Report of the
Comptroller and Auditor General of India
on Local Bodies

for the year ended March 2015

Government of Karnataka

Report No.4 of the year 2016

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PREFACE

This Report for the year ended March 2015 has been prepared for submission to the Governor of Karnataka under CAG's DPC Act, 1971.

The Report contains significant results of the audit of the Panchayat Raj Institutions and Urban Local Bodies in the State including the departments concerned.

The issues noticed in the course of test audit for the period 2014-15 as well as those which came to notice in earlier years, but could not be dealt with in the previous Reports have also been included, wherever necessary.

The audit has been conducted in conformity with auditing standards issued by the Comptroller and Auditor General of India.

Overview

OVERVIEW

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

1. An overview of Panchayat Raj Institutions

The Inspector General of Registration and Commissioner of Stamps had not transferred the required additional stamp duty for the years 2013-14 and 2014-15 (November 2015) to Taluk Panchayats. The State Government had also not devised activity maps for distribution of activities for the functions of 'Welfare of 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 and Taluk Panchayats were submitted after due dates. The balances under suspense heads of accounts were not reconciled. The Gram Panchayats had irregularly utilised the Cess amount collected without remitting it to authorities concerned. There was delay in release of Thirteenth Finance Commission grants to Panchayat Raj Institutions. The State Government had not written back unspent balances under Zilla Panchayat and Taluk Panchayat funds. Unspent amounts of scheme funds were locked up in non-operative bank accounts.

(Paragraph 2.1)

3. Upgradation of rural roads under Namma Grama Namma Raste Yojane

With a view to giving priority and funds for improvement of rural roads, the State Government launched (October 2009) a Scheme, Namma Grama Namma Raste Yojane, for improvement of 10,000 kilometres (km) of rural roads in a phased manner. A performance audit of the Scheme covering the period 2010-15 was conducted between May and November 2015.

It was observed during audit that the objective of the Scheme of upgrading 10,000 km of rural roads by the end of March 2014 was not achieved owing to various deficiencies in planning, ineffective monitoring and operational deficiencies. Against the targeted length of 9,406.47 km for Phases I and II, only 5,725.09 km (61 per cent) of roads had been upgraded by March 2014.

The Programme Implementation Units did not maintain the updated status of connectivity and condition of roads under their jurisdiction. As a result, selection of road works was flawed and there were instances of selecting works which were not as per the priority list and taking up of works which did not conform to the prescribed provisions. There were deficiencies in detailed project reports, rendering many of them unreliable and unrealistic. This led to preparation of inflated estimates and consequential avoidable expenditure and higher costs of construction. Lack of coordination among various agencies implementing the road works in rural areas resulted in frequent changes to works and abandonment. The system of award of work was inadequate as there were cases of invitation of tenders without technical sanctions, acceptance of single tenders, delays in finalisation of tenders, and failure to ensure mandatory insurance of works. Execution of works was deficient as instances of substantial time overruns, abandonment of works, non-recovery of liquidated damages, non-maintenance of electronic measurement books, etc., were noticed.

The three-tier quality control mechanism was not adequately operationalised and monitoring was ineffective, leading to execution of works in violation of the standard design and specifications prescribed in the Rural Roads Manual. Many of the road works completed under the Scheme for which huge investments were made, were not maintained properly, thereby not achieving the objective of providing good quality all-weather roads in the designated rural areas.

(Paragraph 3.1)

4. Compliance Audit-Panchayat Raj Institutions

- ***Irregular award of work***

Commissioner, Department of Public Instructions had issued a work order for installing steam boilers in 365 schools without following the prescribed norms. The work order was subsequently cancelled, which resulted in locking up of funds amounting to ₹9.89 crore.

(Paragraph 3.2)

- ***Non-construction of kitchen-cum-stores***

Failure to utilise central assistance of ₹7.76 crore by the Zilla Panchayat, Kalaburagi resulted in non-construction of kitchen-cum-stores in 1,293 schools, thereby depriving the school children of the facility for storage and preparation of their food under hygienic conditions.

(Paragraph 3.3)

- ***Incorrect computation leading to short collection of revenue***

There was short collection of property tax of ₹22.68 crore by six Gram Panchayats due to non-adoption of Annual Letting Value for calculation of property tax in respect of resorts.

(Paragraph 3.4)

- ***Avoidable payment of interest***

Inordinate delay in settlement of full compensation towards land acquisition resulted in avoidable payment of interest of ₹17.39 lakh.

(Paragraph 3.5)

- ***Diversion of grant***

An amount of ₹1.00 crore was irregularly diverted out of grant earmarked for constructing a building at Chitradurga, towards acquisition of a site at Bengaluru on lease basis.

(Paragraph 3.6)

5. 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 from commercial properties. Out of 18 functions to be devolved to the Urban Local Bodies, the State Government had devolved only 14 functions. There was shortfall in remittance of Cess amount by the Urban Local Bodies and the Bruhat Bengaluru Mahanagara Palike had not remitted the Health Cess collected on behalf of the State Government. There was poor response to audit observations by Urban Local Bodies.

(Paragraph 4.1)

6. Financial Reporting in Urban Local Bodies

In spite of preparation of accounts by Urban Local Bodies, there was shortfall in certification of accounts by the Chartered Accountants during the years 2012-15. 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 2010-15. 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)

7. Implementation of Welfare Schemes in Urban Local Bodies

The Urban Local Bodies, including Bruhat Bengaluru Mahanagara Palike, implemented various individual and community welfare activities to improve the socio-economic conditions of the urban poor belonging to Scheduled Castes/Scheduled Tribes, other economically weaker sections and differently-abled persons with the funds specifically allocated for welfare activities. However, the Urban Local Bodies, including Bruhat Bengaluru Mahanagara Palike, did not implement the welfare activities effectively.

The planning mechanism was deficient due to non-prioritisation of welfare activities, delays in finalisation of Annual Action Plans and selection of ineligible works, which led to defeating the objectives of these schemes. Physical targets for providing benefits were set without having a database of population to be targeted, which led to under-achievement of targets. The benefits could not flow to the beneficiaries due to poor Information, Education and Communication activities and lack of help to the eligible beneficiaries to fill the application forms properly.

