



OVERVIEW

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This Report contains six chapters. The first and the second chapter contain an overview of finances and observations on financial reporting in Panchayat Raj Institutions. The third chapter contains observations arising out of performance and compliance audits of the Panchayat Raj Institutions. The fourth and the fifth chapter contain an overview of finances and observations on financial reporting in Urban Local Bodies. The sixth chapter contains observations arising out of compliance audit of the Urban Local Bodies. A synopsis of the findings is presented in this overview.

1. An overview of Panchayat Raj Institutions

A review of finances of Panchayat Raj Institutions revealed that there was steady increase in the allocation of funds to Panchayat Raj Institutions by the State Government during the period 2009-14. Inspector General of Registration and Commissioner of Stamps had not transferred additional stamp duty of ₹30.96 crore and ₹15.05 crore to Taluk Panchayats for the years 2012-13 and 2013-14 respectively (November 2014). The State Government had not devised activity map for the functions of 'Welfare of the weaker sections', 'Public Distribution System' and 'Maintenance of community assets'.

(Paragraph 1.1)

2. Financial Reporting in Panchayat Raj Institutions

The Annual Accounts of Zilla Panchayats, Taluk Panchayats and Gram Panchayats were submitted after due dates. Unspent amount of scheme funds were locked up in inoperative bank accounts. Balances under suspense heads of accounts were not reconciled. The State Government had not written back unspent balances under Zilla Panchayat and Taluk Panchayat funds. There was delay in release of Thirteenth Finance Commission grants to Panchayat Raj Institutions. Gram Panchayats had irregularly utilised the cess amount collected without remitting it to authorities concerned.

(Paragraph 2.1)

3. Suvarna Gramodaya Yojana

The State Government launched Suvarna Gramodaya Yojana in February 2007 to develop vibrant village communities by adopting an intensive and integrated approach to rural development. The objective of the Scheme was development of 1,000 villages every year through the concerted efforts of the Government, Non-Governmental Organisations, private sector partners and the village communities. The State Government was to provide ₹one crore to meet the village specific needs under the Scheme and ₹2.29 crore through convergence with other schemes was to be provided for each village. The Rural Development and Panchayat Raj Department allocated Scheme funds in pre-determined percentages for 10 different

components. Major focus was given to works related to four components namely Construction of cement concrete roads and asphalted roads with one side drains, Construction of Anganwadis and Samudaya Bhavans and Training. The achievements in the other six components namely Solid Waste Management, Electrification, Information Education and Communication, Graveyard Development, Computer Centre and Solar Lighting were virtually 'nil'.

The village development plans were not comprehensive in terms of information contained in them. The allocation of more than 80 per cent only on roads, drains, Samudaya Bhavans and Anganwadis showed that the planning was inadequate for achieving the goal of overall upgradation of the physical environment of selected villages and improvement of the quality of life in the village. Solid Waste Management activities were not given priority and no concrete steps were taken for this by the test-checked villages. There was no convergence of other sector programmes for overall development of the village. There were no parameters and benchmarks of desirable levels to determine when a village would be regarded as a developed village. The Scheme was a failure as the overall development of each village was not achieved. There were irregularities in execution of training activities and payments made to Karnataka Rural Infrastructure Development Limited. The monitoring was deficient as High Level Committee had not met and there was no district level cell.

(Paragraph 3.1)

4. Implementation of Total Sanitation Campaign/Nirmal Bharat Abhiyan

Government of India launched the Total Sanitation Campaign (renamed as Nirmal Bharat Abhiyan in 2012) to accelerate sanitation coverage in rural areas and achieve the vision of Nirmal Bharat by 2022 with all Gram Panchayats in the Country attaining 'Nirmal' status.

The performance audit of the Scheme covering the period 2009-14 showed that the Scheme was deprived of the institutional support critical for planning its implementation. The envisaged bottom-up approach in planning was missing as no inputs were taken from the Gram Panchayats while preparing the Annual Implementation Plans. The Scheme was implemented in all Gram Panchayats of the State, instead of following the guidelines laid down for progressively covering the units for saturation.

The key component of the Scheme—Information, Education and Communication was not implemented effectively and there was shortfall in utilisation of funds under this component. The achievements of targets for construction of individual household latrines were inconsistent with the data of two surveys (2004-05 and 2012-13) and hence did not present a true picture. During joint physical verification, Audit observed cases of irregular/excess payment of incentives to beneficiaries, low priority to community sanitary complexes, substandard quality in construction of institutional toilets, etc. Financial management was not adequate as instances

of delays in transfer of funds, deficiencies in maintenance of accounts, inadmissible expenditure, diversion of funds and other financial irregularities were observed. The objective of strengthening transparency, accountability and grievance redressal was defeated as the Gram Panchayats had failed to ensure public participation, consultation and consent in the implementation of the Scheme.

(Paragraph 3.2)

5. Compliance Audit-Panchayat Raj Institutions

➤ Own revenue of Gram Panchayats

The collection of property tax by the Gram Panchayats was ineffective as the arrears were mounting year after year. Property assessment list was not reliable as there were discrepancies in the number of properties and corresponding demand raised. Levy of non-tax revenue in test-checked Gram Panchayats was found to be poor, depriving the Gram Panchayats of their legitimate revenue.

(Paragraph 3.3)

➤ Information Technology audit of “Pancha Tantra”

The Pancha Tantra application is a positive step towards enabling Gram Panchayat to capture various data and transactions and also to generate its accounts which can also be viewed by the general public.

