CHAPTER - I

SECTION 'A'
AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

After the 73rd Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish a three-tier Panchayat Raj Institutions (PRIs) system at the village, taluk and district levels in the State and framed rules to enable PRIs to function as institutions of local self-government.

The PRIs aim to promote participation of people and effective implementation of rural development programmes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1** below. The population growth in Karnataka in the last decade was 17.25 *per cent* and was less than the national average of 21 *per cent*. The decadal growth rate of population in the State revealed a declining trend, though the growth rates varied widely across districts. The State, with its urban population at 34 *per cent* of total population, is currently ranked as the seventh most urbanised among all States.

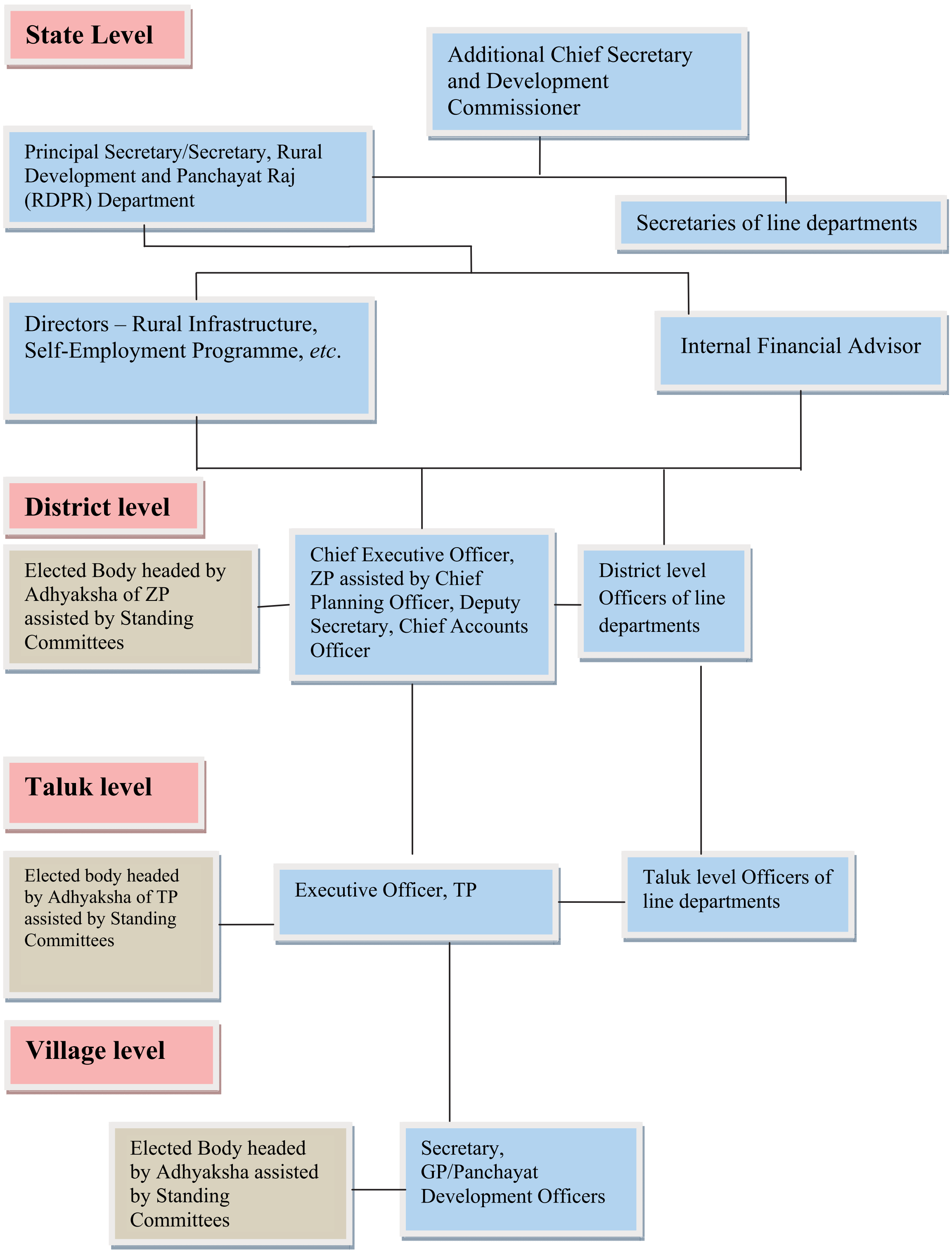
The urban and rural population decadal growth rates were 29 *per cent* and 12 *per cent* respectively. The population of the State was 5.29 crore, of which women comprise 49 *per cent*. The service sectors along with the agricultural sector dominate the State's economy. The State has 114 backward taluks out of which 39 taluks spread over 14 districts are the most backward.

Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	52,851	10,28,737	9
Population density	Sq.Km	276	313	14
Urban population *(per cent)*	1,000s	17,962 (34)	2,86,120 (28)	7
Number of PRIs	Numbers	5,834	2,40,540 (Approx)	14
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (Approx)	8
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (Approx)	13
Number of Grama Panchayats (GPs)	Numbers	5,628	2,34,000 (Approx)	14
Gender ratio	1,000 males	965	933	9
Poverty ratio	Percentage	33	37	NA
Literacy	Percentage	67	65	16

Source: Economic Survey 2010-11 and Karnataka at a glance 2009-10 NA-Not available

1.3 Organisational structure of PRIs



1.3.1 Standing Committees

PRIs shall constitute Standing Committees to perform the assigned functions. The political constitution of the Committees is given in **Table 1.2** below:

Table 1.2: Political constitution of the Standing Committees

Level of PRIs	Chief political executive	Standing Committees	Political executives of Standing Committees
GP	Adhyaksha	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected among the elected members of GPs, TPs and ZPs)
TP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	
ZP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee (d) Education and Health Committee (e) Agricultural and Industries Committee	

Source: KPR Act

1.4 Financial profile

1.4.1 Fund flow to PRIs

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central Government grants for maintenance and development purposes. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Tables 1.3** and **1.4** below respectively. The authorities for reporting use of funds in respect of ZPs, TPs and GPs are Chief Accounts Officer (CAO), Executive Officer (EO) and Secretary/Panchayat Development Officer (PDO) respectively.

Table 1.3: Fund flow mechanism in PRIs

Nature of Fund	ZPs		TPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	-	-	Assessees and users	Bank	Assessees and users	Bank
Assigned revenues	State Government	Treasury	State Government	Treasury	State Government	Bank
SFC						
State Plan						
CFC/CSS	GOI	Bank	GOI	Bank	GOI	Bank

Source: As furnished by the RDPR Department/PRIs

CSS-Centrally Sponsored Scheme; GOI-Government of India

Table 1.4: Fund flow arrangements in flagship schemes

Sl.No.	Scheme	Fund flow
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GOI and State Government transfer their respective shares of MGNREGS funds into a bank account, called State Employment Guarantee Fund (SEGF), set up outside the State accounts. The Director, MGNREGS administers onward transfer of funds from it to ZPs, TPs and GPs.
2	Sarva Shiksha Abhiyan (SSA)	The funding pattern of SSA is aligned with the Five Year Plans. The funding was to be shared between the Central and State Governments in the ratio of 75:25 during Tenth Five Year Plan (2002-07) and 50:50 thereafter. The State Government releases the funds to the district level officers through Chief Executive Officers (CEOs) of ZPs, who in turn releases to School Development Management Committees for implementation of the Scheme.

Sl.No.	Scheme	Fund flow
3	National Rural Health Mission (NRHM)	Funds for NRHM are released by GOI to the States through two separate channels *i.e.*, through State Finance Department for direction and administration, rural and urban family welfare services, procurement of supplies and services, *etc.*, and directly to the State Health Society for implementation of the Scheme. From the year 2007-08, the States were to contribute 15 *per cent* of the required funds duly reflecting their requirements in a consolidated Programme Implementation Plan (PIP). Funds were provided on the basis of approval of these PIPs by GOI.
4	Mid-Day Meals (MDM)	The Central assistance received is credited to the State funds and the State Government, after including its allocation, release funds to the ZPs. The Central assistance for the Scheme was provided by way of free supply of food grains and also expenditure reimbursed in the form of subsidy for transportation and cost of cooking. In addition, assistance for physical infrastructure like kitchen-cum-store, water supply, *etc*., was also provided by GOI.
5	Pradhan Mantri Gram Sadak Yojana (PMGSY)	PMGSY is a 100 *per cent* CSS. 50 *per cent* of the cess on high speed diesel is earmarked for this programme. The State Rural Road Development Agency is to select a bank with internet connectivity at the State Headquarters for maintaining the programme account. Once selected, the account shall not be changed to any other bank/branch without the concurrence of National Rural Road Development Agency. The Ministry of Rural Road Development releases the programme funds, administrative/travel expenses and quality control funds into the programme and administrative account.

Source: Schemes guidelines and performance review reports of Civil and PRIs

The grants enjoin the sanctioning authorities in GOI to ensure proper utilisation of the grant money. This is achieved through progress reports, Utilisation Certificates (UCs) and internal audit of scheme accounts in PRIs by the CAO.

1.4.2 Resources: Trends and Composition

Table 1.5 below shows the trends of resources of PRIs for the period 2006-07 to 2010-11.

Table 1.5: Time series data on resources of PRIs

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10#	2010-11#
Own revenue	138.34	133.64	144.74	NA	NA
CFC transfers (Twelfth /Thirteenth)	177.60	177.60	177.60	177.60	419.38$^{\pi}$
Grants from State Government and assigned revenues	7,962.34	9,488.13	9,841.85	11,216.04	11,918.53
GOI grants for CSS/State Schemes*	2,372.98	2,680.40	3,285.09	2,871.95	1,718.97
Other receipts*	171.24	99.57	82.29	13.28$^{£}$	8.63
Total	**10,822.50**	**12,579.34**	**13,531.57**	**14,278.87**	**14,065.51**

Source: Certified annual accounts up to 2010-11 for ZPs and TPs; figures as furnished by State Accounts Department (SAD) for GPs

* GOI grants released to TPs through ZP accounts are excluded

\# excludes GPs except CFC transfers

$^{\pi}$ 1st and 2nd instalments of 13th Finance Commission grants of ₹209.69 crore each

$^{£}$ significant decline was due to discontinuance of exhibiting the statutory deductions as other receipts from 2009-10 onwards

NA: Not available

Reduction in resources of PRIs during 2010-11 was mainly due to reduction in release of GOI grants for CSS such as MGNREGS, Swarna Jayanthi Gram Swarozgar Yojana, Integrated Wasteland Development Programme, Drought Prone Area Development Programme, Total Sanitation Campaign (TSC), *etc.*

1.4.3 Application of Resources: Trends and Composition

Table 1.6 below shows the trends of sector-wise application of resources of ZPs and TPs for the period 2006-07 to 2010-11.

