

**PART – A**  
**PANCHAYATI RAJ INSTITUTIONS**

# **CHAPTER-I**

**AN OVERVIEW OF THE FUNCTIONING,  
ACCOUNTABILITY MECHANISM AND  
FINANCIAL REPORTING ISSUES OF  
PANCHAYATI RAJ INSTITUTIONS**

## CHAPTER-I

### AN OVERVIEW OF THE FUNCTIONING, ACCOUNTIBILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF PANCHAYATI RAJ INSTITUTIONS (PRIs)

#### An Overview of the Functioning of the Panchayati Raj Institutions (PRIs) in the State

##### 1.1 Introduction

The 73<sup>rd</sup> 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 73<sup>rd</sup> amendment of the Constitution, Government of Sikkim enacted the Sikkim Panchayat Act, (SPA) 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 2015, there were 4 ZPs<sup>1</sup> and 176 GPs in the State.

The State Government promulgated 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, 2004 besides enactment of SPA.

The important statistics reflecting rural population, sex ratio, literacy rate, etc are given in *Appendix 1.1*.

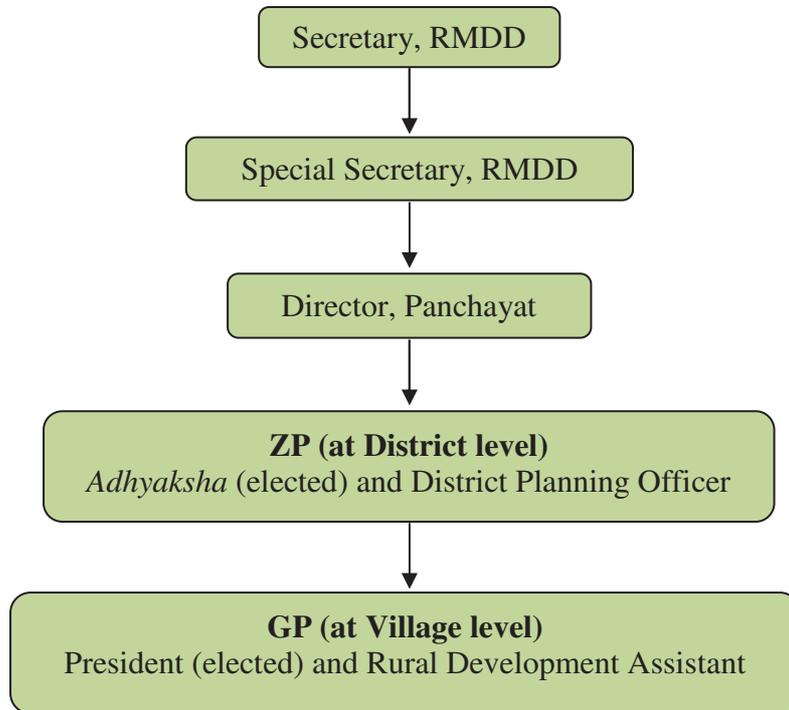
##### 1.2 Organisational structure of PRIs

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

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<sup>1</sup> North, East, South and West.

**Chart – 1.1**  
**Organisational chart of PRIs**



The Secretary, Rural Management & Development Department (RMDD), is the administrative head of PRIs. He is assisted by Special Secretary and Director (Panchayat) in exercising overall control and supervision of PRIs in the State.

### **1.3 Functioning of PRIs**

As per the Sikkim Panchayat Act, 1993, and Rules made thereunder, the State Government exercises its powers in relation to PRIs. Details regarding the powers of PRIs are given in *Appendix 1.2*. 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 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.

### ***1.3.1 Devolution of 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 XI<sup>th</sup> Schedule of the Constitution could be completed by March 2002. Article 243 G of Constitution has enabling provision for transfer of these functions to different tiers of PRIs. The department-wise list of 29 functions transferred to the PRIs by the State Government is detailed in ***Appendix 1.3***. 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<sup>2</sup> in April 2008.

