was amended (October 2004) and the C&AG has been entrusted the audit of accounts of PRIs over and above the audit by State Government. In keeping with the recommendations of Eleventh Finance Commission and guidelines issued by Ministry of Finance, C&AG has been entrusted with the task of exercising technical guidance and supervision over audit of PRIs with effect from 2005-06 in addition to any other authority vested with audit of PRIs. Accordingly, audit of the GP is being conducted triennially and ZPs annually by the office of the Accountant General since May 2003 as per the methodology and procedure enshrined in Auditing Standards and the Guidelines issued by C&AG from time to time. The State Government, however, has not carried out internal audit of PRIs during the years 2007-09.

1.5 Funding and parking of funds

The PRIs are solely funded by the Government through grants- in -aid from Central and State Governments for general administration as well as development activities. Funds are initially reflected in the State budget against the outlay of various administrative departments under grants-in-aid. Individual departments thereafter transfer the funds to Sachiva, Zilla Panchayats for Zilla Panchayat and District Development Officer for GPs as grants-in-aid. The ZPs and GPs, in turn, park their funds in the savings account maintained with the nationalized banks.

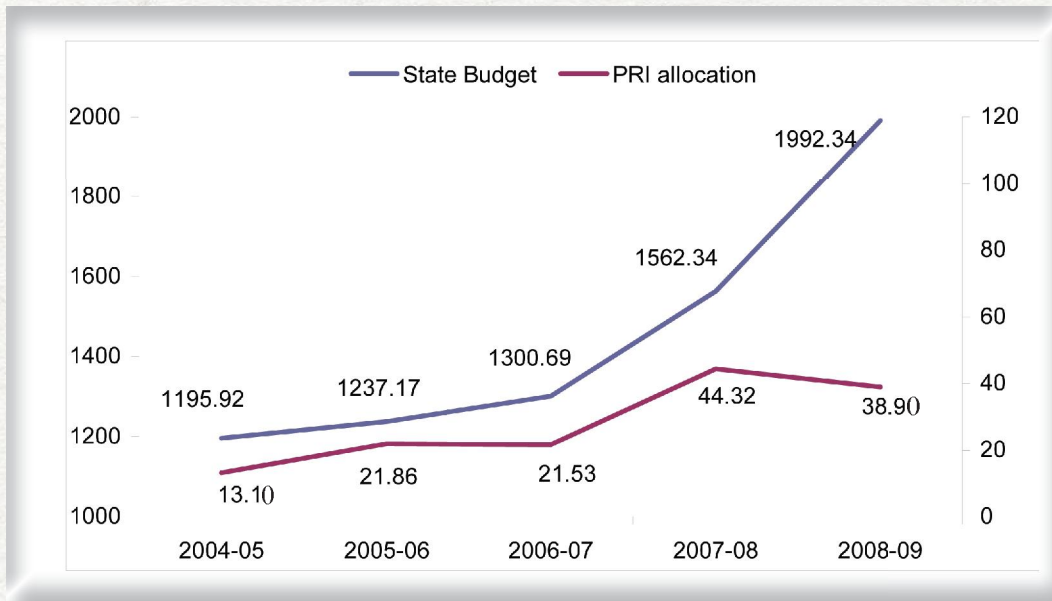
Allocation to PRIs by the State Government during 2004-05 to 2008-09 is shown below:

Table-1.1

(Rupees in Crore)

Year	Total expenditure of State (Revenue & Capital)	Allocation to PRIs	Percentage
2004-05	1,195.92	13.10	1.10
2005-06	1,237.17	21.86	1.77
2006-07	1,300.69	21.53	1.66
2007-08	1,562.34	44.32	2.84
2008-09	1,992.34	38.90	1.95
Total	7,288.46	139.71	1.92

It would be noticed that the fund allocation to the PRIs ranged between 1.10 to 2.84 *per cent* of total expenditure of the State Government as against the stipulation to release 10 *per cent* of the funds to PRIs by each Department which is depicted in the graph below:



1.6 Source of Receipts

The broad source of receipts for the period from 2004-05 to 2008-09 are given below:

Table-1.2

(Rupees in lakh)

Year	Central Grant to GPs	State Grants (Development Fund)		Direction & Administration		Total Fund transferred from other Departments		Grand Total	
	GP	ZP	GP	ZP	GP	ZP	GP	ZP	GP
2004-05	945.67	200.00	830.00	177.00	103.00	0.00	0.00	377.00	1,878.67
2005-06	1,236.09	200.00	1,660.00	178.09	115.85	25.60	6.14	403.69	3,018.08
2006-07	1,691.46	240.00	1,660.00	165.00	75.65	10.00	2.00	415.00	3,429.11
2007-08	1,893.78	472.43	2,515.37	164.18	30.15	734.80	514.69	1,371.41	4,953.99
2008-09	1,315.00	229.00	497.00	300.00	105.00	955.65	1,803.46	1,484.65	3,720.46
Total	7,082.00	1,341.43	7,162.37	984.27	429.65	1,726.05	2,326.29	4,051.75	17,000.31

