



CHAPTER-I

**An overview of Panchayat
Raj Institutions**

CHAPTER I

SECTION 'A' AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

Consequent to 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 15.67 *per cent* and was less than the national average of 17.64 *per cent*.

The urban and rural population decadal growth rates were 7.63 *per cent* and 31.27 *per cent* respectively. As per census 2011, the population of the State was 6.11 crore, of which women comprise 49 *per cent*. The State has 114 backward taluks out of which 39 taluks spread over 14 districts are the most backward.

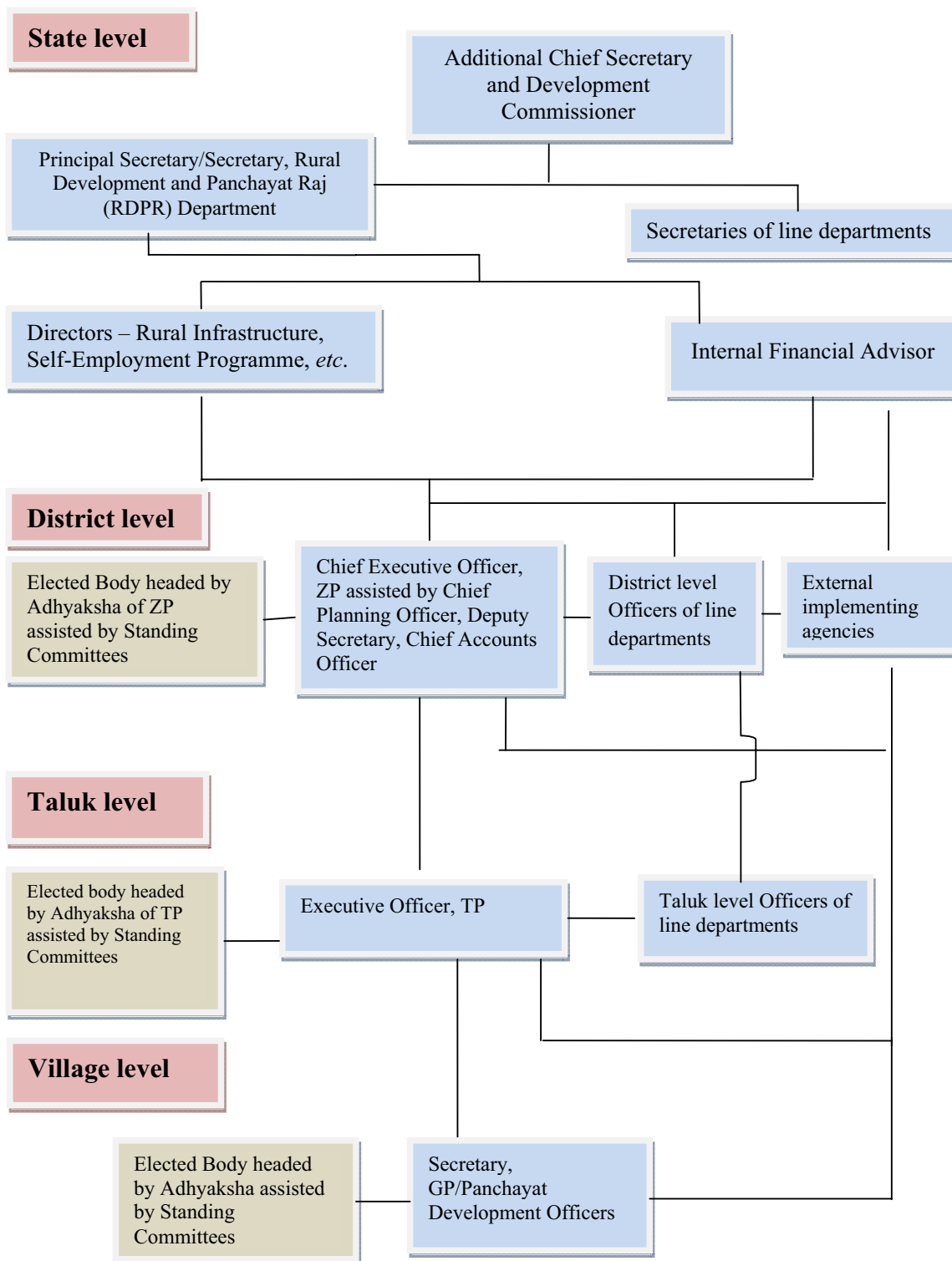
Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	61,131	12,10,193	9
Population density	Persons per Sq Km	319	382	13
Urban population	Percentage	38	31	4
Number of PRIs	Numbers	5,833	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	5,627	2,34,000 (Approx)	16
Gender ratio (females per 1000 males)	Numbers	968	940	11
Poverty ratio	Percentage	25	22	NA
Literacy	Percentage	76	74	16

