

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, ACCOUNTIBILITY 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 Act, 1992 gave a constitutional status to *Panchayati Raj* Institutions (PRIs) and provided for a uniform structure, holding regular elections, regular flow of funds through Finance Commissions etc. As a follow up, the States were required to entrust the PRIs with specified powers, functions and responsibilities to enable them to function as institutions of self-governance. The PRIs are required to prepare plans and implement schemes for economic and social development.

Consequently, Government of Sikkim (GoS) enacted Sikkim *Panchayat* Act (SPA), 1993. A two-tier system of PRIs viz., *Gram Panchayat* (GP) at village level and *Zilla Panchayat* (ZP) at district level was established under this Act. As on March 2021, there were four ZPs¹ consisting of 110 Territorial Constituencies² (TCs) and 185 GPs comprising of 1,040 wards in the State. Out of 185 GPs, there are two 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* is 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 besides carrying out the functions of *Gram Panchayats*. The Government of Sikkim (GoS) 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.

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

1.1.1 Evolution of Local Self-governance in Sikkim

Though the GoS enacted *Panchayati Raj* Act in 1993 in compliance to the 73rd Constitutional Amendment Act, the roots of *Panchayati Raj* in the State date back to the time when Sikkim was a kingdom under the *Namgyal* Dynasty. During that period, landlords or *Zamindars* were known as *Kazis*. Under the *Kazis* there were *Mandals* and *Karbaris* to assess the crop cultivation and collect taxes in form of *Dhuri Khazana*.

¹East, West, North and South

²East (32 TCs), West (28 TCs), North (22 TCs), South (28 TCs).

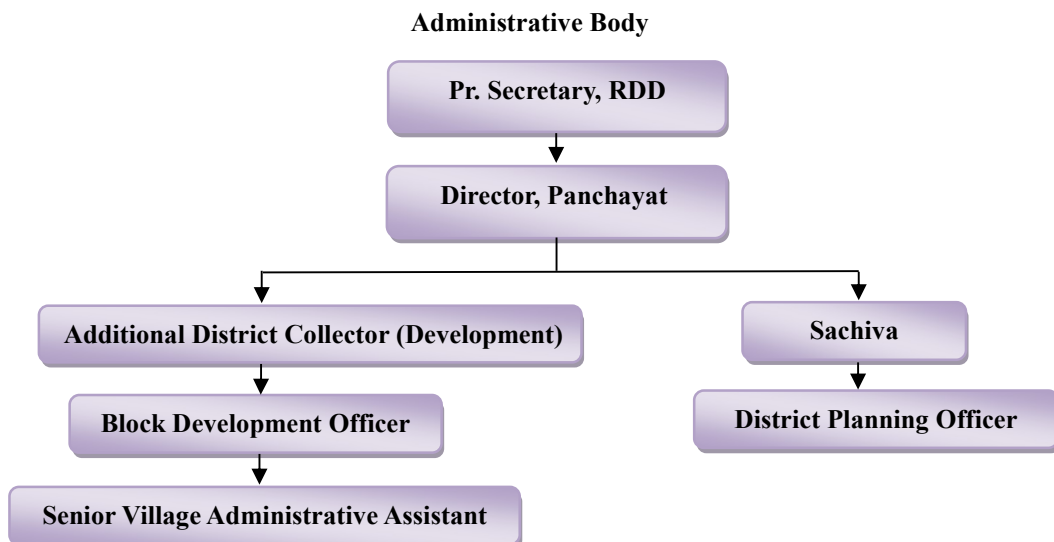
Panchayats were created after the abolition of *Zamindari* in 1948. The *Panchayats* consisted of the landlord or his representative and four other members from the block, selected by the people in a meeting convened for the purpose. These *Panchayats* filled the gap created by the abolition of *Zamindari* and were essentially quasi-judicial in nature or *Nyaya Panchayats*.