Table 1.6: Application of resources sector-wise

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
ZILLA PANCHAYATS					
State grants and assigned revenues					
Capital Expenditure	**157.92**	**38.61**	**17.92**	**0.005**	**3.96**
Social Services	139.38	31.95	17.61	0	2.01
Economic Services	18.54	6.66	0.31	0.005	1.95
Revenue Expenditure	**3,096.32**	**3,454.69**	**3,558.22**	**3,420.21**	**4,228.77**
General Services	94.82	105.34	123.22	115.56	0.46
Social Services	1,896.58	2,253.07	2,574.15	2,467.20	3,361.32
Economic Services	1,104.34	1,095.83	860.85	837.45	866.99
Suspense	0.58	0.45	0	0	0
CSS/State Schemes					
Capital Expenditure	**4.61**	**57.72**	**64.08**	**8.58**	**153.86**
Social Services	4.26	57.72	64.08	8.58	145.36
Economic Services	0.35	0	0	0	8.50
Revenue Expenditure	**2,407.48**	**1,941.02**	**1,455.20**	**1,605.88**	**3,325.32**
General Services	0	0	0	0.72	0
Social Services	363.36	454.52	548.18	374.36	406.40
Economic Services	2,044.12	1,486.50	907.02	1,230.80	2,918.92
Total	**5,666.33**	**5,492.04**	**5,095.42**	**5,034.68**	**7,711.91**
TALUK PANCHAYATS					
Capital Expenditure	**1.63**	**0**	**0**	**0.16**	**0.26**
General Services	0	0	0	0	0
Social Services	1.38	0	0	0.15	0
Economic Services	0.25	0	0	0.01	0.26
Revenue Expenditure	**3,192.26**	**3,951.21**	**4,537.89**	**4,971.83**	**6,316.59**
General Services	0.25	65.95	0	0	0.76
Social Services	2,827.53	3,427.17	4,194.75	4,560.82	5,816.15
Economic Services	279.15	350.04	334.84	408.75	497.78
Suspense	85.33	108.05	8.30	2.26	1.90
Total	**3,193.89**	**3,951.21**	**4,537.89**	**4,971.99**	**6,316.85**
Grand Total	**8,860.22**	**9,443.25**	**9,633.31**	**10,006.67**	**14,028.76**

Source: Separate Audit Reports (SARs) of ZPs and consolidated SARs for TPs up to the year 2010-11

ZPs' control over expenditure was ineffective due to direct transfer of GOI funds to implementing agencies

The transfer of funds by GOI directly to the implementing agencies, not routed through ZP and TP funds, rendered ineffective the control of the ZPs over expenditure. This also resulted in their inability to monitor the progress of works/expenditure incurred through GPs, external agencies and also district level offices. The position still persists despite being pointed out in earlier Audit Reports.

1.4.4 Quality of expenditure

In view of the importance of public expenditure on development heads for social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 1.7** below shows the key parameters for evaluating the quality of expenditure of ZPs and TPs:

Table 1.7: Statement showing quality of expenditure

(₹ in crore)

Year	Total expenditure	Development Expenditure (DE)	Percentage of DE to Total	Social Sector Expenditure (SSE)	Percentage of SSE to Total	Capital Expenditure (CE)	Percentage of CE to Total
2006-07	8,860.22	NA	NA	5,087.47	57.42	164.16	1.85
2007-08	9,443.25	11.74	0.12	6,134.76	64.96	96.33	1.02
2008-09	9,633.31	9.63	0.10	7,317.08	75.96	82.00	0.85
2009-10	10,006.67	13.18	0.13	7,411.11	74.06	8.74	0.09
2010-11	12,412.43	57.96	0.47	9,472.58	76.31	69.16	0.56

Source: RDPR Progress Reports and SARs up to 2010-11
NA : Not available

Audit observed that the percentage of expenditure on social sector gradually increased over the years. Significant increase in capital expenditure in 2010-11 as compared to 2009-10 was mainly due to asset creation under Suvarna Gramodaya Scheme and commissioning of water supply projects.

1.4.5 The public investment in social sector and rural development through major CSS during 2009-10 and 2010-11 is given in **Table 1.8** below:

Table 1.8: Statement showing investment through major CSS

(₹ in crore)

Schemes	2009-10		Percentage of shortfall (-)/ excess (+) in utilisation	2010-11		Percentage of shortfall (-)/excess (+) in utilisation
	Release	Expenditure		Release	Expenditure	
MGNREGS	3,026.29	2,641.88	(-)12.70	1,927.87	2,081.30	(+)7.96
National Rural Drinking Water Programme	469.19	472.17	(+)0.64	587.75	560.00	(-)4.72
PMGSY	2,222.94	2,364.59	(+)6.37	917.67	662.42	(-)27.82
Indira Awaas Yojana (IAY)	753.94	532.84	(-)29.33	596.19	482.49	(-)19.07
TSC	16.80	16.40	(-)2.38	69.42	77.22	(+)11.24

Source: Annual Report of RDPR, Progress reports of RDPR and Management Information System (MIS)
Note : Expenditure includes opening balance

It could be seen from the table above that the available funds under PMGSY Scheme were not utilised optimally during the year 2010-11. However, under MGNREGS, even though the labour payments were pending, the expenditure was reported as incurred in MIS.