The Urban Local Bodies had not adhered to the norms specified for the allocation, transfer and utilisation of untied State Finance Commission grants and Municipal funds meant for welfare activities. Under-utilisation of funds had affected the planning and delivery of intended benefits to more beneficiaries under the scheme. Also, non-maintenance of control registers for community works and non-submission of periodical returns by the implementing offices to higher authorities for review of actual physical and financial progress led to inadequate or non-implementation of many activities.

(Paragraph 6.1)

8. Compliance Audit-Urban Local Bodies

- ***Short payment of property tax***

Incorrect classification of property and non-payment of property tax for a constructed building resulted in short payment of tax to the extent of ₹83.45 crore.

(Paragraph 6.2)

- ***Loss of additional Stamp Duty***

City Corporation, Belagavi lost revenue of ₹91.88 lakh receivable as additional stamp duty.

(Paragraph 6.3)

- ***Unproductive expenditure on construction of vermi pits***

Failure to operationalise and generate vermi compost even after construction of the vermi compost pits, resulted in unproductive expenditure of ₹50.00 lakh for over four years.

(Paragraph 6.4)

- ***Incorrect declaration of built-up area resulting in short payment of property tax***

Incorrect declaration of built-up area in property tax returns resulted in short payment of tax to the extent of ₹31.56 lakh, besides non-levy of interest and penalty.

(Paragraph 6.5)

- ***Loss of revenue***

City Corporation, Davanagere lost revenue of ₹17.80 lakh due to non-collection of urban transport cess during 2013-14.

(Paragraph 6.6)

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 73rd Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish the three tier Panchayat Raj Institutions (PRIs) at the village, taluk and district levels in the State and framed rules to enable the 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 15.60 *per cent* which was less than the national average of 17.70 *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 49.20 *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	61,095	12,10,570	9
Population density	Persons per sq km	319	382	13
Urban population	Percentage	38.70	31.20	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 Gram Panchayats (GPs)	Numbers	5,627	2,34,000 (approx)	16
Gender ratio (females per 1,000 males)	Numbers	973	943	11
Literacy	Percentage	75.40	73	16

Source: Economic Survey Report 2013-14 and Census 2011

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 the 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

The 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	Executive of Standing Committees
Gram Panchayat	*Adhyaksha*	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected from amongst 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 2010-15 are shown in **Table 1.3** below:

Table 1.3: Trends and composition of resources of PRIs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14[1]	2014-15
Own revenue~	256.95	312.08	269.09	176.93	228.84
CFC transfers (Twelfth/Thirteenth)~	419.38	769.58	1,036.49	1,350.87[¥]	977.82[¥]
Grants from State Government and assigned revenues^	11,789.48	13,340.83	16,622.14	19,669.19	21,004.52
GoI grants for CSS and State Schemes*	3,575.74	2,764.62	2,837.00	4,243.92	3,426.05
Other receipts#	257.91	192.66	153.00	224.12	179.20
Total	**16,299.46**	**17,379.77**	**20,917.72**	**25,665.03**	**25,816.43**

Source: ~ as furnished by RDPR

^ Figures as furnished by Treasury for 2014-15 in respect of ZPs and TPs

* GoI grants released for Centrally Sponsored Schemes (CSS) and State Schemes to TPs through ZP accounts are excluded and uncertified figures for the year 2014-15 in respect of 24 ZPs and 136 TPs

Interest and miscellaneous receipts from scheme accounts

[¥] Includes ₹1.76 crore and ₹1.35 crore released towards interest for delayed release of Thirteenth Finance Commission grants by the State Government during 2013-14 and 2014-15 respectively

[1] The reason for variation in the figures for 2013-14 exhibited in the Audit Report 2013-14 and this Report is due to adoption of figures as per certified accounts of ZPs and TPs and as furnished by RDPR in respect of 'own revenue'.

1.4.2 Application of Resources

The trends of sector-wise application of resources of ZPs and TPs for the period 2010-15 are given in **Table 1.4** below:

Table 1.4: Sector-wise application of resources

(₹ in crore)

Year	2010-11	2011-12	2012-13	2013-14[2]	2014-15
ZILLA PANCHAYATS					
State Grants and assigned revenues					
Capital Expenditure	**0.46**	**5.32**	**4.19**	**4.86**	**0**
Social Services	0.46	2.89	2.40	3.02	0
Economic Services	0	2.43	1.79	1.84	0
Revenue Expenditure	**4,220.94**	**4,998.21**	**5,456.62**	**6,218.79**	**6,864.09**
General Services	121.93	137.17	152.50	162.02	168.10
Social Services	3,234.42	3,517.17	4,033.85	4,857.56	5,394.22
Economic Services	864.59	1,343.87	1,270.27	1,199.21	1,301.77
Centrally Sponsored Schemes and State Schemes					
Capital Expenditure	**153.46**	**103.28**	**94.88**	**0**	**49.25**
Social Services	145.15	103.28	94.88	0	49.25
Economic Services	8.31	0	0	0	0
Revenue Expenditure	**3,308.29**	**2,743.62**	**2,717.25**	**3,626.32**	**2,413.01**
General Services	0	0	0	0	0
Social Services	453.09	406.64	827.51	881.57	664.81
Economic Services	2,855.20	2,336.98	1,889.74	2,744.75	1,748.20
Total	**7,683.15**	**7,850.43**	**8,272.94**	**9,849.97**	**9,326.35**
TALUK PANCHAYATS					
Capital Expenditure	**0.19**	**0**	**0**	**0.41**	**0**
General Services	0	0	0	0	0
Social Services	0.03	0	0	0.41	0
Economic Services	0.16	0	0	0	0
Revenue Expenditure	**6,333.23**	**7,084.87**	**9,344.03**	**10,223.40**	**12,440.91**
General Services	0	0	0	0.05	0
Social Services	5,841.25	6,387.46	8,498.31	9,322.97	11,459.49
Economic Services	491.98	697.41	845.72	900.38	981.42
Total	**6,333.42**	**7,084.87**	**9,344.03**	**10,223.81**	**12,440.91**
Grand Total	**14,016.57**	**14,935.30**	**17,616.97**	**20,073.78**	**21,767.26**

Source: Separate Audit Reports (SARs) of ZPs and consolidated SAR for TPs up to the year 2013-14, and figures as furnished by Treasury for 2014-15 for ZPs and TPs. Centrally Sponsored Schemes/State Schemes figures are provisional.

