

PART-A
PANCHAYATI RAJ
INSTITUTIONS

CHAPTER-I

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

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

Functioning of the Panchayati Raj Institutions (PRIs) in the State

1.1 Introduction

The 73rd Constitutional Amendment gave constitutional status to Panchayati 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 11th Schedule of the Constitution.

Consequent to the 73rd 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 (ZP) at District level was established. As of March 2017, there were 4 ZPs¹ consisting of 110 Territorial Constituencies² and 176 Gram Panchayats Units comprising of 989 wards in the State. Of the 176 Gram Panchayats (GP) there are 2 traditional institutions of self-governance at Lachung and Lachen in North Sikkim, also known as the *Dzumsas*. The head of the *Dzumsa* known as Pippon was selected by the public. The *Dzumsas* were deemed to be Gram Panchayat Units (GPU) for the purpose of Sikkim Panchayat Act, 1993 and exercised their traditional powers and functions in addition to those of the Gram Panchayats.

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.

¹ East, West, North and South

² East (32 TC), West (28 TC), North (22 TC), South (28 TC)

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

1.1.1 Evolution of Local-Self Governance in Sikkim

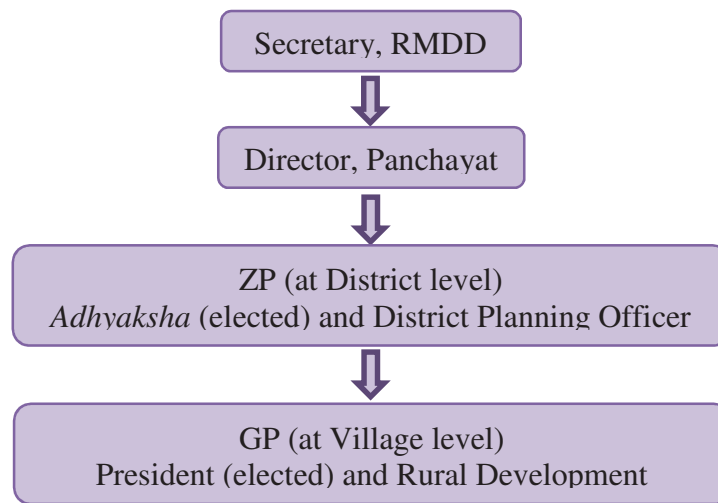
Though Government of Sikkim enacted Panchayati Raj Act in 1993 to conform to the 73rd Constitutional Amendment, the roots of Panchayati Raj in the State dated back to the time when Sikkim was a kingdom under the Namgyal Dynasty. During this period there were landlords or *Zamindars* known as *Kazi*. Under the *Kazis* there were Mandals and *Karbaris* to look after the workings in the field and collect taxes in the form of *Dhuri Khazana*. Immediately after the abolition of *Zamindari* in 1948, Panchayats, consisting of the landlord or his representative and four other members from the block, selected by the people in a meeting convened for the purpose were created. These Panchayats filled the gap created by the abolition of *Zamindari* and were essentially quasi-judicial or *Nyaya Panchayats*.

Formally, the Sikkim Panchayat Act, 1965 was enacted and made effective from December 1965. It was promulgated to consolidate and amend laws relating to Panchayats in Sikkim. The objective of establishing these Panchayats was to facilitate rural development and to enable participation by all communities at the village level. The term of such Panchayats was three years and each of these Panchayats was assigned 16 duties and functions. To fulfil these duties, the Panchayats had resources comprising of house tax, a proportion (10 *per cent*) of the land revenue of the block, matching grants by the *Darbar* for original work (for which public contribution was collected), sanitation cess and water cess. The Act of 1965, also provided reservations for minorities. This arrangement under the Sikkim Panchayat Act, 1965 continued till enactment of the Sikkim Panchayat Act, 1993 in compliance to 73rd amendment of the Constitution.

1.2 Organisational structure of PRIs

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

Chart – 1.1
Organisational chart of PRIs



The Secretary, Rural Management & Development Department (RMDD), is the administrative head of PRIs. He is assisted by 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 there under, 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 after following the appropriate procedure;
- and
- take action for default of a Panchayat President, Secretary and 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 XIth 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 to be 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 functions. This exercise was done through activity mapping³ in April 2008.

