

CHAPTER II

RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE REVIEWS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.1 Grama Swaraj – Karnataka Panchayats Strengthening Project

Executive Summary

In order to provide opportunities to the identified backward Grama Panchayats in the State towards improving their present conditions, particularly with respect to the management of public resources and the delivery of relevant services, the State Government introduced 'Grama Swaraj - the Karnataka Panchayats Strengthening Project' during 2006-07. Implementation of the Project was deficient. Grants were released to Grama Panchayats without ensuring achievement of the envisaged performance indicators. The objective of the Grama Swaraj Project to achieve online communication and face-to-face training suffered due to delay in establishment of Taluk Resource Centres/Satellite Communication Centres. There was no material improvement in collection of taxes and in the response of the rural population towards grama sabhas. Impact study on the effectiveness of service delivery in Grama Swaraj Project areas is yet to be conducted. Among other shortcomings, operation of Project funds through current accounts in bank resulted in loss of interest aggregating ₹1.06 crore. There were cases of misappropriation of funds because of which subsequent instalments were not released to the Grama Panchayats, depriving the rural poor of the intended benefits.

2.1.1 Introduction

Considering the need to provide additional resources to Grama Panchayats (GPs) and to encourage them to raise resources commensurate with their needs and increase their capacity to utilise the resources, the State Government introduced 'Grama Swaraj (Project) - the Karnataka Panchayats Strengthening Project' during 2006-07 with a project period of five years. The Project was to be funded by the International Development Association (IDA)⁹ in the form of loan. The Project was implemented in 1,341 GPs in identified¹⁰ 39 'most backward taluks' in the State. The Project emphasised the need to improve the effectiveness of

⁹ a constituent of World Bank

¹⁰ by High Powered Committee for redressal of regional imbalances headed by Dr. Nanjundappa

service delivery by the GPs particularly with respect to the management of public resources and the delivery of services that the rural people prioritise.

The objective of the Project was to provide opportunities to GPs towards improving present conditions with respect to the management of public resources and the delivery of services through

- capacity building in Panchayat Raj Institutions (PRIs),
- improving framework and guidelines for own revenue collection and
- revamping financial management and procurement system.

2.1.2 Institutional arrangement

The institutional arrangement for the implementation of the Project was as under:

Department/Officer/ Agency/Organisation	Responsibility
Rural Development and Panchayat Raj (RDPR) and Finance Departments	<ul style="list-style-type: none"> • Primary agencies for implementation of the Project which were to work in conjunction with other line departments, as appropriate • manage Equalisation Formula for transferring funds to Panchayats, policy analysis of own resources and others through a Decentralisation Analysis Cell (DAC)
Chief, Grama Swaraj Project (C-GSP) at RDPR Department {also called Facilitation Cell (FC)}	<ul style="list-style-type: none"> • overall implementation, issuing project reports, preparation of financial management reports • provide technical guidance to district, taluk and village Panchayats • assist Taluk Panchayats (TPs) in assessing their human resource and to recruit staff through transfers and deputation or outsourcing
Zilla Panchayats (ZPs)	<ul style="list-style-type: none"> • monitor the planning process of Panchayats while ensuring compliance to guidelines • collate fiscal information from Panchayats and transfer the information to DAC • arrange for annual service delivery surveys in the GPs
Taluk Panchayats	<ul style="list-style-type: none"> • construction, operation and maintenance of Taluk Resource Centres (TRCs) meant for conducting training activities
Grama Panchayats	<ul style="list-style-type: none"> • make expenditure decisions co-relating the Activity Mapping and annual plans • implementation of the Project • maintenance of accounts and preparation of reports
State Institute for Rural Development	<ul style="list-style-type: none"> • capacity building activities through distance learning programmes, face-to-face training, equipping Satellite Communication (SATCOM) Centres, etc.

2.1.3 Scope of audit and methodology

The Project was implemented in 1,341 GPs of the State from October 2006 and is expected to close by March 2012. The performance appraisal of the implementation of the Project for the period up to March 2010 was conducted

during January-August 2010 by test-check of records of the C-GSP, eight ZPs¹¹, 12 TPs¹² and 45 GPs selected on the basis of simple random selection method. Out of the total expenditure of ₹295.32 crore incurred on the project in the State up to the end of March 2010, an amount of ₹117.92 crore (40 per cent) has been test-checked.

The audit objectives, based on the project objectives and criteria adopted and methodology for the performance appraisal, were discussed with the Principal Secretary, RDPR Department during an Entry Conference held in March 2010. The Exit Conference was held in August 2010 with the Secretary, RDPR Department and C-GSP to discuss the points noticed during the course of audit. The Department accepted the audit observations and replies are incorporated in the respective paragraphs.

2.1.4 Audit objectives

The objectives for the performance appraisal of the Project were as follows:

- to ascertain whether funds, obtained as loan from IDA, had reached the implementing agencies within the timeframe;
- to examine the effective implementation of the Project and ascertain achievement of project objectives; and
- to ascertain whether proper mechanism for monitoring was in place and was functioning as envisaged.

2.1.5 Audit criteria

The criteria adopted for the review were:

- Operations Manual and Procurement Manual framed by RDPR Department.
- Project Appraisal Document, Project Agreement and Development Credit Agreement for the Project.
- Government orders, circulars, *etc.* issued in this regard from time to time.

Audit findings

The points noticed during the performance appraisal are discussed in the succeeding paragraphs.

2.1.6 Financial management

The finance for the implementation of the Project was obtained as loan in the form of a Sector Investment Credit through IDA. The total outlay of the Project

¹¹ Bagalkot, Bellary, Bidar, Bijapur, Davanagere, Gulbarga, Ramanagara and Tumkur

¹² Aland, Aurad, Basavanabagewadi, Bilagi, Channagiri, Gubbi, Humnabad, Kanakapura, Sandur, Shorapur, Sira and Yadgir

was ₹600 crore, of which the loan component was ₹540 crore and the balance was to be funded by the State Government. The funds for the overall implementation of the Project were envisaged to be released under the following four components:

- (a) Block grants to GPs;
- (b) Information systems for constituents;
- (c) Human resource development and capacity building of the Panchayats; and
- (d) Building the capacity of the State.

While 100 *per cent* of the funds towards block grants (component (a) above) were to be released to GPs, the funds meant for other components were to be released to TPs, Abdul Nazir Sab State Institute for Rural Development (ANSSIRD) and other agencies, as appropriate.

C-GSP withdraws the allocated fund from the treasury and deposits in the scheduled banks. On receipt of Utilisation Certificates (UCs) from the GPs, the C-GSP directs the scheduled banks for on-line transfer of funds to the authorised banks of GPs. TPs/ANSSIRD draws funds directly from treasury on presentation of bills.

2.1.6.1 Financial position

As at the end of March 2010, the year-wise details of funds allocated, released and expenditure incurred on the Project (in respect of all the components) in the State during the period 2006-10 were as shown in **Table 2.1** below:

Table 2.1: Statement showing the year-wise allocation, withdrawal and utilisation of funds on the Project

(₹ in crore)				
Year	Allocation	Funds withdrawn from treasury	Expenditure	Balance held with bank/implementing agencies
2006-07	84.63	49.82	47.48	2.34
2007-08	160.03	153.04	144.67	8.37
2008-09	187.03	144.02	95.00	49.02
2009-10	115.00	68.70	8.17	60.53
Total	546.69	415.58	295.32	120.26

Source: As furnished by C-GSP

Note: Includes loan component as well as State Government releases

Available funds were not utilised in full

It could be observed from the table above that during 2006-10 only 71 *per cent* of the available funds were utilised on the Project. Delay in formation of FC/DAC under the Project during 2006-07 resulted in withdrawal of only ₹49.82 crore as against the allocation of ₹84.63 crore. Subsequent funds were released to GPs against the submission of UCs for instalments released earlier. The GPs, however, failed to utilise the funds released to them and to furnish UCs on time. The Panchayat Monitoring System at State level was to monitor utilisation of Project funds by GPs. In test-checked GPs, the percentage of utilisation of released funds varied between 53 and 81 indicating deficiency in monitoring.

The State Government replied (November 2010) that there was significant improvement in utilisation of funds by GPs during 2010-11.

The DAC study report revealed that the GPs secretaries felt release of funds in single instalment was better than release of funds in many instalments based on UCs. They opined that by adhering to single instalment release, the delay in utilisation of funds could be avoided.

2.1.6.2 Laxity in implementation leading to payment of commitment charges

Non-adherence to loan schedule resulted in avoidable payment of commitment charges

According to the Development Credit Agreement entered into between the State Government and the IDA, the borrower of the loan was to pay service charges (interest) at the rate of 0.75 *per cent* of the principal amount drawn and outstanding from time to time as stipulated. Further, the amount of loan was to be drawn from IDA as per agreed schedule, or else the borrower was to pay commitment charges on the principal amount not drawn from time to time at the rate fixed by the IDA as of 30 June each year (but not to exceed the rate of 0.5 *per cent* per annum). The Principal Secretary, RDPR Department was to monitor the drawal of funds on the agreed schedule to avoid payment of commitment charges.

Test-check of records showed that the PRIs/implementing agencies failed to utilise the amount, as per schedule, resulting in payment of commitment charges for the period between December 2006 and December 2008 amounting to ₹1.55 crore to IDA, as at the end of August 2010, which was avoidable. Failure to utilise the funds and implement the Project within the timeframe evidently enhanced the burden on the State Exchequer. The State Government stated (November 2010) that the drawal of fund has been streamlined and is as per the World Bank Schedule. The fact, however, remained that payment of commitment charges was avoidable.

2.1.6.3 Loss of interest

Operation of Project funds through current accounts resulted in loss of interest

The guidelines prescribed for opening of savings bank accounts for operation of Project funds. Contrarily, it was observed in Audit that the C-GSP opened current accounts (non-interest bearing) in three banks which resulted in loss of interest amounting to ₹1.06 crore¹³ in respect of funds parked in two¹⁴ bank accounts during the period 2007-10. The complete details of transactions in another bank (Corporation Bank) were not made available to audit. The State Government replied (November 2010) that these current accounts have been converted to savings account.

¹³ as worked out by audit @ 3.5 *per cent*

¹⁴ Account No.30251587973 at State Bank of India and Account No.20195111 at Syndicate Bank

2.1.6.4 Irregular parking of funds outside Government account

Funds were drawn from treasury and irregularly deposited in bank accounts

The provisions of Karnataka Financial Code stipulate that no funds can be withdrawn unless required for immediate disbursement/utilisation. It was, however, seen in Audit that during the years 2007-08 and 2008-09 the C-GSP drew funds allocated to the Project from treasury amounting to ₹270.16 crore¹⁵ and deposited the same in the bank accounts. Scrutiny of records in test-checked GPs showed that there were delays varying between 3 and 27 months in transferring these funds to GPs. This was due to delay in transferring funds by the nodal bank. The C-GSP also failed to ensure that funds were transferred by the bank in time to GPs. This had resulted in irregular parking of funds outside Government account, which was booked as expenditure against Consolidated Fund of the State. It was also seen that an amount of ₹7.76 crore, deposited during 2007-09, was still lying (August 2010) in bank accounts without being transferred to GPs.

2.1.6.5 Diversion of Project funds

Project funds aggregating ₹10.53 lakh were diverted for other purposes

An amount aggregating ₹7.89 lakh was irregularly paid by C-GSP during 2008-10 as salary and allowances to two officials who were not involved in the Project activities resulting in diversion of Project funds. Further, the Operation Manual for the Project strictly prohibited utilisation of block grants for any other purposes except the approved works. It was seen that an amount of ₹2.64 lakh was diverted out of block grants in three GPs¹⁶ test-checked towards payment of salary, electricity charges, works under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), etc. The C-GSP admitted (November 2010) diversion and the staff who were engaged in activities other than the Project works were recalled to work for the Project.

2.1.6.6 Misappropriation of funds

Cases of misappropriation ultimately resulted in deprivation of benefits to rural population

In order to prevent misuse of funds, the KPR Act stipulated issue of cheques under the joint signatures of the President and Secretary of GPs. Despite this, eleven cases of misappropriation of Project funds involving ₹42.62 lakh were noticed by the State Accounts Department (SAD) during 2006-09, of which ₹13.25 lakh was recovered in five cases (misappropriated amount – ₹19.53 lakh) and no recovery had been effected in six other cases (misappropriated amount – ₹23.09 lakh), as of February 2010. Subsequent instalments were not released to these 11 GPs, which hampered the implementation of the Project. Non-release of earmarked grants to GPs resulted in depriving the rural population of the intended benefits in these backward GPs.

In addition, test-check of records showed that another five cases of misappropriation by the Secretaries of the GPs involving an amount of ₹11.76 lakh, which had been noticed by the SAD authorities, were not reported to

¹⁵ during 2007-08 – ₹136.09 crore and during 2008-09 – ₹134.07 crore

¹⁶ GPs – Bemlkhada (Humnabad), Malhar (Yadgir) and Murkhi (Aurad)

C-GSP. Of this, funds amounting to ₹9.26 lakh were yet to be recovered (July 2010). The details of the cases are as shown in **Table 2.2** below.

Table 2.2: Cases of misappropriation

Taluk Panchayat	Grama Panchayat	Amount misappropriated (₹in lakh)	Nature of misappropriation	Status (as of July 2010)
Yadgir	Arakera (K)	1.56	Drawn on self cheques	Show-cause notices issued
	Chinnakar	0.55		
	Ramasamudra	2.15		Amount recovered without taking any legal action
	Malhar	2.50		
Surpur	Arakeri (K)	5.00	Issued cheques to unauthorised persons	Criminal case booked
Total		11.76		

Source: Inspection Reports of SAD

The State Government (November 2010) endorsed the reply of C-GSP who stated that disciplinary action and criminal cases have been initiated against the concerned officials.