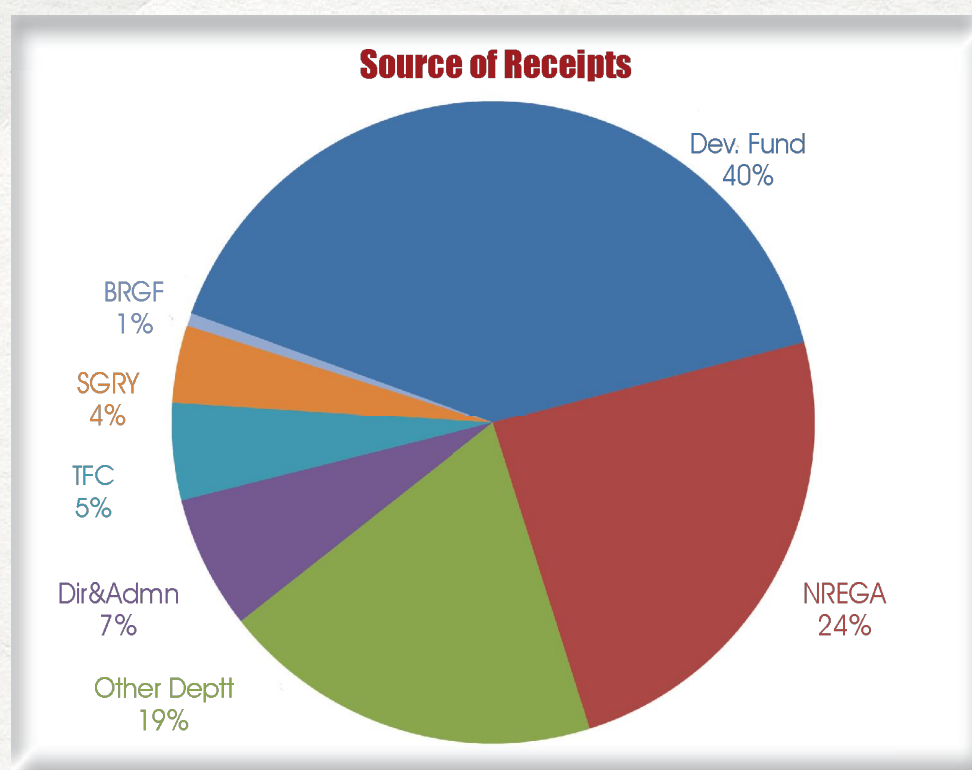
(Source: Figures furnished by Rural Management & Development Department, Government of Sikkim)

The broad source of receipts during the year 2004-05 to 2008-09 from, Twelfth Finance Commission, Swarna Jayanti Gram Rojgar Yojana National Rural Employment Guarantee Scheme, Backward Region Grant Fund, State grant, etc are shown in the table as well as the pie chart below:

Table-1.3

(Rupees in crore.)

Source	ZP	GP	Total	Percentage contribution of total receipts
NREGA	0	50.89	50.89	24
BRGF	1.36	0	1.36	1
Twelfth Finance Commission (TFC)	0	10.40	10.40	5
Swarna Jayanti Gram Rojgar Yojana (SGRY)	0	8.17	8.17	4
State Grants (Development Fund)	13.41	71.62	85.03	40
Direction & Administration (D&A)	9.84	4.30	14.14	7
Fund transferred from other Deptt.	17.26	23.26	40.52	19
Total receipt	41.87	168.64	210.51	100



1.6.1 Non-levy of taxes

Sikkim Panchayat Act, 1993 (u/s 39 (1) and 40 (1) envisaged levy of taxes, rates, and fees on the subject mentioned at clause (a) to (i) of Rule 40 by the ZPs subject to the rates fixed by the State Government. Similarly, GP may also levy taxes, rates and fees with the approval of State Government on the subject mentioned at clause (a) to (k) of section 77(1) of Sikkim Panchayat Act, 1993.

As per Second State Finance Commission's recommendations, GPs were entitled to levy taxes such as (i) Dhuri Khajana² for RCC building at ₹50 per annum, Other houses at ₹20 per annum and Temporary huts at ₹5 per annum; (ii) user charges of ₹1 per tap from the user of water tap; (iii) water cess from user of irrigation at ₹25 per year for holding up to 5 acre, ₹50 per year for 5 to 8 acre, ₹100 per year for above 8 acre; (iv) fee for construction of house within panchayat at ₹50 for pucca house/ RCC, ₹10 for temporary house/huts; (v) fee for the occupation of hat areas under rural marketing centre from seller /grocery sellers. It was however noticed that despite the above provisions, the GPs had not initiated any steps to identify the areas for levying of taxes nor collected any revenue except Lunchok Kamery GP which had levied the above fees and taxes and realized revenue meriting appreciation. It was also noticed that control mechanism for levy and its collection by the PRIs were not prescribed to facilitate timely initiation of the levy and collection procedure despite recommendation (September 2003) by the Second State Finance Commission.