1.3.2 Functions not transferred as per 73rd Constitutional Amendment

Although the State Government delineated role and responsibilities of each tier of PRIs for devolution of all the 29 functions listed in the XIth Schedule of the Constitution to the PRIs, the same was not implemented completely and only 15 functions were transferred (April 2008) to PRIs. The department-wise position of schemes not transferred to PRIs by the State Government as of March 2017 is detailed in ***Appendix 1.4***.

Analysis revealed that transfer of important functions 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 2017.

Thus, while all functions were yet to be transferred, even in the cases where they were transferred, adequate funds were not released by the departments concerned. Thus, the PRIs could not initiate a number of activities such as soil conservation, rural health, forest related activities for forest conservation, self-employment through small scale industries etc. mandated in the 73rd Constitutional Amendment.

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;

³ 'Activity Mapping' is an exercise to devolve various functions to be discharged by the GPs and ZPs.

Village Health & Sanitation Committee; District Technical Support Committee; Water Supply & Sanitation Committee for smooth functioning of the Gram Panchayat, Block, etc. The position of functioning of various committees along with their assignments in respect of 88 test checked GPs is given in table 1.1 below:

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 simply certified the works executed by Gram Panchayats without exercising any checks. Adequate monitoring to ensure adherence to technically sanctioned estimate and quality of work as envisaged in the estimate was not ensured by the Committee. Thus, the certificate issued by the Committee was a mere formality before releasing the payment against work bills preferred by the contractors
2	Disaster Management Committee (DMC)	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. The Committee was largely ineffective as they lacked adequate training from State Disaster Management Team to enable them to further impart training to Disaster Management Team at GP level. The Committee was not involved in procurement of Disaster Mitigation tools. As a result, victims could not be given immediate relief at the time of need.
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.	The Committee was largely non-functional due to absence of proper coordination among line departments, DPC and Block office. As a result, identification, scrutiny, implementation of schemes and proper monitoring of schemes for overall development of the GP and Block could not be 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. It did not carry out household surveys, failed to analyse health issues and health conditions of the villagers. Sanitation facilities to villages were not created adequately in the absence of household surveys. Community toilets were not maintained in hygienic condition.
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" ⁴ ; 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.

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 Committees (DPC). The Committee included Members of the Legislative Assembly whose major part of the constituencies fell within the District; three members of the *Zilla Panchayat* besides the *Adhyaksha* and Members of Parliament of both the Houses. The *Adhyaksha* will be the Chairman; the Mayor/President of Municipal Corporation/Council/*Nagar Panchayat*, 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,

⁴ "Source to Mouth" means the water supply from its originating place (source) to the consumer point (mouth).

Nagar Panchayats, Municipal Councils and Municipal Corporation in the District and preparing a draft development plan for the District as a whole.

Audit observed the following deficiencies in the functioning of the DPC:

- 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 incorporation in overall District Development Plan. It did not forward the same to the State Government for integration with the State plan.
- The DPCs had not adequately engaged technical experts from different fields such as Agriculture, Health and Irrigation during preparation of the development plans to make the plans technically feasible and comprehensive.
- The DPC failed to consider matters of common interest between panchayats and municipalities including spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure and environmental conservation for incorporation in district plan.
- The DPC had not initiated adequate steps towards providing overall leadership to the district planning process, preparation of Potential Linked Credit Plan (PLCP) for the district, etc. although mandated to do so through activity mapping.

1.5 Audit arrangement

1.5.1 Primary Auditor

Director, Local Fund Audit (DLFA) is the primary auditor to conduct the audit of PRIs and ULBs of Sikkim. Director, Local Fund Audit (DLFA) was established (June 2012) in the State by enactment of ‘The Sikkim Local Fund Audit Act, 2012’. The Act provided for establishment of DLFA to regulate the audit of Local Fund.