2.1.6.7 Irregular payment of advances to contractors

Under the Project, the works were to be entrusted to contractors on tender basis. As per KPR Rules, though there was no provision for payment of advances to contractors entrusted with the works, verification of Project cash book in three GPs¹⁷ under TP, Aurad disclosed that an amount of ₹11.46 lakh was paid (2007-08) as advances to contractors. However, the GPs did not possess the details of work for which the advances were made and whether these works were completed and advance payments adjusted. Secretaries of GPs could have watched recovery of advances by maintaining an advance register. In the absence of relevant data, it could not be ascertained whether the persons to whom the advances were paid were actually contractors. Misappropriation of these funds could not be ruled out and the matter needs to be investigated.

2.1.6.8 Non-reconciliation of figures

Audit noticed difference in figures furnished by the C-GSP and 10 test-checked TPs varying from ₹1.81 lakh to ₹69.56 lakh in respect of grants released/credited to concerned account during the period 2006-10 as detailed in **Appendix 2.1**. There were differences in opening and closing balances for the years 2006-10 as per the records of EOs, TPs in respect of demand and collection of taxes as detailed in **Appendix 2.2**. This indicated that reconciliation of figures had not been attempted, as required. The C-GSP replied that reasons for differences would be obtained from EOs, TPs.

¹⁷ Jambagi, Mudhol (B) and Murki

2.1.7 Project implementation

The Project was implemented in 1,341 GPs under the 39 most backward taluks of the State. The envisaged formula for allocation of grants to GPs during the Project period is shown in the **Table 2.3** below:

Table 2.3: Formula for allocation of grants to GPs

Year	Formula
I	83.33 <i>per cent</i> of the allocated funds to be distributed equally among the GPs and the balance based on the population, area, literacy and SC/ST population
II	60 <i>per cent</i> of allocated funds by equal distribution to all the GPs and of the balance 40 <i>per cent</i> to be distributed, 50 <i>per cent</i> each based on the total population and SC/ST population in GPs
III year onwards	Based on the performance indicators derived by DAC <i>i.e.</i> , fiscal (25 <i>per cent</i>), institutional governance (49 <i>per cent</i>) and social indicators (26 <i>per cent</i>)

2.1.7.1 Routine release of grants

The envisaged parameters for these performance indicators, *inter alia*, included improvement in tax collection, progress in mobilisation of own resources, conduct of grama sabhas/Jamabandi (social audit), preparation of accounts, sanitation, reduction in drop-outs from schools, immunisation, *etc.* It was, however, observed in audit that these norms were not followed¹⁸ while releasing the grants (third year onwards) to GPs. Instead funds were allocated based only on the population (general and SC/ST).

2.1.7.2 Overall development of villages

Only road and water supply works were executed, adversely affecting the overall development of the villages

The Operation Manual for implementation of the Project provided for preparation of perspective/development plans by GPs considering the available resources, analysis of sector-wise proposals in grama sabhas and finalisation of Annual Plans (APs) in consultation with the respective departments for the selected works. The guidelines also illustrated the department-wise list of works required to be implemented in GPs and also delineated the responsibility of ZP, TP and GPs in implementing these activities through 'Activity Mapping'. The C-GSP was to monitor that the works proposed in the perspective/development plans were also included in the APs of GPs. It was, however, observed in test-check that while the development plans included works that were required to be executed, the GPs included in their APs mainly works relating to roads and water supply during 2006-10. These two items comprised 82 *per cent* (1,002 works) of the 1,218 works taken up for execution. Many of the devolved functions were not attempted at all under the Project, indicating a lack of vision towards the overall development of the GP. The State Government replied (November 2010) that the GPs would be asked to take up other essential works also.

¹⁸ reportedly in consultation with the World Bank authorities

DAC study report (May 2008) revealed that the decision to execute certain items of works was predetermined by the GP members and the grama sabhas were informed of their decision.

2.1.7.3 Resource mobilisation

Tax rates were not revised and there was no improvement in collection of taxes

The primary objective of the Project through additional funding was to encourage GPs to raise resources commensurate with their needs, and increase their capacity to utilise the resources. During 2006-10, percentage of tax collected to the demand in GPs test-checked varied between 19 and 22 as against the envisaged parameters (60, 65, 70, 70 and 75 *per cent* respectively) during the five year Project period. This indicated that unconditional release of funds in a routine manner negated the spirit of the Project. As of March 2010, while an amount of ₹157.02 crore¹⁹ was outstanding from these selected 39 TPs, amount aggregating ₹3.57 crore was outstanding in the 45 GPs test-checked.

Further, it was also prescribed that tax structure in the GPs should be revised at least once in three years. It was, however, noticed that the tax structure was not revised during the last six years in any of the GPs test-checked.

Evidently, departure from these parameters and release of grants only on the basis of population resulted in GPs not making any additional efforts in tax collection and mobilisation of resources.

DAC conducted a field study and suggested measures²⁰ (June 2009) to improve own revenue generation of GPs. Study also indicated that the Secretaries of GPs in Gulbarga district were not aware about how much tax was to be collected. There is a general mindset among the people that the State Government would waive the tax payable at a later date. C-GSP is yet to initiate action on the report (August 2010).

2.1.7.4 Poor response to grama sabhas

Despite implementation of the Project, the response to grama sabhas was very poor

The grama sabhas would be the instrument of accountability to the people. The guidelines also emphasised on increasing the participation of local people in grama sabhas to achieve greater satisfaction in service delivery that the local people prioritise and decide. Accordingly, the guidelines prescribed that the grama sabha in a GP would meet twice in a year. It was, however, seen in test-checked GPs that the implementation of the Project in GPs had not been able to involve the people as evidenced by the continued poor participation by them in the grama sabhas held during the period 2006-10 as detailed in **Table 2.4** below.

Table: 2.4: Statement showing the participation in grama sabhas

Year	Number of grama sabhas held	Population (in lakh)	Number of persons participated	Percentage of participation
2006-07	82	2.63	4,367	1.7
2007-08	63	2.63	4,226	1.6
2008-09	81	2.63	6,130	2.3
2009-10	65	2.63	4,413	1.7

¹⁹ details as furnished by the C-GSP

²⁰ insist defaulters of tax for payment before benefits such as issue of ration card, water supply connection, *etc.* are provided by GPs

It was proposed (December 2008) to conduct publicity campaigns (Kala Jathas) to create awareness regarding objectives, need for participation and benefits of the Project in these 39 backward taluks. Though the campaigns were to be conducted from January 2009, the funds (₹36.88²¹ lakh) for the purpose were released to TPs by C-GSP belatedly during May 2009 and November 2009. Out of this, as of March 2010, an amount of ₹5.11 lakh only was utilised in the State. In three test-checked TPs²², funds amounting to ₹2.97 lakh were drawn and kept in bank accounts without conducting any publicity campaign. The State Government replied (November 2010) that steps have been taken to intensify publicity campaign.

DAC study report (May 2008) revealed the following:

- the awareness on the Project objectives was very poor and the villagers were not interested in knowing the objectives as long as the works were undertaken; and
- only a few villagers gave inputs in grama sabhas about the needs of the GPs.

2.1.7.5 Capacity building through Taluk Resource Centres

To impart training and upgrade skills of the elected representatives, members of self-help groups, NGOs and other stakeholders, it was proposed to construct 175 Taluk Resource Centres (TRC) (also called “Samarthya Soudhas”) under the Project (one in each taluk). Funds out of Project grants amounting to ₹16 lakh, later enhanced to ₹25 lakh, had been provided for each building.

As of March 2010, out of the proposed 175 centres, while the construction of the building was completed in respect of 43 taluks at an expenditure of ₹69.84 crore, the construction had not even commenced in 50 taluks, and the balance 82 buildings were in different stages of construction after incurring an investment of ₹66.58 crore. This was due to delay in tender process, identification of site, etc. In test-checked TPs, only one building was completed and training conducted.

The delay/non-commencement of construction of these buildings defeated the objective of enhancing capacity through training programmes under the Project. The C-GSP agreed (November 2010) that efforts are being made to sort out issues and take up construction work as early as possible.

The guidelines of the Project provided for appointment of following personnel for each TRC as shown in **Table 2.5** below:

Table 2.5: TRC personnel and their duties

Personnel	Duties
Computer Specialist	to assist GPs in computerisation
Accountant	<ul style="list-style-type: none"> ▪ to review the extent to which GPs are following the financial guidelines ▪ to provide assistance on the matters where needed, and ▪ to collate Panchayat accounts at the block level for transfer to the district
Social Specialist	to assist Panchayats in planning and mobilise the poorest and vulnerable groups to attend grama sabhas

²¹ @ ₹2,750/- for each GP

²² Aland, Gubbi and Sira

Non-establishment of Taluk Resource Centres defeated the objective of capacity building

Services of TRC personnel were grossly under-utilised

These personnel were to cater to the needs of all the GPs under the jurisdiction of the TP concerned. Though these personnel were appointed during 2007-08, it was observed that they did not visit any of the GPs till 2009-10 and were placed only at taluk level. It was replied by EO, TPs that GPs were not visited by TRC personnel due to non-release of travelling allowance by C-GSP.

The under-performance of these personnel, the Social Specialist in particular who was to be instrumental in influencing the downtrodden people to attend grama sabhas, defeated the purpose of their recruitment.

2.1.7.6 Computerisation and accrual accounting

The objective of computerisation of GPs did not materialise due to non-utilisation of the computers provided

The Project envisaged computerisation of all PRIs to enable web-based data-entry, online communication of documents and data in the form of reports, computerised accounting system, *etc.* The computerisation of GPs under the Project was also to support the new accounting guidelines for roll over from cash to accrual accounting in GPs. It was observed in the 12 test-checked TPs that out of 441 GPs, the computers were being used in only four GPs. The computers were not used in other GPs due to repairs, non-availability of networks, *etc.* though computer operators were in place in 257 GPs. Thus, the objective of computerisation of GPs was defeated.

The progress report submitted by C-GSP (December 2010) on the Project implementation support mission stated that more than 300 GPs were not provided with on-line connection. In order to avoid disruption in data entry, an offline version was necessary. Even though all GPs have activated “Panchatantra software” for accounting, proposal to appoint qualified Accounts Assistants are still under consideration by the State Government. Training to Chartered Accountant (CA) firms in panchatantra software was scheduled only in the month of January 2011. In spite of assistance rendered by CAs for preparation of accounts in Double Entry Accounting System (DEAS) from 2007 onwards, the GPs staff have not adapted to maintenance of accounts in DEAS. Deficiencies noticed by Audit are brought out in paragraph 1.11 of Chapter-I Section ‘B’ of this Report.

2.1.7.7 Capacity building through SATCOM Centres

Inadequate release of funds for construction of SATCOM centres resulted in buildings remaining incomplete

Another component envisaged under capacity building was establishment of SATCOM Centres in the State, to facilitate distance learning programmes, face-to-face training, *etc.* in tune with ANSSIRD at Mysore. It was proposed (May 2007) to construct SATCOM centres in five cities in the State at an estimated cost of ₹50 lakh each (₹25 lakh each for building and equipment). Funds for the civil works were released to ZPs concerned and it was observed that the construction of these centres remained incomplete, even as of

March 2010, after incurring an expenditure of ₹62.90 lakh on them as detailed in the **Table 2.6** below:

Table 2.6: Details of establishment of SATCOM centres

Place	Estimated cost of the building	Total funds released (₹ in lakh)	Expenditure	Status (as of March 2010)
Davanagere	25.00	14.60 (2007-08)	14.60	Buildings reportedly completed. Works of electrification, sound proofing, false ceiling, ducts, etc. to be completed.
Dharwad	25.00	13.30 (2008-09)	13.30	
Mangalore	25.00	10.00 (2009-10)	10.00	Work under progress
Gulbarga	25.00	10.00 (2009-10)	NIL ²³	Work completed up to lintel level
Total		72.90	62.90	

It was observed that delay in selection of site, delay in giving feasibility report by ANSSIRD experts resulted in all the buildings remaining incomplete even after three years. This rendered the expenditure of ₹62.90 lakh unfruitful besides impairing communication/training/capacity building.

As per the progress report (December 2010) of the Project training programmes furnished by ANNSIRD, Mysore, it was observed that Indian Space Research Organisation had withdrawn the bandwidth provided, due to expiration of life period of the satellite. It was stated that the bandwidth could be provided only after the launch of a new satellite, indicating further delay in operationalisation of these SATCOM centres.

2.1.7.8 Improper/defective estimates leading to wasteful expenditure

Non-provision of basic amenities rendered the expenditure wasteful

It was stipulated in the Project guidelines that Detailed Project Report (DPR) was to be prepared for each work taken up under the Project. As per the practice adopted under Prime Ministers' Grameena Sadak Yojana, the Project Implementing Unit had to conduct a survey and prepare a comprehensive estimate prior to preparation of DPR. It was generally observed under the project that DPRs were not prepared by the GPs for any of the works taken up/executed. An expenditure of ₹85.89 lakh was incurred during the period 2007-10 on construction of community/ladies toilets in the GPs coming under seven TPs²⁴. Scrutiny of estimates sanctioned by Assistant Executive Engineer, PRE Sub-Divisions for these works revealed that the estimates did not provide for the basic and essential component of water in these toilets, resulting in the toilets not being fit to use, and not being put to use, thus rendering the expenditure of ₹85.89 lakh wasteful. It was replied by EO/TPs that such works would be avoided in future. Thus, non-preparation of comprehensive estimates and DPRs resulted in execution of faulty works based on defective estimates.