Source: Economic Survey Report 2011-12, Census 2011 and annual progress report of Rural Development and Panchayat Raj Department 2011-12.

NA: Not available

1.3 Organisational structure of PRIs



1.3.1 Standing Committees

The 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**, 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 grants	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

Scheme	Fund flow
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 PRIs.
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 and Monitoring Committees for implementation of the Scheme.
National Rural Health Mission (NRHM)	Funds for NRHM are released by GOI to the States through two separate channels <i>i.e.</i> , through State Finance Department for direction and administration, rural and urban family welfare services, procurement of supplies and services, <i>etc.</i> , and directly to the State Health Society for implementation of the Scheme. From the year 2007-08, the States were to contribute 15 <i>per cent</i> 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.
Mid-Day Meal Scheme (MDM)	The Central assistance received is credited to the State funds and the State Government, after including its allocation, releases 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, <i>etc.</i> , was also provided by GOI.
Pradhan Mantri Gram Sadak Yojana (PMGSY)	PMGSY is a 100 <i>per cent</i> Centrally Sponsored Scheme (CSS). Fifty <i>per cent</i> 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 guideline

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 2007-08 to 2011-12.

Table 1.5: Time series data on resources of PRIs

Particulars	₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Own revenue~	202.86	205.59	224.09	NA	NA
CFC transfers (Twelfth /Thirteenth) ^π	177.60	177.60	177.60	419.38	769.58
Grants from State Government and assigned revenues [^]	9,488.13	9,841.85	11,216.04	11,789.48	13,521.70
GOI grants for CSS and State Schemes*	2,680.40	3,285.09	2,871.95	3,575.74	2,253.08

Other receipts*	99.57	82.29	13.28	257.91	156.77
Total	12,648.56	13,592.42	14,502.96	16,042.51	16,701.13

Source: Certified annual accounts up to 2010-11 for ZPs and TPs

^ Figures as furnished by Treasury for 2011-12 in respect of ZPs and TPs

~ GPs' figures as furnished by RDPR Department for GPs. (2007-08: 5,411 GPs, 2008-09: 4,002 GPs, 2009-10: 4,449 GPs)

* GOI grants released to TPs through ZP accounts are excluded

π Utilisation Certificates of State Government. NA: Not available

Increase in resources of PRIs during 2011-12 was mainly due to increase in release of GOI grants under National Rural Drinking Water Programme (NRDWP) and Thirteenth Finance Commission.

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 2007-08 to 2011-12.

