



CHAPTER-I

**AN OVERVIEW OF THE
ACCOUNTS AND FINANCES
OF ZILLA PANCHAYATS
AND TALUK PANCHAYATS**

Chapter Summary

- ◆ **Delays in preparation and forwarding of annual accounts to Audit persisted**
- ◆ **During 2003-06, Non-Plan expenditure was more than the Plan expenditure**
- ◆ **Database on finances of Panchayat Raj Institutions was not maintained by the Government since 2002-03**
- ◆ **Statutory recoveries were not remitted to Government account, as prescribed**
- ◆ **Internal audit to be conducted by Chief Accounts Officers was in arrears**
- ◆ **Detailed accounts for amounts drawn on Abstract Contingent bills were not submitted**
- ◆ **Large number of cases of misappropriation/defalcation were awaiting settlement in Zilla Panchayats**

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF ZILLA PANCHAYATS AND TALUK PANCHAYATS

1.1 Introduction

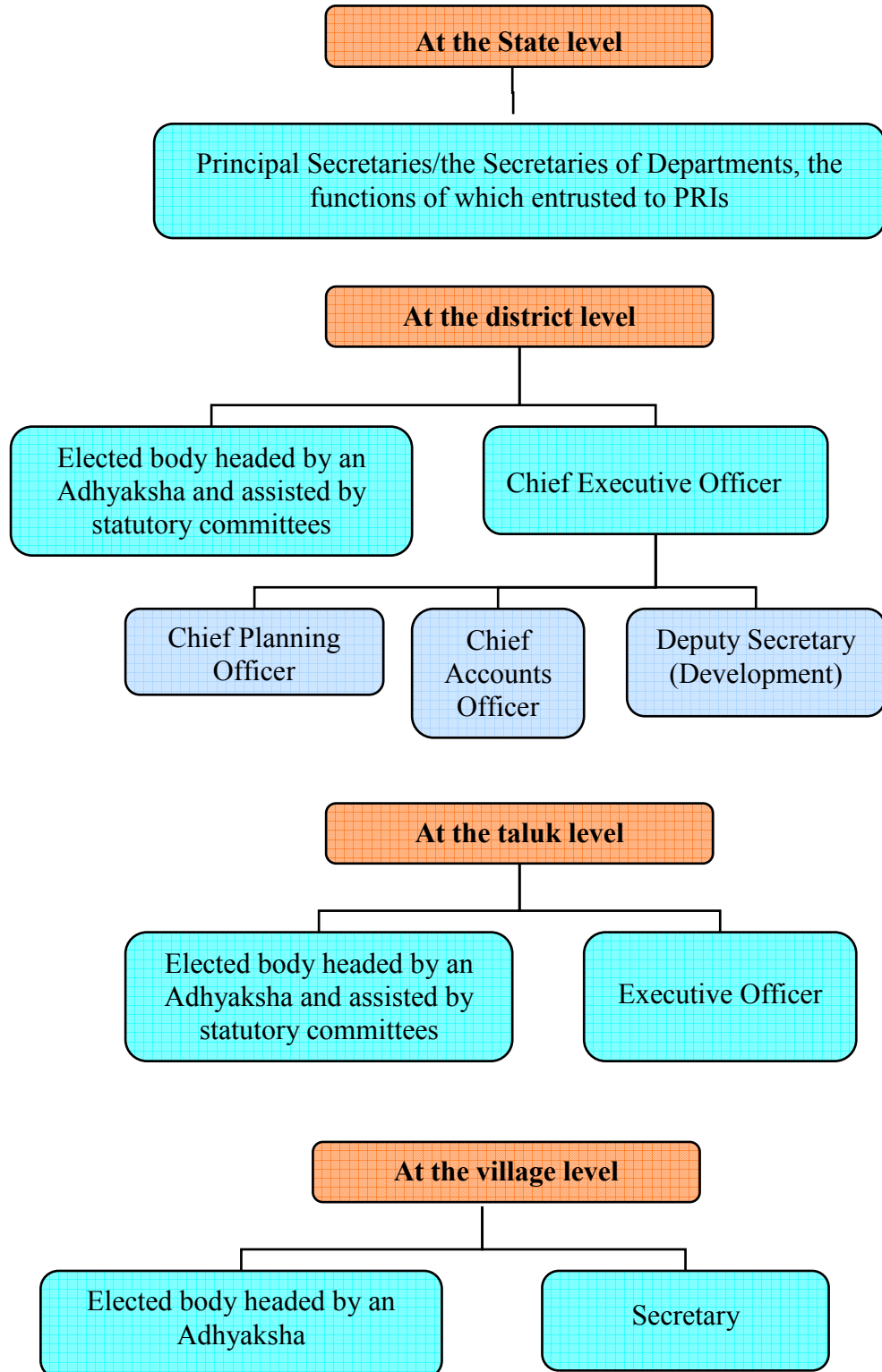
1.1.1 The Karnataka Panchayat Raj (KPR) Act, in keeping with the 73rd Constitutional amendment, was enacted in 1993 to establish a three-tier Panchayat Raj Institution (PRI) system, at the village, taluk and district levels in the State. The PRI system comprises elected bodies – Grama Panchayats (GPs) at the village level, Taluk Panchayats (TPs) at the taluk level and Zilla Panchayats (ZPs) at the district level. As per the 2001 census, the total population of the State was 5.29 crore, of which the rural population constituted 3.48 crore. As of March 2007, there were 27 ZPs, 176 TPs and 5,659 GPs in the state.