²³ payments were due to contractors for works executed (March 2010)

²⁴ TPs-Aurad, B.Bagewadi, Humnabad, Kanakapura, Sandur, Shorapur and Yadgir

2.1.7.9 Execution of ineligible works

The guidelines/agreement stipulated that the expenditure incurred towards ineligible works under the Project would not be reimbursed by the IDA. It was noticed in test-checked GPs that ineligible works costing ₹1.41 crore had been executed as narrated below:

- The C-GSP clearly instructed (October 2006) the CEO, ZP, Bagalkot not to take up/execute works of capital nature in rehabilitated villages of Upper Krishna Project. In disregard of the instructions, 73 works of capital nature costing ₹1.12 crore were executed during 2007-10 in such villages coming under five GPs of the district. Audit noticed that C-GSP approved these works included in APs in a routine manner without scrutinising them.
- Works like construction of religious buildings, community centres, marriage halls, *etc.* and assistance to private institutions were not permitted under the Project. Contrarily, 23 GPs approved action plans which included ineligible works. Inclusion of ineligible works in the APs was also not scrutinised and objected to by C-GSP. It was noticed that 30 ineligible works costing ₹28.71 lakh were executed as detailed in the **Table 2.7** below :

Table 2.7: Details of execution of ineligible works

Taluk Panchayat	Number of works executed	Expenditure (₹in lakh)	Nature of works executed
Sandur	2	2.76	Construction of quarters for teachers (2007-08)
Aurad	11	11.55	Samudaya Bhavans and marriage halls (2007-08)
Yadgir	7	7.70	Construction of quarters for GP Secretaries, repairs to community centres, <i>etc.</i> (2006-08)
Aland	10	6.70	Samudaya Bhavans and marriage halls (2007-09)
Total	30	28.71	

Thus, execution of ineligible works by GPs resulted in disallowance of the expenditure incurred and consequent non-reimbursement of loan by IDA. C-GSP stated (November 2010) that construction of quarters for teachers and GP secretaries was not barred as per the operation manual. The reply was not tenable as execution of these works does not fulfill the Project objectives.

2.1.7.10 Absence of environmental framework

The GPs were required to assess the impact of all schemes/projects on the environment and were to take measures for mitigating any adverse impact on the environment through works taken up under Grama Swaraj Project. The State Government issued separate environmental guidelines for the PRIs (November 2006). The environmental guidelines provided for appointing an Environment

Project was implemented without assessing/considering the impact on environment

Coordinator at the GP level, who was to be specially trained for assessing environmental impact and for addressing any adverse impact. However, it was noticed that the environmental guidelines issued by State Government had not been received in 38 GPs out of 45 GPs test-checked and the Environment Coordinator was not appointed in these GPs. As such, the Project was implemented in the GPs without considering/assessing the impact on environment.

2.1.8 Monitoring and impact study

2.1.8.1 The implementation of the Project was required to be monitored by the ZPs through their planning unit to:

- ensure compliance to guidelines by the GPs in the planning process;
- administer an annual survey of service delivery standard at the GP level; and
- collate the fiscal information from Panchayat accounts.

The test-checked ZPs did not furnish details of monitoring but generally replied that the details of the Project were available at GP/TP level evidencing that they failed in complying with the above provisions which led to irregularities as explained in preceding paragraphs.

At the State level, a Steering Committee was to be constituted to review and oversee the implementation of the Project. Even though the committee was constituted in December 2006 details of meetings held were not made available. Thus, the monitoring mechanism for the Project could not be ensured by Audit.

2.1.8.2 Based on the proposal of the Director, ANSSIRD, Mysore for conducting an action research towards impact of trainings imparted, the C-GSP released (May 2009) ₹20.20 lakh to the Director. However, the Director entered into an agreement (March 2011) with an agency for impact study on the effectiveness of service delivery and functioning of PRIs in GSP areas, after more than two years of its release, indicating laxity in conducting impact assessment.

2.1.9 Conclusion

The performance review of the implementation of the Project during 2006-10 revealed that grants were released to GPs without ensuring achievement of the envisaged performance indicators. The objectives of the Project were not achieved, as evidenced from the poor response of the people towards grama sabhas, non-improvement in collection of taxes, non-preparation of DPRs for works executed, failure to computerise the GPs, non-establishment of TRCs/SATCOM centres, execution of ineligible works, *etc.* Funds drawn in advance of requirement were irregularly kept outside Government account. Financial discipline was inadequate as instances of loss of interest, diversion of funds, irregular payment of funds to contractors, *etc.* were noticed. Impact study on the effectiveness of service delivery in project areas is yet to be conducted.

2.1.10 Recommendations

- The State Government should conduct an evaluation study to assess the performance and impact of the Project.
- The State Government should devise a plan for effective capacity building of all PRI functionaries and officials.
- The State Government should take adequate steps for effective functioning of grama sabhas.

2.2 Implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga

Executive Summary

The declared objectives in setting up Panchayat Raj Institutions are decentralisation of powers and functions to promote democratic institutions and secure greater participation by the people in local and Government affairs. With the formation of Panchayat Raj Institutions, substantial functions of the State Government have been transferred to them. Zilla Panchayat, Chitradurga was implementing various developmental activities through Taluk/Grama Panchayats, line departments and Engineering Division. A review on implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga during 2005-10 revealed that the Annual District Development Plans finalised by District Planning Committee were framed in a routine manner without visualising an overall plan for the district development. The lack of financial discipline and financial control resulted in irregular drawal of funds on self cheques, deposit of ₹8.70 crore outside Government account, besides lapse of grants of ₹88.92 lakh. Operational controls were inadequate as evidenced from denial of safe drinking water facility to rural habitations, non-distribution of school books and bags to Scheduled Caste/Scheduled Tribe children on time, incomplete stadia for more than a decade and non-functioning of trauma care centres. Critical health services were affected in the absence of essential staff in health centres. The monitoring and internal control mechanism was not effective due to inadequacy in coverage of internal audit as well as external audit and non-submission of periodical returns by lower tiers of Panchayat Raj Institutions.

2.2.1 Introduction

Chitradurga district is situated in the middle eastern part of the State of Karnataka having a geographical area of 8,440 square kilometers with a population of 15.18 lakh as per 2001 census, of which the rural population constituted 12.44 lakh (82 *per cent*). The population comprised of 3.36 lakh (22 *per cent*) belonging to Scheduled Castes (SC) and 2.66 lakh (18 *per cent*) belonging to Scheduled Tribes (ST). The district ranks number 16 in human development index and 14 in gender development index amongst 30 districts of Karnataka State. It has a literacy rate of 65 *per cent* as against the average rate of 67 *per cent* in the State.

2.2.2 Organisational set-up

Zilla Panchayat (ZP), Chitradurga consists of six Taluk Panchayats (TPs) and 185 Grama Panchayats (GPs) in the district. ZP is obligated to carry out measures to promote health, safety, education, comfort, social, economic and cultural well-being of the inhabitants of the district. ZP, Chitradurga, headed by Adyaksha and assisted by Upadyaksha and a team of 34 ZP elected members, MLAs, MLCs and MPs who are ex-officio members of ZP, take decisions regarding financial, social

and developmental matters of the district. Panchayat Raj Institutions (PRIs) perform their functions through their Standing Committees constituted for the purpose as detailed in **Appendix 1.1** to Chapter-I of the Report.

The Chief Executive Officer (CEO), ZP monitors the developmental activities and schemes implemented by PRIs and through line departments. The CEO, ZP is responsible for reporting the progress of activities of PRIs and line departments to the State level officers of the concerned departments. Organisational structure of state/district level officers under PRIs and line departments test-checked are indicated in **Table 2.8** below:

Table 2.8: Organisational chart of PRIs and selected line departments

PRIs/Department	State level	ZP level	TP level	GP Level
ZP/ TPs/GPs and Panchayat Raj Engineering Division (PRED)	Principal Secretary, Rural Development and Panchayat Raj (RDPR) Department, assisted by Directors-Panchayat Raj, Rural Infrastructure, Self Employment programme (SEP), etc.	CEO assisted by Deputy Secretary, Chief Planning Officer (CPO), Chief Accounts Officer (CAO) and Standing Committees. Executive Engineer (EE) assisted by Assistant Executive Engineer (AEE) in PRED	Executive Officer (EO) assisted by Standing Committees	GP Secretary/ Panchayat Development Officer assisted by Standing Committees
Health and Family Welfare	Commissioner, Health & Family Welfare Services (H&FWS)	District Health & Family Welfare Officer(DH&FWO)	Taluk Health Officer	-
Education	Commissioner for Public Instructions (CPI)	Deputy Director of Public Instructions (DDPI)	Block Education Officers (BEOs)	-
Social Welfare	Commissioner, Social Welfare	District Social Welfare Officer (DSWO)	Taluk Social Welfare Officer (TSWO)	-
Youth Services and Sports	Commissioner, Youth Services & Sports (YSS)	Assistant Director (AD), YSS	-	-
Commerce & Industries (Khadi & Village Industries)	Commissioner for Industrial Development and Director of Industries & Commerce	Deputy Director (DD), Rural Industries Division	Industrial Extension Officer	-

Note: The taluk/district level officers of line departments report to EO, TPs/CEO, ZP respectively. The district level officers also report to the Heads of Administrative Department directly.

2.2.3 Scope of audit and methodology

The performance appraisal on implementation of developmental programmes in selected departments of ZP, Chitradurga was conducted (February to August 2010) by test-check of records of ZP, two TPs²⁵, 15 GPs²⁶, PRED and five line departments²⁷. The methodology for selection of ZP was based on judgemental sampling. TPs and GPs were selected based on monetary unit and simple random sampling methods, respectively.

²⁵ Challakere and Hiriyur

²⁶ Doddadallurthi, Dodderi, Hirehalli, Mylanahalli, Nagaramgere, Nannivala, Nayakanahatti, Pagadalabande, Renukapura and Thimmappainahalli in Challakere taluk; Adivala, Aimangla, Burujinaroppa, Eshwaragere and Maskal in Hiriyur taluk

²⁷ Education, Health and Family Welfare, Commerce and Industries (Khadi & Village Industries), Social Welfare and Youth Services and Sports Departments.

The Entry Conference of the performance review was held during March 2010 and the objectives of the review were discussed with the Principal Secretary, RDPR Department. The Exit Conference was held during August 2010 with the CEO, ZP who generally accepted the audit observations.

2.2.4 Audit objectives

The audit objectives of the review were to assess whether:

- the decentralised planning process was effective;
- financial discipline and financial control existed in PRIs and selected line departments;
- the operational controls exercised by PRED/line departments/external agencies in implementation of developmental activities were adequate;
- the human resources for prompt service delivery to the rural population were ensured and the material management was effective; and
- the monitoring mechanism and internal control were in place.

2.2.5 Audit criteria

The Audit criteria adopted for the review were:

- The Karnataka Panchayat Raj (KPR) Act, 1993 and instructions issued by State Government from time to time;
- Karnataka Transparency in Public Procurements (KTPP) Act and Rules, Karnataka Financial Code (KFC) and the Manual of Contingent Expenditure (MCE);
- Guidelines/orders issued by Government of India (GOI) and State Government for implementation of schemes; and
- Project proposals and Detailed Project Reports for developmental works.

Audit findings

The audit findings observed during the course of review are detailed below:

2.2.6 Decentralised planning and planning process

2.2.6.1 District Planning Committee

The KPR Act made it mandatory for the State to constitute a District Planning Committee (DPC) in each district with a responsibility to prepare draft development plans having regard to the matters of common interest between PRIs and Urban Local Bodies (ULBs) including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation, *etc.* The DPC shall consolidate the plans prepared by the PRIs, ULBs and prepare the draft development plans for the

district as a whole. DPC could recommend alterations in the draft plans prepared by the PRIs before finalising the development plan.

2.2.6.2 The State Government constituted (April 2001) the DPC in the district and the committee was to meet once in a quarter. As against 20 meetings to be held during the period 2005-10, the committee met only six times (once during 2007-08, twice in 2008-09 and thrice in 2009-10).

2.2.6.3 KPR Act envisaged forwardal of the plan proposals of GPs to TPs and after consolidation at TPs, the plan proposals were to be forwarded to ZP by 15 August every year for inclusion in their draft plan. It was, however, noticed that the GPs and TPs did not forward their plan proposals for consolidation. KPR Act and Rules did not specify any action to be taken on lower tiers of PRIs for non-forwardal of plan proposals. The CEO, ZP failed to monitor receipt of plan proposals from lower tiers of PRIs leading to non-preparation of draft plans comprehensively.