The total expenditure increased from ₹14,016.57 crore in 2010-11 to ₹21,767.26 crore in 2014-15. There was 38 *per cent* and 84 *per cent* growth of revenue expenditure under General and Social Services sector respectively during the period 2010-15, while the revenue expenditure under Economic Services had declined by four *per cent* during the same period. The share of capital expenditure to total expenditure during the current year was less than one *per cent*.

1.5 State Finance Commission Grants

As per the recommendations (December 2008) of the Third SFC, the State Government was to release 33 *per cent* of Non Loan Net Own Revenue Receipts (NLNORR) to PRIs during 2014-15. As against this, the State Government had released ₹24,991.28 crore, which works out to 33.38 *per cent* of NLNORR (₹74,868 crore).

[2] The reason for variation in the figures for 2013-14 exhibited in the Audit Report 2013-14 and this Report is due to adoption of figures as per certified accounts of ZPs and TPs.

1.6 Release of additional stamp duty

As per Section 205 of the KPR Act, 1993, the duty on transfer 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. However, the IGR had not transferred the additional stamp duty to the TPs for the years 2013-14 and 2014-15 (November 2015).

The IGR stated (December 2015) that only 10 District Registrars had sent the details for release of ₹5.91 crore to the TPs under their jurisdiction for the year 2013-14 and details from other District Registrars were awaited.

1.7 Devolution of Functions

The 73rd amendment to the Constitution envisaged 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 weaker sections', 'Public Distribution System' and 'Maintenance of community assets'.

1.8 Accountability framework

1.8.1 Audit mandate

1.8.1.1 The Karnataka State Accounts Department (KSAD) 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.

Audit of accounts of 5,065 GPs (91 *per cent*) as against 5,577 GPs planned, for the period up to 2014-15, was conducted by KSAD as of March 2015.

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. The audit of accounts of 130 units under PRIs had been completed as of March 2015.

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 2015, 38 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 to the objections promptly issued by the Accountant General. It has been further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the Chief Executive Officers (CEOs) of ZPs. As of March 2015, 3,544 Inspection Reports (IRs) consisting of 14,061 paragraphs were outstanding in various ZPs. Out of 3,544 IRs outstanding, 1,221 IRs (34 *per cent*) containing 2,583 paragraphs (18 *per cent*) were pending for more than 10 years, which was indicative of inadequate action on the part of CEOs in settlement of the objections. The details about IRs and paragraphs outstanding have been given in **Appendix 1.3**.

1.10 Conclusion

The IGR had not transferred the required additional stamp duty for the years 2013-14 and 2014-15 (November 2015) to TPs. The State Government had also not devised activity maps for distribution of activities for the functions of ‘Welfare of weaker sections’, ‘Public Distribution System’ and ‘Maintenance of community assets’.

Chapter - II

Financial Reporting in Panchayat Raj Institutions

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[3] 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.

[3] 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[4] 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[5] 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.

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[4] Education Cess - Education Department, Health Cess - Health Department, Beggary Cess- Directorate of Beggary and Library Cess - Department of Libraries

[5] 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.

Chapter - III

Results of Audit of Panchayat Raj Institutions

CHAPTER III – RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE AUDIT

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

3.1 Upgradation of rural roads under Namma Grama Namma Raste Yojane

Executive summary

With a view to giving priority and funds for improvement of rural roads, the State Government launched (October 2009) a Scheme, *Namma Grama Namma Raste Yojane*, for improvement of 10,000 kilometres (km) of rural roads in a phased manner. A performance audit of the Scheme covering the period 2010-15 was conducted between May and November 2015.

It was observed during audit that the objective of the Scheme of upgrading 10,000 km of rural roads by the end of March 2014 was not achieved owing to various deficiencies in planning, ineffective monitoring and operational deficiencies. Against the targeted length of 9,406.47 km for Phases I and II, only 5,725.09 km (61 *per cent*) of roads had been upgraded by March 2014.

The Programme Implementation Units did not maintain the updated status of connectivity and condition of roads under their jurisdiction. As a result, selection of road works was flawed and there were instances of selecting works which were not as per the priority list and taking up of works which did not conform to the prescribed provisions. There were deficiencies in detailed project reports, rendering many of them unreliable and unrealistic. This led to preparation of inflated estimates and consequential avoidable expenditure and higher costs of construction. Lack of coordination among various agencies implementing the road works in rural areas resulted in frequent changes to works and abandonment. The system of award of work was inadequate as there were cases of invitation of tenders without technical sanctions, acceptance of single tenders, delays in finalisation of tenders, and failure to ensure mandatory insurance of works. Execution of works was deficient as instances of substantial time overruns, abandonment of works, non-recovery of liquidated damages, non-maintenance of electronic measurement books, *etc.*, were noticed.

The three-tier quality control mechanism was not adequately operationalised and monitoring was ineffective, leading to execution of works in violation of the standard design and specifications prescribed in the Rural Roads Manual. Many of the road works completed under the Scheme for which huge investments were made, were not maintained properly, thereby not achieving the objective of providing good quality all-weather roads in the designated rural areas.

3.1.1 Introduction

Rural road connectivity and its sustained availability is a key component of rural development as it assures continuing access to economic and social services and is important for economic and developmental activities including employment opportunities.

Acknowledging the need and significance of rural roads, the State Government launched (October 2009) the *Namma Grama Namma Raste Yojane*[6] (NGNRY), for improvement of 10,000 kilometres (km) of rural roads in a phased manner.

The salient features of NGNRY were as under:

- A total of 50 km (20 km in Phase I and 30 km in Phase II) of roads to be upgraded in each of the 189 rural assembly constituencies. Phase I was to be completed during 2010-12 and Phase II during 2012-14. The cost for upgradation of one km was ₹28 lakh, as per Schedule of Rates (SR) of 2009-10, which was revised to ₹42.14 lakh during 2012-13 based on the SR of 2012-13.
- First priority was to be accorded to roads connecting habitations with population between 500 and 1,000. Habitations with a population below 500 were to be covered subsequently.
- Scheme would be implemented through the Karnataka Rural Road Development Agency (KRRDA) and the guidelines of the Pradhan Mantri Gram Sadak Yojana (PMGSY) would be followed.
- Scheme was to be 100 *per cent* funded by the State Government.
- Works were to be grouped in packages of appropriate size (₹10 to 15 crore) and tenders were to be invited through e-tendering with a view to maintain quality and transparency.
- Contractors were required to maintain the road for a period of five years after the completion of work.