1.1.2 Besides functioning as units of local self government, the PRIs also aim to promote participation of people and effective implementation of rural development programmes. The overall supervision, coordination and implementation of development schemes at taluk and district levels and preparation of the plan for the development of the district is vested with the ZPs.

1.1.3 The Comptroller and Auditor General of India (CAG) has been auditing and certifying the accounts of the ZPs and TPs as entrusted under Section 19(3) of CAG's (DPC) Act, 1971. The Controller of State Accounts has been auditing the accounts of GPs under the KPR Act.

1.2 Organisational structure and functions

1.2.1 The organisational structure is indicated below:



1.2.2 The broad details of responsibility within the ZPs are as under:

Authority	Functions
District level officers and departments of Zilla Panchayat	Preparation of budget and Annual Action Plan
Zilla Panchayat	Approval of budget and Annual Action Plan and review of implementation of schemes
Chief Executive Officer (CEO)	Allocation of funds to implementing agencies and overall control and supervision of all functions/schemes
Chief Accounts Officer (CAO)	Preparation of monthly and annual accounts and their submission to Government
Finance, Audit and Planning Committee (FAPC)	Review of accounts, framing of budget, general supervision of Receipts and Expenditure and monitoring of programme implementation

1.3 Funding of Panchayat Raj Institutions

1.3.1 The State and Central Governments funded the PRIs through grants-in-aid for general administration and for development activities. The funding by the State Government was on the lines of accepted recommendations of the State Finance Commission and took into account factors like population, literacy, health, irrigation, medical facilities, etc. The State Government released block grants every quarter and every month in the last quarter. The Central Government also released funds direct to ZPs for development activities. Allocation to PRIs by the State Government during 2003-06 formed 13 to 16 *per cent* of the total budget of the State as shown below:

Year	Total budget provision of the State	Allocation to PRIs	Percentage
	(Rupees in crore)		
2003-04	37105.48	4733.72	13
2004-05	37380.05	5180.62	14
2005-06	41528.17	6842.75	16

The Second State Finance Commission (SSFC) had recommended (December 2002) that from the financial year 2003-04 onwards, 32 *per cent* of

NLGORR^u of the State was to be allocated to PRIs. The State Government, however, did not accept this recommendation and released only 24 to 29 per cent of NLGORR of the State to PRIs during the years 2003-04 to 2005-06 as shown below:

Year	NLGORR	Amount released to PRIs	Percentage
	(Rupees in crore)		
2003-04	15528.00	4578.76	29
2004-05	20545.00	4906.08	24
2005-06	22507.00	6088.61	27

1.3.2 The ZPs deposited grants-in-aid and receipts from other sources[^], in ZP Funds maintained in treasuries. Such ZP Funds were outside the Consolidated Fund of the State but formed part of its Public Account. The ZPs also deposited funds received from the Government of India/externally aided projects and State share of Central Sector/Centrally Sponsored Schemes in bank accounts, as stipulated in scheme guidelines.

1.3.3 The TPs conducted their financial transactions through TP Funds held in the treasury and the scheme funds held in banks. The GPs carried out their financial operations through GP Funds maintained in the treasury/any approved cooperative/scheduled bank.