Table 1.6: Application of resources sector-wise

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
ZILLA PANCHAYATS					
State grants and assigned revenues					
Capital Expenditure	38.61	17.92	0	0.46	4.57
Social Services	31.95	17.61	0	0.46	1.37
Economic Services	6.66	0.31	0	0	3.20
Revenue Expenditure	3,454.69	3,558.22	3,420.21	4,220.94	5,368.96
General Services	105.34	123.22	115.56	121.93	44.69
Social Services	2,253.07	2,574.15	2,467.20	3,234.42	4,347.23
Economic Services	1,095.83	860.85	837.45	864.59	977.04
Suspense	0.45	0	0	0	0
CSS and State Schemes					
Capital Expenditure	57.72	64.08	8.58	153.46	176.97
Social Services	57.72	64.08	8.58	145.15	164.36
Economic Services	-	-	0	8.31	12.61
Revenue Expenditure	1,941.02	1,455.20	1,605.88	3,308.29	2,612.34
General Services	0	0	0.72	0	0
Social Services	454.52	548.18	374.36	453.09	329.28
Economic Services	1,486.50	907.02	1,230.80	2,855.20	2,283.06
Total	5,492.04	5,095.42	5,034.67	7,683.15	8,162.84
TALUK PANCHAYATS					
Capital Expenditure	0	0	0.16	0.19	0
General Services	0	0	0	0	0
Social Services	0	0	0.15	0.03	0
Economic Services	0	0	0.01	0.16	0
Revenue Expenditure	3,951.21	4,537.89	4,971.83	6,333.23	7,087.02
General Services	65.95	0	0	0	0
Social Services	3,427.17	4,194.75	4,560.82	5,841.25	6,389.61
Economic Services	350.04	334.84	408.75	491.98	697.41
Suspense	108.05	8.30	2.26	0	0
Grand Total	9,443.25	9,633.31	10,006.66	14,016.57	15,249.86

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

Figures as furnished by Treasury for 2011-12 for ZPs and TPs and CSS/State scheme figures are provisional

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 under development heads of account 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 efficiency¹ 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
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	10,006.66	13.18	0.13	7,411.11	74.06	8.74	0.09
2010-11	14,016.57	57.96	0.41	9,528.76	67.98	154.11	1.10
2011-12	15,249.86	13.34	0.09	11,066.12	72.57	181.54	1.19

Source: Annual Progress Reports of RDPR and SARs up to 2010-11 and 2011-12

1.4.5 Public investment in social sector and rural development through major CSS during 2011-12 is given in **Table 1.8**.

Table 1.8: Statement showing investment through major CSS

(₹ in crore)

Schemes	2011-12				Percentage of shortfall in utilisation
	Opening Balance	Releases	Total	Expenditure	
MGNREGS	1,095.93	859.75	1,955.68	1,640.99	16.09
NRDWP	321.99	1,186.19	1,508.18	1,181.52	21.66
PMGSY	529.00	87.00	616.00	446.35	27.54
Indira Awas Yojana (IAY)	113.70	438.85	552.55	302.67	45.22
Total Sanitation Campaign (TSC)	--	119.89	119.89	68.12	43.18

Source: Annual/Progress reports of RDPR and Management Information System (MIS)

It could be seen from the table above that the available funds under PMGSY, IAY and TSC schemes were not utilised optimally during the year 2011-12.

1.4.6 Rural Development Programmes

The Rural Development Programmes aim 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**. Audit observed that the expenditure incurred towards Gram Swaraj Project, Suvarna Gramodaya Yojane and Mukhya Mantri Grameena Raste Abhivrudhi Yojane (CMGSY) during 2011-12 varied from 57 per cent to 82 per cent of total availability of funds.

¹ The capital expenditure reflects creation of assets which is a pointer for the efficiency of expenditure.

1.5 State Finance Commissions

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 2011-12 were as in **Table 1.9** below:

Table 1.9: Details of allocation by the State Government during 2011-12

Particulars	₹ in crore
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	50,563.00
Allocation as decided by the State Government (32 per cent of NLNORR)	16,180.16
Funds actually released to PRIs	15,122.83
Amount short released to PRIs	1,057.33

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 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 envisages 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, Function 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. While the '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.

The functions of Agriculture and Soil Conservation were selected in audit to assess the extent of transfer of funds, functions and functionaries in two selected districts². The agriculture functions were carried out by the Agriculture Department and that of Soil Conservation by the Watershed Development Department.

The State Government has distributed 82 functions under eight activities of Agriculture and 11 functions under one activity of Soil Conservation among PRIs as per Activity Map published during August 2003.

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 not been revised even after nine years.

² Bidar and Hassan

It was observed in the test-checked districts that out of 25 functions to be transferred to ZPs under Agriculture, only 17 functions were transferred. Out of 32 functions to be transferred to TPs, only 24 functions were transferred. The activities of Post Harvest Management, Soil testing and Protection and maintenance of village commons were not transferred to the PRIs³ and remained with the State sector. None of the 25 functions to be transferred to GPs were transferred to them.