The DLFA is headed by a Principal Director, who is assisted by one Joint Director, one Accounts Officer and other supporting staff. The sanctioned strength vis-à-vis Person-in-position in the DLFA is given below:

Year	Sanctioned strength	Person-in-position	Vacancy
2012-13	Not defined	11	NA
2013-14	-do-	18	NA
2014-15	-do-	14	NA
2015-16	-do-	13	NA
2016-17	-do-	12	NA

The State Government had not delineated specific sanctioned strength for the DLFA even after more than five years since its formation. The person-in-position also decreased continuously from 18 in 2013-14 to 12 in 2016-17 indicating low importance attached to the DLFA by the State Government.

Audit analysis revealed that the target planned for audit was never achieved during 2013-17. This was primarily due to shortage of man power. The coverage was only 19 per cent during 2014-17 whereas in 2013-14 the coverage was recorded 'nil'. The position in this respect is given below:

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
2015-16	176	7	14	7	14	7
2016-17	178	11	64	3	64	3
Total	661	28	145	16	145	16

Source: Information furnished by DLFA, Government of Sikkim

➤ **Training:** Training plays an important role in enhancing the professional competencies of individuals. It provides an opportunity to bridge the gap between job requirement and present competency level of the employees. The officers and staff of DLFA were not imparted any training during 2012-17. This was despite the fact that majority of officers and staff were posted from Finance Department who had no exposure to audit related works in Local Bodies. Absence of mechanism for training constrained skill up gradation of DLFA personnel. TFC guidelines also stipulated for appropriate strengthening of Local Fund Audit Department through capacity buildings as well a personnel augmentation, which was not adhered to by State Government.

➤ **Posting and transfer:** The officers and staff of DLFA are posted by Finance Department. Policy for deployment, tenure, frequency of transfer, etc. was not followed by the State Government. During 2012-17, the Head of Office of DLFA was transferred five times, while Jt. Directors were transferred twice as given in *Appendix 1.5*. The frequency of tenure was as short as 4 to 7 months. The absence of tenure based policy for deployment was bound to affect the functioning of the 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 Panchayati Raj Institutions (PRIs).

In keeping with the recommendations of the 13th 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 2016 to March 2017, the accounts of 92 PRIs (4 ZPs and 88 GPs) were audited.

The year-wise position of units planned to be audited and those actually audited are given in table 1.3:

Table 1.3
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
2011-12	86	-	86	-	86	-
2012-13	83	4	83	4	83	4
2013-14	86	4	86	4	86	4
2014-15	92	4	92	4	92	4
2015-16	92	4	92	2	92	2
2016-17	92	4	92	4	92	4
Total	531	20	531	18	531	18

1.5.3 Placement of Annual Technical Inspection Report (ATIR)

The ATIRs for the years 2007-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 were placed in the State Legislature. However, the State Government had not amended the Sikkim Panchayat Act to provide mechanism for discussion of ATIRs in the Legislative Assembly. Neither the Public Accounts Committee (PAC) discussed the ATIRs nor a separate Committee of State Legislature was constituted to discuss the same as recommended by Second Administrative Reforms Commission.

As none of the ATIRs 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 State Government had taken a policy decision (September 2017) that henceforth the existing PAC will discuss the ATIRs and issue suitable recommendation.

1.6 Response to Audit observations

Inspection Reports (IRs) were issued by the office of the 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 2017 are shown in Table 1.4

Table 1.4
Outstanding IRs and Paragraphs

Year	No. of Inspection Reports	No. of outstanding paras	Money value (₹ in lakh)
Upto 2012-13	85	202	8.09
2013-14	34	86	0
2014-15	53	114	52.44
2015-16	54	267	0
2016-17	68	475	193.18
Total	294	1,144	253.71

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.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

1.7 Ombudsman

The Government of India instructed (September 2009) the State Government to set up office of the Ombudsman in accordance with the instructions in the order *ibid*. The State Government appointed the Ombudsman in May 2012. The responsibility of Ombudsman *inter-alia* included receiving complaints from NREGA workers and others and consider such complaints and facilitate their disposal in accordance with law. It also required the NREGA authority complained against to provide information or furnish certified copies of any document relating to the subject matter of the complaint which is or is alleged to be in his possession. It is also the Ombudsman's responsibility to issue directions for conducting spot investigation; lodge FIRs against the erring parties; initiate proceedings *suomotu* in the event of any circumstance arising within his jurisdiction that may cause any grievance; engage experts for facilitating the disposal of the complaint; direct redressal, disciplinary and punitive actions; and report his findings to the Chief Secretary of the State and the Secretary, State Nodal Department for appropriate legal action against erring persons.