1.4 Financial position of Zilla Panchayats/Taluk Panchayats

The State Government modified (September 2004) the accounting procedure and method of release of funds to various levels of PRIs from 2005-06. The method of routing the funds to TPs and GPs through ZP was discontinued and funds were directly released to the respective PRIs. The accounts of the TPs were excluded from the annual accounts of ZPs since 2005-06 onwards.

1.4.1. The financial position of ZPs as aggregated from their certified annual accounts for the years 2003-04 to 2005-06[¥] was as exhibited in the table and in Chart I.

^u Non Loan Gross Own Revenue Receipts

[^] Includes miscellaneous receipts like recoveries of overpayment, sale of tender forms/ unserviceable items, etc.

[¥] Comments restricted to the year up to which Audit had certified the accounts of ZPs

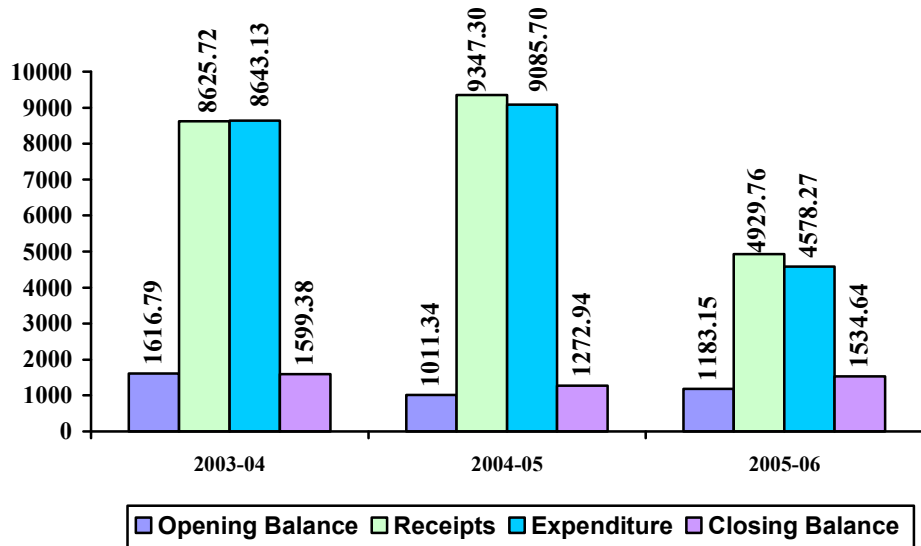
(Rupees in crore)

2003-04	Receipts	8625.72	Expenditure	8643.13
	Revenue 5395.38		Revenue 5288.77	
	DDR ^{^^} heads 3230.34		Capital 102.84	
	Opening balance	1616.79	Closing balance	1599.38
	Total	10242.51	Total	10242.51
2004-05	Receipts	9347.30	Expenditure	9085.70
	Revenue 6035.78		Revenue 5485.99	
	DDR heads 3311.52		Capital 312.71	
	Opening balance	1011.34[∞]	Closing balance	1272.94
	Total	10358.64	Total	10358.64
2005-06	Receipts	4929.76	Expenditure	4578.27
	Revenue 4273.11		Revenue 3442.51	
	DDR heads 656.65		Capital 397.24	
	Opening balance	1183.15	Closing balance	1534.64
	Total	6112.91	Total	6112.91

Note : Figures for the year 2005-06 does not include receipts and expenditure of TPs and that is exhibited under paragraph 1.4.3

^{^^} Debt, Deposit and Remittance

Chart I
Financial position of Zilla Panchayats
(Rupees in crore)



[∞] The difference of Rs.588.04 crore between closing balance of 2003-04 and opening balance of 2004-05 was on account of transfer of unspent balance of ZPs in treasuries from Public Account to Consolidated Fund of the State.

There were discrepancies in maintenance of accounts

1.4.2 KPR Act and Karnataka ZP (Finance and Accounts Rules), 1996 has not made any provisions to rectify or keep a record of note of error on the accounts after its certification. In the absence of such a provision, audit observed the following deficiencies in the maintenance of accounts of the ZPs which have also been commented in the Separate Audit Report on the accounts of respective ZPs.