### ***1.3.2 Functions not transferred as per 73<sup>rd</sup> Constitutional Amendment***

Although the State Government delineated role and responsibilities of each tier of PRIs by transferring 29 subjects for devolution of all functions listed in the XI<sup>th</sup> Schedule of the Constitution to the PRIs, the same was not implemented completely and only 15 subjects were transferred (April 2008) to PRIs. The department-wise position of schemes not transferred to PRIs by the State Government as of March 2015 is detailed in ***Appendix 1.4***.

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 2015.

Thus, all subjects were not transferred, and even in the cases where subjects were transferred, adequate funds were not released by the departments concerned. Thus, the PRIs could not initiate various activities mandated in the 73<sup>rd</sup> Constitutional Amendment.

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<sup>2</sup> 'Activity Mapping' is an exercise to devolve various functions to be discharged by the GPs and ZPs.

The RMDD stated (December 2015) that the transfer of important subjects as prescribed in the XI<sup>th</sup> Schedule of the Constitution had been taken up with the higher authorities and the activity mapping exercise would be reviewed. However, as of March 2015, no such review had taken place.

#### 1.4 Formation of various 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 88 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, regular 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 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 preparation of estimates.
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” <sup>3</sup> ; preparation and operationalisation of Water Safety Plan; preparation of proposal for submission to the District for financing.	The Committee remained largely ineffective as action for preparation of the Water Safety Plan; community mapping to describe the system; walk the system “Source to Mouth”; preparation and personalisation of the Water Safety Plan; preparation of proposal for submission to District for financing had not been initiated.

The RMDD while accepting that there were few aberrations due to communication gap, stated (December 2015) that all the stakeholders were being intensively trained to adhere to the recommendations of XIV<sup>th</sup> Finance Commission.

#### 1.4.1 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) 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 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 ZPs, GPs, Nagar Panchayats and Municipal

<sup>3</sup> “Source to Mouth” means the water supply from its originating place (source) to the consumer point (mouth).

Corporation in the District and preparing a draft development plan for the District as a whole.

Audit observed that DPCs finalised the Annual District Development Plans (ADDPs) by merely consolidating the plan proposals received from various line departments, without taking any inputs from grass root level for overall District Development Plan. It also did not forward the same to the State Government for integration with the State plan. The DPCs had also not adequately engaged technical experts from different fields during preparation of the development plans.

The RM&DD accepted (December 2015) the observation.

## 1.5 Audit arrangement

### 1.5.1 Primary Auditor

DLFA is the primary auditor to conduct the audit of PRIs and ULBs of Sikkim. The year-wise position of units planned to be audited and those actually audited are given in table 1.2:

**Table - 1.2**  
**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
2014-15	178	7	20	0	20	0
<b>Total</b>	<b>307</b>	<b>10</b>	<b>67</b>	<b>6</b>	<b>67</b>	<b>6</b>

Source: Information furnished by DLFA, Government of Sikkim

Analysis revealed that while no audit was conducted during 2013-14, only 20 units were audited despite planning for 185 units during 2014-15.

The RMDD stated (December 2015) that the DLFA could not complete the targeted number of units due to shortage of man power. The matter had been apprised to the higher authority. However, as of March 2016, there was no improvement in manpower strength of DLFA.

### 1.5.2 Audit by Comptroller and Auditor General of India

As per Section 48(2) of the Sikkim Panchayat Act, 1993, the State Government is required to appoint an Auditor for audit of accounts of the GPs. Section 48 (3) of the Act also provides for audit of accounts of GPs by the Comptroller & Auditor General of India

(CAG). Further, as per Section 86 of the Act, the accounts of the funds of the GP or ZP 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 established (June 2012) Director, Local Fund Audit (DLFA) for audit of Panchayat Raj Institutions (PRIs).