It was noticed that the Ombudsman was not adequately functional as cases/complaints were not lodged/transferred to the authority. This may be due to the fact that the existence of Ombudsman in the State to deal with NREGA related affairs was not known to the Public in the absence of adequate advertisement and public announcement. As a result, provision of Prevention of Corruption Act, 1988 (Sec 268) was not adequately put to use for disposal of irregularities in implementation NREGA in the State. This was quite improper disquieting considering a large number of issues (4,081) and recoverable amount (₹ 2.09 crore) pointed out by Social Audit were lying unsettled for the period from 2013-14 to 2016-17.

1.8 Social Audit

Government of Sikkim initiated Social Audit in 2007-08 as envisaged (Rule 17) 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 had also been designated in four districts. During 2016-17, a total of 176 GPs were covered under Social Audit with involvement of State Resource Persons⁵, District Resource Persons⁶ 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.

Analysis revealed that although Social Audit was institutionalised as per the MGNREGA Audit of Scheme Rules, 2011 and audit of GPs were taken up; the follow-up mechanism was not adequate. As a result, out of 2,163 issues raised, only 271 issues (13 per cent) were redressed as of March 2017. Similarly, the recovery of amount pointed out in Social Audit was also negligible at 12 per cent (₹ 0.46 lakh out of ₹ 37.61 lakh) as of March 2017. Until urgent action is initiated by the State Government, the benefits envisaged in the Audit of Scheme Rules, 2011 towards institutionalising Social Audit would not be achieved in full.

1.9 Lokayukta

The State Government had appointed (February 2014) *Lokayukta* in pursuance to section 1 of the Sikkim *Lokayukta* Act, 2014. The *Lokayukta* comprised of chairperson, one judicial functionary, one administrative and one *ad hoc* administrative member. The *Lokpal* is empowered to investigate administrative matters taken by or with approval of a Minister or Secretary of Union or State Government either on receiving a written complaint by an aggrieved person or *suomotu*, relating to mal-administration, undue favour or corruption. However, functions of *Lokayukta* were not defined in the notification issued in February 2014. The report indicating number of cases disposed off by *Lokayukta* during 2016-17 was not made available by the State Government to Audit.

1.10 Submission of Utilisation Certificates (UCs)

The PRIs were regular and prompt in submission of utilisation certificates during the year 2012-17 as detailed in **Appendix 1.6**. The UCs were, however, submitted by PRIs for the entire amount of grant without actual utilisation of full fund. Thus, submission of UC for the entire amount of grant despite having closing balances was irregular and amount to

⁵ 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.

⁶ 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.

misreporting of expenditure to exhibit full utilisation of fund. The reporting of higher expenditure than actual was resorted to mostly in case of Centrally Sponsored Schemes such as 13th Finance Commission, Backward Region Grant Fund, etc. with a view to obtain subsequent instalment of fund from Government of India.

The designated officers in the State Government such as Block Development Officer and Additional District Collectors (Development) charged with the responsibility of countersigning the UCs had also not exercised necessary checks to ensure that the UCs were against the actual fund utilisation and not for exaggerated expenditure.

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 of 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 the State Government. Although Chartered Accountant firms were assigned the responsibility to audit the accounts of PRIs, audit of accounts were in arrears since 2015-16. Thus, an important check towards accountability in ensuring proper compliance of rules and procedures was not accorded due importance.

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 PRI 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 of test checked PRIs is given in the following table:

Table-1.5
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 estimated receipts and expenditure for the next financial year and submit it to the Government for approval.	Budget was 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. The accounts of GPs estimated to be maintained in Single Entry System.
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 2015-16.
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 year 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.