- ✓ Considering the mounting unutilised balances in the ZPs and TPs, the State Government decided (September 2004) to write back the treasury balances of ZPs/TPs, as of 1 April of each year, to the Consolidated Fund of the State. While preparing the annual accounts for the next year, the ZPs/TPs were required to adopt the opening balance duly reducing the amount written back. The accounts of the ZPs/TPs were to be closed before 30 June of the next year. However, the Government Order writing back from the closing balances of 2004-05 was issued only in July 2005, after the closure of accounts of ZPs/TPs. Therefore, the ZPs/TPs should have adopted the closing balance of annual accounts for the year 2004-05 as opening balance for 2005-06. Instead, the ZPs/TPs adopted the balance taking into consideration the amount written back.
- ✓ Fourteen^u ZPs adopted opening balance for 2005-06 under Bank Head other than the closing balance for 2004-05 resulting in incorrect exhibition of opening balance. ZPs stated that this difference in opening balance was on account of the change in the bank balance after the audit of Centrally Sponsored Schemes namely Indira Awaas Yojana, Sampoorna Grameen Rozgar Yojana/National Rural Employment Guarantee Programme, Swarnajayanti Gram Swarozgar Yojana, etc., by the Chartered Accountants.

Further, the accounts of the TPs were also excluded from the annual accounts of the ZPs since 2005-06 onwards. Thus, there was a difference between the closing balance of 2004-05 and opening balance exhibited in the annual accounts for 2005-06.

^u Bangalore (Rural), Bagalkot, Bellary, Davanagere, Gadag, Hassan, Haveri, Koppal, Kodagu, Kolar, Raichur, Shimoga, Tumkur and Uttara Kannada

1.4.3 The financial position of the TPs, as aggregated from their annual accounts for the year 2005-06 (which were yet to be certified) was as exhibited in the table below.

(Rupees in crore)

2005-06	Receipts		3466.91	Expenditure		2910.99
	Revenue	3307.36		Revenue	2845.07	
	DDR heads	159.55		Capital	1.49	
	Opening balance			DDR heads	64.43	
	Total		235.18	Closing balance		791.10
		3702.09	Total		3702.09	

Note: Nine^δ TPs did not submit their annual accounts (January 2008) and certification of accounts in respect of 167 TPs is under progress

Delays persisted in forwarding of annual accounts for audit

1.4.4 The KPR Act stipulated that the annual accounts were to be passed by the ZPs within three months from the close of the financial year and forwarded to the Principal Accountant General for audit. Sixteen^ε ZPs forwarded the annual accounts for 2005-06 after delays ranging from two to six months while six^ζ ZPs sent them after a delay of seven to twelve months.

1.5 Sectoral Finances of Panchayat Raj Institutions

1.5.1 Sector-wise data on the finances of the PRIs for the past three years is given below:

(Rupees in crore)

	2003-04			2004-05			2005-06		
	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL
RECEIPTS*									
Total Receipts^γ	2131.13	3264.25	5395.38	2576.14	3459.64	6035.78	3454.67	4125.80	7580.47
EXPENDITURE*									
Revenue Expenditure	1944.91	3343.86	5288.77	2063.60	3422.39	5485.99	2682.75	3604.83	6287.58
General Services	(-0.11)	90.93	90.82	-	84.16	84.16	0.19	96.62	96.81
Stamp Duty	-	-	-	-	-	-	0.23	-	0.23
Public works	(-0.11)	90.93	90.82	-	84.16	84.16	(-0.04)	96.62	96.58
Social Services	892.42	2089.43	2981.85	842.62	2383.61	3226.23	1507.48	3075.88	4583.36
Education, Sports, Art and Culture	140.61	1624.15	1764.76	221.01	1840.40	2061.41	706.16	2445.26	3151.42
Health and Family Welfare	107.24	261.28	368.52	114.39	271.21	385.60	151.90	303.61	455.51

^δ Afzalpur, Bellary, Bhalki, Devanahalli, Devadurg, Humnabad, Kanakapura, Raichur and Sindanur

^ε Bangalore (Rural), Bangalore (Urban), Bijapur, Belgaum, Chamarajanagar, Chitradurga, Davanagere, Gadag, Hassan, Haveri, Kolar, Koppal, Mandya, Mysore, Shimoga and Tumkur

^ζ Bidar, Bagalkot, Gulbarga, Kodagu, Raichur and Uttara Kannada

* Includes TP figures, however, as mentioned in paragraph 1.4.3 they are not certified.