In keeping with the recommendations of the Thirteenth Finance Commission and guidelines issued by the Ministry of Finance, Government of India, Government of Sikkim entrusted (June 2011) the audit of accounts of PRIs 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 GPs and ZPs is being conducted biennially and annually respectively 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 2014 to March 2015, the accounts of 92 PRIs (4 ZPs and 88 GPs) were audited.

### ***1.5.3 Placement of Annual Technical Inspection Report (ATIR)***

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, accountability and financial control in the functioning of Local Bodies could not be ensured by the State Government.

The RMDD stated (December 2015) that the matter was under process.

## **1.6 Response to Audit observations**

Inspection Reports (IRs) were issued by Office of Accountant General (Audit), Sikkim to audited PRI authorities with a copy of each to the State Government. PRI authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within four weeks from the date of issue of IRs. Important audit findings were processed for inclusion in the Annual Technical Inspection Report (ATIR).

The details of outstanding IRs and paragraphs in respect of PRIs, as of 31 March 2015 are shown in Table 1.3

**Table - 1.3**  
**Outstanding IRs and Paragraphs**

(₹ in lakh)

Year	No. of Inspection Reports	No. of outstanding paras	Money value
Up to 2009-10	97	215	4.92
2010-11	37	122	5.90
2011-12	10	13	0
2012-13	16	33	0
2013-14	61	223	0
2014-15	90	212	52.45
<b>Total</b>	<b>311</b>	<b>818</b>	<b>63.27</b>

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

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

The RMDD stated (December 2015) that the PRIs had been instructed to attend to audit Inspection reports on priority basis, take corrective measures and submit compliance report to the office of the Accountant General, Sikkim.

However, the pendency of IRs and accumulation of paras indicated that more efforts were required by GPs to obviate the position.

## Accountability Mechanism and Financial Reporting issues

### Accountability Mechanism

#### 1.7 Ombudsman

The State government was yet to appoint Ombudsman for making investigations and enquiries, in respect of charges on any action involving corruption or maladministration or irregularities in the discharge of administrative functions by Panchayats and Public Servants working under them, in accordance with the provisions of Prevention of Corruption Act, 1988 (Sec. 268) for disposal of complaints.

#### 1.8 Social Audit

Government of Sikkim initiated social audit in 2007-08 as envisaged in Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 (Rule 17). Thereafter in compliance to MGNREGA Audit of Scheme Rules, 2011 the State Government established Social Audit Unit (SAU) by designating one Non-Governmental Organisation (NGO) as SAU in December 2011. An independent Social Audit Director was also appointed (December 2012) to head the SAU. Four District Resource Institutes have also been designated in four districts. During 2014-15, a total of 92 GPs were covered under Social Audit with involvement of State Resource Persons<sup>4</sup>, District Resource Persons<sup>5</sup> 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.

#### 1.9 Lokayukta

The State Government had appointed (February 2014) Lokayukta in compliance with sub-section 4 of section 1 of the Sikkim Lokayukta Act, 2014. The Lokayukta comprised of chairperson, one judicial, one administrative and one *ad hoc* administrative member.

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<sup>4</sup> *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.*

<sup>5</sup> *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.*

## **1.10 Submission of Utilisation Certificates**

The PRIs were regular and prompt in submission of utilisation certificates during the year 2012-15 as detailed in *Appendix 1.5*.

## **1.11 Internal Audit and Internal Control System of PRIs**

### ***1.11.1 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 adequacy of risk management and internal control frame work in the Local Bodies. However, despite enabling provision for Internal Audit in Sikkim Panchayat Act {sec. 48(2)}, the internal audit was not accorded due priority by State Government. Although Chartered Accountant firms were assigned the responsibility to audit the accounts of PRIs, audit of accounts were in arrears since 2009-10. Thus, an important check towards accountability in ensuring proper compliance of rules and procedures was not accorded due importance. It is therefore, recommended that the Internal Audit may be commenced forthwith for PRIs in the State.

### ***1.11.2 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 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.