1.4.6 Rural development programmes

The RDPR aims at facilitating development of rural areas through a number of State and District sector programmes. Major programmes/schemes implemented by PRIs are detailed in **Appendix 1.1**. The allocation and expenditure during 2009-10 and 2010-11 are indicated in **Table 1.9** below:

Table 1.9: Statement showing allocation and expenditure in respect of Rural Development Programmes

(₹ in crore)

Schemes	2009-10		Percentage of shortfall (-)/ excess (+) in utilisation	2010-11		Percentage of shortfall(-) / excess (+) in utilisation
	Allocation	Expenditure		Allocation	Expenditure	
Grama Swaraj Project	115.00	117.49	(+)2.17	88.54	93.11	(+)5.16
Suvarna Gramodaya Yojana	1,000.60	251.41	(-)74.87	401.05	419.84	(+)4.69
Mukhya Mantri Grameena Raste Abhivrudhi Yojane	148.28	144.34	(-)2.66	148.27	133.67	(-)9.85

Source: Annual Reports and Progress Reports of RDPR Department

It was seen from the table above that the expenditure incurred during 2010-11 was more than the allocation in respect of Grama Swaraj and Suvarna Gramodaya Schemes. This was due to utilisation of unspent balances of previous years available with the implementing officers.

1.5 State Finance Commissions

After enactment of the 73rd amendment to Constitution, the State Government constituted three SFCs to determine the principles on the basis of which adequate financial resources would be ensured for PRIs.

The details of finances of the State, share of PRIs as decided (October 2011) by the State Government based on the Third SFC recommendations and funds actually released to PRIs for the year 2010-11 are as in **Table 1.10** below:

Table 1.10: Details of allocation by the State Government

(₹ in crore)

Particulars	2010-11
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	41,831
Allocation as decided by the State Government (32 *per cent* of NLNORR)	13,386
Funds actually released to PRIs	12,555

Source: State Finance Accounts

It could be seen from the table above that the funds released by the State Government constituted only 30 *per cent* of the NLNORR as against the decision for allocation of 32 *per cent.*

1.6 Devolution of Functions, Funds and Functionaries

1.6.1 Functions

The 73rd amendment to the Constitution envisaged transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government through executive orders had to transfer all the 29 subjects to different tiers of PRIs. For effective functioning of both the State Government and PRIs, Activity Mapping delineated the role and responsibilities of each tier of PRIs under each transferred subject. The State Government, however, devolved functions under 26 subjects and the remaining three subjects are yet to be transferred. Of these, ‘Public Distribution System’ is implemented by the Food and Civil Supplies Department. ‘Social welfare’ and ‘Welfare of the weaker sections’ are implemented by both the State Government and PRIs.

As devolution of governance to the different tiers of PRIs involved a large number of line departments, there was a need to monitor the devolution through a ‘Monitoring Cell’ at the State level. However, no such cell/mechanism is in place in the State. The Activity Map brought out in the year 2003 had to be revised in the light of withdrawal of certain functions of PRIs such as purchase of medicines which was centralised by the Health Department, construction of student hostels for weaker sections and backward classes by Societies established by the State Government, *etc.* However, no action has been taken to revise the Activity Map even after eight years.

1.6.2 Funds

The funds required for the implementation of the functions were to be devolved with the transfer of functions. In test-checked district of Shimoga, it was noticed that meagre funds were released to PRIs under Khadi, Village and

Cottage Industries towards interest subsidy to artisans, bee-keeping activities, *etc.*

1.6.3 Functionaries

The GPs in the State implement a large number of Central/State sector schemes/programmes and substantial funds are released to the GPs. However, the sanctioned posts for the GPs were grossly inadequate against the activities devolved. The staff members working in the GPs were not qualified and were not permanent. Many works/schemes executed by the GPs were technical in nature and none of the GPs were equipped with technical staff. In many cases even the Secretary of the GP was not adequately qualified but was promoted to the post, based on the service rendered as a temporary employee.

Though the State Government created the post of PDO in addition to the Secretary at the GP level, 41 *per cent* of these posts remained vacant (September 2011) as the State Government did not appoint the required number of PDOs. The vacancy position of PDOs in the State is as detailed in **Table 1.11** below:

Table 1.11: Details of vacancy position of PDOs as of September 2011

Total number of GPs in the State	5,628
Total PDOs required	5,628
Working strength	3,312
Total number of vacancies in the State	2,316
Percentage of shortfall	41

Source: As furnished by the RDPR Department

In the test-checked 68 GPs of two TPs[1], only 17 GPs had both PDO as well as Secretary, 42 GPs had only Secretaries, six GPs had only PDOs and three GPs were functioning with in-charge arrangements from other GPs, indicating shortage of functionaries at grass root level.