^γ The ZPs exhibited in their annual accounts, receipts distinctly under 'Plan' and 'Non-Plan', as allocated by Government and as stipulated in the ZP Rules. Such depiction, however, is not required either according to normal Government accounting practice or in the accounts formats suggested by the CAG, for PRIs.

	2003-04			2004-05			2005-06		
	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL
Water supply and Housing	478.44	5.56	484.00	294.41	1.64	296.05	276.43	4.03	280.46
Welfare of SC/ST/OBC	62.74	159.27	222.01	81.78	216.26	298.04	145.55	247.93	393.48
Social Welfare and Nutrition	103.39	39.17	142.56	131.03	54.10	185.13	227.44	75.05	302.49
Economic Services	722.69	420.52	1143.21	785.99	462.98	1248.97	1054.94	428.46	1483.40
Agriculture and allied activities	84.31	170.91	255.22	128.04	176.44	304.48	195.59	216.04	411.63
Rural Development	544.79	159.28	704.07	512.51	211.46	723.97	674.50	126.76	801.26
Special Areas Programmes	13.56	3.51	17.07	27.02	-	27.02	39.04	-	39.04
Irrigation and Flood Control	0.82	9.24	10.06	3.28	24.09	27.37	0.82	13.76	14.58
Energy	8.04	0.07	8.11	3.03	-	3.03	0.99	0.13	1.12
Industry and Minerals	3.02	35.07	38.09	4.58	35.00	39.58	8.23	39.88	48.11
Science, Technology and Environment	0.25	-	0.25	0.30	-	0.30	0.34	-	0.34
Transport	67.64	38.28	105.92	106.84	11.43	118.27	130.94	27.15	158.09
General Economic Services	0.26	4.16	4.42	0.39	4.56	4.95	4.49	4.74	9.23
TP/GP expenditure	192.05	742.98	935.03	182.44	468.04	650.48	5.19	-	5.19
Deposits of Local Bodies – Taluk Panchayat funds	-	-	-	-	-	-	6.55	3.87	10.42
Bank	137.86	-	137.86	252.55	23.60	276.15	108.40	-	108.40
Capital Expenditure	102.84	-	102.84	312.71	-	312.71	398.73	-	398.73
General Services									
Public works	-	-	-	-	-	-	-	-	-
Social Services	78.33	-	78.33	280.35	-	280.35	377.76	-	377.76
Education, Sports, Art and Culture	4.24	-	4.24	2.93	-	2.93	18.48	-	18.48
Health and Family Welfare	4.36	-	4.36	3.63	-	3.63	0.60	-	0.60
Water Supply and Housing	59.93	-	59.93	265.14	-	265.14	355.66	-	355.66
Welfare of SC/ST/OBC	1.09	-	1.09	1.99	-	1.99	1.84	-	1.84
Social welfare and Nutrition	8.71	-	8.71	6.66	-	6.66	1.18	-	1.18
Economic Services	24.51	-	24.51	32.35	-	32.35	20.97	-	20.97
Agriculture and allied activities	0.14	-	0.14	0.17	-	0.17	0.98	-	0.98
Irrigation and Flood Control	4.32	-	4.32	5.26	-	5.26	2.05	-	2.05
Industry and Minerals	0.11	-	0.11	0.13	-	0.13	0.17	-	0.17
Transport	19.64	-	19.64	26.78	-	26.78	17.77	-	17.77
Others	0.30	-	0.30	0.01	-	0.01	-	-	-
TP expenditure	-	-	-	0.01	-	0.01	-	-	-
Total Expenditure	2047.75	3343.86	5391.61	2376.31	3422.39	5798.70	3081.48	3604.83	6686.31

Note: Figures as rounded off

1.5.2 The formats prescribed for the preparation of accounts under KPR Act stipulated that the sector-wise expenditure had to be exhibited. It was, however, noticed during 2005-06 that two ZPs did not indicate sector-wise

expenditure for an amount of Rs.5.19 crore in respect of funds transferred to TPs/GPs[£]. Similarly, 24[€] TPs did not indicate sector-wise expenditure for an amount aggregating Rs.10.42 crore.