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 matter. Significant provision of internal control mechanism vis-à-vis position in test checked PRIs are given in the following table:

**Table-1.4**  
**Statement showing Internal Control System at the level of PRIs**

Provision	Authority	Gist of the provision	Actual position
Budget	Sec. 46 of the 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 two GPs (Mellidara Paiyong and Gerethang).
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 Chartered Accountants firms were assigned responsibility to audit GPs and ZPs. However, there were arrears since 2010-11.
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 year.	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.

The deficiencies as summarised in the preceding table indicated weak internal control mechanism in PRIs.

The RMDD assured (December 2015) to look into the audit observations for better management of the PRIs.

### 1.12 Financial Reporting Issues

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.

The PRIs are solely funded by 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 and released to PRIs. Individual departments also transfer funds from time to time 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.

The budget provision kept in the State budget, expenditure there against and excess/savings during 2010-15 is given below:

**Table - 1.5**  
**Budget of PRI vis-a-vis expenditure**

Year	Budget	Expenditure	Excess (-)/Saving(+)	Percentage of Excess/Saving
<b>2010-11</b>	696.45	716.29	(-) 19.84	3
<b>2011-12</b>	899.91	793.41	(+) 106.50	12
<b>2012-13</b>	974.68	974.67	(+) 0.01	0
<b>2013-14</b>	832.17	832.17	0.00	0
<b>2014-15</b>	1089.40	1087.89	(+) 1.51	0

(₹ in lakh)

(Source: Detailed Appropriation Accounts of Government of Sikkim)

The budgetary process was well managed as the excess was well under control while the saving was also negligible except in the year 2011-12.

➤ **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 and Gerethang Gram Panchayat under Yuksom 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 budgets of various ZPs for integrating into the State Budget. Funds were released to all PRIs without even preparation of budget.

The RMDD stated (December 2015) that all the GPs and ZPs had been asked to prepare budget and the sample budget formats had been circulated to the PRIs.

### 1.12.1 Source of Funds

The broad sources of receipts of PRIs included grants from Central Government and State Government. The Central grants are given under various schemes such as MGNREGS, Central Finance Commission etc. Similarly, the State grants are released by the Nodal Department (RMDD) for Development fund and establishment charges. Other Line Departments also release funds to PRIs towards developmental activities relating to their sector.

The details of grants released by Central, State and line departments are given below:

**Table - 1.6**

(₹ 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
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
2014-15	9.10	91.64	0	0	4.10	1.51	0	0	13.20	93.15
<b>Total</b>	<b>56.13</b>	<b>483.75</b>	<b>4.73</b>	<b>5.04</b>	<b>19.34</b>	<b>14.60</b>	<b>4.59</b>	<b>2.17</b>	<b>84.79</b>	<b>505.56</b>

Source: Information furnished by the RMDD, Government of Sikkim

Analysis revealed following:

**Central Grants:** The broad sources of receipts from Central Grants during the year 2010-11 to 2014-15 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 1.7:

**Table - 1.7**

(₹ in crore)

Year		2010-11	2011-12	2012-13	2013-14	2014-15	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	44.48	100.80	74.07	106.84	73.86	400.05
BRGF	ZP	6.41	1.12	19.51	2.60	3.77	33.41
	GP	7.55	2.61	0	6.07	7.70	23.93
Thirteenth FC	ZP	1.44	8.02	3.49	4.44	5.33	22.72
	GP	7.14	18.71	8.14	9.96	10.08	54.03
SGRY	ZP	0	0	0	0	0	0
	GP	5.74	0	0	0	0	5.74
<b>Total</b>		<b>72.76</b>	<b>131.26</b>	<b>105.21</b>	<b>129.91</b>	<b>100.74</b>	<b>539.88</b>

Source: Information furnished by the RMDD, Government of Sikkim

The decrease in grants during 2010-11 and 2014-15 were due to less release of funds under MGNREGS.