The IT Audit of Pancha Tantra, however, showed that the system did not provide for proper verification of data due to weak input controls as only a single user ID was provided for multiple users. There were design defects, resulting in discrepancies in the generated accounts making them unreliable. In some cases, business rules had not been mapped properly. Also, there was no provision for capturing the budget of the Gram Panchayat in Pancha Tantra. Processes such as auto calculation of tax and generation of demand notices to enhance transparency in tax and non-tax administration and ease of work were not provided in Pancha Tantra. There were deficiencies in the data entry including capturing of legacy data such as outstanding cess, property and water connection data, etc. Audit’s examination of the Annual Accounts particularly with respect to the incomes showed that the Accounts were not being generated properly in Pancha Tantra.

It is felt that if this system is periodically reviewed and need-based changes are made, Pancha Tantra will go a long way in improving governance at the Gram Panchayat level.

(Paragraph 3.4)

➤ **Submission of false utilisation certificates**

The Assistant Director submitted false utilisation certificates for ₹68.40 lakh released for constructing taluk sports stadium at Manvi, Raichur district even though the stadium had not been constructed.

(Paragraph 3.5)

➤ **Unfruitful expenditure on incomplete road works**

Two road works were undertaken without ensuring availability of land due to which the objective of providing better rural inter-connectivity could not be achieved despite incurring an expenditure of ₹46.73 lakh.

(Paragraph 3.6)

➤ **Unfruitful outlay on incomplete road works**

Failure to ensure completion of two road works even after three years from the stipulated dates of completion rendered the expenditure of ₹24 lakh unfruitful. This included payment of ₹8.87 lakh to the contractor for work not done.

(Paragraph 3.7)

6. An overview of Urban Local Bodies

There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent and non-renewal of lease agreements. Out of 18 functions to be devolved to Urban Local Bodies, the State Government devolved only 14 functions. There was poor response to audit observations by Urban Local Bodies.

(Paragraph 4.1)

7. Financial Reporting in Urban Local Bodies

In spite of preparation of accounts by Urban Local Bodies, there was shortfall in certification of accounts by Chartered Accountants during the years 2011-14. Annual Accounts of Bruhat Bengaluru Mahanagara Palike for the years 2008-13 were not yet certified. Statement of expenditure was not obtained from external agencies to which Urban Local Bodies had paid advances. The Urban Local Bodies did not utilise the entire Thirteenth Finance Commission grants during the period 2010-14. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of non-maintenance of cash books and bank books.

(Paragraph 5.1)

8. Compliance Audit-Urban Local Bodies

➤ *Development and maintenance of parks*

Development and maintenance of parks in Urban Local Bodies was not carried out in accordance with the Karnataka Parks, Play-fields and Open Spaces (Preservation and Regulation) Act, 1985. Six test-checked Urban Local Bodies had not prepared and published a reliable and complete list of all parks within their jurisdiction with the required details such as dimensions, localities and amenities. There were cases of irregular and wasteful expenditure in the developmental and maintenance works and also, the parks were not being maintained in a clean and proper condition in the test-checked Urban Local Bodies. There were several cases of encroachment and diversions noticed in the Urban Local Bodies, indicating that the assets were not safeguarded effectively. Monitoring of the functioning of the Urban Local Bodies with respect to maintenance of parks was weak as the Urban Local Bodies had not even submitted the annual returns to the Government.

(Paragraph 6.1)

➤ *Short recovery of labour welfare cess*

Failure of Bruhat Bengaluru Mahanagara Palike to recover labour welfare cess at the prescribed rate of one per cent of the estimated cost of construction resulted in short recovery of cess of ₹27.32 crore in 12 cases.

(Paragraph 6.2)

➤ *Loss of revenue*

The State Government revised the consumer water tariff in the urban areas of the State with effect from 20 July 2011. However, delays in giving effect to the revised water tariff by three Urban Local Bodies resulted in loss of revenue of ₹23.54 crore.

(Paragraph 6.3)

➤ *Avoidable interest payment on electricity bills*

Failure of the Government to provide funds for paying electricity bills within due dates resulted in avoidable payment of interest of ₹3.19 crore.

(Paragraph 6.4)

➤ *Unproductive investment on pre-cast box segments*

The expenditure of ₹2.39 crore incurred by Bruhat Bengaluru Mahanagara Palike on procurement of pre-cast box segments was rendered unfruitful as these boxes were procured without waiting for the outcome of the pilot project.

(Paragraph 6.5)

➤ **Short payment of property tax**

Incorrect declaration of zonal classification in property tax returns and failure to pay property tax for the constructed buildings resulted in short payment of tax to the extent of ₹86.87 lakh, besides non-levy of interest and penalty.

(Paragraph 6.6)

➤ **Loss of revenue due to non-recovery of additional ground rent**

Failure of Bruhat Bengaluru Mahanagara Palike to collect additional ground rent though the buildings in four test-checked cases were not completed within two years from the dates of issue of building licences resulted in loss of revenue of ₹41 lakh.

(Paragraph 6.7)

➤ **Excess payment of lead charges**

Lead charges of ₹38.60 lakh was paid in excess as the distance between the lake bed and the dumping site was overstated by seven kilometre during the comprehensive development of Herohalli Lake.

(Paragraph 6.8)