It would be seen from the table above that both capital and revenue expenditure showed an increasing trend. While the percentage of increase of revenue expenditure was 19 *per cent* during 2005-06 as compared to 2003-04, the percentage of increase of capital expenditure works out to 288 *per cent*. The substantial increase in capital expenditure was due to increase in capital expenditure on water supply and housing schemes. Sixty three *per cent* of revenue expenditure was incurred on ‘Education, Sports, Art and Culture’ and ‘Rural Development’.

**Non-Plan
expenditure
exceeded the
Plan
expenditure**

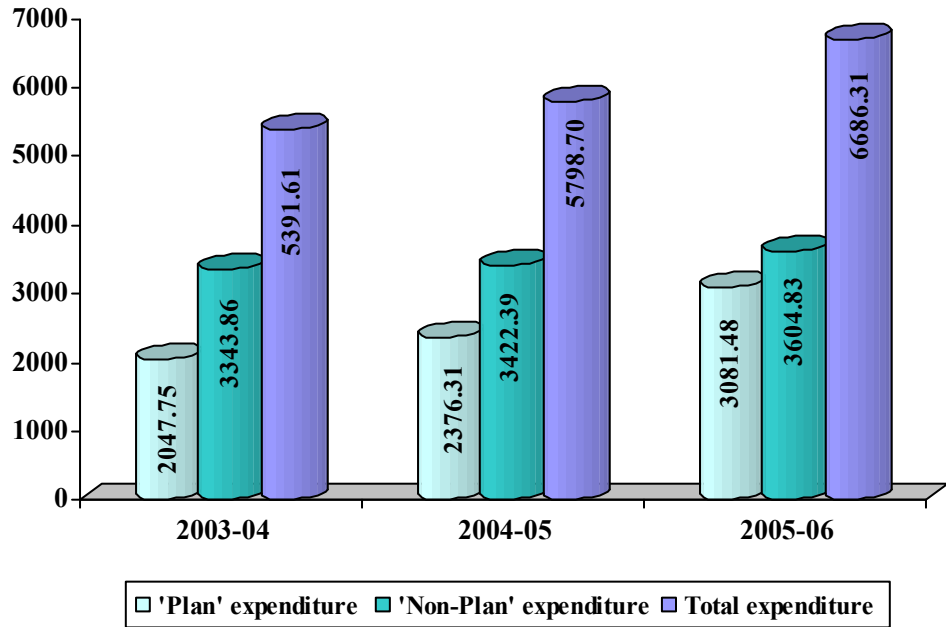
1.5.3 It would be observed from the data given that both receipts and expenditure of PRIs increased steadily during 2003-06. The percentage of ‘Plan’ receipts to total receipts which was 39 during 2003-04 increased to 43 in 2004-05 and 46 in 2005-06. The percentage of ‘Non-Plan’ receipts to total receipts which was 61 during 2003-04 decreased to 57 in 2004-05 and 54 in 2005-06. Similarly, the percentage of ‘Plan’ expenditure (Capital and Revenue) which was 38 in 2003-04 increased to 41 in 2004-05 and 46 in 2005-06. The percentage of ‘Non-Plan’ expenditure to total expenditure (Capital and Revenue) which was 62 in 2003-04 declined to 59 in 2004-05 and 54 in 2005-06. However, the ‘Non-Plan’ expenditure exceeded the ‘Plan’ expenditure during all the three years in 2003-06 as depicted below:

[£] Chickmagalur (to TPs) and Chamaraja Nagar (to GPs)

[€] Bangalore (East), Bangarpet, Bhatkal, Chikkanayakanahalli, Gouribidanur, Hadagali, Haliyal, Honnavara, Karwar, Kolar, Koratagere, Malur, Madhugiri, Mulbagal, Mundagod, Pavagada, Shiggaon, Siddapura, Sira, Siraguppa, Sirsi, Srinivasapura, Tiptur and Yallapura

Chart II

‘Plan’ and ‘Non-Plan’ expenditure in total expenditure during 2003-04 to 2005-06 (Rupees in crore)



1.6 Creation of a database on finances of Panchayat Raj Institutions

Maintenance of database on finances of PRIs discontinued after 2002-03

Eleventh Finance Commission provided (2000-01) grants for maintenance of accounts and preparation and compilation of database on finances of PRIs in the standard formats as prescribed by the CAG. The prescribed formats for maintenance of database on finances of PRIs were communicated (August 2003) to the State Government for consideration and adoption. The Government entrusted (March 2002) the responsibility of creation of database to Institute of Social and Economic Change (ISEC), Bangalore and released Rs.60 lakh for the same. ISEC collected the database for the years 1999-2000 to 2002-03 based on formats evolved by them. The data collected included the receipts and expenditure of GPs including the expenditure on electricity, user charges collected for drinking water, etc. The compilation of database was discontinued after 2002-03. The Government is yet (March 2008) to furnish the reasons for the same.