**State Grant:** Audit analysis revealed that prescribed stipulation in Third State Finance Commission (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 58 (₹ 33.41 crore): 42 (₹ 23.93 crore) during 2010-15. This resulted in excess allocation of ₹ 17.20 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) as stipulated in TSFC recommendations was also not adhered to leading to excess allocation of ₹ 3.54<sup>6</sup> crore to ZPs and less allocation to GPs to that extent during the year 2014-15.

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

**Grants by Line Department:** It was mentioned in previous Annual Technical Inspection Reports, the last being 2013-14 (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.

<sup>6</sup> Total fund released for Direction and Administration (D&A) = ₹ 5.61 crore, 10% of ₹ 5.61 crore = ₹ 0.56 crore. ZP received excess fund under D&A = ₹ 4.10 crore - ₹ 0.56 crore = ₹ 3.54 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 given in table 1.8:

**Table - 1.8**  
**Sector-wise total allocation *vis-à-vis* allocation to PRIs during 2014-15**

(₹ in crore)

Name of Department	Total Plan allocation (Revenue and Capital)	Percentage to be transferred to PRI as recommended by Third Finance Commission (In per cent)	Amount to be transferred to PRI	Actual fund released to PRIs
Health & Family Welfare	162.78	29.28	47.66	Nil
Social Welfare	81.12	21.96	17.81	Nil
Tourism	279.70	21.96	61.42	Nil
Commerce & Industries	36.34	21.96	7.98	Nil
Energy	76.03	21.96	16.70	Nil
Irrigation & Flood Control	19.80	21.96	4.35	Nil
Co-operation	6.53	14.64	0.96	Nil
Agriculture & Allied Services	75.15	29.28	22.00	Nil
Animal Husbandry	13.52	36.60	4.95	Nil
Human Resource Development	293.68	2.93	8.60	Nil
Forest	53.02	21.96	11.64	Nil
Rural Management & Development	197.49	14.64	28.91	5.61
Land Revenue	5.99	21.96	1.32	Nil
Culture	14.54	14.64	2.13	Nil
<b>Total</b>	<b>1315.69</b>		<b>236.43</b>	<b>5.61</b>

Source: Finance Accounts 2014-15, and information furnished by the RMDD, Government of Sikkim.

Out of 14 Departments, only one Department (RMDD) released funds of ₹ 5.61 crore to PRIs during 2014-15 against the mandatory release of ₹ 28.91 crore. The other 13 departments had not done the mandatory fund transfer of ₹ 207.52 crore during 2014-15 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, planning at the PRI level was done on *ad-hoc* basis.

The RMDD stated (December 2015) that higher authorities in the State had been apprised about non-transfer of mandatory release of plan funds to PRIs. The State Government had also directed concerned line departments to find out ways and means to abide by the Finance Commission's recommendations.

#### ***Overall financial position of PRIs***

The RMDD could not furnish (March 2015) 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 2014-15. Audit obtained the information directly from ZPs/GPs. According to information furnished by four ZPs and 117 GPs, a total fund of ₹ 77.45 crore was available, of which ₹ 49.12 crore was spent during 2014-15, leaving a balance of ₹ 28.33 crore as shown in table 1.9:

**Table - 1.9**

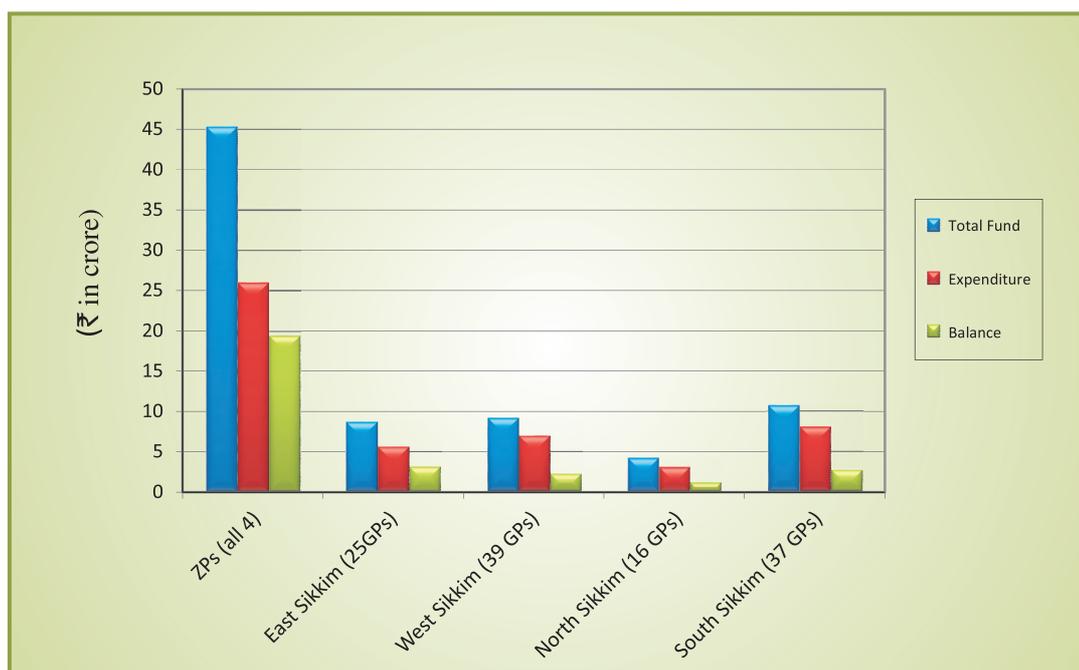
(₹ in crore)

ZP / GP	Total fund available	Expenditure	Balance
ZPs (South, East, West & North)	45.18	25.89	19.29
East Sikkim (25 GPs)	8.60	5.52	3.08
West Sikkim (39 GPs)	9.05	6.84	2.21
North Sikkim (16 GPs)	4.02	2.93	1.09
South Sikkim (37 GPs)	10.60	7.94	2.66
<b>Total</b>	<b>77.45</b>	<b>49.12</b>	<b>28.33</b>

Source: Information furnished by ZPs & GPs

The above position is also shown in the following Bar graph:

**Chart 1.2**  
**Fund utilisation by PRIs**



The funds were neither surrendered nor utilised due to absence of planning to utilise the funds through execution of works in time.

The RMDD stated (December 2015) that the line departments could not provide information on the financial status of the remaining Panchayats as on March 2015. The

financial status of the PRIs would be provided once the Chartered Accountant<sup>7</sup> firm completes the audit assignment of the PRIs which was under progress.

### **1.12.2 Recommendation of State Finance Commission (SFC)**

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 Third State Finance Commission (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 2010-15, ₹ 50.46 crore was released to PRIs against the stipulated transfer of ₹ 741.54 crore as per TSFC recommendation, considering plan allocation to 14 sectors. While the Plan allocation for 14 sectors increased from ₹ 754.48 crore (2010-11) to ₹ 1,315.69 crore (2014-15), PRI allocation decreased from ₹ 13.42 crore for 2010-11 to ₹ 5.61 crore for 2014-15.
- 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 ₹ 6.00 crore for 176 GPs during 2014-15 {to be met from 2.58 per cent of net proceeds of revenue (after deducting 25 per cent of total revenue collected as cost of collection) collected by 8 departments<sup>8</sup>} for administrative expenses, which was accepted by the State Government. However, only ₹ 5.15 crore was transferred to ZPs/GPs towards administrative expenditure from own revenue during 2014-15 as depicted in the following table:

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<sup>7</sup> Chartered Accountant appointed by State Government to guide PRIs in maintenance of account and preparation of Annual statement of PRIs