1.11.3 Role of Block Administrative Centre (BAC)

In the internal control system of PRIs, BAC plays an important role as BACs have been established to assist and support the Panchayat administration in Gram Panchayat Units (GPUs). It also serves as a link between villagers and all the Government departments to make the delivery mechanism more effective to realise the objective of devolution of powers, functions and finances to the Panchayat for further strengthening of PRIs. The Block Development Officer (BDO) is directly in-charge of the GPUs falling under the jurisdiction where the BAC is set up. His responsibilities inter-alia included inspecting office as well as works of the Gram Panchayats (GPs), supervision and providing necessary guidance to GPs and functionaries of the Block; formulation of plans and programmes of various programmes/schemes for consideration of Government and the Zilla Panchayat; resource mapping of all the villages falling within their jurisdiction; overseeing Information, Education and Communication (IEC) activity and functioning of the decentralisation of powers of the Panchayats; submit reports, returns and estimate of various works and programmes of GPUs falling under the jurisdiction of BAC; Strength, Weakness, Opportunity and Threats (SWOT) analysis of the villages so as to make the plan in the right perspective etc.

It was, however, noticed that:

- The BACs had not initiated adequate action towards formulation of plans under various developmental schemes, and had not adequately discharged the function of overseeing of IEC activity and functioning of the decentralisation of powers of the Panchayats. Although the BACs claimed that offices as well as works of GPs had been inspected, reports of inspection were not documented to support their claim. Follow-up, if any, taken by GPs was also not on record to substantiate the contention that inspection was carried out by BAC and improvements brought about in the functioning of GPs.
- Similarly, although SWOT analysis and Resource mapping exercise were carried out during the course of preparation of Village Development Action Plan (VDAP), the inputs had not been put to appropriate use, especially in implementation of developmental schemes such as National Rural Drinking Water Programme, Backward Region Grant Fund, etc.
- BDOs are empowered to issue letter of authority for drawal of fund by Panchayats. While issuing the same, the BDOs had not adhered to the established financial rule i.e. drawal of cheques in the name of third party i.e. suppliers; drawal of advance only after submission of detailed bills for earlier advances, etc. As a result, drawal of money in

anticipation of requirement, drawal of money in the name of Panchayat President/Secretary and drawal of money without entering it into cash book continued unabated in the GPs during 2016-17.

- Line department officials posted in BACs were functioning under the administrative control of their respective departments and were not liable to report to BDO. As a result, supervision and technical expertise expected of the line department functionaries were not readily available with the BACs for effective planning and implementation of developmental projects in the GPs with close coordination with BACs.

Thus, strengthening of Internal Control System of PRIs by BAC to make the delivery mechanism more effective to realise the objectives of devolution of powers, functions and functionaries were not achieved.

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 thereagainst and excess/savings during 2012-17 is given below:

Table 1.6
Budget of PRI vis-a-vis expenditure

(₹ in lakh)

Year	Budget	Expenditure	Excess (-)/Saving(+)
2012-13	974.68	974.67	(+) 0.01
2013-14	832.17	832.17	0
2014-15	1,089.40	1,087.89	(+) 1.51
2015-16	1,893.01	1,893.01	0
2016-17	3,814.63	3,814.63	0

(Source: Detailed Appropriation Accounts of Government of Sikkim)

The budgetary process was well managed as the excess was well under control while the savings were also nil during 2012-17. Analysis, however, revealed that the PRIs incurred the entire funds towards meeting expenditure relating to direction and administration of the PRIs, payment of honorarium and discretionary grants. Funds for developmental schemes were neither transferred to PRIs by RMDD nor did the PRIs incur expenditure fund towards developmental works. Thus, the objective of decentralisation of power and functions as enshrined in XI schedule of the Constitution was not achieved in the absence of adequate release of funds for development of PRIs during 2016-17.