1.7 Twelfth Finance Commission Grants

❖ *Execution of ineligible works*

Contrary to guidelines, two ZPs incurred an expenditure of Rs.1.46 crore on ineligible works

The guidelines issued by the State Government stipulate that the funds received under the Twelfth Finance Commission Grants from Government of India (GOI) were to be shared among the ZPs, TPs and GPs in the ratio 10:20:70 respectively. The guidelines further stipulated that ZPs should utilise the funds, inter alia, for various development works such as construction of ZP office building, encouraging non-conventional energy sources, creation of database and maintenance of accounts of ZPs, etc. Test-check of records in five^Σ selected ZPs revealed that these ZPs received an amount aggregating Rs.3.21 crore (towards ZPs share) during 2005-06 as grants under Twelfth Finance Commission.

Contrary to the guidelines, it was noticed that two[∞] ZPs utilised the funds amounting to Rs.1.46 crore towards execution of ineligible works like ongoing works taken up under Eleventh Finance Commission Grants, construction of roads/samudaya bhavans, repairs to school buildings, etc. The Executive Engineers (EEs) of the Panchayat Raj Engineering Divisions (PREs) replied that the works were taken up based on the approval of ZPs.

Test-check of records (September 2007) relating to release and utilisation of TFC grants for the year 2006-07 revealed the following:

- ✓ An amount of Rs.4.65 lakh was short released to GPs from the 1st instalment of TFC grants.
- ✓ According to TFC guidelines, the grant should be credited to the accounts of PRIs within 15 days from the date of receipt of grants from GOI. However, it was noticed that the State Government released the grants amounting to Rs.177.60 crore being the I and II instalment with a delay ranging from 35 days to 79 days. Out of the total payable interest of Rs.1.50 crore for the delayed transfer, interest amount of Rs.26.76 lakh was paid by State Government to the PRIs (October 2007). The balance is yet to be paid (March 2008).

^Σ Chamarajanagar, Gadag, Kodagu, Tumkur and Uttara Kannada

[∞] Tumkur-Rs.76.26 lakh and Uttara Kannada – Rs.69.49 lakh

1.8 Laxity of internal controls

Internal controls were inadequate

1.8.1 The KPR Act and codal provisions, inter alia, prescribed the following internal control mechanism for PRIs and the Chief Accounts Officers (CAOs) of ZPs:

- ✓ to ensure remittance of statutory deductions to Government account
- ✓ to conduct the internal audit of all the offices under the jurisdiction of ZPs and to audit all the transactions, both centrally* in his/her office and locally♥ in respective offices
- ✓ to watch submission of non-payable detailed contingent (NDC) bills for amounts drawn on abstract contingent (AC) bills
- ✓ to ensure reconciliation of expenditure figures by the Controlling Officers/heads of departments of ZPs

1.8.2 At the end of March 2006, recoveries aggregating Rs.1.36 crore made by 13 ZPs towards income tax, sales tax and royalty had not been remitted to Government account as detailed below:

Sl.No.	Zilla Panchayat	Recoveries not remitted		
		Income tax	Sales tax	Royalty
(Rupees in lakh)				
1	Bangalore (Rural)	-	8.63	0.64
2	Belgaum	0.92	-	2.09
3	Bellary	14.16	18.60	-
4	Bidar	1.95	7.28	6.00
5	Bijapur	10.91	17.72	5.83
6	Chickmagalur	0.05	-	-
7	Dakshina Kannada	0.12	0.25	1.06
8	Gulbarga	5.36	6.08	21.44
9	Hassan	1.52	1.69	0.97
10	Haveri	0.23	0.65	0.11
11	Kolar	0.02	0.10	-
12	Kodagu	-	1.15	-
13	Udupi	-	0.06	-
Total		35.24	62.21	38.14
Grand total		135.59		

* To audit sanction orders and other communications received from Government/ZP and schedules, challans/vouchers received from treasury, etc.