<sup>8</sup> 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

**Table - 1.10****Actual transfer of funds to PRI during 2014-15 vis-à-vis TSFC recommendation***(₹ in crore)*

Sl. No.	Head	Tax receipt	Net proceeds (75 % of tax receipt)	Funds to be transferred to PRIs (2.58 per cent of Net proceeds)	Tax Transferred
1.	Land Revenue	6.16	4.62	0.12	0
2.	Stamp & Registration	6.77	5.08	0.13	0.15
3.	Taxes on Sales, Trades etc.	282.10	211.58	5.46	5.00
4.	Animal Husbandry	1.17	0.88	0.02	0
5.	Forestry & Wild Life	11.45	8.59	0.22	0
6.	Minor Irrigation	0.07	0.05	0	0
7.	Village & Small Industries	0.13	0.10	0	0
8.	Tourism	2.64	1.98	0.05	0
	<b>Total</b>	<b>310.49</b>	<b>232.88</b>	<b>6.00</b>	<b>5.15</b>

Source: Finance Accounts 2014-15, and information furnished by Rural Management & Development Department.

➤ Out of eight sectors, in six sectors (Land Revenue, Animal Husbandry, Forestry & Wild Life, Minor Irrigation, Village & Small Industries and Tourism), no tax transfer was effected during 2014-15. In the remaining two sectors, the percentage of transfer ranged between 92 (Taxes on Sale, Trades, etc.) and 115 (Stamps & Registration) *per cent* of the funds required to be transferred.

The RMDD stated (December 2015) that the observation of audit would be brought to the notice of the Finance Revenue and Expenditure Department for appropriate action. However, as of July 2016, no progress was seen.

➤ TSFC also recommended (February 2010) for transfer of (i) 2.93 to 36.60 *per cent* plan fund aggregating to ₹ 103.67 crore from 14 sectors towards 'Specific purpose grant'; and (ii) 29.28 *per cent* of State Plan budget under RMDD towards 'General purpose Grant' to PRIs during 2014-15.

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

Audit noticed that neither the RMDD nor the line departments allocated any fund during 2014-15 towards general purpose and specific purpose grants respectively. Thus, on the one hand, TSFC recommendations were largely not adhered to by the concerned departments and on the other hand, PRIs could not take up specific and innovative / need based activity under the respective sectors.

➤ *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 rates prescribed by Sikkim Public Works Department/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 117 GPs from whom information was received; 8 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 realised 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 Kendras<sup>9</sup>. In absence of requisite revenue realisation, the PRIs defrayed the above expenditure from scheme funds such as BRGF, TFC, etc.

The RMDD stated (December 2015) that efforts would be initiated by PRIs to augment their own source of revenue.

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<sup>9</sup> *Gram Prasasan Kendra works as an office for Gram /Village where Panchayat performs administrative functions and holds Gram Sabha.*

### 1.12.3 Recommendation of the Central Finance Commission (CFC)

The year wise budget provision and expenditure relating to Thirteenth Finance Commission (TFC) is given below:

**Table - 1.11**  
**Fund received by State Government under TFC**

*(₹ in lakh)*

SI. No.	Year	Date of receipt from Central Govt.	General Basic Grant	Date of Release of fund to PRIs	Delay (in days)
1.	2010-11	15.07.2010	858.00	16.08.2010	16 days
		10.08.2011	838.00	12.08.2011	-
		<b>Total</b>	<b>1,696.00</b>		
2.	2011-12	21.09.2011	1,075.00	01.10.2011	-
		01.03.2012	1,098.00	31.03.2012	16 days
		<b>Total</b>	<b>2,173.00</b>		
3.	2012-13	27.09.2012	1,163.38	18.01.2013	96 days
		06.09.2013	1,281.18	13.09.2013	-
		<b>Total</b>	<b>2,444.56</b>		
4.	2013-14	20.12.2013	1,440.59	09.01.2014	9 days
		02.03.2015	1,379.56	11.03.2015	-
		<b>Total</b>	<b>2,820.15</b>		
5.	2014-15	25.03.2015	1,541.23	31.03.2015	-
		<b>Total</b>	<b>10,674.94</b>		