²Land Revenue

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

The 73rd Constitutional amendment provides for appointment of a Finance Commission by the State Government to review the financial position of the Panchayats and recommend the (i) sharing pattern of the net proceeds of taxes, duties, tolls and fees leviable by the State between the State and the Panchayats, (ii) taxes, duties, tolls and fees may be assigned to the Panchayats; and (iii) grants-in-aid to the Panchayats. The report of the Commission together with a memorandum of action on it was to be laid before the State legislature.

In pursuance of Article 243(I) of the constitution (Seventy Third) Amendment Act, 1992 the State Government constituted the First State Finance Commission in 1998 and the Second State Finance Commission (SSFC) in 2003. The SSFC submitted its recommendations to Government during February 2006. Among accepted recommendations, the following were not complied:

- User charges etc were not levied by the PRIs to augment their resources as pointed out in para 1.6.1.
- One *per cent* of tax amounting to ₹5.70 crore for the period 2006-07 to 2008-09 was not transferred to PRI although accepted by the Government as per the recommendation of 2nd State Finance Commission as shown below:

Table-1.4

(Rupees in crore)

Year	Tax receipt	1% of Tax receipt	Tax Transferred
2006-07	173.18	1.73	Nil
2007-08	197.85	1.98	Nil
2008-09	199.19	1.99	Nil
Total	570.22	5.70	Nil

1.8 Sectoral Analysis

Mention was made in the ATIR (para 1.9) for the year 2005-07 regarding non maintenance of information on budget provision, release of fund and expenditure incurred under Plan and Non Plan on important sectors like education, health, nutrition, social forestry, solid waste management, sanitation, water and housing etc by Rural Management & Development Department. The above position still persists restricting audit in analyzing the progress of work done under these important sectors.

Audit however attempted to consolidate information on these based on available data and noticed that release of funds by various departments to the PRIs were not based on any sound rationale but as per their own discretion as would be noticed from following details.

Table-1.5

Sector-wise total expenditure vis-à-vis allocation to PRIs

(Rupees in crore)

Sector	2004-05		2005-06		2006-07		2007-08		2008-09	
	Total exp.	Allocation to PRI	Total exp.	Allocation to PRI	Total exp.	Allocation to PRI	Total exp.	Allocation to PRI	Total exp.	Allocation to PRI
Agriculture & allied services	26.20	0.11	28.59	0.13	32.38	0.16	46.09	2.31	62.18	1.59
HRDD	56.44	0.00	73.41	0.00	79.02	0.00	94.62	0.08	117.85	0.08
Health	22.57	0.10	15.45	0.20	15.49	0.20	27.22	3.00	29.20	2.00
RMDD	12.66	6.62	29.91	0.00	30.90	0.00	31.84	7.80	40.61	0.00
Total	117.87	6.83	147.36	0.43	157.79	0.36	199.77	13.19	249.84	3.67

Absence of sound basis for transfer of funds to the PRIs by the departments constrained the PRIs to gauge the extent of fund availability with them in any particular year restricting them to make any plan with foreseeable certainty. The planning at the PRI level was therefore totally on ad-hoc basis.

1.9 District Planning Committee

The 74th Amendment Act, 1992 of Constitution provides for the constitution of District Planning Committee (DPC) to consolidate the plans prepared by the Panchayat into the Draft Development plan for the district. The amendment also envisages active involvement of the people (beneficiaries / user group) in formulation of District Plan and implementation of scheme/maintenance of assets created.

Keeping in view the above provision, DPC was constituted in all the four districts *w.e.f.* 25 September 2003 with the Adhyaksha, Zilla Panchayat as the Chairman and the MPs, MLAs, and others as members with stipulation to consolidate and forward the development plan as recommended by the DPC to the State Government for consideration, approval and implementation.

Annual Plans were neither submitted by the GPs nor sought by the ZP and thus the consolidated district plan could not be prepared by the ZP except for Backward Region Grant Fund (BRGF) plan for 2009-10. Thus, the planning process for development duly reflecting the aspirations of the people at the grass root levels as envisaged in the 74th amendment was compromised.

Similarly, the District Technical Support Committee (DTSC) constituted (2008) with the District Collector as chairperson and the entire district level Heads of offices as ex-officio members for preparation of sector-wise perspectives plan for GP and ZP had neither prepared district perspective plan nor provided any technical inputs to the GP and ZP for formulation of plans as envisaged. DPC also had not taken any initiative for availing the benefits of expertise of DTSC.