Audit examination of the district planning in general and Annual District Development Plan (ADDP) for the year 2009-10 in particular has revealed the following:

ADDP prepared was not holistic and contained deficiencies

- the DPC did not forward the ADDPs to the State Government for integration with the State Plan.
- the DPC finalised the ADDP by merely consolidating the plan proposals received from the line departments without visualising a plan for district development.
- the ADDP was not comprehensive as it did not include the developmental activities/schemes of certain line departments²⁸. The Chief Planning Officer (CPO), while admitting (January 2011) the lapse, agreed to include these from the ensuing year.
- the ADDP did not contain the plan proposals of flagship programmes such as Sarva Shiksha Abhiyan, National Rural Health Mission, *etc.*
- the CPO did not consider the data base of all natural and human resources and facilities available in the district, for planning.
- the ADDP did not exhibit sector-wise targets. As a result, sector-wise development plans could not be ensured by Audit. CPO replied (January 2011) that this aspect would be considered during ensuing years.
- Under Rashtriya Sama Vikas Yojana (RSVY), the CEO, ZP was required to prepare a three year master plan nested with Annual Action Plans (AAPs) of PRIs/line departments. It was, however, noticed that no master plan was prepared and the micro action plans were prepared in a routine manner. CEO, ZP did not take up the works approved in the RSVY micro action plans during 2004-07, defeating the sanctity of AAPs. This

²⁸ Housing (₹13.86 crore), Roads and Bridges (₹3.15 crore), Development grants of TPs/GPs (₹11.30 crore), Nutrition (₹4.25 crore), *etc.*

was also not monitored at the State level by the Chief Secretary to the State Government.

- DPC finalised the action plans for Backward Region Grant Fund (BRGF) during 2008-09 which provided for purchase of computers and peripherals worth ₹1.78 crore. CEO, ZP, however, did not apprise the DPC about the computers and peripherals already available in GPs, rendering the expenditure avoidable.

In the absence of the above requirements, the ADDP prepared was not holistic and contained deficiencies.

2.2.6.4 The State Government constituted the DPC Fund with contributions from PRIs and ULBs of the district. The Fund was to be utilised for payment of sitting fees to members, commissioning of studies, improvement in planning and to explore the planning avenues with the help of experts in different fields, *etc.* Audit observed that the DPC neither commissioned any studies nor engaged experts in improving the district planning. Instead, an expenditure of ₹4.06 lakh was incurred for activities²⁹ other than for DPC.

2.2.6.5 State Panchayat Council

KPR Act provided for the State Government to constitute a State Panchayat Council to discuss matters relating to functioning of the Panchayats and to act as a forum for elected representatives to voice their aspirations and offer their suggestions to improve the Panchayat Raj system and make it responsive to the peoples' needs. The Council was constituted under the Chairmanship of the Chief Minister and nominated ministers and all Adhyakshas of ZPs as members. The Council would meet at least twice a year. Though the Council was constituted during 1999, it met only once during October 2006 when it suggested the formation of a planning section in all taluks for effective planning to meet the grass root level needs. The suggestion was, however, not heeded to and no action has been taken to constitute such a planning cell by the State Government (January 2011).

2.2.7 Financial Management

Fund Position

The ZP receives funds by way of State grants and GOI grants based on the recommendations of Finance Commissions. State grants/GOI grants routed through treasury are drawn by the Drawing and Disbursing Officers (DDOs) by presenting bills to treasury and funds for Centrally Sponsored Schemes (CSS)/Central Plan Schemes (CPS) routed through banks are drawn by the implementing officers from the respective banks.

²⁹ purchase of library books to GPs, sports meets, donation to mutts, honouring eminent personalities, *etc.*

The details of receipts and application of funds sector-wise in the ZP during 2005-10 were as detailed in **Table 2.9** below:

Table 2.9: Statement showing receipts and expenditure of ZP during 2005-10
(₹ in crore)

Receipts and Expenditure for the years 2005-06 to 2009-10								
Receipts					Expenditure			
Year	State/GOI Grants routed through treasury	Schemes including CSS/CPS routed through banks	Other Receipts#	Total	General services	Social services	Economic services	Total
2005-06	129.45	77.91	0.68	208.04	3.39	94.12	84.73	182.24
2006-07	127.49	129.97	1.00	258.46	3.81	89.53	142.66	236.00
2007-08	128.78	109.04	2.23	240.05	3.81	102.33	108.47	214.61
2008-09	165.90	95.35	3.11	264.36	4.31	119.17	126.80	250.28
2009-10	159.72	148.79	2.76	311.27	3.58	145.59	155.71	304.88
Total	711.34	561.06	9.78	1,282.18	18.90	550.74	618.37	1,188.01

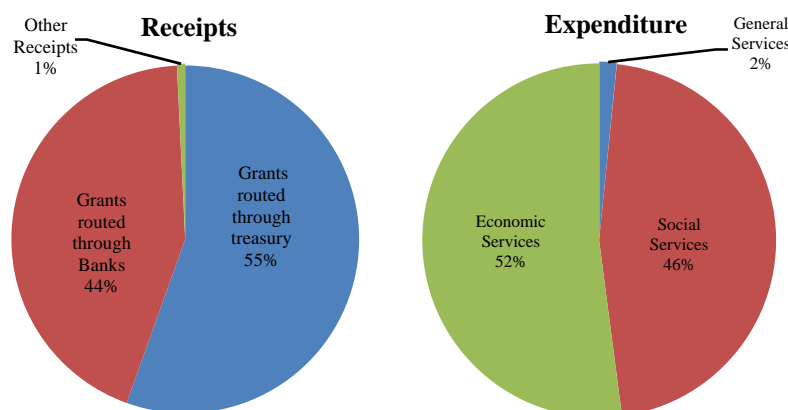
Source: Certified annual accounts of Chitradurga for 2005-06 to 2008-09 and un-audited annual accounts for 2009-10

Note: Receipts and expenditure include funds released to implementing agencies of PRIs except direct transfer of State/GOI funds

includes interest received from banks on schemes funds, etc.

There was steady increase in receipt and expenditure over the years 2005-06 to 2009-10. The sector-wise expenditure also showed an increasing trend especially under medical and public health and welfare of SC/ST/Other Backward Classes.

Pie Chart showing receipts and expenditure during 2005-10 of ZP, Chitradurga



Financial discipline and controls

Control over budget and expenditure is essential for optimum utilisation of available resources to achieve the objectives of the schemes/developmental works. Financial controls include control over cash flow and utilisation of funds released. Implementing agencies, having custody of funds, were to observe financial discipline as per the codal provisions. The CEO, ZP was to monitor the flow of funds. The State Government was to ensure overall financial control and availability of funds for sustainability of the schemes/projects. Financial

irregularities observed by Audit and laxity in financial control by monitoring authorities are detailed in subsequent paragraphs.

2.2.7.1 Panchayat Raj Institutions

- **Loss of Central Assistance**

The Principal Secretary/Director, SEP, RDPR Department was responsible for overall monitoring of the financial progress of Swarna Jayanthi Gram Swarozgar Yojana (SGSY) at the State level. Due to failure in utilising the available funds, non-submission of Utilisation Certificates (UCs) on time, non-monitoring of the financial progress by CEO, ZP and short release of state share by the State Government; the ZP, Chitradurga lost central assistance of ₹49.53 lakh under SGSY during 2006-09.

Loss of assistance due to non-monitoring of the financial progress by CEO, ZP and the Director, SEP led to denial of subsidy to the Self Help Groups to avail the benefits of SGSY.

- **Short recovery of general tax revenue and water charges**

Shortfall in recovery of tax revenue and water charges

The provisions of KPR Act empower the GP to levy and collect tax to augment their resources and to fix, revise and collect water charges to meet the operation and maintenance cost of the water supply schemes. In the event of default, the secretaries of GPs may recover the amount due along with a penalty of 10 *per cent* of the sum due, by distraint and sale of the moveable property of the defaulter. The CEO, ZP was to monitor the revenue collection of GPs and suggest corrective measures to improve collection. It was noticed in ZP, Chitradurga that as of March 2010, an amount of ₹16.19 crore (progressive balance) towards general tax revenue and ₹3.67 crore towards water charges were pending recovery.

The shortfall in recovery of dues showed an increasing trend during the period 2005-10 ranging from 72 to 85 *per cent* (general tax) and 47 to 85 *per cent* (water charges). Audit observed that no recovery proceedings were initiated by the GP Secretaries on the defaulters of tax revenue and water charges.

The CEO, ZP failed to initiate concrete measures to improve the collection despite submission of periodical returns on demand and collection by GPs. Thus, the failure of CEO, ZP to monitor the revenue collection and laxity of GP authorities in revenue collection led to inadequate generation of funds for developmental activities and maintenance of water supply system. The CEO, ZP replied (April 2010) that all the GPs would be directed to collect the balance tax and water supply charges.

- **Non-remittance of cess**

As per the instructions of State Government, a cess towards education, health and library aggregating 31 *per cent* of the total tax collection of the GPs had to be remitted to State Government. The secretaries of GPs were to comply with the instructions and the CEO, ZP was required to watch deductions of cess and consequent remittance to the State exchequer. It was observed that there is no

mechanism prevailing in the State to watch the remittance of the cess deducted. It was noticed that ₹4.60 crore out of ₹14.83 crore collected towards cess for the period from 2005-06 to 2009-10 was not remitted to the Government account.

Non-remittance of this amount to the State exchequer defeated the purpose³⁰ for which these collections were made.

- ***Non-preparation of Budget Estimates***

The exercise of budget preparation gives an opportunity to review the trend of expenditure and project the budget estimates realistically. The KPR Rules stipulate that GPs and TPs were to prepare their budget in three parts viz., Revenue, Capital and Debt & Deposit Account and forward it to ZP for approval before 25 March of every year. It was, however, noticed in the test-checked TPs and GPs that budget estimates were not prepared and submitted for approval during the period under review. CEO, ZP also failed to ensure receipt of budget estimates for approval from the lower tiers of PRIs. Instead, action plans were prepared in a routine manner based on allocation made to the TPs and GPs resulting in non-projection of actual requirements of the rural population.

- ***Drawal of funds on self cheques***

Codal provisions prohibit drawal of funds on self cheques. GP secretaries drew an amount of ₹15.51 lakh on self cheques as detailed in **Appendix 2.3** from various SB accounts during 2005-06 to 2009-10 towards purchase of electrical items, materials for water supply repair works and petty payments. In the absence of supporting vouchers/records, Audit could not vouchsafe the transactions. Despite codal provisions and instructions of the State Government and external audit, the procedure of drawal of self cheques is in practice and fraught with the risk of misuse.

- ***Financial irregularities under Twelfth Finance Commission (TFC) grants***

The State Government sanctioned (August 2009) construction of 538 kitchen-cum-store rooms at an estimated cost of ₹3.23 crore out of TFC grants under ZP, Chitradurga. Accordingly, CEO, ZP released (October 2009) a sum of ₹1.41 crore³¹ towards construction of kitchen-cum-store rooms in 235 schools. In turn, the EOs were to release the funds to School Development Management Committees (SDMCs) and the works were to be completed by June 2010. CEO, ZP at district level and the Secretary, RDPR Department at the State level were to monitor the utilisation of funds. Scrutiny of records revealed the following:

(a) ***Excess release to SDMCs***

EOs released (March 2010) double the grant prescribed to 43 SDMCs and as a result only 192 schools were benefitted. On being pointed out, EO, TP, Hiriya (July 2010) that excess grants were released based on the oral instructions

³⁰ providing adequate health services, education and improving facilities in libraries

³¹ ₹58.20 lakh to EO, TP, Hiriya and ₹82.80 lakh to EO, TP, Challakere @ ₹ 0.60 lakh for each school

of BEO and President of TP. Thus, the action of EO, TP was without the approval of CEO, ZP who also did not monitor the progress reports, which resulted in certain schools being deprived of the grant.

(b) Blocking of funds

Blocking up of funds denied benefits to needy schools

Construction of kitchen-cum-store room entrusted by EO, TP had not been commenced by SDMCs as of July 2010 in 18 schools of Challakere taluk. Funds amounting to ₹12 lakh were blocked in bank accounts of SDMCs of such schools, depriving students of the benefit of this facility.

2.2.7.2 Panchayat Raj Engineering Division

• **Lapse of grants**

To avoid lapse of grants CEO, ZP was to monitor the cumulative progress of expenditure under each head of account from the progress reports and classified abstracts submitted by EE, PRED. It was noticed that out of a total grant of ₹12.98 crore released by CEO, ZP to EE, PRED during 2007-08 to 2009-10 towards implementation of plan programmes, an amount of ₹88.92 lakh lapsed due to non/under utilisation as detailed in **Table 2.10** below:

Table 2.10: Statement showing lapse of grants

(₹ in lakh)

Year	Scheme	Head of Account	Grants received	Expenditure incurred	Lapsed amount
2007-08	Infrastructure Development programme for ST	2225-02-794-0-01	35.00	27.61	7.39
2008-09	Chief Ministers Grameena Sadak Yojana (CMGSY)	3054-80-196-1-02	888.23	838.56	49.67
	Minor Irrigation, New Supplies	2702-80-052-1-01	2.75	Nil	2.75
2009-10	CMGSY	3054-80-196-1-02	372.00	342.89	29.11
Total			1,297.98	1,209.06	88.92

Source: Grant and outlay register of PRED

On being pointed out by Audit (January 2011), the EE, PRED stated that due to technical problems in treasury and delay in submission of bills by contractors, the funds were lapsed to Government Account. The fact, however, remained that it affected execution of new works to that extent during the subsequent years.

• **Irregular drawal of funds**

Irregular drawal of funds to avoid lapse of grants

MCE stipulates that no money shall be drawn from treasury unless it becomes due for payment. The State Government also issued instructions (January 2007) to PRED not to draw funds from the treasury in anticipation of expenditure and deposit them in bank accounts. Funds for developmental activities had to be drawn on Detailed Contingent bills from the treasury. It was noticed that during March 2010, funds aggregating ₹8.70 crore were drawn by EE, PRED on payees' receipts in respect of different schemes/developmental works as detailed in **Appendix 2.4** and deposited in SB accounts. As of July 2010 an amount of ₹3.86 crore was still lying in these accounts. EE, PRED replied (April 2010) that CEO, ZP had instructed (March 2010) the PRED to draw unutilised funds on payees'

receipts to avoid the lapse of grants. This was in violation of codal provisions and instructions of the State Government, indicating lack of expenditure controls.