*(Figures provided by RM&DD)*

According to TFC recommendation (Para 10.157), TFC grants should be transferred to Local Bodies within 15 days of receipt of fund by the State Government failing which interest at Bank rate (rate specified by Reserve Bank of India) would be payable to Local Bodies by the State Government. It was noticed that grants were not released within stipulated time by the State Government in many occasions. The delay in release of TFC fund ranged between 9 and 96 days. Second instalment of ₹ 3.43 crore was not released by Government of India during 2014-15. Audit paras relating to utilisation of TFC funds are included in chapter-II.

### 1.12.4 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 88 GPs revealed that many records and registers as indicated above were either not maintained or not maintained properly. Details are given below:

- Monthly Receipt and Payment Registers, Annual Receipts and Payments Accounts and Registers for Moveable and Immovable Assets were not maintained in any of 88 test checked GPs; and
- None of the 88 test checked GPs prepared Balance Sheet during the period under report.
- ***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. 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.

The RM&DD stated (December 2015) that the Assets Register formats were already circulated to the PRIs for compliance.

#### ***1.12.5 Reconciliation of Balances of Cash Book with Bank Pass Book***

According to Sikkim Panchayat Financial Rule 2001 {4(2) and 5(1)} it shall be the responsibility of the President of GP and *Sachiva* of ZP to ensure maintenance of cash book and balances of cash book should be reconciled with the balance in Bank. Scrutiny of Cash Books in 88 GPs disclosed that (i) Cash Book balances were not certified in any of the GPs by the President of the GPs and (ii) none of the GPs had reconciled the Cash Book balances with the balances maintained by the Banks.

#### ***1.12.6 Maintenance of Accounts by PRIs***

The Ministry of Panchayati Raj in consultation with Comptroller & Auditor General of India prescribed (January 2009) new accounting formats for Panchayati Raj Institutions.

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

The accounts of the PRIs were, however, not maintained in the new accounting formats as prescribed by the Ministry of Panchayati Raj and the PRI accounts continued to be maintained in old pattern. The accounts in old pattern however, did not reflect transactions of all receipts and expenditure relating to Panchayat Fund, Provident Fund, loans, deposits, etc. The accounts of the PRIs were finalised upto 2008-09 whereas accounts for the years 2009-10 to 2014-15 have not been prepared. Certification of accounts was also not done, for any year, by the Primary auditor (DLFA) since its formation in June 2012.

The RMDD stated (December 2015) that the Model Accounting System (MAS), a simplified form of government accounting system prescribed for PRIs by the Ministry of Panchayati Raj, Govt. of India, in consultation with the C & AG was adopted by the State for implementation in PRIs. The formats as prescribed had been circulated to all PRIs and several round of trainings had been held for different levels of Panchayat functionaries viz. Accounts Officials of the Block Administrative Centres, Panchayat Inspectors, Rural Development Assistants (RDAs) and Panchayat Accounts Assistants (PAAs). Further, instructions had also been issued (February 2012) that the PAAs shall maintain accounts of GPs and RDAs shall supervise the maintenance of accounts and Accounts Officials of Block Administrative Centre will visit GPs at least once in a month to oversee the maintenance of Accounts.

However, the fact remained that basic records like Receipt and Payment Register, Balance Sheet, Assets Register, Advance Register, etc. as required under New Accounting formats were either not maintained or not maintained properly in PRIs.

### ***1.12.7 Maintenance of database and the formats therein on the finances of PRIs***

Panchayati Raj Accounting Software (PRIA Soft) designed and developed by the MoPR, GOI, based on the features of Model Accounting System was in operation in almost all the PRIs. The system generated financial reports were also uploaded in the web and can be viewed online by logging in to [www.panchayatonline.gov.in](http://www.panchayatonline.gov.in).

However, necessary entries in the registers prescribed by the nodal Department (RMDD) based on New Accounting format were not done by GPs.