1.7 District Planning

1.7.1 The objective of district planning was to arrive at an integrated, participatory, coordinated idea for development of a district. The District Planning Committee (DPC) in each district, constituted by the State Government was responsible for consolidation and integration of all PRIs and Urban Local Bodies (ULBs) plans to articulate the development vision for the district.

Audit observed the following deficiencies in district planning.

1.7.2 Preparation of District Development Plans

1.7.2.1 Government of India (GOI) issued (November 2007) guidelines for preparation of a Comprehensive District Development Plan (CDDP) for each district for the Eleventh Five Year Plan (EFYP) period (2007-12) facilitating the DPCs to prepare Annual District Development Plans (ADDPs) in tune with the CDDP. The Ministry of Panchayati Raj, GOI had also instructed for preparation of CDDP by April 2008. Audit observed that the DPCs submitted the CDDPs to the State Government during March – November 2010 after a delay of almost three years from the commencement of EFYP period. It is,

[1] TP-Bhadravathi -39; TP-Hosanagara-29

therefore, evident that the ADDPs prepared for the years 2007-08 to 2009-10 by DPCs could not be in consonance with the CDDPs, defeating the objective of overall development vision for the districts. The Chief Planning Officer, ZP, Davanagere replied (June 2011) that the abnormal delay in preparation of CDDP was due to delay in finalisation of plans at GP level. However, the fact remained that the CDDP and ADDPs prepared and submitted to the State Government defeated the purpose of a comprehensive planning for the EFYP period.

1.7.2.2 Deficiencies in CDDPs and ADDPs

As per CDDP guidelines, the CDDP should combine and synthesise the activities of the plans under the schemes like BRGF which is a Centrally Sponsored Scheme.

Audit observed the following deficiencies in CDDPs and ADDPs for the years 2007-12 in the test-checked districts[2]:

- the financial allocation under department-wise developmental programmes as per ADDPs during the period 2007-12 was insufficient when compared to the fund requirement projected in CDDPs in two test-checked BRGF districts as detailed in **Table 1.12** below**:**

Table 1.12: Statement showing mis-match in proposals of CDDPs and ADDPs

(₹ in lakh)

Department	Proposals in CDDP		Allocation in ADDPs	
	Davanagere	Gulbarga	Davanagere	Gulbarga
Agriculture	20,002.00	4,334 00	7,110.41	2,287.31
Horticulture	3,065.00	2,930.27	532.10	259.53
W&CD*	10,782.52	25,359.66	6,447.11	7,124.29
Fisheries	1,428.00	447.88	198.46	91.54
Co-operation	4,165.00	12,200.00	79.14	54.14

Source: As furnished by ZPs *Women and Child Development

- ADDPs prepared were not based on the priorities emerging from the lower tiers of PRIs, but were based on the allocation made to PRIs in the State budget;
- CDDPs proposed developmental schemes to bridge critical gaps in local infrastructure requirements by way of provision of funds under BRGF Scheme. However, the DPC proposed very meager funds in BRGF action plans when compared to the projected requirement of funds in CDDPs; and
- Sectoral allocations[3] projected under CDDP of Davanagere district for dovetailing of funds under BRGF Scheme were not addressed at all by the DPC in the action plans of BRGF.

Therefore, it is evident from the deficiencies stated above that the exercise of preparation of CDDPs and ADDPs were not based on a vision for development of the districts.

1.7.2.3 Functioning of DPC

As per the provisions of KPR Act, the DPC was required to meet once in a

[2] Backward Regions Grant Fund (BRGF) districts of Davanagere and Gulbarga
[3] Horticulture (₹12.65 crore), Fisheries (₹13.02 crore), Social forestry (₹12.12 crore), *etc*.

quarter to prepare development plans for the district, coordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. Audit noticed in test-checked districts that the DPCs did not meet regularly and the shortfall in convening meetings ranged from 25 to 100 *per cent*.

Audit observed the following deficiencies in functioning of DPCs in the test-checked districts:

- As per BRGF guidelines, the DPCs were required to prepare a perspective 'Vision Document' projecting the development of the districts over the next 10 to 15 years. This exercise was not attempted in any of the test-checked districts; and
- The guidelines stipulated constitution of a DPC cell by the ZPs to watch compliance with the decisions taken in its meetings. It was noticed that no such cell was constituted in the test-checked districts of Davanagere and Gulbarga. The CEO, ZP, Gulbarga replied (November 2011) that DPC cell would be formed at the earliest.

1.7.2.4 Deficiencies in planning at grass root level

The following deficiencies in planning at the grass root level contributed to insufficiency in district planning:

- GPs did not initiate any steps/campaigns to ensure participatory planning in Ward Sabha/Grama Sabha meetings during 2006-11;
- GPs were to prepare action plans considering the felt needs which were to be approved by the elected body of the concerned GPs. Contrary to the prescribed procedure, it was noticed that the action plans under BRGF were prepared by DPC and forwarded to the lower tiers of PRIs for approval; and
- According to the guidelines issued, a separate sub-plan showing the scheme-wise allocations for Scheduled Castes (SCs)/Scheduled Tribes (STs) in proportion to the population of these communities was to be prepared by each Panchayat. No such sub-plan was prepared in the districts test-checked and hence Audit could not ensure whether the issues relating to SC/ST development were addressed or not.

1.8 Accountability framework

1.8.1 Audit mandate

1.8.1.1 State Accounts Department is the statutory external auditor for GPs. Its duty, *inter-alia,* is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to audit entities and to the State Government.