2.2.7.3 Social Welfare Department

- **Accumulated balance in bank accounts**

Grants received by DSWO during 2001-09 for two schemes³² amounting to ₹69.13 lakh remained unutilised even as of July 2010 in the SB account³³. These amounts were lying unutilised for almost 10 years and there was no system for review by the controlling authorities.

2.2.8 Operational Controls

Operational Controls are exercised to regulate implementation of schemes/developmental activities by PRIs and line departments according to the stipulated guidelines/instructions/best practices, etc. Deviations by the implementing agencies and failure to exercise necessary checks by the monitoring authorities led to non-achievement of the envisaged objectives. Audit observed the following lapses in operational controls:

2.2.8.1 Panchayat Raj Engineering Division

- **Non-provision for source sustainability measures**

Failure to provide source sustainability measures to recharge ground water bore wells

CEOs of ZPs approve the AAPs under Accelerated Rural Water Supply Programme (ARWSP) and submit them to the State Government for consolidation. The consolidated AAP approved by the State Government is forwarded to GOI for allocating funds under ARWSP.

ARWSP guidelines provided for utilisation of 20 per cent of the earmarked funds for tackling water quality and source sustainability issues. Scrutiny of AAPs approved by CEO, ZP disclosed that there was no provision for source sustainability measures such as check dams, percolation chamber etc. near the source to facilitate ground water recharge. Audit observed that during the period 2005-10, there were 203 non-working ground water bore wells in the district. Thus, non-provision of source sustainability measures in AAPs by CEO, ZP and non-monitoring the inclusion of such measures in the consolidated AAPs by the State Government resulted in failure to address the issue of recharging ground water borewells.

- **Multi Village Water Supply Scheme**

The State Government administratively approved (March 2008) the work of Water Supply Scheme to Revalkunte and 26 villages in Molkalmuru taluk, under the Sub-mission programme. The Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore was to ensure alignment/availability of land before according technical sanction. The estimate for ₹9.02 crore was technically sanctioned (March 2008) and the work was entrusted (June 2008) to a contractor with the stipulation to complete it within April 2009. After incurring

³² compensation to victims of atrocities and facilities to SC colonies

³³ S.B. Account No.54012616107 of State Bank of Mysore, Chitradurga

an expenditure of ₹8.56 crore as of March 2010, further progress could not be made due to non-obtaining of permission from the Railway authorities for the water supply line to cross under the railway track. The EE, PRED, Chitradurga sought this permission in July 2010 only after being pointed out by Audit (April 2010) and the permission is yet to be obtained (January 2011). Laxity on the part of the EE, PRED to get the requisite permission and CE, PRE Department in according technical sanction routinely resulted in delay in completion. Also, non-monitoring of work by CEO, ZP and Principal Secretary, RDPR Department led to denial of safe drinking water to four villages for almost two years.

2.2.8.2 Education Department

- ***Unfruitful expenditure on a school building***

The CEO, ZP, Chitradurga administratively approved (January 2008) the work of construction of five class rooms in Government Girls' High School, Molkalmuru at an estimated cost of ₹23 lakh. The work was entrusted (February 2008) to Nirmithi Kendra (agency) for which an amount of ₹20 lakh was released (March 2008). The site for construction of school was already identified and made available by the Town Municipality, Molkalmuru to the Department during 1985 itself.



Incomplete work of Government Girl's High School, Molkalmuru

Due to objection from local people, the agency could not commence the work. A writ petition was filed (November 2008) by the public and the Hon'ble High Court of Karnataka directed (December 2008) the appropriate authority (DDPI) to consider the representation of the public and pass orders within eight weeks. The DDPI, however, did not take appropriate action in the matter for almost two years. The petitioners represented (March 2010) in the Hon'ble High Court of Karnataka for contempt of court. Soon after, the DDPI intimated (June 2010) its inability to allow the entire vacant land for public purpose. Meanwhile, the agency started construction of class rooms and completed the work up to the foundation level incurring an expenditure of ₹five lakh (July 2010). The petitioners obtained a stay order (July 2010) restraining the DDPI from construction of the school building. Thus, laxity on the part of the DDPI to take appropriate action on time and non-monitoring the progress of work by CEO, ZP led to unfruitful

expenditure of ₹five lakh and deprivation of the facility of five additional class rooms to the students.

- **Delay in distribution of note books and school bags**

Non-distribution of books, bags etc. to school children on time resulted in deprivation of minimum facilities to SC/ST students

The State Government accorded sanction (April 2007) under Vidya Vikasa Yojane (Scheme) for purchase and distribution of school bags and note books to SC/ST students studying in V to VIII standard during the academic year 2007-08. Accordingly, the CPI, Bangalore released (May 2007) ₹65.24 lakh to DDPI, Chitradurga with a condition that the distribution of books, bags etc. was to be completed before August 2007. A three-member committee under the Chairmanship of CEO, ZP was to be constituted to oversee the purchase and distribution. However, the DDPI, Chitradurga called for tenders (August 2007) after three months of fund release and the supply orders were placed during December 2007. While the note books (2.85 lakh) were supplied during December 2007, the school bags (26,183) were supplied during January 2008.

Similarly, the DDPI procured geometry boxes for the year 2007-08 during March 2008 and supplied to the SC/ST students during May/June 2008 after the academic year. The DDPI replied (May 2010) that the CEO, ZP delayed in giving permission to call for tenders and assured that such irregularities would be avoided in future. Thus, abnormal delay in finalisation of tenders by the DDPI and failure in monitoring by the committee deprived SC/ST students of these necessary items at the appropriate time.

2.2.8.3 Youth Services and Sports Department

Idle investment on four³⁴ incomplete stadia in Chitradurga district due to non-provision of sufficient funds was brought out in the Comptroller and Auditor General of India (CAG's) Audit Report (ZPs) for the year ended 2003. The State Government replied (November 2008) that the incomplete stadia would be completed by obtaining grants under TFC. During the course of review, Audit analysed the follow-up action taken on two incomplete stadia and observed that administrative sanction was accorded without ensuring provision of funds and there was deficiency in monitoring at all levels as detailed below:

- **Sports Stadium at Holalkere taluk**

Insufficient fund release and inadequate monitoring led to incomplete stadia despite incurring ₹82.14 lakh

The construction of work of the Sports stadium was commenced during October 1994 by Karnataka Land Army Corporation (KLAC). Due to non-release of funds by CEO, ZP during 2000-01 to 2005-06, KLAC revised the estimate (December 2006) to ₹21 lakh for the balance work which was administratively approved by the State Government during December 2006. The progress of work was to be inspected by the Taluk Level Stadium Committee (TLSC) and reported to the Commissioner, YSS Department, Bangalore. In the meantime, a dispute arose (June 2007) regarding the title of the land identified for the construction and the claimant obtained (June 2008) a stay order from the court. As of June 2008, a total expenditure of ₹28.60 lakh was incurred. Audit observed that even though the land to the extent of six acres had been transferred (April 1994) to the

³⁴ Challakere, Hiriya, Holalkere and Hosadurga

Department as per Mutation Register of Revenue Department, the AD had failed to initiate action to get the stay vacated in time. In reply to an enquiry, the AD stated (January 2011) that the President, TLSC had been orally instructed to get the stay vacated. This lackadaisical attitude of the AD and Stadium Committee and absence of monitoring by the Commissioner, YSS, Bangalore resulted in the stadium remaining incomplete even after 16 years of its commencement.

• **Sports stadium at Hosadurga**

The construction of a stadium at Hosadurga was sanctioned during January 1996 and the work was commenced by KLAC during January 1997. As against the estimated cost of ₹26.90 lakh, the CEO, ZP had released a sum of ₹14 lakh till 2000-01. Subsequently, funds were not released till 2005-06. In the meantime, KLAC revised (December 2006) the estimate to ₹46.41 lakh for the balance work. Accordingly, CEO, ZP released ₹41.41 lakh during 2006-07 and as of January 2010, KLAC incurred an expenditure of ₹53.54 lakh but the compound wall, gallery and field track were still not completed. On an enquiry by Audit (January 2011) on the incomplete stadium, KLAC replied that since provision of a synthetic track is being considered, the work remained incomplete. Thus, due to improper monitoring of the work by AD, TLSC, and also by the Commissioner, YSS, Bangalore at State level, the stadium remained incomplete even after 14 years of its sanction.

2.2.8.4 Health and Family Welfare Department

• **Non-adherence to norms in establishment of PHCs, CHCs and Sub-centres**

According to the norms of the Department, each Sub-centre, Primary Health Centre (PHC) and Community Health Centre (CHC) was to cater to 5,000, 30,000 and 1.20 lakh population respectively. Out of every four such PHCs, one was to be upgraded as a CHC; the first referral hospital having specialised medical facilities. The DH&FWO proposes to the Commissioner, H&FWS, Bangalore for establishment of health centres based on the population norms. The position of existence of Sub-centres, PHCs and CHCs in the taluks of the district as of March 2010 was as shown in **Table 2.11** below:

Table 2.11: Position of establishment of CHCs, PHCs & Sub-centres

Sl. No.	Name of the taluk	Total rural population as of March 2010	No. of centres to be established			Actually established			Shortfall (-)/excess (+) (percentage)		
			Sub centres	PHC	CHC	Sub centres	PHC	CHC	Sub centres	PHC	CHC
1	Challakere	3,66,589	73	12	3	51	13	2	(-) 22 (30)	(+) 1 (8)	(-) 1 (33)
2	Chitradurga	4,72,977	94	16	4	44	16	2	(-) 50 (53)	-	(-) 2 (50)
3	Hiriyur	2,94,274	59	10	3	52	19	2	(-) 7 (12)	(+) 9 (90)	(-) 1 (33)
4	Holalkere	2,14,841	43	7	2	40	13	1	(-) 3 (7)	(+) 6 (86)	(-) 1 (50)
5	Hosadurga	2,39,307	48	8	2	40	9	3	(-) 8 (17)	(+) 1 (13)	(+) 1 (50)
6	Molkalmuru	1,44,506	29	5	1	16	5	1	(-) 13 (45)	-	-
	Total	17,32,494	346	58	15	243	75	11	(-) 103 (-) 30)	(+) 17 ((+) 29)	(-) 4 (-) 27)

Source: As furnished by DH&FWO

Minimum health facilities were denied to rural people due to shortfall in establishment of health Sub-centres

As against the requirement of 346 Sub-centres and 15 CHCs there were only 243 Sub-centres and 11 CHCs. As against the requirement of 58 PHCs there were 75 PHCs in violation to the norms of the Department. The DH&FWO and the Commissioner, H&FWS, Bangalore did not review the position of availability of health centres in the district periodically so as to ensure proper health care facilities to the rural population.

- ***Idle investment on construction of trauma care centres***

Non-establishment of trauma care centres led to denial of emergency care to accident victims

The State Government approved (October 2006) construction of 11 trauma care centres (in three taluk general hospitals³⁵ and eight CHCs³⁶) under the control of ZP for emergency treatment to accident victims and entrusted to Karnataka Health System Development and Reform Project³⁷ (KHSDRP). However, they did not consider the staff required for the operation of these trauma care centres at the time of approval. Each trauma care centre was estimated at ₹25 lakh and funds were released to KHSDRP under TFC. On completion of construction, after incurring an expenditure of ₹2.73 crore (December 2007 to September 2009), these trauma care centres were handed over to Administrative Medical Officers of respective taluk general hospitals/CHCs.

Audit scrutiny revealed that all the trauma care centres were not functioning due to non-appointment of required staff. Based on the orders of the Commissioner, H&FWS, Bangalore, the DH&FWO instructed (December 2009) the taluk general hospitals and CHCs to convert the building to 20 bedded wards. This has also not been done. Thus, the buildings constructed neither catered to trauma cases nor to general health care needs. The State Government also did not monitor working of these trauma care centres after its completion. As a result, 2,036 cases were referred to other hospitals (during January 2009 to December 2010) for providing immediate care to accident victims. Failure of the State Government to provide for required staff prevented the trauma care centres from functioning and deprived the accident victims of immediate and timely medical aid.

2.2.8.5 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

Audit reviewed the performance of the MGNREGA Scheme in Chitradurga district and brought out comments in the Audit Report (PRIs) for the year ended March 2007. Follow-up by Audit revealed that the irregularities still persisted as detailed in subsequent paragraphs.

³⁵ Challakere, Holalkere and Hosadurga

³⁶ B.Durga, Bharamsagara, Dharmapura, K.K.Pura, Maradihalli, Nayakanahatti, Parasurampura and Sirigere

³⁷ an agency of State Government for providing infrastructure under health sector

Only three per cent of the registered households were provided 100 days of employment

- **Provision of employment**

The guidelines stipulated provision of 100 days of wage employment on demand, in a financial year to each of the registered households. The rural households were to register with the GPs concerned for issue of job card. Every adult member of a registered household whose name appeared in the job card was entitled to apply for unskilled manual work under the Scheme. It was observed in audit that as against 1.58 lakh households provided employment, the envisaged 100 days of employment was provided to only three per cent households. The job cards were not issued in respect of 502 households though applied for, thus denying benefits to the rural labourers under the Scheme.