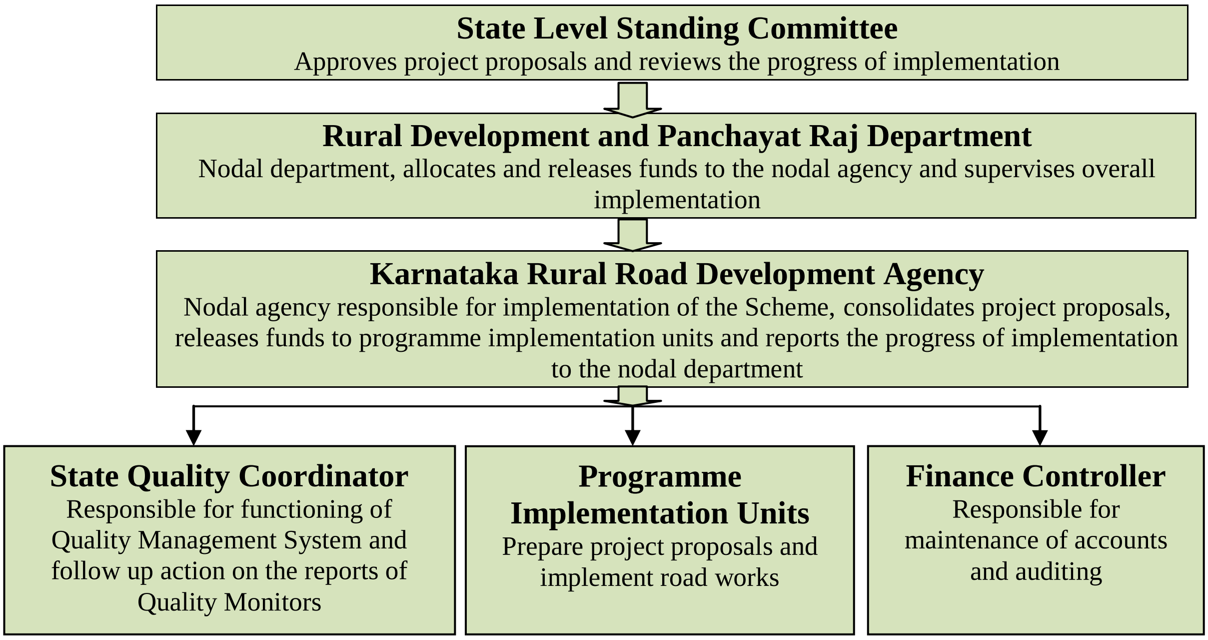
The State Government accorded administrative approval for improvement of 3,678.35 km of roads under Phase I (October 2010) and 5,728.12 km of roads under Phase II (November 2012). The administrative approval for Phase III was accorded in March 2015 for improving another 20 km of rural roads in 189 constituencies (total 3,855 km), which included improvement of eight km of roads in areas predominantly inhabited by Scheduled Castes and Scheduled Tribes.

3.1.2 Organisational structure

The Rural Development and Panchayat Raj (RDPR) Department was the nodal department for the implementation of NGNRY. The State Level Standing Committee (SLSC) headed by the Chief Secretary and comprising Secretaries of RDPR, Transport, Finance, Forest and Environment, *etc*., and State Technical Agencies (STAs) as members, was to oversee the implementation of the Scheme. **Chart 3.1** depicts the role of various authorities in planning, execution and monitoring of NGNRY.

[6] Our Village Our Road Scheme

Chart 3.1: Organisational structure of NGNRY



3.1.3 Audit objectives

The objectives of the performance audit were to ascertain whether:

- appropriate planning and institutional mechanism were in place to implement the upgradation of rural roads during Phase I and Phase II of the Scheme;
- identification of rural road for upgradation was done after following prescribed procedure and necessary exercise as per norms, rules and criteria; and
- the objective of upgradation of rural roads was achieved as a result of the implementation of the Scheme.

3.1.4 Audit criteria

The main sources of audit criteria for the performance audit were:

- PMGSY guidelines (2004) and Operations Manual (2005);
- Orders and instructions issued by the State Government for implementation of the Scheme;
- Rural Roads Manual and Indian Roads Congress (IRC) specifications;
- Karnataka Transparency in Public Procurements (KTPP) Act, 1999, and KTPP Rules, 2000; and
- Karnataka Public Works Departmental (KPWD) and Accounts Code.

3.1.5 Audit scope and methodology

The performance audit of NGNRY covering the period 2010-15 was conducted (May-November 2015) through test-check of records at RDPR Department, KRRDA, and eight[7] out of 29 Programme Implementation Units (PIUs) in the State. The PIUs were selected by adopting 'probability proportional to size without replacement' method, with expenditure as size measure.

Audit selected 38 packages (455 roads) out of 113 packages (1,119 roads) in the eight PIUs for detailed scrutiny and conducted Joint Physical Verification (JPV) of 119 out of 455 roads in selected packages (detailed in **Appendices 3.1** and **3.2**).

The Entry Conference was held on 16 April 2015 to discuss the audit objectives and methodology of the performance audit with the Additional Chief Secretary to Government, RDPR Department (ACS). The Exit Conference was held with the ACS on 22 January 2016.

Acknowledgement

Audit acknowledges the cooperation extended by the officials of the State Government, the RDPR Department, the KRRDA and PIUs in conducting the performance audit.

Audit findings

The audit findings arising out of the performance audit have been discussed in succeeding paragraphs.

