

## CHAPTER II

### RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

#### FINANCIAL REPORTING IN PANCHAYAT RAJ INSTITUTIONS

##### 2.1 Framework

**2.1.1** Financial reporting in the Panchayat Raj Institutions (PRIs) is a key element of accountability. The matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the Zilla Panchayats (ZPs) and the Taluk Panchayats (TPs) are governed by the provisions of the Karnataka Panchayat Raj (KPR) Act, 1993, 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.

**2.1.2** 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) Rules, 1996 and KPR TP (F&A) Rules, 1996. The Gram Panchayat (GP) accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under the KPR GPs (Budgeting and Accounting) Rules, 2006 [KPR (GP B&A) Rules]. As per the recommendations of the Thirteenth Finance Commission (TFC), the PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by the Government of India (GoI). The ZPs and TPs prepared the accounts in MPAS formats from 2011-12 onwards but the GPs were yet to adopt MPAS formats.

##### 2.2 Financial reporting issues

###### *2.2.1 Maintenance of accounts in Zilla Panchayats and Taluk Panchayats*

The KPR Act, 1993 stipulates that the annual accounts were to be prepared and got approved 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/Controller of State Accounts for audit. The Audit test-checked the records of 25 GPs (detailed in **Appendix 2.1**) for the period 2010-11 to 2014-15 to ascertain the proper maintenance of accounts and reporting thereon.

The Audit observed that there were delays in preparation of annual accounts and their approval in all the three tiers of PRIs. The delay in submission of annual accounts for the year 2014-15 to Audit was to the extent of 142 days in respect of 24 ZPs and 194 days in respect of 115 TPs. Six ZPs and 40 TPs had not submitted the annual accounts (December 2015).

### **2.2.1.1 Deficiencies in ZP and TP accounts**

The deficiencies noticed in the accounts of ZPs and TPs during 2014-15 have been detailed below:

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREDS). Consequently, both the divisions had stopped issuing cheques. However, the annual accounts of 21 ZPs for the year 2014-15 had reflected huge balances relating to earlier period as detailed in **Appendix 2.2**. This indicated that the ZPs had not reconciled the encashed cheques with treasuries, resulting in incorrect reporting of expenditure.
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by the ZPs. However, 16 ZPs had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2015 have been detailed in **Appendix 2.3**.
- The treasuries had written back in 2013-14 the unspent balances of ₹906.60 crore pertaining to the years 2008-09 and 2009-10 under Fund-II<sup>3</sup> account of ZP to the Government account. However, nine ZPs had not adjusted the written back amount of ₹268.37 crore in their annual accounts of 2013-14, resulting in overstatement of balances.

### **2.2.1.2 Maintenance of Accounts by GPs**

The State Government enacted the KPR (GP B&A) Rules, which provided for mandatory preparation of accounts based on DEAS in GPs on accrual basis with effect from April 2007. The State Government decided (July 2007) to avail of the services of the Chartered Accountant (CA) firms to introduce DEAS in GPs.

- Eight test-checked GPs had not maintained grant register, advance register, deposit register and double entry cash book as envisaged in the KPR (GP B&A) Rules. Thus, Audit could not ascertain the complete financial position of the GPs.
- As per KPR (GP B&A) Rules, the annual accounts of the GPs shall be placed before the elected bodies for consideration and approval before 30 June of every year. However, 11 test-checked GPs had not placed the annual accounts in DEAS before the elected bodies.
- Out of 2,815 GPs audited by the Karnataka State Accounts Department (KSAD) in 24 ZPs, the annual accounts of 1,621 GPs (58 *per cent*) were not certified due to non-production of accounts in the prescribed and complete form.

---

<sup>3</sup> ZP Fund-II account relates to the State grants and unspent balances under this account should be written back to the Government account at the end of each financial year as per Government Order dated 8.9.2004.

### 2.3 Irregular utilisation of Cess amount

The GPs were required to collect various Cesses such as Health, Education, Library and Beggary at 15 per cent, 10 per cent, 6 per cent and 3 per cent respectively, on the amount of tax collected on land and buildings and were to remit them to the authorities<sup>4</sup> concerned within the time frame prescribed by the State Government after retaining 10 per cent of the Cess amount collected as collection charges.

In the 22 test-checked GPs, ₹83.27 lakh collected towards health (₹32.64 lakh), education (₹26.21 lakh), library (₹15.38 lakh) and beggary (₹9.04 lakh) Cess during the period 2010-15 was utilised by the GPs without transferring the same to the authorities concerned, resulting in irregular utilisation of Cess revenue.

### 2.4 Thirteenth Finance Commission grants

#### 2.4.1 Delayed release of grants to PRIs

The TFC guidelines stipulated that the grants received from the GoI were to be transferred to PRIs within five days of their receipt by the State Government, 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 11 to 95 days in crediting funds to individual bank accounts of PRIs calling for payment of ₹5.28 crore as interest for delayed release. Out of this, the State Government released ₹1.35 crore, leaving a balance of ₹3.93 crore (November 2015).

#### 2.4.2 Non-reconciliation

The funds received from the GoI were to be transferred to PRIs within five days through banking network. As there were delays in transfer of funds, interest had accrued on the balances remaining in the bank accounts at the State level. It was observed that the Rural Development and Panchayat Raj (RDPR) Department had not reconciled the figures with banks after release of each instalment of grants and interest accrued thereon. The period of TFC expired at the end of financial year 2014-15. The Audit, however, noticed that ₹4.13 crore<sup>5</sup> was still lying in the bank accounts (November 2015) maintained for transactions under TFC.

#### 2.4.3 Unspent balances

It was seen in the annual accounts of 24 ZPs and 130 TPs that ₹206.12 crore relating to TFC grants was lying unutilised (March 2015) with the implementing officers, ZPs and TPs. This had resulted in incorrect reporting of expenditure figures in the Utilisation Certificates.

<sup>4</sup> Education Cess - Education Department, Health Cess - Health Department, Beggary Cess- Directorate of Beggary and Library Cess - Department of Libraries

<sup>5</sup> SBM- ₹1.57 crore (Account No. 64062923099) and Axis Bank- ₹2.56 crore (Account No. 911010054285123)

## **2.5 Other issues**

### **2.5.1 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 Centrally Sponsored Schemes (CSS) and State share of CSS), Fund-II (State grants) 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 after reconciliation. The treasuries, however, did not write back the unspent balance of ₹1,313.16 crore outstanding under Fund-II accounts of ZP (₹784.04 crore) and TP (₹529.12 crore) for the year 2014-15.

### **2.5.2 Locking up of funds**

An unspent amount aggregating ₹114.03 crore was lying in non-operative bank accounts of 30 ZPs as on 31 March 2014 pertaining to various closed/inactive schemes for the last one to five years. This included a sum of ₹12.11 crore relating to Twelfth Finance Commission grants, which was released to 22 ZPs during 2005-10 for developmental activities. The ZPs had, however, not taken any action to refund such unspent amounts to the Government, resulting in locking up of Government funds to the extent of ₹114.03 crore.

## **2.6 Conclusion**

The annual accounts of ZPs and TPs were submitted after due dates. The balances under suspense heads of accounts were not reconciled. The GPs had irregularly utilised the Cess amount collected without remitting it to authorities concerned. There was delay in release of TFC grants to PRIs. The State Government had not written back unspent balances under ZP and TP funds. Unspent amounts of scheme funds were locked up in non-operative bank accounts.