1.8.1.2 The Comptroller and Auditor General of India (CAG) audits and certifies the accounts of ZPs and TPs as entrusted under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Support (TGS) Module to the CAG up to the year 2014-15.

SECTION 'B' – FINANCIAL REPORTING

1.9 Framework

1.9.1 Financial reporting in the PRIs is a key element of accountability. The best practices in matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the ZPs and TPs are governed by the provisions of the KPR Act, Karnataka ZPs (Finance & Accounts) [KZP (F&A)] Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

1.9.2 Annual Accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance (DDR) heads as prescribed in Rule 33 and 30(4) of KZP (F&A) and KPR TP (F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006.

1.10 Financial Reporting issues

1.10.1 Budget

Budget is the most important tool for financial planning, accountability and control. As per KPR Act, the budget proposals containing detailed estimates of income and expenditure expected during the ensuing year were to be prepared by the respective Standing Committees of PRIs after considering the estimates and proposals submitted by the executive authorities of PRIs every year. After considering the proposals, the Finance, Audit and Planning Committee was to prepare the budget showing the income and expenditure of the respective PRIs for the ensuing year and to place it before the governing body not later than the tenth day of March every year. The approved budget of PRIs had to be consolidated by the respective ZPs for submission to the State Government for consideration in the State budget. Further, supplementary budget was to be prepared and submitted to the State Government for approval in case of requirement exceeding sanctions and limitations. Fifteen ZPs did not furnish details of supplementary grants received from the State Government. While the ZP, Gulbarga did not exhibit the budget provision in the annual accounts, the other 29 ZPs depicted huge excesses and savings in expenditure over budget provision ranging from 11 to 180 *per cent* (excess) and 12 to 44 *per cent* (savings) for the year 2010-11. It was also observed that an expenditure of ₹44.62 crore was incurred by 18 ZPs without budget provision as detailed in **Appendix 1.2,** evidencing ineffective budgetary control by the CAOs of ZPs. There was no mechanism at the State level to watch excess/savings in expenditure over budget provision in respect of ZPs (October 2011).

1.10.2 Ineffective control over expenditure

As per the provisions of KPR Act, the ZP Fund includes all amounts transferred to the ZP by appropriation from the Consolidated Fund of the State and all grants, assignments, loans and contributions made by the State Government. Finance Department has specified (July 2005) that in respect of state sector schemes, the ZPs/TPs shall draw the funds directly from the treasury based on releases made by the administrative departments without transferring it to the ZP/TP Fund.

The State Government released ₹277.63 crore to the ZP, Mandya during the period 2006-11 for further release to the implementing agencies of the State sector schemes without routing through the ZP Fund. Of this, ₹39.59 crore was transferred to external agencies like Nirmithi Kendra, Karnataka Rural Building Centre, Karnataka Urban Water Supply & Drainage Board, Karnataka Rural Infrastructure Development Limited and Mysore Resettlement and Development Agency. No records were maintained by the ZP for watching the release, expenditure, details of estimates prepared by these agencies for execution of works, quality assurance, *etc*. This resulted in ineffective control over funds which were not routed through the ZP Fund.

1.10.3 Arrears in ZP/TP Accounts

The KPR Act stipulated that annual accounts were to be passed by the general body of the PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General for audit. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Fourteen ZPs and 125 TPs forwarded annual accounts for the year 2010-11 with delays ranging from 18 to 67 days and 18 to 110 days, respectively. This was due to non-convening of the general body meetings by PRIs in time because of administrative reasons. Non-preparation of annual accounts and non-conduct of audit of CSS by Chartered Accountants within the stipulated date was also attributed to delay in passing the annual accounts.

1.10.4 Placement of SARs before the State Legislature

The SARs of one ZP for the year 2007-08, three ZPs for the year 2008-09, 10 ZPs for 2009-10 and consolidated SARs of TPs for the year 2009-10 were yet (October 2011) to be placed in the State Legislature.

1.10.5 Deficiencies in ZP and TP accounts

The deficiencies noticed in accounts of ZPs and TPs during 2009-10 and 2010-11 are detailed below:

- The State Government withdrew (June 2007) the Letter of Credit (LOC) system in Panchayat Raj Engineering Divisions and Forest Divisions and cheque drawing powers of Drawing and Disbursing Officers (DDOs). The balances outstanding under suspense heads[4] should be cleared after due reconciliation as the validity of the cheques drawn expires three months after the month of issue. However, annual accounts of ZPs for the year 2009-10 reflected huge balances as detailed in **Appendix 1.3**. Further, seven ZPs[5] exhibited clearance of balances under remittance head in the annual accounts for the year 2010-11 without indicating the details of clearances. As a result, Audit could not ensure the correctness of these clearances.

[4] DDR heads of account
[5] Bagalkot, Chikmagalur, Chitradurga, Davanagere, Gulbarga, Hassan and Udupi

- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZPs in the annual accounts. However, balances of ₹157.36 crore and ₹6.72 crore were outstanding under TP and GP suspense accounts respectively in the annual accounts of 16 ZPs for the year 2010-11 as detailed in **Appendix 1.4**. It was also observed that in respect of eight ZPs, adverse balances of ₹22.64 crore and ₹20.88 crore under TP and GP suspense accounts, respectively were exhibited in the annual accounts 2010-11 which was irregular and was fraught with the risk of misuse.