3.1.6 Planning

The District Rural Road Plan (DRRP) is a compendium of the existing and proposed road network in a district which clearly identifies the proposed roads for connecting the unconnected habitations in an economic and efficient way. A Core Network (CNW) is to be extracted out of DRRP to identify the roads required to ensure that each eligible habitation has access (single all-weather road connectivity) to essential social and economic services. The roads for upgradation would be selected on the basis of road condition survey of the CNW which would establish a Pavement Condition Index (PCI) on a rating scale[8] of 1 to 5. After the road condition survey is completed, the PIUs would prepare a Comprehensive Upgradation Priority List (CUPL) and propose the works on the basis of priority accorded. The roads to be included in CUPL would be through routes or a main rural link which is already a part of CNW. Sealed surface all-weather roads with PCI more than 2 and sealed surface all-weather roads which are less than 10 years old (even if the PCI is less than 2) would not be taken up for upgradation. It was, however, seen during audit that

[7] Belagavi, Bengaluru Rural, Davanagere, Kalaburagi, Karwar, Koppal, Mandya and Shivamogga

[8] 1-very poor; 2-poor; 3-fair; 4-good and 5-very good

the procedures prescribed for selection of road works were not followed. Instances of deficiencies in planning and selection of works have been discussed below:

3.1.6.1 Selection of roads not forming part of DRRP and CNW

As per PMGSY guidelines which had to be followed for NGNRY also, road works should not be taken up unless they form part of the CNW that is carved out of the DRRP. The Government modified this condition while according administrative approval for Phase II works and stipulated (November 2012) that roads selected for upgradation should be at least in DRRP if not available in CNW, as some of the rural assembly constituencies were not having sufficient number of rural roads fulfilling the objective criteria.

It was seen in test-checked PIUs that 47 works involving length of 145.20 km and expenditure of ₹46.00 crore were taken up in Phase I which did not form part of the CNW. Similarly, seven works (length-14.65 km and expenditure-₹3.59 crore) were taken up in Phase II though these were not included in the DRRP.

The selection/execution of works not included in the CNW/DRRP contravened the stipulated provisions. As a result, the expenditure of ₹49.59 crore incurred on these 54 works was irregular.

The State Government replied (February 2016) that certain road works proposed by the elected representatives in Phase I were not from the approved CUPL, but were in the DRRP and all the road works proposed in Phase II were from DRRP.

The reply was not acceptable as Phase I works should have been from CNW. Further, the scrutiny of records showed that seven road works taken up in Phase II were not from the DRRP.

3.1.6.2 Selection of roads not appearing in the CUPL

Paragraph 6.11 of PMGSY guidelines stipulates that the order of priority and the CUPL will be the twin basis for making proposals for selection of works. Where road works of a higher order of priority were still remaining to be taken up, road works of a lower order of priority should not be taken up in the same district.

It was observed that out of 1,119 road works taken up for upgradation in the test-checked PIUs, an expenditure of ₹532.24 crore was incurred on 673 works (60 *per cent*) which were not traced to the CUPL of respective districts. Further, 355 works having PCI value of 1 (very bad roads) were not taken up, evidencing that the order of priority was not followed in the test-checked PIUs. Selection of works not included in the CUPL and ignoring the order of priority not only contravened the guidelines but also deprived upgradation to most eligible habitations.

The State Government replied (February 2016) that majority of works selected were from CUPL only, however, some of the originally selected works had been left out as the Members of the Legislative Assembly (MLAs) concerned had proposed alternate works subsequently, some road works were executed by other line departments and issues like forest department clearance and non-availability of land had come in the way of a few works. The reply was not convincing as it was the duty of the Government to take precautions about all such factors as per guidelines. Moreover, the other eligible roads in the approved CUPL were not considered and the guidelines were not followed.

3.1.6.3 Deficiencies in preparation of CUPL

None of the test-checked PIUs had maintained the road history register and PCI register. The details of the road condition survey were also not on record. In view of the above, Audit could not ascertain the correctness of PCI values indicated in the CUPL.

It was also observed in the test-checked PIUs that 15 works were included in the CUPL and taken up (2010-15) for execution though they were constructed during last 10 years (design life of the road) and hence, these were not eligible under NGNRY. An expenditure of ₹6.36 crore (length-29.11 km) was incurred on these works.

The State Government replied (February 2016) that road history register was required to be maintained by the Panchayat Raj Engineering Divisions (PREDs) and PCI values were updated regularly in online monitoring and management system of PMGSY and Grama Patha software.

The reply was not acceptable as PCI registers were not produced to Audit by the test-checked PIUs and details of roads should have been obtained from PREDs and kept on record before considering roads for upgradation.

3.1.6.4 Delays in according administrative approval

The PIUs made a CUPL for 50 km of roads in each of the 189 rural assembly constituencies and forwarded (December 2009) it to KRRDA after consulting the MLAs concerned. A consolidated CUPL of 8,782 km of roads was finalised (March 2010) by KRRDA and forwarded to RDPR for administrative approval.

The stipulated time for completion for Phase I involving 3,678.35 km (1,391 roads) and for Phase II entailing 5,728.12 km (2,196 roads) was 2010-12 and 2012-14 respectively with overall completion of the entire project by four years. Audit observed that after finalising the list of eligible roads, there were delays of 6 months and 31 months in according administrative approvals for Phase I (October 2010) and Phase II (November 2012) respectively.

The State Government accepted the audit observations and stated (February 2016) that the approval from Planning department, Finance department and Cabinet were mandatory before getting the administrative approval which entailed substantial time. The reply was not acceptable as the

Finance department and Cabinet had already given approval for implementation of the Scheme under Phase I and Phase II during October 2009 and September 2010 respectively.

3.1.6.5 Selection of ineligible habitations

As per PMGSY guidelines, an unconnected habitation is the one with a population of designated size and located at a distance of at least 500 metres (m) or more (1.5 km of path distance in case of hills) from an all-weather road or a connected habitation.

In contravention to these provisions, the test-checked PIUs had selected 15 road works connecting habitations located at a distance of less than 500 m from an all-weather road. Consequently, the expenditure of ₹1.46 crore incurred on execution of these works (length-6.04 km) was ineligible.

The State Government replied (February 2016) that Government Orders dated 20.11.2012 and 24.01.2013 had provided for relaxation from PMGSY guidelines in selection of roads.

The reply was not acceptable as the relaxation in the above Government Orders was not given for executing road works within 500 m from all-weather roads.

3.1.6.6 Road works in habitations with population exceeding 1,000

As per Government's instructions (October 2009), priority should be accorded to upgrade roads in habitations where the population is between 500 and 1,000. The roads connecting habitations with population below 500 were to be taken up subsequently. Thus, the roads connecting habitations with population above 1,000 were not eligible for upgradation under NGNRY.

It was, however, seen that 258 road works connecting the habitations with population above 1,000 were selected and executed in the test-checked PIUs after incurring an expenditure of ₹263.52 crore, which was irregular.