- **Unemployment allowance not paid**

Employment was to be provided to every registered household within 15 days of demand. The labourers were entitled for unemployment allowance at the rates prescribed in the guidelines if employment was not provided within the specified time limit. As per Progress Report submitted to GOI for 2009-10, no unemployment allowance was paid to the registered labourers during the year, though due for 3,141 days.

- **Social Audit**

Absence of public vigilance due to non-conducting of Social Audit

An innovative feature of the Scheme was that it provided a pivotal role to Social Audit, a public assembly where all the details of the Scheme were scrutinised as a means of continuous public vigilance. The Programme Officers were required to convene the Social Audit at the grama sabhas. It was, however, noticed that Social Audit of the Scheme had not been conducted during 2006-07 to 2009-10, indicating absence of public vigilance and accountability.

2.2.9 Human resources and material management

Human resources

Adequate and efficient human resources play a major role in successful implementation of schemes and developmental works in a department. Scrutiny of manpower management in two test-checked line departments revealed the following deficiencies:

2.2.9.1 Health and Family Welfare Department

- **Non functioning of life saving/life care units**

Based on the proposals/requirements made by DH&FWO duly recommended by the CEO, ZP, the State Government was to recruit doctors/para-medical staff, etc. and post them to needy places. Audit observed that neither DH&FWO nor the Health Committee of ZP made any effort to assess the manpower requirements. Consequently, life saving/life care units such as operation theatre, X-ray unit,

laboratory and ophthalmic unit were not functioning in taluk general hospitals/CHCs as shown in **Table 2.12** below:

Table 2.12: Statement showing details of life saving/life care units

Sl.No.	Name of the life care unit	Name of CHCs/General Hospitals (GH)	Reasons for non-functioning
1	Operation theatre	Molkalmuru GH, Rampura CHC, Belagur CHC, Parashurampura CHC, Nayakanahatti CHC, Sriramapura CHC, K.K.Pura CHC, B.Durga CHC	No specialist surgeons to conduct operation, lack of equipments and shortage of staff
2	Dental unit	Molkalmuru GH	
3	X-ray unit	Rampura CHC, Belagur CHC, Sriramapura CHC, K.K.Pura CHC, B.Durga CHC	
4	Ophthalmic unit	Parashurampura CHC, Nayakanahatti CHC, Sriramapura CHC, B.Durga CHC	
5	Laboratory	Rampura CHC, Belagur CHC	

Source: As furnished by the Department

It was observed that these units were not functioning since 2005-06 due to shortage of specialised staff and lack of basic facilities. Adequate action taken by the DH&FWO to get the posts sanctioned was not forthcoming from the records made available to audit. Health Committee of ZP also did not deliberate the issue of posting of essential staff to these CHCs. Due to non-functioning of these life saving/life care units, critical health services were denied to the rural population.

- **Overall shortage of staff**

During 2005-06 to 2009-10, the percentage of shortfall in general doctors ranged from 16 to 23 whereas in respect of specialists it ranged from 36 to 52. While the percentage vacancy in respect of staff nurses varied between 7 and 28, it was 23 to 27 in respect of health assistants, who were to create health awareness among the rural population and were instrumental in preventive/curative services. Further, it was observed that only 27 out of 75 PHCs were functioning round the clock due to non-availability of residential doctors. Audit scrutiny revealed that even though the Education and Health Standing Committee of ZP met 14 times during 2006-10, shortfall and filling up of posts in health sector was not deliberated upon and no suitable instructions were issued to the concerned authorities for filling up of vacant posts.

2.2.9.2 Commerce and Industries Department

A paragraph on non-functioning of the Artisan Training Institutes (ATIs) had appeared in the CAG's Audit Report (PRIs) 2007. Audit reviewed the action taken on the observation of ATI, Chitradurga and observed as follows:

- **Nugatory expenditure and idle equipments**

On a review of records it was observed that the Institute had imparted training for 15 students (2005-06 for five and 2006-07 for 10) as against the target of 60 students during 2005-07. No training was imparted by the Institute thereafter though it incurred an expenditure of ₹41.81 lakh during 2007-10 towards salary of the staff and office expenses. The State Government replied (June 2010) that since funds were not allotted to ATIs for training programmes, no training to artisans was provided. Audit noticed that the DD, Rural Industries Division had

Non-allocation of funds to ATIs led to nugatory expenditure and idle equipments

neither prepared any perspective plan for training activities nor undertaken any convergence programmes during these years. DD also admitted (December 2010) that the services of the staff were not utilised under any other training programme. Hence, the entire expenditure towards salary component was rendered nugatory. Apart from this, the equipments provided to this institute to the extent of ₹6.13 lakh were also kept idle.

Material management

Material management in a department is essential to have control over the inventory and ensure transparency in procurements, etc. Discrepancies noticed by Audit in two test-checked departments are detailed below:

2.2.9.3 Education Department

- ***Splitting up of purchases***

Canons of financial propriety stipulate that no authority should sanction any expenditure which is likely to involve expenditure at a later date beyond its own powers of sanction. Instead of resorting to tender procedure as per KTPP Act, the DDPI, Chitradurga procured reversible Nandhi wood and steel desks worth ₹8.20 lakh from two agencies³⁸ during March 2008 and February 2009 by splitting purchase orders (12 invoices) so that the value of each purchase order fell within the limit of ₹ one lakh.

DDPI replied (May 2010) that purchases were made as per the resolution of the Education Standing Committee of ZP to invite quotations and split up purchase taluk-wise. The decision of the Standing Committee without assigning any reasons for such purchase resulted in irregular purchase without the benefit of competitive rates.

2.2.9.4 Health and Family Welfare Department

- ***Non-conducting of annual physical verification of stores***

KFC provided for annual physical verification of stores at the end of March each year to tally the book balance and physical balance. Audit observed that the annual physical verification of drugs and chemicals and instruments was not conducted in the stores wing of DH&FWO in three taluk general hospitals and in 11 CHCs during the period 2005-10. Due to this, Audit could not ensure the correctness of book balance and physical balance. The Assistant Administrative Officer of DH&FWO stated (January 2011) that physical verification of stores would be undertaken for the year ended March 2011.

2.2.10 Monitoring mechanism and internal control

A healthy monitoring mechanism will ensure achievement of desired goals. Internal audit is very essential to assess the existing internal controls to help

³⁸ District Industrial Supply and Marketing Co-operative Society, Shimoga and Sri Rama Enterprises, Chitradurga

achieve the objectives. Audit observed the following failures in monitoring mechanism and internal control.

2.2.10.1 Panchayat Raj Institutions

- *Non-preparation of periodical returns*

Audit observed that none of the test-checked GPs prepared and submitted the monthly, quarterly and annual returns of financial and physical progress of developmental works/schemes to the higher authorities. Only UCs were submitted in a routine manner. No provisions existed in the KPR Act/Rules to initiate action by higher authorities on the defaulting PRIs. This indicated inadequacies in monitoring mechanism on the affairs of the GPs by TPs/ZP/controlling departments.

- *Miscellaneous Public Works Advances*

Codal provisions stipulated that items in the Miscellaneous Public Works Advance (MPWA) account are cleared either by actual recovery or by transfer under proper sanction or authority, to some other head of account. A review of MPWA register in PRED revealed that an amount of ₹3.22 crore comprising of 76 items as detailed in **Appendix 2.5** was pending unsettled from as early as 1987-88 and the EE, PRED had not initiated any action to adjust advances outstanding with vouchers and supporting records. Monitoring mechanism by CEO, ZP was also not in place to check the advances made in the division.

- *Internal Audit*

Inadequate coverage of internal audit

As per KPR Act, the CAO, ZP was to conduct internal audit of all the offices under the jurisdiction of ZP and to audit all the transactions both centrally at the ZP and locally in respective offices. There were no guidelines/manual for internal audit prescribed by the State Government. Audit plan prepared by CAO was not based on risk analysis and was also not commensurate with the size of auditee units. It was observed that during 2005-10, while the CAO had not conducted any audit centrally, there was shortfall in local audit ranging from 92 to 98 *per cent*. Inadequate coverage of internal audit resulted in financial/compliance irregularities as discussed in previous paragraphs. The CAO, ZP replied (June 2010) that due to shortage of staff, there was shortfall in coverage of internal audit.

- *External Audit*

According to the provisions of KPR Act, the accounts of every GP shall be audited annually by the Controller of State Accounts Department (SAD) who will submit a summary of the observations of the Audit Reports to the State Government.

Audit observed that the guidelines contained in Local Fund Audit Manual of 1967 are being followed even after four decades without revision. As a result, audit plans prepared were not based on risk analysis of the auditee units. Out of test-

checked GPs, audit of three GPs³⁹ accounts from 2007-08 onwards were in arrears. On being pointed out (December 2010), the Controller of SAD stated (March 2011) that delay in completion of audit was due to shortage of manpower and non-production of GP accounts to Audit on time. A separate GP audit manual has been prepared and submitted to the State Government for approval.

- **Response to audit objections**

The Karnataka ZP (Finance and Accounts) Rules stipulate that the responsibility for expeditious settlement of audit objections issued by the Accountant General lies with the CEO, ZP. As of March 2010, 64 paragraphs involving ₹59.84 crore pertaining to the period 1991-2009 were pending settlement in PRIs as shown in **Table 2.13** below:

Table 2.13: Statement showing pending audit objections in PRIs
(₹ in crore)

Sl.No.	Office	Period of observation	Number of paragraphs	Amount involved
1	CEO, ZP	1994-2007	19	20.25
2	EO, TP	1994-2009	18	3.89
3	EE, PRED	1991-2009	27	35.70
Total			64	59.84

Source: Inspection reports

Non-response to audit observations may aggravate persistence of irregularities, invite serious financial impropriety and adversely affect the accountability mechanism.

- **Right to Information**

Right to Information Act, 2005, envisaged uploading of disclosure on subjects like organisation, duties, norms, rules and procedures followed, staff and their remuneration and records maintained, *etc.* on the web site.

Audit observed that the Deputy Secretary of ZP, Chitradurga did not upload pro-active disclosures through website.

- **Vigilance mechanism**

The Karnataka Lokayukta Act was enacted in 1984 empowering the Lokayukta to investigate any action which is taken by or with the general or specific approval of the Chief Minister; a Minister or a Secretary; a member of the State Legislature; or any other public servant being a public servant of a class notified by the State Government in consultation with the Lokayukta in this behalf.

Audit observed that out of 222 cases within the jurisdiction of ZP, Chitradurga, taken up for investigation, 216 cases were pending settlement as of March 2011. The recommendations of Lokayukta on cases investigated were not binding on the State Government for initiating further action.

A comparative picture of anti-corruption strategy in relation to practices in GOI is shown in **Table 2.14** below:

³⁹ Adivala, Aimangala and Eshwaragere in Hiriyur Taluk

Table 2.14: Comparative picture of anti-corruption strategy

Issue	Practice in Lokayukta of State Government	Practice in GOI
Complaint policy-complaints to Lokayukta	Complaint to be filed with affidavit	Does not apply. Detailed complaint policy available.
Technical examination of work	Technical and Audit Cell exist but there were vacancies to the extent of 37 per cent	Chief Technical Examiner under Central Vigilance Commission (CVC) functional; seeks quarterly return on major projects and works
Whistle blower protection policy	No such policy	Exists. CVC is designated authority to implement it
Vigilance awareness	No such provision	Vigilance awareness week celebrated every year
Appointments in senior positions and sensitive posts	No vigilance clearance required from Lokayukta	Vigilance clearance from CVC required

Source: Karnataka Lokayukta Act, 1984 and CVC Act, 2003

2.2.11 Conclusion

The ADDPs finalised by DPC were framed in a routine manner without visualising an overall plan for the district development. Financial discipline and financial control in PRIs and line departments were poor as evidenced by drawal of funds on self-cheques, lapse of grants, irregular drawal of funds and parking of funds outside Government account. Operational controls in test-checked Departments were inadequate as apparent from denial of safe drinking water facility to rural habitations, non-distribution of school books and bags to SC/ST children on time, incomplete stadia for more than a decade, non-functioning of trauma care centres, *etc.* Critical health services were affected in the absence of essential staff in health centres. In ATI, expenditure on establishment without service delivery was observed. While inadequacy in coverage of internal audit by CAO, ZP was noticed, audit of annual accounts of GPs was not completed on time by the Controller, SAD.

2.2.12 Recommendations

- DPC needs to adhere to the provisions of KPR Act pertaining to holding of meetings and preparation of ADDPs by engaging experts in different fields.
- The State Government needs to consider a suitable mechanism to oversee the drawal of self-cheques by drawing officers.
- The drawing officers should periodically take stock of the funds lying unutilised in bank accounts and the State Government needs to evolve a system of review through management information system, returns *etc.*
- Technical sanction by competent authorities should be accorded in a prescribed proforma which will ensure fulfilment of all required parameters *viz.*, availability of adequate land, check measurements, *etc.*
- The State Government should consider operationalisation of trauma care centres by appointing doctors and para-medical staff on contract basis as followed under National Rural Health Mission.