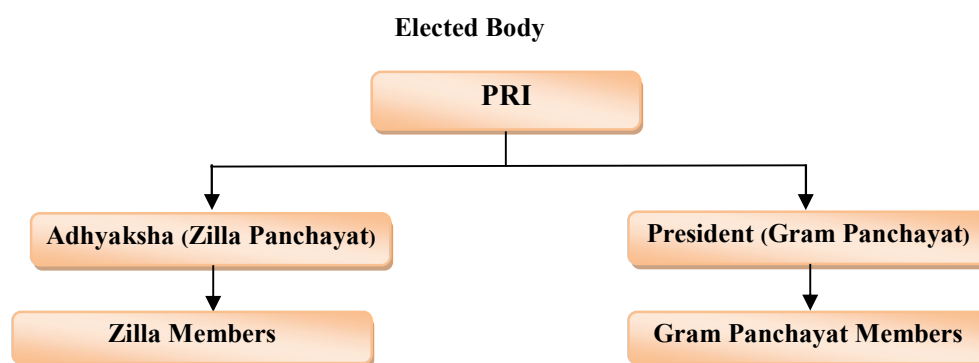
Formally, the SPA, 1965 which came into effect from December 1965, was enacted to consolidate and amend laws relating to *Panchayats* in Sikkim. The objective of establishing the *Panchayats* was to facilitate rural development and to enable participation of all communities at the village level. The term of these *Panchayats* was three years and the *Panchayats* were 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 also provided reservations for minorities. This arrangement continued till enactment of the SPA, 1993.

1.2 Organisational structure of PRIs

The Principal Secretary, Rural Development Department (RDD), is the administrative head of PRIs. He is assisted by Director (*Panchayat*) in exercising overall control and supervision of PRIs in the State. The ZPs and the GPs are headed by *Adhyaksha* and President, respectively. The following chart depicts the organisational structure of the Department and the PRIs.

Chart 1.1: Organisational Chart of PRIs





1.3 Legal framework and functions of PRIs

As per the SPA 1993 and rules made thereunder, the State Government exercises its powers, as detailed in *Appendix 1.2*. The SPA, 1993 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 appropriate procedure; and
- take action on faults of a *Panchayat* President, Secretary and District Planning Officer.

Despite the State Government being empowered as above 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 decentralisation of funds, functions and functionaries among PRIs, the Ministry of Rural Development, Government of India (GoI) constituted (July 2001) the Central Task Force (CTF) for suggesting the manner of transfer of functions 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 the Constitution contains a provision for transfer of these functions to different tiers of PRIs. The list of 29 functions to be transferred to the PRIs by the State Government is detailed in *Appendix 1.3*. For the effective functioning of State Government and PRIs, it is necessary to delineate the roles and responsibilities of the State Government and each tier of PRIs for every transferred function. This exercise was done through activity mapping³ in April 2008.

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

1.3.2 Functions not transferred as per 73rd Constitutional Amendment

The State Government through Notification No. 3/RMDD/P dated 29 April 2008 has transferred only 20 functions to the PRIs. The remaining nine functions were still with the State Government (detailed in *Appendix 1.4*). These functions were being discharged by the respective departments.

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

1.4 Audit arrangement

1.4.1 Primary Auditor

The Director, Local Fund Audit (DLFA) is the primary auditor to conduct the audit of PRIs and ULBs in the State of Sikkim. ‘The Sikkim Local Fund Audit Act, 2012’ provided for establishment of DLFA (June 2012) to regulate the audit of Local Funds. DLFA is headed by a Principal Director and assisted by one Joint Director, one Sr. Accounts Officer and other supporting staff. GoS had not delineated specific sanctioned strength for DLFA even after more than 10 years since its formation in June 2012.

The State Government had also not specified the terms of tenure for DLFA. The Head of Department (HoD) was transferred frequently as shown in *Appendix 1.5*. The tenure of HoD ranged between five months and 22 months. Similarly, for Joint Director, the tenure varied from one to four years. Further, training to officer and staff were not imparted during 2016-21 despite the fact that majority of officers and staff were posted from Finance Department with no exposure to audit related works in Local Bodies.