The State Government replied (February 2016) that as per PMGSY guidelines, second priority may be given for ensuring all weather road connectivity to unconnected habitations of population between 500 to 1,000. Thus, according priority for habitations with population of 1,000 and above under NGNRY should not be construed as deviation.

The reply was not acceptable as all the habitations with population above 1,000 were covered under PMGSY and hence priority should have been given to complete all habitations where the population was between 500 and 1,000.

3.1.6.7 Selection of major district roads and roads in urban agglomeration

The Scheme was meant for upgradation of rural roads only. It was seen that three road works, namely, Lingadheeramallasandra to L-075 (Package No. KS-02-01 in Bengaluru Rural), Murlapur to T-09 (Package No. KS-20-02 in Koppal) and Gonal to Kawadimatti (Package No. KS-30-01 in Kalaburagi) executed for a length of 12.25 km under NGNRY were part of Major District Roads (MDRs). An expenditure of ₹3.93 crore was incurred on these works.

Similarly, two roads, namely, Kangrali to SH (Package No. KS-04-15 in Belagavi) and Bendekan to L-084 (Package No. KS-27-01 in Karwar) executed for a length of 3.63 km (expenditure-₹1.05 crore) were within the urban agglomeration. Photographs taken during JPV of these roads have been shown below:

Kangrali to SH in Belagavi (19.06.15)

Bendekan to L-084 in Karwar (07.07.15)

Thus, these roads were not eligible for selection under NGNRY. As such, the expenditure of ₹4.98 crore on execution of these roads was not correct.

The State Government replied (February 2016) that the roads were only village roads and not the MDRs. The reply was not acceptable as the records indicated that the roads were part of MDRs. Further, during JPV, both the PIUs (Belagavi and Karwar) had accepted that these roads were part of urban agglomeration.

3.1.6.8 Wrong inclusion of new road works

The NGNRY had envisaged only upgradation of rural roads. If a habitation was already connected by way of an all-weather road, then no work was to be taken up under the NGNRY for that habitation.

It was, however, observed that out of 119 road works selected for JPV, 27 works in test-checked PIUs actually related to new connectivity. Out of these, 20 works were completed after incurring an expenditure of ₹26.97 crore; seven were ongoing (expenditure incurred-₹4.20 crore). An expenditure of ₹31.17 crore incurred on new connectivity works was inadmissible under NGNRY. Photographs of two such works are shown below:

Ramadevaradurganadoddi in Ramanagara (10.08.15)

Nathpainagar in Belagavi (18.06.15)

It was also observed that ₹35.06 crore was incurred on 35[9] road works for providing connectivity to habitations which were already connected by way of an all-weather road.

The State Government replied (February 2016) that all the eligible habitations had been covered under connectivity and the question of new connectivity did not arise. It was also stated that as per the PMGSY guidelines, the upgradation of existing gravel/Water Bound Macadam (WBM) roads were not to be construed as new connectivity.

The reply was factually incorrect as there were 2,745 unconnected habitations as evident from the 'Comprehensive Development Plan of rural roads in Karnataka' of KRRDA (July 2009). Further, the JPV of roads in the test-checked PIUs showed that new connectivity works were taken up on cart/mud roads which were not eligible for upgradation under the Scheme.

3.1.7 Detailed Project Reports

3.1.7.1 Deficiencies in Detailed Project Reports

As per the Operations Manual, each rural road project should have a separate DPR. The DPR should be based on detailed survey and investigations, design and technology choice, and should be of such detail that the quantities and costs are accurate and no cost overrun takes place due to change in the scope of work or quantities at the time of execution. The PIUs were required to conduct a Transect Walk[10] prior to preparation of DPRs to determine the most suitable alignment, sort out issues of land availability (including forest land), moderate any adverse social and environmental impact and elicit necessary community participation.

Following deficiencies were observed in DPRs prepared for NGNRY in the test-checked PIUs:

- Detailed survey and investigations of the existing pavement proposed for upgradation were not carried out, leading to selection of wrong pavement design.

- Certificates (prescribed formats F-1 to F-9), estimates and design of geometrics were not signed by the competent authority. Further, certificates in Form 9-B to the effect that Assistant Engineer (AE)/Executive Engineer (EE) had checked the required percentage of DPRs at site and were satisfied with the content and quality, were blank. In the absence of this, Audit could not ascertain whether the nodal agency had exercised prescribed controls.

[9] Belagavi-three works (₹2.60 crore); Bengaluru Rural-five works (₹5.17 crore); Davanagere-seven works (₹9.12 crore); Kalaburagi-five works (₹6.35 crore); Karwar-four works (₹2.41 crore); Koppal-two works (₹2.07 crore); Mandya-eight works (₹6.36 crore) and Shivamogga-one work (₹0.98 crore)

[10] A simple and non-formal walk along the suggested alignment by PIU with the communities

- Details such as habitations benefited and cost-benefit analysis indicating how the upgradation of the proposed road would improve the quality of life of the population of beneficiary habitations by providing access to market centres, social and service centres such as education, health institutions, *etc.*, were not indicated.

- Transect walk was not carried out as prescribed in the Operations Manual leading to abandoning of works and delay in implementation of the Scheme.

- Traffic census was not carried out during peak harvesting season and also did not indicate the number of Commercial Vehicle Per Day (CVPD). Hence, the correctness of the cumulative Equivalent Standard Axle Load (ESAL) derived and subsequent determination of pavement design as per IRC:SP 72-2007 was not ascertainable. The accuracy of computation of cumulative ESAL was essential to arrive at the appropriate crust thickness and design pavement.

The State Government replied (February 2016) that DPRs were prepared based on the detailed survey conducted during reconnaissance and field data collection. It also ensured that hard copies of DPRs were signed by all the competent authorities before sanctioning DPRs. However, some transect walks did not include all the concerned parties and also in some cases of transect walks, the minutes of the walks were not documented in the DPRs. It was stated that instructions were issued to PIUs to document the transect walk, as prescribed, in future. Further, it was stated that due to time constraints, traffic census was not done during peak harvesting seasons.

It was also stated that AEs and EEs had conducted required checks at site, but did not record the same in Form-9B and this information was furnished in Form-9A.

The reply of the Government is not acceptable as there were no documentary evidence produced during audit in support of the required checks having been carried out by the AE/EE.

