



# **CHAPTER-I**

## **An overview of Panchayat Raj Institutions**

## CHAPTER I

### RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

#### AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

##### 1.1 Background

Consequent to the 73<sup>rd</sup> Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish three tier Panchayat Raj Institutions (PRIs) 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 decadal growth rates of urban and rural population 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 comprised 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	5,835	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 Gram Panchayats (GPs)	Numbers	5,629	2,34,000 (approx)	16
Gender ratio (females per 1000 males)	Numbers	968	940	11
Literacy	Percentage	76	74	16

Source: Economic Survey Report 2012-13, Census 2011 and Annual Progress Report (2013-14) of Rural Development and Panchayat Raj Department

##### 1.3 Organisational structure of PRIs

The Rural Development and Panchayat Raj Department (RDPR) is the nodal department for PRIs at the State level headed by Additional Chief Secretary

and Development Commissioner, Government of Karnataka. The organisational structure with respect to functioning of PRIs in the State is given in **Appendix 1.1**.

### 1.3.1 Standing Committees

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

**Table 1.2: Constitution of the Standing Committees**

Level of PRIs	Chief executive	Standing Committees	Executives of Standing Committees
Gram Panchayat	Adhyaksha	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected among the elected members of GPs, TPs and ZPs)
Taluk Panchayat	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	
Zilla Panchayat	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, 1993

## 1.4 Financial profile

### 1.4.1 Resources of the PRIs

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Government of India (GoI) grants for maintenance and development purposes. The fund details of flagship schemes are given in **Appendix 1.2**.

The trends of resources of PRIs for the period 2009-14 are shown in **Table 1.3** below:

**Table 1.3: Trends and composition of resources of PRIs**

Particulars	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13 <sup>1</sup>	2013-14
Own revenue~	221.19	256.95	312.08	269.09	NF
CFC transfers (Twelfth/Thirteenth)~	177.60	419.38	769.58	1,036.49	1,349.12
Grants from State Government and assigned revenues <sup>^</sup>	11,216.04	11,789.48	13,340.83	16,622.14	18,374.20
GoI grants for CSS and State Schemes*	2,871.95	3,575.74	2,764.62	2,837.00	2,414.09
Other receipts#	13.28	257.91	192.66	153.00	97.41
<b>Total</b>	<b>14,500.06</b>	<b>16,299.46</b>	<b>17,379.77</b>	<b>20,917.72</b>	<b>22,234.82</b>

Source: ~ as furnished by RDPR

NF: Not furnished

<sup>^</sup> Figures as furnished by Treasury for 2013-14 in respect of TPs and uncertified figures in respect of ZPs

\* GoI grants released for Centrally Sponsored Schemes (CSS) and State Schemes to TPs through ZP accounts are excluded and uncertified figures for the year 2013-14.

# Interest and miscellaneous receipts from scheme accounts

<sup>1</sup> Figures as per certified accounts of ZPs and TPs

### 1.4.2 Application of Resources

The trends of sector-wise application of resources of ZPs and TPs for the period 2009-14 are given in **Table 1.4** below:

**Table 1.4: Sector-wise application of resources**

Year	2009-10	2010-11	2011-12	2012-13	2013-14
<b>(₹ in crore)</b>					
<b>ZILLA PANCHAYATS</b>					
<b>State Grants and assigned revenues</b>					
<b>Capital Expenditure</b>	<b>0</b>	<b>0.46</b>	<b>5.32</b>	<b>4.19</b>	<b>4.86</b>
Social Services	0	0.46	2.89	2.40	3.02
Economic Services	0	0	2.43	1.79	1.84
<b>Revenue Expenditure</b>	<b>3,420.21</b>	<b>4,220.94</b>	<b>4,998.21</b>	<b>5,456.62</b>	<b>6,275.90</b>
General Services	115.56	121.93	137.17	152.50	162.02
Social Services	2,467.20	3,234.42	3,517.17	4,033.85	4,883.07
Economic Services	837.45	864.59	1,343.87	1,270.27	1,230.81
<b>Centrally Sponsored Schemes and State Schemes</b>					
<b>Capital Expenditure</b>	<b>8.58</b>	<b>153.46</b>	<b>103.28</b>	<b>94.88</b>	<b>25.62</b>
Social Services	8.58	145.15	103.28	94.88	25.62
Economic Services	0	8.31	0	0	0
<b>Revenue Expenditure</b>	<b>1,605.88</b>	<b>3,308.29</b>	<b>2,743.62</b>	<b>2,717.25</b>	<b>2,392.09</b>
General Services	0.72	0	0	0	0
Social Services	374.36	453.09	406.64	827.51	629.13
Economic Services	1,230.80	2,855.20	2,336.98	1,889.74	1,762.96
<b>Total</b>	<b>5,034.67</b>	<b>7,683.15</b>	<b>7,850.43</b>	<b>8,272.94</b>	<b>8,698.47</b>
<b>TALUK PANCHAYATS</b>					
<b>Capital Expenditure</b>	<b>0.16</b>	<b>0.19</b>	<b>0</b>	<b>0</b>	<b>0</b>
General Services	0	0	0	0	0
Social Services	0.15	0.03	0	0	0
Economic Services	0.01	0.16	0	0	0
<b>Revenue Expenditure</b>	<b>4,971.83</b>	<b>6,333.23</b>	<b>7,084.87</b>	<b>9,344.03</b>	<b>10,556.81</b>
General Services	0	0	0	0	0
Social Services	4,560.82	5,841.25	6,387.46	8,498.31	9,379.41
Economic Services	408.75	491.98	697.41	845.72	1,177.40
Suspense	2.26	0	0	0	0
<b>Total</b>	<b>4,971.99</b>	<b>6,333.42</b>	<b>7,084.87</b>	<b>9,344.04</b>	<b>10,556.81</b>
<b>Grand Total</b>	<b>10,006.66</b>	<b>14,016.57</b>	<b>14,935.30</b>	<b>17,616.97</b>	<b>19,255.28</b>