Audit coverage by DLFA ranged between 15 and 36 *per cent* of planned units during 2016-17 to 2020-21 as shown in Table 1.1. Audit observed that, there was no norms/basis for unit planning by DLFA. In absence of that number of units planned and number of units audited, could not be effectively evaluated.

Table 1.1: Units planned for audit and actually audited

Year	No. of units planned for audit	No. of units audited	No. of audit reports issued
2016-17	178	64(36)	64
2017-18	178	47(26)	47
2018-19	182	64 (35)	64
2019-20	191	39 (20)	39
2020-21	189	28(15)	28

*Source: Information furnished by DLFA, Government of Sikkim
Figures in bracket indicate percentage.*

Thus, the audit planning by DLFA was not in commensurate with available manpower.

1.4.2 Audit by the Comptroller and Auditor General of India

As per recommendations of the Thirteenth Finance Commission (13th FC) and guidelines issued by the Ministry of Finance, GoI, the State Government 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 Supervision. Subsequently, as per Sikkim *Panchayat* (Amendment) Act, 2017, the CAG shall provide Technical Guidance and Supervision over the audit of GPs and submit its Annual Technical Inspection Report for placing it before State Legislature. Accordingly, test audit of GPs and ZPs is being conducted by the Office of the Principal Accountant General (Audit), Sikkim. During 2020-21, accounts of 20 PRIs (four ZPs and 16 GPs) were audited by the Office of the Principal Accountant General (Audit), Sikkim.

The year-wise position of units planned to be audited and actually audited during the period 2016-17 to 2020-21 is 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
2016-17	92	92	92
2017-18	92	92	92
2018-19	92	92	92
2019-20	92	82*	82
2020-21	29	20*	20

* Due to Lock down, 19 units could not be audited. (10 in 2019-20 & 9 in 2020-21)

Source: Master Programme Register of office of the Pr. Accountant General (Audit), Sikkim

As would be seen, all units planned were audited during 2016-17 to 2020-21 except 19 units in 2019-20 and 2020-21 due to lockdown and other measures announced (March 2021) by the Government to curb the spread of corona pandemic.

1.4.3 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) are issued by the office of the Principal Accountant General (Audit), Sikkim to PRI authorities with a copy to the State Government. PRI authorities are 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 are processed for inclusion in the Annual Technical Inspection Report (ATIR).

During 2020-21, 20 IRs were issued, of which replies of two IRs were received while one GP submitted replies to the IRs within four weeks, another GP submitted replies after expiry of four weeks. Eighteen (18) ZPs/GPs did not submit replies as of March 2021 as shown below:

Table 1.3: Nos of IRs issued, and departments reply received

Sl. No.	Units	IRs issued	Replies furnished within 4 weeks	Reply furnished after 4 weeks	Replies not received
1.	ZP	2	-	-	2
2.	GP	18	1	1	16
	Total	20	1	1	18

Position of outstanding IRs and paragraphs in respect of PRIs as on 31 March 2021 is shown in table-1.4.

Table 1.4: Outstanding Inspection Reports and Paragraphs

(₹ in lakh)

Year	No. of Inspection Reports	No. of outstanding paragraphs	Money value of observations
Upto 2016-17	79	298	3.50
2017-18	62	308	233.75
2018-19	61	259	11.59
2019-20	83	258	16.86
2020-21	29	98	7.24
Total	314	1,221	272.94

Source: Outstanding Paras Register maintained in office of the Pr. Accountant General (Audit), Sikkim

Increased accumulation of old outstanding 298 paragraphs (79 IRs) in April 2017 to 1221 paragraphs (314 IRs) in March 2021 indicated that the PRIs had not taken adequate measures to initiate corrective actions pointed out through the IRs. This also indicates weak internal control mechanism for addressing the issues mentioned in the IRs.