Though all the functions of the Soil Conservation department were transferred to the ZP and TP levels, none of the functions were transferred to GPs. The activities not transferred to PRIs were carried out through state sector programmes for which the action plans were approved by the respective Directorate instead of PRIs.

1.6.2 Funds

Funds required for the implementation of activities were to be devolved along with the transfer of functions. The details of funds released to PRIs through District and State Sector programmes are as in **Table 1.10**.

Table 1.10: Details of sector- wise releases and expenditure for the period 2007-12
(₹ in crore)

Name of the Function	Releases			Expenditure		
	State Sector (Percentage)	District Sector (Percentage)	Total	State Sector (Percentage)	District Sector (Percentage)	Total
Agriculture	1,809.35 (94)	110.43 (6)	1,919.78	1,643.25 (94)	108.88 (6)	1,752.13
Soil Conservation	691.28 (41)	993.20 (59)	1,684.48	537.88 (40)	812.84 (60)	1,350.72

Source: Annual Progress reports of Agriculture and Watershed Development Departments

It could be seen from the above table that 94 *per cent* of expenditure was incurred under Agriculture function from the State Sector and only six *per cent* from the district sector. This indicates that the funds released under district sector programmes were not in proportion to the functions transferred to the PRIs under Agriculture department. Further, it was also observed that more expenditure was incurred under District sector than State sector in respect of soil conservation activity during the period 2007-12.

1.6.3 Functionaries

The officers and staff required for performing various functions entrusted to PRIs are posted by the Government from amongst its own officers and staff. Though these Government servants are on deputation to PRIs, the Karnataka Civil Services (Classification, Control and Appeal) Rules, 1957 [KCS (CCA) Rules] prescribe that the CEO of ZP shall have the powers of the appointing authority in respect of Government servants of Group B, C and D and Doctors working in Primary Health Centres, for placing them under suspension and of the disciplinary authority for the purpose of taking disciplinary proceedings against such Government servants and to impose any of the penalties specified in Sub Rules I to IV (a) of Rule 8 of KCS (CCA) Rules.

³ PRIs for Agriculture at ZP and TP level are Joint Director of Agriculture (JDA) and Assistant Director of Agriculture (ADA) respectively

The vacancy position in selected districts was as detailed in **Table 1.11**:

Table 1.11: Details of vacancy position of technical posts as of March 2012

District	Agriculture ⁴			Soil conservation		
	Sanctioned	Working	Vacancy (Percentage)	Sanctioned	Working	Vacancy (Percentage)
Bidar	385	211	174 (45)	45	41	4 (9)
Hassan	186	42	144 (77)	78	40	38 (49)
Total	571	253	318 (56)	123	81	42 (34)

Source: As furnished by the JDA and District Watershed Development Officers (DWDO) of the districts

It could be seen from the above table that more than 55 *per cent* of technical posts⁵ in Agriculture department were not filled by the State Government. Similarly, 34 *per cent* of technical posts relating to Soil Conservation functions in the Watershed Development Department were not filled by the State Government.

1.7 District Planning

1.7.1 The objective of district planning is 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 is responsible for consolidation of plans of all PRIs and Urban Local Bodies (ULBs). Audit observed the following deficiencies in district planning in the test- checked districts.

1.7.2 Preparation of District Development Plans

1.7.2.1 GOI had 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 March 2008. Audit observed that in both the test-checked districts (Bidar and Hassan) the CDDPs were submitted (July 2010) by the respective consultants after a delay of more than two years after prescribed date of completion and after three years of commencement of EFYP. Thus, the CDDPs were not utilised for the preparation of ADDPs for the years 2007-08 to 2009-10 by DPC. The Chief Planning Officer, ZP, Bidar replied (December 2012) that the delay in preparation of CDDP was by the agency which prepared the CDDP.

1.7.2.2 Functioning of DPC

As per the provisions of KPR Act, the DPC was required to meet once in a quarter to prepare development plans for the district, coordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. Audit observed in test-checked districts that the DPCs did not meet regularly and only four and 10 meetings were held in Hassan and Bidar ZPs, respectively, for the period 2007-08 to 2011-12, instead of the prescribed 20 meetings in each District.