SECTION 'B' - PARAGRAPHS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.3 Unfruitful expenditure on water supply schemes

Improper action of the Director, Rural Development and Panchayat Raj Department in according administrative approval before ensuring availability of the land coupled with failure of the Executive Engineers of four Panchayat Raj Engineering Divisions, in acquiring land before commencement of water supply schemes resulted in unfruitful expenditure of ₹37.39 crore besides denial of safe drinking water to the rural population

With an objective of providing safe drinking water to rural habitations facing water quality problems such as fluorosis, arsenic, brackishness, *etc.*, the Executive Engineers (EEs) of four Panchayat Raj Engineering Divisions (PREDs)⁴⁰ proposed nine water supply schemes (Schemes) under sub-mission project of Rajiv Gandhi National Drinking Water Mission. The project cost was shared between Government of India (GOI) and the State Government in the ratio of 75:25. The Schemes were to be monitored by the Principal Secretary to Government, Rural Development and Panchayat Raj (RDPR) Department at the State level and the Chief Executive Officer (CEO), Zilla Panchayat (ZP) at the district level.

The Schemes were administratively approved by the Director and Ex-officio Joint Secretary to Government, RDPR Department between October 2005 and February 2009 based on the decision of the State Level Empowered Committee. The technical aspects of the Schemes were to be looked after by the Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore, who accorded the technical sanction to the estimates during March 2007 to March 2009.

The codal provisions stipulated that no work should be commenced on land which had not been duly handed over by the requisite authorities. The provisions of the Forest (Conservation) Act, 1980 impose restrictions on use of forest land for non-forest purposes and stipulate obtaining prior approval of GOI for such diversions.

The project consultants indicated clearly the extent of forest land required for the Schemes in the Detailed Project Reports. Audit observed that the Schemes were administratively approved by the Director and Ex-officio Joint Secretary to Government, RDPR Department even before availability of land for the Schemes. The CE, PRE Department, Bangalore also instructed the EEs of PREDs to obtain clearance for the forest land required before issue of work orders. Acquisition of forest land to the extent of 5.88 hectares (ha) was required for execution of all the Schemes and the works were stipulated to be completed by August 2010 as per the work orders issued.

⁴⁰ Bagalkot, Belgaum, Chikkodi and Chikmagalur

Details of the present status of the Schemes are as detailed in **Table 2.15** below:

Table 2.15: Statement showing details of water supply works

(₹ in lakh)

Sl. No.	Name of the water supply work	Administrative Approval/ Technical Sanction	Estimated cost/ Tendered amount	Date of commencement/ Stipulated date of completion	Extent of forest land required and purpose	Expenditure as of September 2010/ (Percentage)	Date of seeking permission from Forest Department	Present status/pending works in forest land
BAGALKOT DISTRICT								
1	Sirur & 4 other villages in Bagalkot taluk	28.07.06 10.12.08	492.80 474.32	20.01.09 20.12.09	0.93 ha WTP	312.35 (66)	15.07.10	Water sump
2	Katageri & 13 other villages in Badami taluk	28.07.06 25.01.08	500.91 720.52	08.08.08 08.07.09	0.61 ha WTP	717.72 (99)	22.05.10	WTP
3	Machakannur & 5 other villages in Mudhol taluk	16.07.08 18.02.09	400.00 401.19	20.01.09 20.12.09	0.98 ha WTP	281.91 (70)	26.06.10	WTP/MBR pipe line work
4	Yalahatti & 4 other villages in Jamakhandi taluk	25.02.09 05.03.09	720.00 464.00	06.07.09 06.06.10	0.77 ha WTP	329.30 (71)	02.08.10	WTP
5	Jakanur & 7 other villages in Badami taluk	27.08.08 24.02.09	615.04 630.00	26.06.09 26.05.10	0.86 ha WTP	369.77 (59)	17.08.10	WTP
6	Belur & 11 other villages in Badami taluk	25.02.09 02.03.09	610.50 682.50	05.09.09 05.08.10	0.017ha Balancing tank	636.95 (93)	09.07.10	MBR pipe line work
BELGAUM DISTRICT								
7	Bassapur & 11 other villages in Hukkeri taluk	28.10.05 28.03.07	475.00 640.28	11.02.08 11.08.09*	0.93 ha WTP/ZBR	391.86 (61)	09.03.09	WTP and overhead Tank
8	Manihal & 9 other villages in Ramdurg taluk	22.05.07 25.01.08	504.50 568.68	10.07.08 10.07.09*	0.39 ha WTP/ZBR	339.38 (60)	20.08.10	Raising main pump house, WTP/ZBR
CHIKMAGALUR DISTRICT								
9	Karakurchi & 8 other villages in Tarikere taluk	31.05.07 22.08.07	632.16 586.74	15.03.08 15.12.08*	0.40 ha WTP	359.90 (61)	21.01.09	Water filter unit/WTP/Approach works
Total						3,739.14		

*Stipulated date of completion includes monsoon period

WTP – Water Treatment Plant; ZBR – Zonal Balancing Reservoir; MBR - Medium Balancing Reservoir

Scrutiny revealed that in violation of the codal provisions, even before acquisition of forest land, the EEs issued work orders to commence works such as construction of WTP, jackwell, etc., on forest land. The EEs initiated action belatedly to acquire the forest land under the Act ranging from 10 to 22 months from the date of commencement of the work. An expenditure of ₹37.39 crore was incurred on these Schemes as of September 2010 and the contractors stopped work due to non-availability of required land for further execution. The CE, PRE Department, Bangalore instructed (June 2009) CEO, ZP and EEs of PREDs to speed up execution and fix responsibility for delay in completion. In spite of instructions, the works remained incomplete even after 4 to 13 months from the stipulated date of completion as of September 2010. The percentage of expenditure incurred on these works ranged from 59 to 99 of the tendered amount even without acquisition of forest land, indicating poor monitoring of the Schemes at all levels. Further, due to delay in providing the required land for execution, cost escalation for the remaining work components could not be ruled out.

Availability of land is a basic requirement that needs to be confirmed before a project is sanctioned. Despite requisite codal provisions and being pointed out

repeatedly by Audit, the PRIs are sanctioning works in a routine manner without checking availability/without acquiring land. The improper action of the Director and Ex-officio Joint Secretary to Government, RDPR Department in according administrative approval before ensuring availability of the land and failure of the EEs of PREDs, to acquire land for the Schemes before commencement of works resulted in unfruitful expenditure of ₹37.39 crore besides denial of safe drinking water facility to the population of these villages.

The matter was referred to the State Government (February 2011), reply is awaited (March 2011).

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
COMMERCE AND INDUSTRIES DEPARTMENT**

2.4 Loss of seed margin loan

Failure of the Deputy Directors, Khadi and Village Industries Commission to obtain legally binding documents and to initiate follow-up action for recovery in co-ordination with the financial institutions/banks and guarantors resulted in irrecoverable loss of ₹4.80 crore to the State exchequer

In order to develop sustainable economic activity and create employment opportunities, potential entrepreneurs are encouraged to set up small/tiny industrial units in the rural areas. However, financial constraints act as a deterrent to such entrepreneurs as banks/financial institutions insist that the potential entrepreneurs should have the capacity to contribute 30 *per cent* of the project cost in order to avail loans from them. To overcome such inability on the part of the potential entrepreneurs, the share of contribution on the part of the entrepreneurs was given as 'seed margin loan' by the State Government through the Deputy Directors (DDs) of Khadi & Village Industries Commission (KVIC) who are under the control of Zilla Panchayats (ZPs). The eligible entrepreneurs were given a loan of 50 *per cent* of the cost of immovable assets and 10 *per cent* of the working capital subject to a maximum of ₹40,000 to general category and ₹60,000 to SC/ST applicants. In addition to interest of 11.75 *per cent* per annum, the loan attracts penal interest for non-payment in time. The beneficiaries were required to repay the loan and interest as per the schedule of repayment mentioned in the sanction order. The Taluk Industrial Extension Officers (TIEOs) were to monitor timely repayment. A grace period of four years was allowed for repayment of first instalment of the loan.

The eligible entrepreneurs were identified by the TIEOs and recommended to the DD, KVIC for assistance in the form of loan. The beneficiaries were to execute agreement/bond/hypothecation deed creating second charge on the fixed assets in favour of the State Government. The financial institutions/banks were to retain the pledged documents for their term loans until the seed margin money was

repaid by the beneficiaries and No Objection Certificate furnished by the Department.

Scrutiny of records showed that 3,690 units had availed of a total loan amount of ₹9.66 crore during the period 1987-88 to 2003-04. The loans to these units were given by obtaining consent letters from the financial institutions/banks for creation of second charge on the properties already mortgaged for the loan sanctioned by them. Consent letter from a third person referred by the beneficiary as guarantor was also obtained. As of March 2010, the outstanding demand from these units including interest and penal interest was ₹18.94 crore, of which recovery effected was only ₹1.02 crore. 2,377 units were closed as of 31 March 2010 pending recovery of ₹17.92 crore.

On test-check of the records of eight district offices⁴¹, it was seen that out of 1,065 units who have availed a total loan of ₹2.84 crore during the period 1987-88 to 2003-04, only 100 units had repaid ₹43.41 lakh. As of March 2010, a sum of ₹4.80 crore was due in respect of 701 closed units and legally binding documents were not available in 323 closed units. The Deputy Directors replied (March 2010) that even though the financial institutions/banks were asked not to release the documents of the units until the seed margin loan was fully recovered, they had returned the documents of the mortgaged properties without intimation. However, follow-up action taken with the financial institutions/banks or action initiated on the guarantors for recovery was not forthcoming from the records made available to Audit.

The Commissioner for Industrial Development and Director of Industries and Commerce admitted (January 2011) that records to prove follow-up action taken by the Department were not traceable. It was also replied that in order to overcome these lapses, the State Government may introduce one time settlement option by waiving interest and penal interest and recover the loan amount from guarantors, failing which such cases would be referred to Revenue Authorities to recover the same as arrears of land revenue.

Thus, failure on the part of the Department to obtain legally binding documents and to initiate follow-up action for recovery in co-ordination with banks/financial institutions and guarantors resulted in irrecoverable loss of ₹4.80 crore to the State exchequer.

The matter was referred to the State Government (May 2009), reply is awaited (March 2011).

⁴¹ Bangalore (Rural), Belgaum, Chamarajanagar, Chikmagalur, Davanagere, Gadag, Haveri and Mysore

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
HEALTH AND FAMILY WELFARE DEPARTMENT**

2.5 Idle investment on Primary Health Centres

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Karwar to prepare a comprehensive estimate and non-posting of staff by the State Government coupled with improper monitoring at all levels led to idle investment of ₹69.45 lakh on two Primary Health Centres

With an objective to provide basic health facilities to the rural population, the State Government sanctioned (March 1997) 92 Primary Health Centres (PHCs) in the State with the required staff which included two PHCs at Diggi and Doddamane of Joida and Siddapura taluks respectively under Zilla Panchayat (ZP), Karwar. The State Government directed that expenditure should be incurred out of the 1997-98 Minimum Needs Programme grants subject to availability of funds after incurring expenditure on PHCs sanctioned earlier. The State Government did not make provision of funds in the budget thereafter and it accorded administrative approval only in December 2005 for the construction of these PHCs. Guidelines prescribed a minimum of 30,000 population for sanctioning a PHC. The Executive Engineer (EE), Panchayat Raj Engineering Division (PRED), Karwar was to prepare a comprehensive estimate and the Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore was to ensure basic facilities before according technical sanction. The Principal Secretary to Government, Health and Family Welfare (H&FW) Department was to post necessary staff for the PHCs. The CEO, ZP at the district level and the Additional Chief Secretary to Government at the state level were to monitor the execution and functioning of the PHCs. The works were estimated at ₹34 lakh each which included a loan component of ₹28.90 lakh from National Bank for Agriculture and Rural Development and a contribution of ₹5.10 lakh from the State Government. Technical sanction for the estimates prepared by the EE, PRED, Karwar was accorded (Diggi – October 2007 and Doddamane – March 2007) by the CE, PRE Department, Bangalore.

The Chief Accounts Officer (CAO), ZP released an amount of ₹58.84 lakh to EE, PRED, Karwar with a stipulation to complete the buildings by July 2007. Accordingly, the civil works of the PHCs were completed as stipulated incurring an expenditure of ₹69.45 lakh (₹33.96 lakh-Diggi and ₹35.49 lakh-Doddamane) and handed over⁴² to the District Health and Family Welfare Officer (DH&FWO), Karwar.

⁴² Diggi (May 2009) and Doddamane (December 2010)

Scrutiny of records of DH&FWO, Karwar revealed that despite timely completion of the civil works of these PHCs, they were not functioning due to the following reasons:

Reasons for non-functioning	Failure and authority responsible
The population was sparse (less than 1000) and the area was covered by thick forest	The Director, H&FW Services, Bangalore proposed for establishment of PHC in violation to the guidelines that prescribed minimum 30,000 population for sanctioning a PHC.
No approach road/bridges and power supply	The CE, PRE Department, Bangalore technically sanctioned the estimate prepared by the EE, PRED, Karwar without making provision for approach road and bridge.
Non-posting of staff	The Principal Secretary to Government, H&FW Department, Bangalore did not post required staff inspite of requisition by DH&FWO, Karwar.
Improper monitoring	Status of work submitted by DH&FWO, Karwar was not monitored properly by CEO, ZP at district level and by the Additional Chief Secretary to Government at State level.

Thus, failure of the EE, PRED, Karwar in preparing a comprehensive estimate for the PHCs and non-posting of required staff by the State Government coupled with improper monitoring of the functioning of PHCs at district and state levels led to idle investment of ₹69.45 lakh on two PHCs.