➤ **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 even without preparation of budget. The deficiency in preparation of budget in 2016-17 was noticed despite assurance (December 2015) by State Government (RMDD) that the GPs and ZPs had been asked to prepare budget in sampled budget format. Further, since there was no budget earmarked, the PRI convened *Gram Sabha*, on receipt of fund, for identification of works as per fund availability and not on the actual requirement based need analysis and SWOT analysis as incorporated in VDAP for the GPs.

1.12.1 Source of Funds

The broad sources of receipts of PRIs includes 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) towards Development fund and meeting establishment charges. Other Line departments, although required, had not released funds to PRIs towards developmental activities relating to their sectors.

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

Table 1.7

(₹ in crore)

Year	Central Grant		State Grants				Grand Total		Expenditure	
			Development Fund		Direction & Administration					
	ZP	GP	ZP	GP	ZP	GP	ZP	GP	ZP	GP
2012-13	23.00	82.21	4.61	4.97	4.11	8.45	31.72	95.63	9.43	93.04
2013-14	7.04	122.87	0	0	2.99	0.64	10.03	123.51	12.70	131.96
2014-15	9.10	91.64	0	0	4.10	1.51	13.20	93.15	6.74	102.04
2015-16	0	102.27	0	0	11.80	7.13	11.80	109.40	13.82	109.70
2016-17	0	157.74	0	0	12.65	24.67	12.65	182.41	12.93	168.79
Total	39.14	556.73	4.61	4.97	35.65	42.40	79.40	604.10	55.62	605.53

Source: Information furnished by the RMDD, Government of Sikkim

Analysis revealed the following:

- **Central Grants:** The broad sources of receipts from Central Grants during the year 2012-13 to 2016-17 pertained to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Backward Region Grant Fund (BRGF) and Central Finance Commission as shown in table 1.8:

Table 1.8

(₹ in crore)

Year		2012-13	2013-14	2014-15	2015-16	2016-17	Total
MGNREGS	ZP	0	0	0	0	0	0
	GP	74.07	106.84	73.86	86.23	132.63	473.63
BRGF	ZP	19.51	2.60	3.77	0	0	25.88
	GP	0	6.07	7.70	0	0	13.77
Central Finance Commission Grants	ZP	3.49	4.44	5.33	0	0	13.26
	GP	8.14	9.96	10.08	16.04	25.11	69.33
Total		105.21	129.91	100.74	102.27	157.74	595.87

Source: Information furnished by the RMDD, Government of Sikkim

The decrease in grants during 2014-15 and 2015-16 were due to lesser release of funds under MGNREGS. The Performance Audit of Implementation of MGNREGS in Sikkim is given in Chapter-II. Similarly, in case of BRGF, the State failed to draw full amount of

fund from GOI due to non-completion of projects in time. As a result, balance works under the scheme had to be executed by diversion of funds from 13th Finance Commission grants.

- **State Grant:** Audit noticed that prescribed stipulation in Fourth State Finance Commission (FSFC) was not adhered to by the State Government in releasing funds to PRIs. Against the 4th SFC (Para-7.30) stipulation to allocate fund of ₹ 10.29 crore to the PRIs, the actual allocation was ₹ 8.29 crore leading to less release of grant of ₹ 2 crore during 2016-17. Prescribed ratio of 70:30 for GPs and ZPs was also not adhered to by the State Government. As against the above prescription, the actual ratio of allocation worked out to 60 (₹ 5.01 crore) and 40 (₹ 3.28 crore) for GPs and ZPs respectively during 2016-17. This resulted in excess allocation of ₹ 0.82 crore to the ZP and less allocation of equal fund to the GPs.

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

- **Overall financial position of PRIs:** The RMDD could not furnish (September 2017) 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 2016-17. This was despite assurances (December 2015) given by the RMDD that financial status of the PRIs would be provided once the Chartered Accountant engaged for preparation of accounts of PRIs complete their job. Audit accordingly requisitioned for relevant statistics directly from ZPs/GPs. However, only 44 GPs (out of 176) and all the four ZPs furnished information. Based on this, it was noticed that a total of ₹ 59.40 crore was available with PRIs during 2016-17 out of which only ₹ 32.30 crore was spent.