⁴ Including the staff position of Raitha Samparka Kendras (RSK)

⁵ Agriculture Officer, Assistant Agriculture Officer, Assistant Horticulture Officer, etc.

1.8 Accountability framework

1.8.1 Audit mandate

1.8.1.1 State Accounts Department (SAD) 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 audited 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 under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971.

Audit of accounts of 188 ZPs/TPs against 206 for the period up to 2011-12 was conducted as of March 2012.

The State Government entrusted (May/July 2011) the audit of GPs under Technical Guidance and Supervision (TGS) Module to the CAG by amending the KPR Act, 1993. As of March 2012, 149 GPs have been audited under TGS module.

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 37(4) 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. As per the recommendations of the Thirteenth Finance Commission (TFC), the ZPs and TPs prepared the accounts in the Model Accounting System (MAS) formats from 2011-12, but the GPs were yet to adopt the MAS formats.

1.10 Financial Reporting issues

1.10.1 Budget formulation

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.

1.10.1.1 Limited role of TPs in the preparation of Budget

Two ZPs⁶ and three TPs⁷ were test-checked to review the controls and financial reporting systems in PRIs. It was observed that all the test-checked TPs prepared budget for only salary and forwarded to ZPs for incorporation in the ZP budget. No budget proposals were prepared for TP programmes by TPs, instead it was the ZPs which finalised the budget proposal for the district sector programmes which included TP programmes and forwarded to Government for allocation of funds. The State Government allocated lump sum grants to TPs under each ZP. The ZPs allocated funds to each TP under

⁶ Bidar and Hassan

⁷ Alur, Holenarasipura and Humnabad

the district. Thus, TPs did not have much role in preparation of budget for TP schemes.

1.10.1.2 Budget proposals and releases of funds in the Agriculture and Soil Conservation functions

Audit reviewed budget proposals and releases of funds to the Agriculture and Soil Conservation functions in the selected districts. The details of budget proposed, releases and expenditure are given in **Table 1.12**.

Table 1.12: Details of Budget proposals, allocation and expenditure

							(₹ in crore)
Year	Function	Budget Proposed	Budget allocated	Amount released	Short release (percentage) w.r.t. allocation	Expenditure (percentage to Releases)	Savings w.r.t. budget proposed (Percentage)
(1)	(2)	(3)	(4)	(5)	(6) (6=4-5)/(6/4*100)	(7) ((5-7)/5*100)	(8) (8=7-3)/(8/3*100)
2007-08	Agriculture	4.85	5.18	4.63	0.55 (11)	4.05 (87)	0.80 (16)
	Soil conservation	21.60	22.60	4.97	17.63 (78)	4.97 (100)	16.63 (77)
2008-09	Agriculture	4.47	4.25	3.58	0.67 (16)	3.25 (91)	1.22 (27)
	Soil conservation	26.07	20.87	14.54	6.33 (30)	9.55 (66)	16.52 (63)
2009-10	Agriculture	4.35	4.31	4.27	0.04 (1)	4.23 (99)	0.12 (3)
	Soil conservation	21.70	17.83	16.41	1.42 (8)	13.13 (80)	8.57 (39)
2010-11	Agriculture	4.39	4.39	4.07	0.32 (7)	3.90 (96)	0.49 (11)
	Soil conservation	26.71	16.57	9.17	7.40 (45)	8.54 (93)	18.17 (68)
2011-12	Agriculture	4.47	4.47	3.70	0.77 (17)	3.47 (94)	1.00 (22)
	Soil conservation	10.85	8.72	3.62	5.10 (58)	5.15 (142)	5.70 (53)
Total	Agriculture	22.53	22.60	20.25	2.35 (10)	18.90 (93)	3.63 (16)
	Soil conservation	106.93	86.59	48.71	37.88(44)	41.34 (85)	65.59 (61)

Source: As furnished by the JDA and DWDO of the districts

It could be seen from the above table that the State Government released less than the amount allocated, ranging from eight to 78 *per cent* during the period 2007-08 to 2011-12 towards Soil Conservation activities and one *per cent* to 17 *per cent* towards Agriculture activities. The departments did not utilise the full amount released by the Government for these activities during the period 2007-12. The expenditure ranged from 87 *per cent* to 96 *per cent* for Agriculture activities and from 66 *per cent* to 142 *per cent* for Soil Conservation activities. Further, there were savings aggregating 16 *per cent* and 61 *per cent* with respect to budget proposed and expenditure incurred during 2007-12 in Agriculture and Soil Conservation activities respectively. Thus, the budget proposed by the departments was in a routine manner without considering the actual requirements, resulting in unrealistic budget.