1.4.4 Placement of Annual Technical Inspection Report (ATIR)

The ATIRs for years 2007-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 were placed in the State Legislature. As of January 2022, no ATIR has been discussed in the Public Accounts Committee (PAC). However, the PAC have been requested (September 2017) by the Speaker, Sikkim Legislative Assembly to discuss and examine the ATIRs on Local Bodies in addition to their prescribed function till further order.

1.4.5 Technical Guidance and Supervision (TGS)

The Regulations on Audit and Accounts, 2007 (Regulation 152) read with State Government letter No. 13(34) FCD/Fin/1000 dated 16 June 2011 stipulates that the CAG may provide suitable TGS to primary auditor of PRI viz., the DLFA for the purpose of strengthening Public Finance Management and Accountability in Rural Local Bodies. The parameters of such TGS as given in Regulation 152 are as follows:

- The Local Fund Auditor shall prepare an annual audit plan (AAP) for the next financial year by the end of March every year;
- The audit methodology and procedure for the audit of PRIs by the DLFA shall be as per various Acts and Statutes enacted by the State Government and guidelines prescribed by the CAG of India;
- Copies of Inspection Reports (IRs) shall also be forwarded by DLFA to the Pr.AG (Audit) for advice on system improvement;
- DLFA shall furnish returns in such format as may be prescribed by the CAG for advice and monitoring;
- The Pr.AG (Audit) would conduct test check of some units in order to provide technical guidance and report of the test check would be sent to the DLFA for pursuance of action;

- Irrespective of the money value, any serious irregularities shall be intimated to the Pr.AG (Audit);
- DLFA shall develop a system of internal control (IC) in its organisation in consultation with the Pr.AG (Audit); and
- The Pr.AG (Audit) shall also undertake training and capacity building of the Local Fund Staff.

Audit noticed that the DLFA had neither adopted the system of preparation of AAP nor developed IC in its organisation. Copies of IRs, list of serious irregularities, were also not furnished to the Pr.AG (Audit) by DLFA.

The DLFA stated (September 2021) that there was no advanced routine planning process for Local Bodies due to limited manpower, and basic registers were not maintained.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

To promote accountability mechanism in the Local Bodies (PRI and ULB), the State Government was required to appoint Ombudsman and *Lokayukta* for the investigation of administrative action taken by or on behalf of the Government or certain local and public authorities in certain cases and for matter connected therewith and matters involving acts of injustice, corruption or favouritism and initiate Social Audit. Though the *Lokayukta* was appointed in February 2014 by the State Government, Ombudsman has not been appointed. No case was registered with *Lokayukta* during 2020-21.

Position in respect of other parameters effecting accountability mechanism in the PRIs are given below:

1.5 Social Audit

Government of Sikkim initiated Social Audit in 2007-08 as envisaged (Section 17) in the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005. Thereafter in compliance to MGNREGA Audit of Scheme Rules, 2011, the State Government appointed one Non-Governmental Organisation (NGO) to function as Social Audit Unit (SAU). An independent Social Audit Director heads the SAU. Four District Resource Institutes (DRI) have also been set-up in four districts. During 2020-21, 96 GPs were covered under Social Audit with involvement of State Resource Persons⁴, District Resource Persons⁵ and beneficiaries.

⁴Members of the Social Audit Unit. They take the lead in planning, training of DRIs, preparation of training material, finalising the formats of reports and review of the Social Audit Reports prepared by the DRIs.

⁵Facilitators 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.

During the course of Social Audit of this period, 13,528 issues were raised and ‘Recovery’ of ₹ 451.09 lakh was pointed out during 2013-21 as detailed below:

Table 1.5: Statement showing issues raised and settled

Year	GPs covered	Issues			Recovery (₹ in lakh)		
		Raised	Settled	Unsettled	Pointed out	Recovered	Yet to be recovered
2013-14 to 2016-17	176	7,184	3,800(53)	3,384(47)	230.48	42.14(18)	188.34 (82)
2017-18	176	2,052	981(48)	1,071(52)	45.76	12.19(27)	33.57(73)
2018-19	185	1,790	692(39)	1,098(61)	13.00	0.32(2)	12.68(98)
2019-20	185	1,833	787(43)	1,046(57)	55.85	3.80(7)	52.05(93)
2020-21	96	669	136((20)	533(80)	106.00	97.10(92)	8.90(8)
Total		13,528	6,396(47)	7,132(53)	451.09	155.55(34)	295.54(66)

Source: Annual Reports of Social Audit Unit, Sikkim

Figure in brackets indicate percentage.