1.10.6 Accounting system in Grama Panchayats

- The State Government enacted the Karnataka Panchayat Raj (KPR) Grama Panchayats (GPs) (Budgeting and Accounting) Rules, 2006 which provided for mandatory preparation of accounts based on the Double Entry Accounting System (DEAS) in GPs on accrual basis with effect from April 2007. The State Government engaged Chartered Accountant (CA) firms to introduce DEAS in GPs and they were to train the GP staff in the software developed and ensure preparation of accounts in DEAS from 2009-10 onwards.
- In seven test-checked GPs[6] of Mandya district during 2009-11, though books of accounts were prepared under DEAS, arrears of electricity charges of Rs.4.01 crore was omitted to be accounted under accrual basis and hence the same was not reflected in the Balance Sheet. Thereby, the accounts did not reflect the true and fair picture.
- Audit of 5,360 accounts[7] of GPs was in arrears up to the year 2010-11. In the test-checked Zilla Panchayat (ZP), Mandya, audit of 22 accounts of GPs were in arrears for the period 1989-90 to 2009-10 due to non-production of records by the GPs to State Accounts Department.
- The Executive Officers of TPs and the Chief Executive Officer, ZP, Mandya did not monitor and ensure audit of accounts of GPs annually as required under the provisions of the KPR Act. Statutory recoveries of 232 GPs in Mandya district amounting to ₹2.45 crore[8] were also not remitted to the Government account.

1.10.7 Non-recovery of revenue and water supply charges

The provisions of KPR Act empower GPs to collect tax and other revenues and water supply charges, to be utilised for developmental activities and maintenance of the water supply schemes, respectively. Audit observed that an amount of ₹11.66 crore was pending collection as of March 2011 towards tax, other revenues and water charges from the GPs as indicated in **Table 1.13** below:

[6] Belur, Budanur, H. Malligere, Hulikere, Keelara, Thadagavadi, Thaggahali
[7] As furnished by State Accounts Department
[8] ₹0.58 crore - Income Tax ,₹0.97 crore – Sales Tax, ₹0.90 crore – Royalty

Table 1.13: Shortfall in collection of revenue and water charges

(₹ in crore)

Year	Opening balance	Demand for the year	Total	Amount actually collected	Balance	Percentage of shortfall in collection
2006-07	1.08	5.08	6.16	3.09	3.07	50
2007-08	2.81	5.48	8.29	3.65	4.64	56
2008-09	4.26	6.68	10.94	4.03	6.91	63
2009-10	5.90	7.50	13.40	4.74	8.66	65
2010-11	7.34	10.04	17.38	5.72	11.66	67

Source: As furnished by GPs (2006-07 – 85 GPs; 2007-08 – 85 GPs; 2008-09 – 90 GPs; 2009-10 – 103 GPs; and 2010-11 – 97 GPs)

Note: The reason for variation in carryover of balance as opening balance was non-availability of data for the years under review by all the test-checked GPs

The shortfall in collection of revenue and water charges ranged from 50 to 67 *per cent.* In test-checked GPs, the PDOs/Secretaries failed to issue demand notices or invoke penal provisions on defaulters to ensure collection of revenue. This showed the lackadaisical attitude and lack of effort of the GPs to supplement their resources. Further, a comparison of the receipts from water charges and the expenditure on the maintenance of water supply revealed that the expenditure far exceeded the receipts by 321 to 427 *per cent* during 2006-11 as detailed in **Table 1.14** below. Despite this huge gap, there was no attempt on the part of the GPs to increase the collection. Two GPs[9]did not maintain any details of collection of water charges and in these GPs, misuse of user charges collected could not be ruled out.

Table 1.14: Collection of water charges and expenditure on water supply maintenance

(₹ in crore)

Year	Water charges collected	Expenditure	Percentage
2006-07	0.29	0.98	338
2007-08	0.32	1.07	334
2008-09	0.39	1.25	321
2009-10	0.44	1.88	427
2010-11	0.52	1.70	327

Source: As furnished by GPs

1.10.8 Non-remittance of cess

As per the instructions (May 2005) of the State Government, a cess towards providing adequate health, education, improved library facilities *etc.,* aggregating 34 *per cent*[10] of the total tax collection of GPs had to be remitted to the State Government. The Secretaries/PDOs of GPs were to comply with the instructions and the CEO, ZP was required to watch deduction of cess and consequent remittance to the State exchequer. However, the Secretaries/PDOs of the GPs entered the amounts so collected by way of cess in the Demand, Collection and Balance registers. It was observed in 77 GPs during 2006-11 that collected cess amounting to ₹5.97 crore was not remitted to the State Government account. The omission persisted despite being pointed out by the statutory auditors repeatedly. Audit observed that the GPs utilised the cess collected for their administrative/development purpose in contravention of the instructions. Further, neither the EOs of TPs nor the CEOs of the ZPs have

[9] Bulasagara and Guttidurga

[10] Health cess 15 *per cent*, education cess 10 *per cent*, library cess six *per cent* and beggary cess three *per cent*

issued directions to GPs to remit these substantial outstanding amounts to the concerned heads of Government account. Non-remittance of this amount to the State exchequer defeated the purpose for which these collections were made. It was also observed that there was no mechanism in place in the State to watch the remittance of the cess collected.