3.1.7.2 Empanelment of consultants for preparation of DPRs

KRRDA had invited tenders (October 2009) for empanelment of consultants for preparation of DPRs. Out of 31 bids (₹18,000 to ₹39,290) received, the Tender Scrutiny Committee recommended (April 2010) 29 consultants for empanelment. Twenty six consultants were offered the rate of ₹20,000 per km; one consultant was offered ₹18,500 and two consultants were offered ₹18,000 per km (excluding service tax).

The lowest rate of ₹18,000 was not offered to the other bidders on the contention that the lowest (L1) bidder was having own laboratories. Non-offering of L-1 rate to all the consultants was against the prescribed procedure and resulted in extra expenditure of ₹24.26 lakh in the test-checked PIUs.

The State Government stated (February 2016) that higher rates were paid to consultants having more experience. The reply, however, was not acceptable as it was against the codal requirements.

3.1.7.3 Wasteful expenditure on preparation of DPRs

It was observed from the work-wise progress reports that 87 works in eight test-checked PIUs with estimated cost of ₹62.82 crore had not commenced and the reasons attributed were non-availability of required land, road work already executed by other agencies, *etc*. This resulted in wasteful expenditure of ₹33.31 lakh[11] towards preparation of DPRs for these works.

3.1.7.4 Inflated estimates

Paragraph 5.10 of the Operations Manual provided detailed instructions for pavement crust design. PIUs were required to consider the thickness of the existing pavement and quality of the sub-base and base materials while determining the pavement thickness required for upgradation.

It was, however, observed that none of the test-checked PIUs had considered the existing surface type, the year of last periodic renewal, the PCI and Average Annual Daily Traffic (AADT) while preparing the estimates. As a result, 129 (78 *per cent*) out of 166 estimates for upgradation of roads in six test-checked PIUs were provided with all the items of new construction, irrespective of the type of existing surface such as worn out bituminous surface, WBM layer, *etc*. This led to preparation of inflated estimates and avoidable expenditure/higher cost of construction. Illustrative cases are detailed below:

- Belur to T-02 (Package No. KS-27-01 in Karwar): The estimate was prepared for upgradation of road for a length of four kms, including all the items of new construction. In spite of the fact that the road had been constructed earlier (September 2006) under PMGSY, the work was executed (January 2013) from the formation level under NGNRY after incurring an expenditure of ₹1.02 crore, which was avoidable.

- Veeranna Benavalli to T-04 (Package No. KS-24-02 in Shivamogga): The estimate provided for construction of road (5.04 km) from the formation level and the work was entrusted (May 2011) to a contractor at a cost of ₹1.54 crore. However, subsequent inspection (September 2011) by the Superintending Engineer (SE) pointed out that chainage 2.3 to 3.8 km was only partly worn out and accordingly, the work for this chainage was carried out for pothole filling and chip carpeting.

The State Government accepted the observations in respect of illustrative cases detailed above. The Government further replied (February 2016) that works taken up related to upgradation and based on IRC:SP 72-2007 duly

[11] Belagavi-₹5.32 lakh (17 works); Bengaluru Rural-₹7.72 lakh (33 works); Davanagere-₹5.70 lakh (nine works); Kalaburagi-₹6.11 lakh (eight works); Karwar-₹0.16 lakh (one work); Koppal-₹4.88 lakh (nine works); Mandya-₹2.65 lakh (nine works) and Shivamogga-₹0.77 lakh (one work)

considering California Bearing Ratio (CBR[12]) and crust thickness. As the existing roads were narrower, provision for embankment for widening and achieving profile correction was to be considered. Wherever the existing road was Black Topped (BT)/WBM surface, suitable accommodation for existing material was made after ensuring suitability of materials.

The reply was not acceptable as according to Para 3.3 of IRC:SP 72-2007, while determining the pavement thickness required for upgradation, the pavement need not be reconstructed all over again and a design life of 10 years is recommended for purpose of pavement design. Further, as per SP 20 where the AADT of motorised vehicles is less than 100 per day, the scope for formation embankment is minimal as the road width can be restricted to 6.0 m.

3.1.8 Institutional mechanism

3.1.8.1 State Level Standing Committee

The SLSC was responsible for examining the CNW and CUPL, and clearing the annual proposals. The Committee, *inter alia*, was to review on quarterly basis the progress and quality of works, land width availability for roads, and forest/environmental clearance, *etc*.

Audit observed that against the stipulated 20 meetings, the SLSC had met only once (August 2013) during the period 2010-15. It was seen from the proceedings of the meeting that the SLSC had discussed only the physical progress under NGNRY. Thus, not holding the required number of SLSC meetings undermined the effective monitoring of implementation of NGNRY and could not give its valuable inputs in resolving the issues relating to dropped/abandoned works due to non-availability of land and forest clearance.

The State Government replied (February 2016) that action would be taken to hold SLSC meetings as per the guidelines.

Recommendation 1: The State Level Standing Committee should meet at regular intervals and ensure that the selection of works is as per the guidelines and the detailed project reports are complete in all respects.

3.1.8.2 Non-involvement of State Technical Agencies

As NGNRY was to be implemented on the lines of PMGSY, STAs were to provide outsourced technical support to PIUs. The STAs were to examine DRRP and CNW, check the CUPL and examine the DPRs prepared by PIUs.

It was, however, seen that none of the DPRs for Phase I and II works in the test-checked PIUs were examined by the STAs. As a result, PIUs could not get the requisite technical support and many of the DPRs prepared in these PIUs were defective, as detailed in *Paragraph 3.1.7*.

[12] CBR is a measure of resistance to direct penetration of any soil or granular material which is expressed as a percentage of the load carrying capacity of a standard crushed rock specimen determined by a penetration test.

The State Government replied (February 2016) that NGNRY Scheme was 100 *per cent* funded by State Government and did not envisage involvement of STAs. Hence, the question of non-involvement of STAs towards enhancing technical input for design and techno-economic innovation did not arise.

The reply was not acceptable as the NGNRY, though a State funded Scheme, was to be implemented on the same lines as the PMGSY guidelines. Moreover, STAs were involved in scrutiny of DPRs for Phase III works from March 2015.

3.1.8.3 Absence of coordination with other agencies executing road works

The DRRP, CNW and CUPL are common documents to be maintained for the district as a whole and should be adopted as basis for selection of roads by various implementing agencies *i.e.* PIUs, PRED, PWD, *etc*.