1.10.1.3 Unauthorised excess expenditure by District Watershed Development Department

According to Rule 33(10) of KZP (F & A) Rules 1996, the Drawing and Disbursing Officers (DDOs) of the ZP shall satisfy themselves regarding the availability of budget provision before incurring any expenditure from ZP funds and according to rule 38(2) *ibid*, the Finance, Audit and Planning Committee can ratify the excess expenditure over budget provision after examination. Further, the CEO, ZP is responsible for controlling expenditure against allotment of funds. The District Watershed Development Office, Bidar

incurred excess expenditure of ₹3.42 crore over the funds authorised during 2007-08, 2010-11 and 2011-12 under Major Head - 2402 thus reflecting weak budgetary control.

1.10.2 Rush of expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The rush of expenditure particularly in the fag end of the financial year is regarded as a breach of financial rules. Audit observed in the selected districts that 44 *per cent* of the total annual expenditure was incurred during the last quarter of the year 2011-12 against the release of 33 *per cent* during the last quarter of the year 2011-12.

1.10.3 Loss of grants

ZPs are to draw the grants released by the Government as soon as it is received and release the funds to DDOs. However, it was observed that ₹5.65 crore⁸ was not drawn by ZPs, Hassan and Bidar during 2011-12, resulting in loss of grants to that extent. The ZPs attributed (October 2012) it to the delay in receipt of Government Orders. The reply was not acceptable as Government Orders were in fact received before 30 March 2012.

1.10.4 Delay in receipt of ZP/TP Accounts

The KPR Act stipulates that annual accounts are to be passed by the General Body of the PRIs within three months from the closure of the financial year and are 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. Thirty ZPs and 134 TPs forwarded annual accounts for the year 2011-12 with delays ranging from two days to 230 days and one to 118 days, respectively. The remaining 42 TPs had not submitted the accounts yet (February 2013). 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 centrally sponsored schemes by Chartered Accountants within the stipulated date were also attributed to delay in passing the annual accounts.

1.10.5 Placement of SARs before the State Legislature

The SARs of 17 ZPs for 2010-11 were yet to be placed in the State Legislature (February 2013).

1.10.6 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 DDOs. The balances outstanding under suspense heads⁹ should be cleared after due reconciliation as the validity of the cheques drawn expires three months after the month of issue.

⁸ ZP Bidar- under Major Head 2501-₹0.10 crore, ZP Hassan – under Major Head 5054 - ₹1.55 crore and 4702- ₹4.00 crore

⁹ DDR heads of account

However, annual accounts of ZPs for the year 2011-12 reflected huge balances as detailed in **Appendix 1.2**.

- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZPs in the annual accounts. However, 16 ZPs had not taken any action to clear the suspense accounts. The balances outstanding are detailed in **Appendix 1.3**. It was also observed that in respect of six ZPs, adverse balances of ₹100.70 crore and ₹14.94 crore under TP and GP suspense accounts, respectively were exhibited in the annual accounts 2011-12 which was irregular and was fraught with the risk of misuse.

1.11 Resource utilisation

There are various schemes implemented by the PRIs. TFC grant and Swarnajayanti Gram Swarajgar Yojana (SGSY) schemes were selected to ascertain the utilisation of fund by the PRIs.