As would be seen, till March 2021, out of 13,528 issues raised during 2013-14 to 2020-21 in Social Audit, 7,132 (53 per cent) issues remained unsettled of which 3,384 pertained to the period 2013-14 to 2016-17 and 3,748 pertained to the period 2017-18 to 2020-21. The percentage of amount actually recovered against total recovery pointed out ranged between 2 to 92 per cent for the period 2017-18 to 2020-21. As against the recovery of ₹ 451.09 lakh pointed out, recovery was only ₹ 155.55 lakh leading to outstanding recovery of ₹ 295.54 lakh (66 per cent) as of March 2021.

1.6 Internal Audit and Internal Control System of PRIs

Internal control mechanism is an integral function of an organisation which helps to govern its activities effectively and achieve the objectives of the organisation. Existence of effective internal control measures would minimise the risk of errors and irregularities. 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 Financial/Accounting Rules. It 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.

1.6.1 Internal Audit

The RDD appointed Chartered Accountant firms to audit the accounts of PRIs and submit reports within six months. The accounts for 2019-20 had been audited by the CAs. However, audit of accounts for the year 2020-21 had not been conducted till March 2022.

1.6.2 Internal control system in PRIs

The internal control system for PRI were designed by GoS 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 administration.

Significant provision of internal control mechanism *vis-à-vis* position of test checked PRIs is given in the following table:

Table 1.6: 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 each year a budget of its estimated receipts and expenditure for the next financial year and submit it to the Government for approval.	Test check of 16 GPs revealed that the budget was prepared by GPs/ ZPs. However, budget did not include provisions for important schemes like MGNREGA.
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.	Receipts and expenditure accounts as recommended in Model Accounting Structure were not maintained by any of the 16GPs/ ZPs test checked in Audit.
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 accounts of GPs and ZPs. However, as of March 2022, the accounts of 2020-21 had not been prepared.
Supervision	Sec. 68 (1) (2) of the SP Act, 1993	The <i>Sachiva</i> of a <i>Zilla Panchayat</i> appointed by the State Government shall have authority to supervise all records of every GPs falling under the jurisdiction of a <i>Zilla Panchayat</i> of a concerned district.	Records relating to supervision of records by <i>Sachiva</i> was not available in any of the 16GPs test checked in Audit.
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 work 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 annual report on work done during previous year and the work proposed to be done in the following year.	No such report was available in any of the 16 GPs test checked in Audit.
Asset Register	Rule 7(2)(d) of Sikkim ZP (Financial) Rules, 2001; Rule 7(2)(f) of the Sikkim GP (Financial) Rules, 2003	Asset Register is required to be maintained in the format prescribed under the Rule.	None of the ZPs/GPs test checked had maintained Asset Register as prescribed.

Source: Information compiled from Audit Inspection Reports of GPs/ZPs.

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

1.6.3 Role of Block Development Officer and its utility

The Block Development Officers (BDO) have been appointed as Charge Officers to monitor the entire Participatory Rural Appraisal (PRA) exercise, coordinate the functioning of the *Gram* Planning Forum (GPF) and smooth conduct of *Gram Sabha* in all the *Gram Panchayats* falling under his jurisdiction. He shall report the progress of the exercise to the District Level Task Force on a weekly basis.