Table 1.9

(₹ in crore)

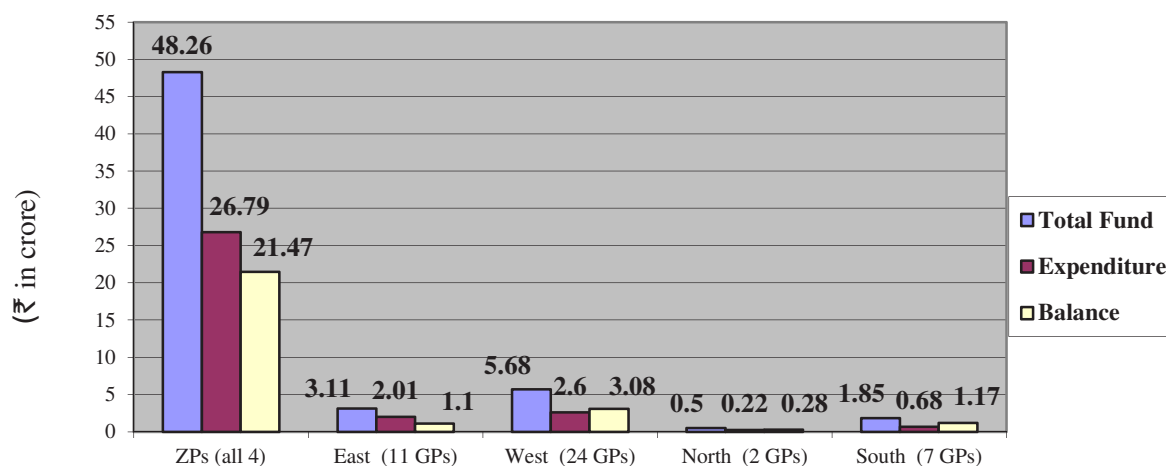
ZP / GP	Total fund available	Expenditure	Balance
ZPs (All 4)	48.26	26.79	21.47
East Sikkim (11GPs)	3.11	2.01	1.10
West Sikkim (24 GPs)	5.68	2.60	3.08
North Sikkim (2 GPs)	0.50	0.22	0.28
South Sikkim (7 GPs)	1.85	0.68	1.17
Total	59.40	32.30	27.10

Source: Information furnished by ZPs & GPs

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

Chart 1.2

Fund utilisation by PRIs



Audit also noticed that the closing balances during 2016-17 were 45 and 50 *per cent* of the total funds available for the ZPs and GPs respectively which were high and indicative of inadequate absorption capacity of the PRIs for fund utilisation.

➤ ***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; and
- ✓ Grants-in-Aid to the Panchayats as well as the Municipal bodies from the Consolidated Fund of the State.

Accordingly, the Fourth State Finance Commission (FSFC) of the State of Sikkim recommended (May 2013) certain measures for improving the fiscal health of Panchayats and Municipalities. The recommendations were accepted by the State Government. However, their implementation left much to be desired as mentioned below:

- The FSFC worked out gap between administrative expenditure and own revenue of the PRIs (if the PRIs levied and collected all taxes as recommended by FSFC) and recommended the transfer of fund of ₹ 11.89 crore for PRIs during 2016-17 {to be met from 2.50 *per cent* of net proceeds of revenue (after deducting cost of collection) collected

by 6 Sectors mentioned in Table 1.10} for administrative expenses, which was accepted by the State Government. However, only ₹ 10.15 crore was transferred to ZPs/GPs towards administrative expenditure from own revenue during 2016-17 indicating a shortfall of ₹ 1.74 crore as depicted in the following table:

Table 1.10
Actual transfer of funds to PRI during 2016-17 vis-à-vis FSFC recommendation

(₹ in lakh)