1.11.1 Thirteenth Finance Commission grants

1.11.1.1 Unspent balances

The TFC recommended grant-in aid to the local bodies as a percentage of the previous years' divisible pool of taxes, over and above the share of the States. The GOI released General Basic Grant of ₹945.09 crore and Performance Grant of ₹243.87 crore during 2010-11 and 2011-12 to PRIs in Karnataka in two instalments annually. The State Government instructed PRIs to follow the guidelines prescribed for XII Finance Commission. In test-checked PRIs it was observed that expenditure ranged from 19 *per cent* to 50 *per cent* during 2010-12 and ₹6.88 crore remained unutilised as at the end of 31 March 2012 as detailed in **Table 1.13** thereby defeating the intention of providing timely service to the rural population as envisaged.

Table 1.13: Details of unspent balance of TFC grant

(₹ in lakh)						
Name of the PRI	Grants released during 2010-11	Grants released during 2011-12	Total	Amount utilised	Balance	Percentage of expenditure to total releases
ZP Bidar	146.67	215.12	361.79	116.60	245.19	32
ZP Hassan	170.86	250.63	421.49	208.88	212.61	50
TP Alur	38.00	55.76	93.76	38.18	55.58	41
TP Holenarasipura	45.38	67.21	112.59	20.89	91.70	19
TP Humanabad	59.88	87.85	147.73	65.22	82.51	44
Total	460.79	676.57	1,137.36	449.77	687.59	40

Source: As furnished by the respective PRIs

1.11.1.2 Delayed release of funds

The TFC 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 Reserve Bank of India rate was to be paid for the delayed period. Audit observed that there were delays ranging from four to 143 days in crediting funds to individual bank accounts of PRIs. On this being pointed out, the State Government released ₹2.11 crore to PRIs

on 06 February 2013.

1.11.1.3 Payment of Honorarium

The State Government issued order (May 2011) for payment of honorarium from TFC grants to Presidents and members of ZPs and TPs though provision was available in the State budget. This was in contravention of the objective of the TFC. Audit observed during test-check of 13 ZPs and 45 TPs that honorarium of ₹1.28 crore was paid during 2011-12 depriving developmental works in ZPs and TPs.

1.11.2 Swarnajayanti Gram Swarojgar Yojana

1.11.2.1 SGSY is a centrally sponsored self employment scheme with 75:25 funding between GOI and State Government since April 1999. The objective of the scheme is to bring the assisted poor rural families above the poverty line and to ensure sustainable level of income by organising them into Self Help Groups (SHGs) through a process of social mobilisation, training, capacity building and provision of income generating assets with bank credit and Government subsidy. The financial position of SGSY scheme in the selected two districts is given in **Table 1.14**.

Table 1.14: Statement showing the financial position in selected two districts

(₹ in crore)

Year	Opening Balance	Grant Released by GOI	Grant Released by the State Government	Miscellaneous receipts	Total grants available	Expenditure (Percentage)	Closing Balance
2010-11	1.17	6.23	1.87	0.26	9.53	7.46 (78)	2.07
2011-12	2.07	5.68	2.29	0.09	10.13	9.38 (93)	0.75
Total	3.24	11.91	4.16	0.35	19.66	16.84 (86)	2.82

Source: Utilisation Certificates furnished by ZPs (Bidar and Hassan)

The ZPs utilised 78 and 93 *per cent* of the total available grant during the period 2010-11 and 2011-12 respectively, which was less than the State utilisation (88 *per cent*) during 2010-11 and more during 2011-12 (83 *per cent*).

1.11.2.2 Loss of Central Assistance

Due to late receipt of UC from ZP, Hassan during 2011-12, the GOI deducted ₹49.91 lakh from the second instalment of 2011-12 whereby the ZP lost Central assistance to that extent.

1.12 Other issues

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

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 to issue advice, under the orders of the CEO, ZP concerned, to the Treasury Officer not to honour any bill presented by the defaulting DDOs and also to withhold the salary of the DDOs.

It was seen in the selected ZPs that Social Forestry and Social Welfare departments had not submitted the NDC bills aggregating ₹60.60 lakh drawn on 38 AC bills since 1998 to 2011-12. Despite this irregularity being pointed

out in previous Audit Reports, the CAOs did not initiate action against officers who failed to render detailed accounts.

1.12.2 Cases of misappropriation/defalcation

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 2012, 29 and 23 cases of misappropriation were pending in the selected two ZPs and the amount involved was ₹43.93 lakh.