In the internal control system of PRIs, Block Administrative Centres (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 PRI. The BDO is directly in-charge of the GPUs falling under the jurisdiction, where the BAC is set up. His responsibilities inter-alia include inspecting office as well as works of the 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 the Government and the *Zilla Panchayat*; resource mapping of all the villages falling within their jurisdiction; overseeing Information, Education and Communication 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, SWOT analysis and Resource mapping exercise were carried out during the course of preparation of *Gram Panchayat* Development Plan (GPDP), the inputs had not been put to appropriate use, especially in implementation of developmental schemes such as National Rural Drinking Water Programme, MGNREGS, etc.
- No correspondence with GPUs related to planning under GPDP and shortcoming in planning and other issues were done by BDO.
- 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 from 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 as envisaged.

1.7 Financial Reporting Issues

Financial reporting in the PRIs is a key element of accountability. The provisions relating to drawl 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 *Gram Panchayat* (Financial) Rules, 2003; Sikkim Financial Rules; Sikkim Public Works Accounts Code; Sikkim Public Works Manual; and Standing Orders and Instructions.

The PRIs are solely funded through Grants-in-aid from the Central and the State Government for general administration as well as developmental activities. Funds are initially reflected in the State Budget and released to PRIs. 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 the period from 2016-17 to 2020-21 is given in the following table:

Table 1.7: Budget of PRIs vis-à-vis expenditure

(₹ in crore)

Year	Budget		Total allocation	Expenditure	Excess (-)/ Saving(+)
	Central	State			
2016-17	157.74	37.32	195.06	181.72	(+) 13.34 (7%)
2017-18	134.66	42.99	177.65	168.13	(+) 9.52 (5%)
2018-19	29.67	58.29	87.96	87.95	(+) 0.01 (0)
2019-20	40.09	68.99	109.08	108.99	(-) 0.09 (0)
2020-21	42.00	58.80	100.80	100.80	0.00(0)

Source: Detailed Appropriation Accounts of Government of Sikkim for the year 2020-21

Analysis revealed that during 2020-21, the funds received from the State Government was utilised towards establishment cost, payment of honorarium, discretionary grants and repair and maintenance of assets. The funds received from the Central Government (14th Finance Commission Grants) was utilised towards creation of assets for providing basic services.

1.7.1 Source of Funds

The main sources of funds of PRIs include grants from the Central and the State Government. The details of grants released by the Central and the State Government are given in the following table:

Table 1.8: Grants released by Central and State Government

(₹ in crore)

Year	Central Grant		State Grants						Grand Total		Expenditure	
			4 th & 5 th SFC (Primary & Improvement Grant)		4 th SFC & 5 th (Share of net proceeds)		Direction & Administration					
	ZP	GP	ZP	GP	ZP	GP	ZP	GP	ZP	GP	ZP	GP
2016-17	0	157.74	0	0	0	0	12.65	24.67	12.65	182.41	12.93	168.79
2017-18	0	134.66	3.38	6.74	3.53	8.23	6.57	14.54	13.48	164.17	9.51	158.62
2018-19	0	29.67	3.46	7.11	3.67	8.58	10.89	24.58	18.02	69.94	18.01	69.94
2019-20	0	40.09	3.51	6.79	5.97	13.93	13.44	25.35	22.92	86.16	22.83	86.16
2020-21	6.30	35.70	0.00	0.00	7.36	13.67	11.83	25.94	25.49	75.31	34.41	66.39
Total	6.30	397.86	10.35	20.64	20.53	44.41	55.38	115.08	92.56	577.99	97.69	549.90

Source: Detailed Appropriation Accounts 2020-21 of Government of Sikkim

Analysis revealed the following:

- **Central Grants:** The decrease in grants from the Central Government since 2018-19 was due to non-release of MGNREGS funds to the GPs as the funds were released to Districts/ Blocks. As per MGNREG Act, at least 50 per cent of works were required to be executed by the GPs.

Table 1.9: Sources of Receipts from Central Government

(₹ in crore)

Year		2016-17	2017-18	2018-19	2019-20	2020-21
MGNREGS	ZP	0	0	0	0	0
	GP	132.63	105.71	0*	0*	0
Central Finance	ZP	0	0	0	0	6.30
	GP	25.11	28.95	29.67	40.09	35.70
Total		157.74	134.66	29.67	40.09	42.00

Source: Information furnished by the RDD, Government of Sikkim

* funds were released to District/Blocks for execution of MRNREGS works. GP had not received any fund for MGNREGS.