Thus, planning process duly reflecting the needs and aspiration of people at grassroots through Gram Planning Forum, value addition at Block Development Officers and District Development Officers level and final consolidation by DPC after obtaining technical expertise from DTSC remained inoperative despite formation of Gram Planning Forum, DPC, DTSC, etc. This needs to be immediately revitalized and made functional and operative to avail the benefit of planned development.

1.10 Assets Management

The Sikkim Panchayat Act, 1993 (under Section 130) envisages upon the PRI to maintain records for movable and immovable properties through maintaining Assets Register. Despite pointed out in the ATIR for the year 2005-07, there is no centralized system for accountal of value of assets created by the PRI. Out of 33 PRIs, test checked, 23 PRIs did not maintain moveable and immovable Assets registers duly reflecting moveable and immoveable properties (*Appendix – I*). Thus, year wise position of value of assets created could not be ascertained in audit. Further there was no record to establish the accountal of transferred assets and liabilities. Despite codal provision and observations made by audit for physical verification of assets, the PRIs were yet to introduce the system. Further, register of all immovable government property including land and building within the jurisdiction of PRIs were not maintained by any of the GPs test checked in Audit although mandated as per the Government notification (July 2003). As a result, consolidated information on the assets created / acquired was not available with the PRIs so as to ensure their safe custody and timely maintenance.

1.11 Internal control Mechanism

It is imperative on the part of GPs and ZPs to put in place an effective internal control mechanism for financial and budgetary management to ensure proper utilization of funds. Audit however noticed that the PRIs were not attaching adequate importance to this aspect as evidenced from the following:

1.11.1 Non-submission of budget estimates

Sikkim Panchayat Manual, 1993 (u/s 46) read with government notification (May 1998) envisaged preparation of budget by the GPs and checking of such budget estimates by the District Planning Officer (DPO).

It was noticed that neither the GPs had prepared their budget estimates as envisaged nor the DPO insisted the PRIs for submission of budget estimates to check the same and suggest corrective measures for optimal utilization of funds. Various departments of the State Government although required to transfer 10 *per cent* of the developmental funds to the PRIs had transferred very small amount of funds ranging between 1 and 2 *per cent* of the funds during the period 2007-09 as would be noticed from the figures mentioned in Table- 1.1 at para 1.5. Not only the funds were not released in full but were released at the fag end of the financial years. In absence of indication of quantum of funds likely to be received by the PRIs from various departments and the time frame for its receipts constrained the PRIs to prepare an effective plan with any degree of certainty.

1.11.2 Maintenance of Accounts

Sikkim Gram Panchayat Financial Rules 2004 [rule 7(1) & (2)] stipulated maintenance of various records such as (i) Cash Book, (ii) Monthly receipt and payment accounts, (iii) annual receipt and payment accounts, (iv) Monthly reconciliation statement, (v) Inventory register for moveable assets, (vi) Inventory register for immovable assets, (vii) Advance Register, (viii) Dead stock Register, (ix) Stock Register, etc for proper depiction of accounts of the Gram Panchayat Funds.

Scrutiny of records in 61 GPs (*Appendix- II*) revealed that the basic records and registers as indicated above were not maintained properly as evidenced from following:

- ❑ Maintenance of cash books in 61 GPUs disclosed that (i) cash book balances were not certified in any of the GPUs by the President of the GPUs; (ii) details of the closing balances were not mentioned in case of 40 GPUs; (iii) none of the GPUs had reconciled the cash book balances with the balances maintained by the Banks.

- ❑ Advance registers were not maintained and thus neither the position of outstanding advances could be ascertained nor were the delays in adjustment of outstanding advances depicted in the accounts.
- ❑ Data base formats as suggested in the Simplified Accounting Formats were also not initiated by any of the GPs and the ZPs.
- ❑ Database formats on finances of PRIs and Simplified Accounting formats for PRI prescribed by C&AG were not adopted by any of the GPs and ZPs.
- ❑ 18 GPUs could not produce payees acknowledgement receipt for ₹15.88 lakh pertaining to 18 payees for the period 2005-06 and 2008-09 indicating that record management was poor.

1.12 Internal audit

There is no system of internal audit of GPs. The Accountant General, Sikkim conducts audit. The compliance report on the observations issued by Audit is to be sent within three months. Details of inspection reports issued by Accountant General (Audit), as on 31 March 2009 and awaiting settlement are given in Table No.1.6

Table-1.6

Position of settlement of outstanding audit paragraphs during 2005-09

Year	IR issued	Paragraph issued	Paragraph settled	Paragraph outstanding
Upto 2005-06	116	786	137	649
2006-07	67	320	09	311
2007-08	86	352	-	352
2008-09	56	234	-	234
Total	325	1692	146	1546