The matter was referred to Government in May 2010 and the State Government endorsed (August 2010) the reply of DH&FWO, Karwar countersigned by CAO, ZP which mainly attributed non-functioning of PHCs to non-provision of necessary facilities and non-posting of required staff.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.6 Avoidable expenditure on purchase of solar lighting system

Failure to follow the prescribed procurement procedures resulted in avoidable expenditure of ₹31.41 lakh on purchase of solar lighting system

The Karnataka Transparency in Public Procurement Act (Act), 1999 stipulated that any procurement of goods and services above ₹ one lakh by local bodies in the State should necessarily be made by inviting tenders and giving wide publicity in leading newspapers. Exemption was available, if procurement was made through Directorate of General Supplies and Disposals (DGS&D) Rate Contract (RC) holders or RC fixed by Stores Purchase Department of the State Government.

The District Planning Committee approved (October 2009) the proposal of providing solar lighting system to Scheduled Caste (SC)/Scheduled Tribe (ST)

colonies for 2007-08 under Backward Region Grant Fund Scheme. Accordingly, the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Davanagere approved (December 2009) action plan prepared by EO, TP, Honnali for providing 77 sets of solar lighting system costing ₹49.50 lakh. While according approval, the CEO, ZP stipulated that the purchases should be made after inviting short term tenders under the Act or as per the DGS&D rates. However, in violation to the provisions and also the instructions of CEO, ZP, the President, TP, Honnali directed (December 2009) the EO, TP to invite quotations locally and subsequently obtain the approval of ZP, Davanagere. The TP President also stated that this aspect was discussed with the members of the Finance and Audit Standing Committee of TP. Accordingly, the EO, TP invited quotations locally (December 2009) and selected the lowest quotation. Finance and Audit Standing Committee of TP thereafter resolved (December 2009) to procure solar lighting system from the lowest rate quoted supplier. The CEO, ZP also accorded (January 2010) sanction for the purchase of solar lighting system from the selected supplier.

Audit scrutiny of records of EO, TP, Honnali revealed (August 2010) that 77 sets of solar lighting system were procured (January – February 2010) from the lowest quoted supplier⁴³ at a rate which was much higher than the RC rate⁴⁴ of DGS&D for a similar set of solar lighting system.

The Director (Quality Assurance) of DGS&D, Bangalore unit, confirmed (January 2011) that the rates paid by EO, TP, Honnali were higher than their rates.

Thus, failure to follow the prescribed procurement procedures by the Finance and Audit Standing Committee, TP, Honnali resulted in avoidable expenditure of ₹31.41 lakh on purchase of solar lighting system.

The State Government endorsed (February 2011) the reply of CAO, ZP which stated that due to the insistence of the Hon'ble Minister, President and members of TP and also in public interest, procurement from local supplier was made. It also stated that the solar lighting system procured was superior when compared to the specifications of DGS&D. However, this reply is not tenable as procurement at a higher rate was injudicious since DGS&D, being a central procurement agency, finalises RCs with appropriate specifications after involving leading manufacturers and user departments and were being widely used by the State Governments/Central Government Departments.

⁴³ M/s. Hari Energy Company, Honnali @ ₹65,000 per set

⁴⁴ DGS&D RC rate @ ₹24,209 per set

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.7 Wasteful expenditure on abandoned road work

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Gulbarga to ensure existing connectivity, proper alignment, availability of land and technical/practical feasibility prior to proposing the road work resulted in abandoning the work rendering the expenditure of ₹25.17 lakh wasteful

The spirit and objective of the Pradhan Mantri Gram Sadak Yojana (PMGSY) was to provide a single connectivity to unconnected habitations in the rural areas through an all weather road. The Scheme guidelines also stipulated that, prior to preparation of Detailed Project Report (DPR), the Programme Implementation Unit should conduct a proper survey to assess land availability and feasibility of the work. Necessary check lists and certificates in this regard were to be appended to the DPR for its approval.

Scrutiny of records (June 2010) of the Executive Engineer (EE), PMGSY Division, Gulbarga revealed that a work⁴⁵ of ‘Improvements to road from Wadi Junction to Kundanoor via Ingalagi village’ in Chittapur taluk of Gulbarga district for a length of 5.37 Kms. at an estimated cost of ₹1.06 crore (under package KN 15-21) was technically sanctioned (February 2006) by the Karnataka Rural Road Development Authority (KRRDA), the nodal agency for the State. The project report and estimate for the work were prepared by the EE, Panchayat Raj Engineering Division (PRED), Gulbarga. The EE, PRED, Gulbarga had certified that the required road formation width was available as per the guidelines and there was no need to acquire extra land. The work was entrusted (August 2006) to a contractor at his tendered rate of ₹1.12 crore.

The State Quality Monitor inspected the alignment of the road during September 2006 and reported that the width for the road was insufficient, the alignment ran along the side of a deep stone quarry and the other side of the road was filled with quarry debris in heaps. He suggested some protective measures. The contractor, while executing the work, represented (September 2006) to the EE, PRED, Gulbarga on these facts and expressed his difficulty in executing the work properly. Meanwhile, an aggrieved person from Kundanoor village approached (September 2006) the Court of Civil Judge (Junior Division) at Shahabad and obtained stay for acquisition of his land for the road work. The work was stopped during September 2006.

Based on the request of Assistant Executive Engineer, PMGSY Sub-Division, Gulbarga, the alignment of the road was further inspected by the Coordinator to the State Technical Agency (January 2007-April 2007), the Superintending Engineer (SE), Panchayat Raj Engineering Circle, Gulbarga and Chief Operating Officer (COO), KRRDA between March 2007 to August 2007. The SE in his

⁴⁵ the work was then implemented under the jurisdictional control of EE, PRED, Gulbarga

inspection report stated that the estimate for the work was prepared without considering the necessary provisions required as per the conditions of the road. While noticing that there was another road connecting the villages to District Road/State Highway, the COO reported that this road was not technically feasible/proper and ordered the work to be dropped. Accordingly, the work on which an expenditure of ₹25.17 lakh had been incurred towards construction of embankment was dropped, rendering the entire expenditure wasteful. This clearly indicates that the KRRDA accorded the technical sanction in a routine manner.

The matter was referred to State Government in July 2010, and the State Government endorsed (January 2011) the reply of COO, KRRDA, which stated that at the time of preparation of DPR, the formation of road width was available. Subsequently, Shahabad stones were dumped all along the road leading to reduction of width. The reply was contrary to the inspection report of SE (April 2007) which stated that the entire road ran in black cotton area full of quarry spoil and the owners of quarries had been dumping all the waste of Shahabad stone pieces on the road surface since many years.

Thus, flouting of the Scheme guidelines and failure of the EE, PRED, Gulbarga in conducting suitable survey and investigation to ensure existing connectivity, proper alignment, availability of land and technical/practical feasibility prior to proposing/entrusting the work, resulted in abandoning the work, rendering the expenditure of ₹25.17 lakh wasteful.

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
SOCIAL WELFARE DEPARTMENT**

2.8 Unfruitful outlay on a residential school

Faulty action of Taluk Social Welfare Officer, Turuvekere to construct a residential school building for Hanumapura village Scheduled Tribe students on a site other than the one allotted coupled with non-monitoring of work by District Social Welfare Officer, Tumkur resulted in unfruitful expenditure of ₹19.81 lakh besides depriving the tribal students of better facilities

The State Government decided (2005-06) to construct an Ashrama Shaale⁴⁶ for the Scheduled Tribe (ST) students of Hanumapura village of Turuvekere taluk and entrusted the work⁴⁷ to a contractor (July 2007). The Taluk Social Welfare Officer (TSWO), Turuvekere was to monitor the progress of work and report to District Social Welfare Officer (DSWO), Tumkur.

⁴⁶ Residential school

⁴⁷ The Deputy Commissioner (DC), Tumkur identified the land for the work at Survey No.78 of Shettygondanahalli measuring one acre and 10 guntas and transferred (August 2005) it to the Taluk Social Welfare Officer (TSWO), Turuvekere.

Based on an inspection (November 2008) the TSWO intimated the DSWO that the construction site was an encroached area of Forest Department. Consequently, after completing the work up to plinth level incurring an expenditure of ₹19.81 lakh, the contractor stopped the work (December 2008) due to objection raised by Forest Department.

DSWO who was to monitor the district works through progress reports and physical inspection was not aware about such encroachment till November 2008.

On an enquiry by Audit (May 2010), TSWO admitted the lapse and stated (June 2010) that the contractor was instructed to execute the work in the adjacent vacant land of the existing Ashrama Shaale instead of the land allotted which was two kilometers away without road network. TSWO also stated that the DSWO, Tumkur had been requested to submit a proposal to the DC, Tumkur to transfer 38 guntas of land originally allotted, to Forest Department as compensation.

These instructions of TSWO, Turuvekere to construct a residential school building for ST students on a site other than the one allotted coupled with non-monitoring of works by DSWO resulted in unfruitful expenditure of ₹19.81 lakh besides depriving the tribal students of better facilities.

The State Government (March 2011) endorsed the reply of the CAO, ZP, Tumkur which stated that the school is being constructed in the site allotted and only a portion of the land belongs to the Forest Department. The reply was contrary to the earlier statement of TSWO who admitted that the allotted land was two kilometers away without road network.

2.9 Suspected misuse of scholarship amount

Failure of Taluk Social Welfare Officer, Bangalore (East) to obtain utilisation certificate and monitor timely disbursement of scholarship amount to Scheduled Caste students of a college resulted in suspected misuse of ₹12.75 lakh by the college authorities besides denial of the intended benefits to the students

The State Government is providing financial assistance to Scheduled Caste (SC) students in the form of post-matric scholarship to meet their maintenance expenditure, non-refundable fees, etc. enabling them to complete their education. The State Government releases the budgeted funds to the Taluk Social Welfare Officer (TSWO). The TSWO scrutinises the applications of students and sanctions the scholarship amount. He issues cheques in favour of the Principals of the colleges based on the sanction accorded by him for the eligible students. TSWO is responsible for watching receipt of utilisation certificate from the colleges duly supported by proof for having disbursed the scholarship amount.

Scrutiny of records of Bangalore (East) TSWO (February 2010), revealed that utilisation certificates for 45 cheques (₹77.80 lakh) issued during February 2005 to December 2009 in favour of the Principals of a group of

institutions⁴⁸, supported by proof of having disbursed the scholarship amount to students, were not forthcoming.

On cross verification by Audit with reference to the list showing the details of scholarship amount drawn and disbursed as furnished by a college⁴⁹, scholarship amount sanctioned and the bank pass sheets of TSWO, it was found that two cheques issued by TSWO for ₹12.75 lakh sanctioned to 79 students for the period 2006-08 were encashed⁵⁰ by the college authorities. The said cheques were neither accounted in the bank account⁵¹ operated by the college authorities nor disbursed to the eligible students as per the statement furnished by the college. The Bank also denied receipt of those cheques during the period 2006-09 and their subsequent withdrawal by students through cheques as claimed by the college. In the absence of proof of having disbursed the scholarship amount to students, the possibility of misuse of funds by the college authorities cannot be ruled out.

Thus, failure of TSWO, Bangalore (East) to obtain utilisation certificates and monitor timely disbursement of scholarship amount to SC students of a college resulted in suspected misuse of ₹12.75 lakh by the college authorities besides denial of the intended benefits to the students. Possibility of such misuse of scholarship amount in the other cases cannot be ruled out. The matter needs thorough investigation.

The matter was referred to Government (July 2010), reply is awaited (March 2011).

GENERAL

2.10 Recoveries at the instance of Audit

During compliance audit of PRIs, Audit objected to revenue loss to PRIs/State Government to the extent of ₹80.14 lakh and as a result, the concerned Departments recovered ₹69.62 lakh as detailed in **Table 2.16** below:

Table 2.16: Statement showing recoveries at the instance of Audit

Sl. No.	Department/Particulars	Amount objected	Amount recovered
1	RDPR Department Consideration amount agreed (₹13,068 for a cent) for sale of land to a co-operative society to the extent of 30 cents belonging to TP, Devanahalli was far less than the prevalent guidance value fixed (₹one lakh for a cent) by the Stamps and Registration Department	₹26.08 lakh (January 2008)	₹26.08 lakh (February 2010)

⁴⁸ SCT group of Institutions, Bangalore

⁴⁹ SCT Institute of Technology, Bangalore

⁵⁰ Vijaya Bank Account of TSWO for ₹6.79 lakh (June 2007) and ₹5.96 lakh (April 2008)

⁵¹ Savings Bank Account No.849620100010409 of Bank of India, Jeevanbhimnagar branch, Bangalore.

Sl. No.	Department/Particulars	Amount objected	Amount recovered
2	Women & Child Development Department Reduction in cost (₹33,000 per MT to ₹29,000 per MT) fixed (May 2008) by the State Government for supply of Amylase Rich Energy Food to Anganwadi children was not effected by Child Development Project Officers under the control of ZPs	₹54.06 lakh (June 2008)	₹43.54 lakh (August 2010)

2.11 Poor response to Inspection Reports

The Karnataka Zilla Panchayat (Finance and Accounts) Rules stipulate that Head of the Departments/Drawing and Disbursing Officers of the Zilla Panchayat (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 lies with Chief Executive Officer (CEO) of ZPs. Despite Ad-hoc Committee meetings being held regularly, 4,013 Inspection Reports consisting of 15,258 paragraphs were outstanding in various ZPs, as of March 2010. During the year 2009-10, 3,193 paragraphs were cleared in 23 Ad-hoc Committee meetings held. Out of the Inspection Reports outstanding, 56 per cent reports containing 40 per cent paragraphs were pending for more than five years, which highlighted the inadequate action of the CEOs in the settlement of objections.