- **State Grants:** The Fifth State Finance Commission (FSFC), Sikkim recommended (July 2017) allocating ₹ 18.17 crore towards Grants and meeting administrative expenses the PRIs for the year 2020-21. As against this, the actual allocation was ₹21.03 crore during 2020-21.

Table 1.10: Actual transfer of funds to PRIs during 2020-21 vis-à-vis FSFC recommendation

(₹ in lakh)

Sl. No.	Head	Tax receipt	collectioncost (10% of Col 3)	Net tax receipt (Col 3-4)	Funds to be transferred to Local Bodies (5.5 per cent of Net tax receipt)	Funds to be transferred to PRIs (75 per cent of Col.6)	Tax Transferred to PRIs
1	2	3	4	5	6	7	8
1.	Land Revenue	1,332.80	133.28	1,199.52	65.97	49.48	2,103.40
2.	Stamp & Registration	1,312.94	131.29	1,181.65	64.99	48.74	
3.	State Excise	21,027.09	2,102.70	18,924.38	1,040.83	780.62	
4.	Taxes on	19,524.66	1,952.46	17,572.19	966.47	724.85	

Sl. No.	Head	Tax receipt	collectioncost (10% of Col 3)	Net tax receipt (Col 3-4)	Funds to be transferred to Local Bodies (5.5 per cent of Net tax receipt)	Funds to be transferred to PRIs (75 per cent of Col.6)	Tax Transferred to PRIs
	Sales, Trade etc.						
5.	Taxes on vehicles	2,896.35	289.63	2,606.71	143.36	107.52	
6.	Other Taxes and Duties	2,843.29	284.33	2,558.96	140.74	105.56	
	Total	48,937.13	4,893.69	44,043.41	2,422.36	1,816.77	2,103.40

Source: Finance Accounts 2020-21 and information furnished by Rural Development Department.

➤ **Overall financial position of PRIs:** The RDD could not furnish (September 2021) information on financial position, viz., opening balance, total receipts, and total expenditure and closing balance to assess the availability of funds and its utilisation by the GPs and ZPs during 2020-21. Audit accordingly requisitioned for relevant information directly from ZPs and GPs. However, only 56 GPs (out of 185) and four ZPs furnished the information. Analysis of information furnished by these 60 units, revealed that amount of ₹ 93.09 crore was available with these PRIs during 2020-21 out of which only ₹ 55.05 crore was spent, leaving an unspent balance of ₹ 38.04 crore as shown below:

Table 1.11: Total funds and expenditure of ZPs and GPs

(₹ in crore)

ZP / GP	Total funds available	Expenditure	Balance
ZPs (4 ZPs)	52.39	31.85	20.54 (39)
East Sikkim (10 GPs)	7.48	4.69	2.79
West Sikkim (10 GPs)	4.32	2.52	1.80
North Sikkim (10 GPs)	6.31	3.70	2.61
South Sikkim (26 GPs)	22.59	12.29	10.30
Total GPs (56 GPs)	40.70	23.20	17.50 (43)
Total (4 ZPs and 56 GPs)	93.09	55.05	38.04 (41)

Source: Information furnished by ZPs & GPs

Audit noticed that the unspent/closing balances during 2020-21 of these PRIs was 41 per cent (39 and 43 per cent for ZPs and GPs respectively) of the total funds available, which was high and indicative of inadequate absorption capacity of the PRIs.

➤ **Levy of Taxes and Fees**

Sections 39 (1) and 40 (1) of SPA, 1993, envisage constitution of *Gram Panchayat* funds and levy of Taxes, Rates, and Fees on the subjects mentioned in clauses (a) to (i) of Section 40 (1) by the GPs.

In line with Third State Finance Commission (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; 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*.