Sl. No.	Major Head	Head	Tax receipt	Collection cost deduction (in per cent)	Net tax receipt	Funds to be transferred to Local Bodies (2.50 per cent of Net tax receipt)	Funds to be transferred to PRIs (80% of Col. 7)	Tax Transferred to PRIs
1	2	3	4	5	6	7	8	9
1.	0029	Land Revenue	639.55	25.00	479.66	11.99	9.59	1,015.46
2.	0030	Stamp & Registration	1,256.59	25.00	942.44	23.56	18.85	
3.	0039	State Excise	15,623.66	6.32	14,636.24	365.90	292.72	
4.	0040	Taxes on Sales, Trades etc.	36,481.81	3.10	35,350.87	883.77	707.01	
5.	0041	Taxes on vehicles	2,490.24	17.01	2,066.65	51.66	41.33	
6.	0045	Other Taxes and Duties	7,982.69	25.00	5,987.01	149.67	119.74	
		Total	64,474.54		59,462.87	1,486.55	1,189.24	1,015.46

Source: Finance Accounts 2016-17 and information furnished by Rural Management & Development Department.

The position of devolution of appropriate funds did not show adequate improvement during 2016-17 despite incorporation in ATIR 2016 about non allocation of fund for general and specific purposes as per the recommendations of Fourth State Finance Commission as shown below:

➤ **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.

Accordingly, the State Government vide notification (September 2010) fixed the taxes, rates and fees to be levied by the Gram Panchayat and entrusted the Nodal Department (RMDD) to actively involve in sensitising panchayat representatives for raising their own resources and also monitoring their efforts in this direction.

Audit called for information from all the 176 GPs. Only 44 (out of 176) GPs furnished information which revealed that 4 GPs (out of 44) 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, despite notification by the State Government (September 2010) and recommendations of the TSFC.

Had the PRIs initiated effort and proper monitoring was done by RMDD, the PRIs would have generated a potential revenue of ₹ 391.81 lakh during 2012-17 as detailed in **Appendix 1.7**. These revenues could have been gainfully utilised by the PRIs towards meeting administrative expenditure, purchasing of stationery, equipment, etc. In the absence of requisite revenue realisation, the PRIs defrayed the above expenditure from scheme funds. The position relating to non-levying of taxes by the PRIs to broaden their revenue base continued despite its incorporation in the ATIR 2016 and assurances (December 2015) by the RMDD that effort would be initiated by PRIs to augment their own source of revenue.

1.12.2 Recommendation of the Central Finance Commission (CFC)

The details of fund received from GoI towards 13th-14th FC grants and transfer of funds to PRIs by State Government during 2012-17 are shown below:

Table 1.11
Fund received by State Government under CFC

SI. No.	Year	Grant received from GoI		Date of Release of fund to PRIs	Delay (in days)
		Date of receipt	Amount		
1.	2012-13	27.09.2012	1,163.38	18.01.2013	96 days
		06.09.2013	1,281.18	13.09.2013	-
2.	2013-14	20.12.2013	1,440.59	09.01.2014	9 days
		02.03.2015	1,379.56	11.03.2015	-
3.	2014-15	25.03.2015	1,541.23	31.03.2015	-
4.	2015-16	02.07.2015	802.00	11.07.2015	-
		20.11.2015	802.00	04.12.2015	-
5.	2016-17	09.11.2016	1,110.00	21.11.2016	-
		09.02.2017	1,110.00	16.02.2017	-
		13.01.2017	291.00	27.01.2017	-

(Figures provided by Rural Management & Development Department)

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. The State Government had streamlined the system of release of funds to PRIs and curtailed the delay in release of funds since 2014-15.

1.12.3 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 Immoveable Assets were not maintained in any of the 88 test checked GPs; and
- None of the 88 test checked GPs prepared Balance Sheet during the period under report.

Non preparation of these vital records compromised in providing at a glance position of financial health of PRIs.

1.12.4 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. This was despite circulation of Assets Register formats by RMDD.

Thus, the PRIs were not in a position to provide a comprehensive list of assets possessed by them and plan for their periodical maintenance.

1.12.5 Reconciliation of Balances of Cash Book with Bank Pass Book

According to Sikkim Panchayat Financial Rules 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. Thus, the differences between the Cash Book and Pass Book balances remained unreconciled during 2016-17.

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 13th FC 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 the 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 2014-15 whereas accounts for the years 2015-16 to 2016-17 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.

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 Ministry of Panchayati Raj (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.

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