♥ To audit all the transactions, with reference to basic records maintained in the subordinate offices

1.8.3 The Controlling Officers/heads of departments of ZPs were responsible for reconciliation of their expenditure figures with those booked by CAOs. However, 43 Controlling Officers of 5[£] ZPs had not reconciled (July 2007) expenditure of Rs.155.15 crore incurred during 2006-07 (**Appendix 1.1**).

1.8.4 Audit observed that in five[°] test-checked ZPs, the CAOs did not conduct internal audit centrally while there were arrears to the extent of 35 to 100 *per cent* in internal audit to be conducted locally in respective offices.

In 15 ZPs, detailed accounts for Rs.4.71 crore drawn on AC bills were not submitted

1.8.5 While codal provisions permit Drawing and Disbursing Officers (DDOs) to draw funds on AC bills towards contingent charges required for immediate disbursement, DDOs are required to submit the NDC bills to the CAOs before the fifteenth of the following month. However, it was noticed in 15 ZPs that NDC bills were not submitted by 181 drawing officers for amounts aggregating Rs.4.71 crore drawn on more than 1315 AC bills, some of which were drawn as early as 1986-87 (**Appendix 1.2**).

Despite this irregularity having been pointed out in previous Reports, the CAOs did not initiate action, against officers who had failed to render detailed accounts.

1.9 Investment without returns

In 15 ZPs, investment of Rs.11.50 crore on 90 incomplete works remained idle

As of March 2007, 90 works taken up for execution prior to 2004-05, on which 15 ZPs made an aggregate investment of Rs.11.50 crore, remained incomplete even though these works were to be completed in two years and the Government had issued instructions to accord priority to incomplete works in allocation of funds over the new works (**Appendix 1.3**).

Many such instances have been highlighted in Chapter II B of Current Report and in earlier reports.

[£] Bidar, Bijapur, Chamarajanagar, Davanagere and Kolar

[°] Chamarajanagar, Gadag, Kodagu, Tumkur and Uttara Kannada

1.10 Cases of misappropriation/defalcation

433 cases of misappropriation/defalcation involving Rs.21.40 crore were pending

As of March 2007, 433 cases of misappropriation/defalcation involving Rs.21.40 crore were pending at various stages in 25 ZPs (**Appendix 1.4**). The pendency, as furnished by the ZPs, was as under:

(Amount: Rupees in crore)

Under investigation		Pending in Court		Others		Total	
Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
303	11.84	47	5.88	83	3.68	433	21.40

Delays in settlement of these cases, as pointed out in paragraph 2.5 in the Audit Report for the year ended March 2006 resulted in postponement of recoveries/non-recovery and officials responsible for irregularities going unpunished.

1.11 Poor response to Inspection Reports

Sixty eight per cent of IRs were outstanding for more than five years

The Karnataka Zilla Panchayat (Finance and Accounts) Rules stipulate that Head of the Departments/DDOs of the ZPs shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections is that of CEO of ZPs. As of March 2007, 4223 Inspection Reports consisting of 16099 paragraphs were outstanding in various ZPs. Year-wise details of reports and paragraphs outstanding in respect of all the ZPs are detailed in **Appendix 1.5**. Out of the outstanding Inspection Reports 2863 (68 per cent) reports containing 8364 (52 per cent) paragraphs were pending for more than five years, indicating that the action taken by the CEOs for settlement of objections was poor.

1.12 Conclusion

There were discrepancies in maintenance of accounts. There were delays in forwarding of annual accounts. Non-Plan expenditure was more than Plan expenditure during the years 2003-06. Database of finances of PRIs was not maintained from 2002-03 onwards. The CAOs of the ZPs failed to comply with the prescribed internal controls mechanism and the response to Inspection Reports was poor.

1.13 Recommendations

- ✓ Accounts should be maintained to depict true and fair view and discrepancies should be eliminated
- ✓ All the accounts should be forwarded within the stipulated time frame
- ✓ Database on finances of PRIs should be maintained in the formats prescribed by the C&AG
- ✓ Internal Control Mechanism should be strengthened and compliance thereto should be ensured
- ✓ Immediate steps be initiated for clearance of the Detailed Contingent Bill and action taken against erring officers.