1.10.9 Non-remittance of taxes

Codal provisions stipulate that revenues received should be remitted in full to GP fund without undue delay. Audit scrutiny revealed that in 14 GPs, collected taxes amounting to ₹17.35 lakh were not remitted to the GP fund during 2006-11. In respect of three GPs[11], taxes of ₹0.85 lakh were neither accounted in the cash book nor remitted to the GP fund. The possibility of misappropriation of these taxes collected could not be ruled out. The PDOs/Secretaries of the GPs failed to comply with the codal provisions and the EOs of the TPs also failed to monitor the remittance.

1.10.10 Non-remittance of statutory deductions

Statutory deductions such as Value Added Tax, Royalty and Income-tax deducted from contractors/suppliers' bills during 2006-11 amounting to ₹40.13 lakh were exhibited separately in the Cash Book but were not remitted to Government account by the Secretaries of 22 GPs. This was also neither watched by the EOs of the TPs nor monitored by the CEOs of the ZPs.

1.10.11 Thirteenth Finance Commission grants

The Thirteenth Finance Commission guidelines stipulated that the GOI was to release the funds to the State Government. The funds were to be transferred to PRIs within five/ten days of their receipt depending upon the availability/non-availability of banking facilities, failing which interest at RBI rate was to be paid for the delayed period. There were delays ranging from 2 to 178 days in release of the second instalment of grants to GPs during 2010-11, but interest of ₹0.22 crore was not paid by the State Government.

1.10.12 Non-submission of Non-payable Detailed Contingent (NDC) bills

In seven ZPs, detailed accounts for ₹3.58 crore drawn on AC bills were not submitted

While codal provisions permit the DDOs to draw funds on Abstract Contingent (AC) bills towards contingent charges required for immediate disbursement, DDOs are required to submit the NDC bills to the CAOs before the 15th of the following month. The CAO, ZP is to exercise watch over the pendency of NDC bills and under the orders of the CEO, ZP concerned, issue advice to the Treasury Officer not to honour further bills and also withhold the salary of the defaulting DDOs. It was noticed that 32 departmental officers under the jurisdiction of seven ZPs did not submit the NDC bills (November 2011) for amounts aggregating ₹3.58 crore drawn on 106 AC bills. Some of these bills were drawn as early as in the year 1987-88 as detailed in **Appendix 1.5**. Despite this irregularity being pointed out in previous Audit Reports, the CAOs did not initiate action against officers who failed to render detailed accounts.

[11] Amaramudnuru-₹0.15 lakh; Doddamole-₹0.54 lakh, and Yerandi-₹0.16 lakh

1.10.13 Cases of misappropriation/defalcation

150 cases of mis-appropriation/ defalcation involving ₹15.25 crore were pending

The State Government instructions stipulate that each PRI should report any case of loss, theft, embezzlement or fraud to the executive authority of the concerned ZPs. These cases would then be investigated by the designated enquiry officer so that losses could be recovered, responsibility fixed and systemic deficiency, if any, removed.

As of March 2011, 12 ZPs reported 150 cases of misappropriation, defalcation, loss of material, *etc*., involving Government money amounting to ₹15.25 crore on which final action was yet to be communicated as detailed in **Appendix 1.6**. These cases were to be reviewed once in three months by the CEO, ZP at the district level and by the Secretary to Government, RDPR at the State level. The position of the pending cases is shown in **Table 1.15** below:

Table 1.15: Position of pending cases

(₹ in crore)

Position of the pending cases		
Nature of cases	**Number of cases**	**Amount involved**
Under investigation	108	10.68
Pending in Courts	17	3.91
Others	25	0.66
Total	**150**	**15.25**

Source: As furnished by ZPs

Delays in settlement of these cases may result in postponement of recoveries/non-recovery and officers/officials responsible for irregularities going unpunished.

1.11 Poor response to Inspection Reports

The KZP (F&A) Rules stipulate that heads of the Departments/DDOs of the ZPs shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the CEOs of ZPs. Despite *ad-hoc* Committee meetings being held regularly, 3,427 Inspection Reports (IRs) consisting of 12,639 paragraphs were outstanding in various ZPs as of March 2011. During the year 2010-11, 2,710 paragraphs were cleared in 10 a*d-hoc* Committee meetings. Year-wise details of IRs and paragraphs outstanding in respect of all the ZPs are detailed in **Appendix 1.7.** Out of the IRs outstanding, 1,780 (52 *per cent*) IRs containing 4,357 (34 *per cent)* paragraphs were pending for more than five years, which highlighted the inadequate action of the CEOs in settlement of the objections.

1.12 Conclusion

No action was taken to revise the Activity Map even after eight years by the State Government. Evidently, there was no mechanism at the apex level to oversee the devolution of functions to PRIs. GPs did not initiate any steps/campaigns to ensure participatory planning in Ward Sabha/Grama Sabha meetings during 2006-11. Control over expenditure by ZPs was ineffective due to direct transfer of GOI funds to implementing agencies. Balances under suspense heads of accounts were not reconciled. Internal Control mechanism was weak as the instances of non- remittances of Government dues, statutory deductions and non submission of detailed accounts for the amounts drawn on AC bills were noticed.