Source: Separate Audit Reports (SARs) of ZPs and consolidated SAR for TPs up to the year 2012-13, and figures as furnished by Treasury for 2013-14 for ZPs and TPs. Centrally Sponsored Schemes/State Schemes figures are provisional

The total expenditure increased from ₹10,006.66 crore in 2009-10 to ₹19,255.28 crore in 2013-14. There was 101 per cent and 68 per cent growth under Social and Economic Services sector respectively of revenue expenditure during the period 2009-14, while the growth in General Services was 39 per cent. The share of capital expenditure to total expenditure during the current year was less than 0.16 per cent.

### 1.5 State Finance Commission Grants

As per the recommendations of the third State Finance Commission, State Government was to release 32 per cent of Non Loan Net Own Revenue Receipts (NLNORR) to PRIs. As against this, the State Government had released 31 per cent of NLNORR (₹20,512.71 crore), resulting in short release of ₹810.40 crore during 2013-14.

## **1.6 Release of additional stamp duty**

Under Section 205 of the KPR Act, 1993, the duty on transfers of immovable property shall be levied in the form of a surcharge at the rate of three *per cent* of the duty imposed by the Karnataka Stamp Act, 1957 on instruments of sale, gift, mortgage, exchange and lease in perpetuity, of immovable property situated within the limits of the area of a TP. The entire amount collected in respect of the lands and other properties situated in the taluk shall be passed on to the TPs in the State in proportion to the population of the taluk by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 *per cent* towards collection charges quarterly. However, Audit noticed that transfer was done annually instead of quarterly. IGR had not transferred the additional stamp duty of ₹30.96 crore (TPs of all districts) and ₹15.05 crore (TPs of 13 districts) for the years 2012-13 and 2013-14 respectively (November 2014). Ten<sup>2</sup> TPs had not drawn an amount of ₹1.49 crore released by IGR for the period 2011-12 and 2012-13. IGR replied (May 2015) that additional stamp duty for the period 2012-13 had been released to all TPs during February 2015 and for the period 2013-14, it would be released after receipt of information from remaining districts.

## **1.7 Devolution of Functions**

The 73<sup>rd</sup> amendment to the Constitution envisages transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government transferred all the 29 functions to PRIs. The State Government devised an activity map for distribution of activities for 26 functions amongst PRIs in 2003. However, no activity map was devised for the three functions of Welfare of the weaker sections, Public Distribution System and Maintenance of community assets.

The subjects of 'Libraries' and 'Cultural Activities' were selected in audit to ascertain the extent of transfer of functions and funds in four<sup>3</sup> selected districts. Audit noticed that the subjects of Libraries and cultural activities were carried out by the Department of Libraries and Department of Kannada and Culture of the State Government respectively and not by PRIs as prescribed in the activity map.

## **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 audit entities and to the State Government.

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<sup>2</sup> Afzalpur (₹9.87 lakh), Bengaluru North (₹24.87 lakh), ChamaraJanagar (₹22.10 lakh), Chincholi (₹11.07 lakh), Gundlupet (₹5.54 lakh), Hunsur (₹16.76 lakh), Jagalur (₹8.85 lakh), Kadur (₹12.46 lakh), Kollegal (₹14.90 lakh) and Yelandur (₹22.68 lakh)

<sup>3</sup> Bengaluru (Urban), Chitradurga, Gadag and Koppal

Audit of accounts of 5,085 GPs as against 5,630 GPs planned, for the period up to 2013-14, was conducted by SAD as of March 2014.

**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 382 PRIs had been completed at the end March 2014.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) Module to the CAG by amending the KPR Act, 1993. As at the end of March 2014, 25 GPs had been audited under TGS module.

## **1.9 Poor response to Inspection Reports**

The Karnataka Zilla Panchayat (Finance & Accounting) Rules, 1996, stipulate that the heads of the Departments/Drawing and Disbursing Officers 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 Chief Executive Officers (CEOs) of ZPs. As of March 2014, 3,531 Inspection Reports (IRs) consisting of 13,838 paragraphs were outstanding in various ZPs. Out of 3,531 IRs outstanding, 1,211 (34 *per cent*) IRs containing 2,669 (19 *per cent*) paragraphs were pending for more than 10 years, which highlighted the inadequate action of CEOs in settlement of the objections (the details are in **Appendix 1.3**).

## **1.10 Conclusion**

The State Government had transferred 31 *per cent* of NLNORR as against 32 *per cent* as recommended by third State Finance Commission. Inspector General of Registration and Commissioner of Stamps had not transferred additional stamp duty of ₹30.96 crore and ₹15.05 crore to TPs 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'.