1.12.3 Non withdrawal of unspent amount

The State Government *vide* Order dated 8 September 2004 had split the ZP and TP funds into three categories *viz*; Fund I (Funds related to CSS and state share of CSS programmes), Fund II (State grant) and Fund III (Own Funds), and directed Treasuries to write back the unspent amount available at the end of the financial year in Fund II account to Government account. However, State Government did not withdraw unspent balance of ₹1,657.72 crore outstanding under ZP and TP fund II accounts as on 31 March 2012.

1.12.4 Locking up of fund

Unspent amounts aggregating ₹5.09 crore were lying in inoperative bank accounts of the two selected ZPs as on 31 March 2012 pertaining to various¹⁰ closed/inactive schemes for last one to five years and no action was taken by the ZPs to refund the amount to Government. This resulted in locking up of Government fund to the extent of ₹5.09 crore.

1.12.5 Incomplete projects of ₹266.67 crore

Eleven ZPs reported that 94 works remained incomplete as on 31 March 2012. The delay in completion ranged between 24 months to 120 months. Delay in completion of projects resulted in denial of intended benefits to beneficiaries.

1.12.6 Utilisation Certificate

The Bidar ZP released ₹1.28 crore to Karnataka Rural Infrastructure Development Limited (KRIDL) during March 2012 and booked the releases as expenditure. The UCs and the accounts were not obtained from the KRIDL by the ZP. Thus, the utilisation of ₹1.28 crore exhibited as expenditure in the annual accounts of the ZP was not ascertainable.

1.12.7 Reconciliation

As per rule 38 of KZP (F&A) Rules 1996, the DDOs have to reconcile the expenditure figures with CAO of ZP. However, in the selected two ZPs, 45 DDOs had not reconciled their expenditure fully with those of ZPs.

1.12.8 Arrears in Audit

The State Accounts Department is the statutory auditor for the accounts of GPs. Audit of accounts of 3,844 GPs (68 *per cent*) against the planned 5,628

¹⁰ Ambedkar Bhavana, BPL, Pradhan Mantri Gramodaya Yojana (Gramin Awas), Sampoorna Gramin Rozgar Yojana, etc.

for the period up to 2011-12 was conducted by SAD as of March 2012. The Controller, SAD stated (April 2013) that the reasons for not conducting audit of 1,784 GPs were shortage of staff in the department and non-production of records by 1,221 GPs.

Further, the CAO has to conduct internal audit of all the line departments of PRIs. It was seen that in the test-checked ZPs of Hassan and Bidar, CAOs had conducted internal audit of only 16 units out of 92 units during 2011-12. CAO replied (September 2012) that audit could not be completed due to shortage of staff. Further, 18 other ZPs reported that out of 2,196 institutions, audit of only 543 institutions was conducted due to insufficient staff.

1.13 Poor response to Inspection Reports

The KZP (F&A) Rules stipulate that the 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. As of March 2012, 3,301 Inspection Reports (IRs) containing 11,949 paragraphs were outstanding in various ZPs. Year-wise details in respect of all the ZPs are detailed in **Appendix 1.4**. Out of the total IRs outstanding, 1,086 (33 *per cent*) IRs containing 2,409 (20 *per cent*) paragraphs were pending for more than 10 years, which highlighted the inadequate action of the CEOs in settling the objections.

1.14 Conclusion

No action has been taken by the State Government to revise the Activity Map even after nine years. There was no mechanism at the apex level to oversee the devolution of functions to PRIs. Unspent balances of ₹1,657.72 crore under ZP and TP fund account II were not withdrawn by the State Government. Also unspent amount of scheme funds were locked up in inoperative bank accounts. Balances under suspense heads of accounts were not reconciled.

1.15 Recommendations

- The State Government should take action to revisit the Activity Map to ensure effective devolution of functions to PRIs.
- PRIs should ensure optimum utilisation of the available resources and the grant should be utilised in a time bound manner to derive the intended benefit.
- Concerted efforts are needed to adjust the old outstanding balances under DDR heads of account by the ZPs.
- The ZPs and DDOs should respond promptly to the IRs issued by the Auditors for speedy settlements of audit observations.