Test check of records of GPs revealed that GPs had initiated measures to collect revenue through garbage fee, tender fee, trade license, *etc.* However, GPs failed to realise Household Tax: ₹ 154.82 lakh⁶ per year, Water & Sanitation Tax: ₹ 15.48⁷ lakh per year, Village Road & Environment Tax and Building Construction Fees: ₹ 15.48⁸ lakh per year.

1.7.2 Maintenance of Records

Rules 7(1) & 7 (2) of Sikkim *Gram Panchayat* (Financial) Rules, 2003 stipulate maintenance of various records such as (i) Cash Book, (ii) Monthly Receipt and Payment Register, (iii) Annual Receipts and Payment Accounts, (iv) Balance Sheet, (v) Monthly Reconciliation Statement, (vi) Inventory Register for Moveable Assets, and (vii) Inventory Register for Immoveable Assets for proper depiction of accounts of the *Gram Panchayat* Funds.

Scrutiny of records of 16 GPs related to maintenance of Registers and Records is given in the table below:

Table 1.12: Register and Records maintained at GP level

Sl. No.	Rule	Register/ records	Status	Effect
1.	Sikkim Gram Panchayat (Financial Rule) 2003	Monthly Receipts and Payment Registers	Monthly Receipts and Payment Registers not maintained in any of the 16 GPs checked in Audit.	Complete financial position could not be ascertained. Indicative of weak financial control,
2.	-do-	Annual Receipts and Payment Register	Annual Receipts and Payment Register not maintained in any of the 16 GPs checked in Audit.	risk of non-detection of frauds immediately, delays in financial reporting impacting the decision making.
3.	-do-	Balance Sheet	Balance Sheet not prepared in any of the 16 GPs checked in Audit.	Lack of information on Assets and Liabilities
4.	-do-	Monthly Reconciliation Statement	Monthly reconciliation not done in any of the 16 GPs checked in Audit.	Risk of frauds and errors remaining undetected.
5.	-do-	Inventory Register for Movable and Immoveable Assets	Inventory Register for Movable and Immoveable Assets not maintained in any of the 16 GPs checked in Audit.	Assurance on genuineness of expenditure on creation as well as existence of assets, not available.
7.	The SP Act and Financial Rules	Asset Register	Not maintained in any of the 16 GPs checked in Audit.	No assurance on existence of assets
8.		Annual physical verification	Not carried out in any of the 16 GPs checked in Audit.	-do-

⁶ Total rural household= 1,29,006

Total Household tax= 1,29,006 x 10 x 12= ₹154.82 lakh

⁷Water Sanitation tax=1,29,006X1X12=₹15.48 lakh

⁸Village Road & Environment and Building Construction Fees=1,29,006X1X12=₹ 15.48 lakh

1.7.3 Reconciliation of Balances of Cash Book with Bank Passbook

Sikkim Zilla Panchayat Financial Rules 2001 {4 (2) and 5 (1)} and Sikkim Gram Panchayat (Financial) Rules, 2003 states that it shall be the responsibility of the President of GP and *Sachiva* of ZP to ensure maintenance of Cash Book and it should be reconciled with the balance in the Banks. Scrutiny of Cash Books in 16 GPs disclosed that (i) Cash Book balances was not certified by the President of the GPs and (ii) none of the GPs had reconciled the Cash Book balances with the balances of the Banks. Thus, the differences between the Cash Book and Bank balances remained unreconciled during 2020-21. This could lead to frauds remaining undetected.

1.7.4 Maintenance of Accounts by PRIs

The Ministry of *Panchayati Raj* (MoPR) prescribed (January 2009) new accounting formats for PRIs on recommendations of 13th FC with effect from 2010-11.

Audit noticed that the accounts of the PRIs were not maintained in the new accounting formats as prescribed by the MoPR and the PRIs accounts continued to be maintained in the old format. The entries in the old format of Accounts did not reflect transactions of all the receipts and expenditure relating to Panchayat Fund, Provident Fund, Loans, Deposits, *etc.* The accounts of the PRIs were finalised up to 2019-20 whereas accounts for the year 2020-21 had not been prepared as of March 2022.