Audit observed that there was lack of coordination among these agencies as none of the test-checked PIUs had the data about execution of roads/stretches by other agencies. In the absence of this data, there were instances where roads under NGNRY were proposed even for the stretches executed by other agencies. This attributed to subsequent cancellation and change in scope of works.

The State Government accepted (February 2016) the audit observations and stated that the PIUs at district level would be informed to ensure coordination with other line departments while finalising the programme of works.

3.1.9 Financial and physical progress

The State Government released funds to the KRRDA out of the funds allocated for the development of rural roads and National Bank for Agriculture and Rural Development (NABARD) assistance, through RDPR Department as grants-in-aid. The KRRDA kept the funds in public sector banks, *viz.*, Syndicate bank, Corporation bank and Bank of Baroda. Funds were released to the PIUs as bank authorisations and no separate bank accounts were maintained at PIU level.

3.1.9.1 Progress of the Scheme

Phase I (3,678.35 km) was to be completed by 2012 and Phase II (5,728.12 km) by 2014. As against this, the physical progress of both the phases was 61 *per cent* and 84 *per cent* by end of March 2014 and 2015 (up to December 2014) respectively, as detailed in the **Table 3.1** below:

Table 3.1: Physical and financial progress of NGNRY in the State

Phase	Physical progress in km			Financial progress (₹ in crore)		
	Target	Achievement		Target	Achievement	
		As of March 2014	As of March 2015		As of March 2014	As of March 2015
Phase I	3,678.35	3,455.25	3,498.00	1,066.75	1,055.07	1,112.00
Phase II	5,728.12	2,269.84	4,380.00	2,466.69	956.03	1,535.00
Total	**9,406.47**	**5,725.09**	**7,878.00**	**3,533.44**	**2,011.10**	**2,647.00**

Source: Annual Reports of RDPR for 2013-14 and 2014-15

As of March 2015, physical and financial progress in eight test-checked PIUs was 85 *per cent* and 77 *per cent* respectively, as detailed in **Table 3.2** below:

Table 3.2: Physical and financial progress of NGNRY in test-checked PIUs (as of March 2015)

Phase	Physical progress in km		Financial progress (₹ in crore)	
	Target	Achievement	Target	Achievement
Phase I	1,155.54	1,080.55	331.22	324.89
Phase II	1,818.88	1,458.53	748.03	511.25
Total	**2,974.42**	**2,539.08**	**1,079.25**	**836.14**

Source: Information furnished by PIUs

3.1.9.2 Lapses in financial reporting

As per codal provisions, all financial transactions are to be recorded in the cash book as and when they occur and they should be reconciled with the treasury/bank every month. The accounts should be prepared depicting true and fair picture of the financial transactions and utilisation certificate should be submitted to Government.

Audit observed that the cash book was not maintained at KRRDA in respect of NGNRY for the years 2013-14 and 2014-15 and bank reconciliation was not carried out. Further, net transfer of ₹5.39 crore (₹8.87-₹3.48 crore) to PMGSY funds for preparation of DPRs was not disclosed in either the utilisation certificates or annual accounts for the years 2010-11 and 2011-12, resulting in short accountal of expenditure to that extent.

A sum of ₹69.63 lakh collected towards tender application fee kept in Syndicate Bank Account (No.04362140000064), Rajajinagar Branch, was not accounted for in the books of accounts of NGNRY.

The State Government replied (February 2016) that after the audit observation was made, the cash book has been updated.

3.1.9.3 Loss of interest

The KRRDA had entered into an agreement with the designated banks (Bank of Baroda and Corporation Bank) to have flexi deposit accounts which automatically transfer funds above ₹25 lakh to fixed deposit with a view to generate more interest in the funds lying unutilised. The interest rate applicable for the amount swept in would be the rate applicable for the period for which it was held in the short term deposit.

Test-check of flexi bank account (No. 10110300007588-Bank of Baroda) showed that an amount of ₹91.13 crore was transferred to the bank account on 07.04.2011, for which ₹1.15 crore had been credited as interest (@ 2 to 6.2 *per cent*) for the period from May to October 2011. However, the interest payable was worked out to ₹1.51 crore at the applicable rates of interest (4.5 to 6.5 *per cent*) for the same period. Thus, there was short credit of interest amounting to ₹0.36 crore.

The State Government replied (February 2016) that action would be taken to reconcile and claim the balance amount due from the bank.

Scheme implementation

3.1.10 Contract management

To observe transparency and economy in contract management and award of work, the PIUs and KRRDA were to follow the established procedure for tendering through competitive bidding. The procedural requirements were, however, not complied with while finalising the tenders, as detailed below:

3.1.10.1 Invitations of tenders prior to administrative/technical sanction

The Paragraph 8.1.1 of the Operations Manual stipulates that no tender shall be invited before obtaining administrative approval and technical sanction. Contrary to these provisions, tenders for 50[13] packages were invited by the KRRDA before obtaining technical sanction from competent authorities. Evidently, tenders were invited without ensuring technical scrutiny.

The State Government replied (February 2016) that though Notice Inviting Tenders (NITs) had been published in newspapers prior to obtaining administrative approval, these were uploaded in e-portal only after obtaining administrative approval followed by technical sanction. The reply was not acceptable as it contravened the provisions of the Operations Manual and the NITs had been published in newspapers before obtaining administrative approval.

3.1.10.2 Acceptance of single tenders and routine price negotiations

As per the guidelines issued (December 2002) by the State Government, fresh tenders are required to be invited when less than three tenders are received for a work. Further, these guidelines discourage conducting negotiations even with the lowest tenderer, in a routine manner, as it defeats the very purpose and ethics of doing competitive tendering. This was to reduce the possibility of tenderers jacking up the prices in the original tender and reducing the prices marginally during negotiation.

It was observed during audit in eight test-checked PIUs that single tenders were accepted in 80 (71 *per cent*) out of 113 packages, costing ₹897.69 crore. Further, instead of rejecting the single tenders for lack of competition, negotiations were conducted in a routine manner. This not only contravened the provisions of guidelines issued by the Government but the possibility of paying more than the real cost of the work could also not be ruled out.

The State Government replied (February 2016) that the KTPP Act provides that the tender acceptance committee can negotiate with the lowest tenderer in exceptional circumstances. However, the reply was silent about the reasons

[13] 18 packages in Belagavi, nine packages in Bengaluru Rural, 10 packages in Davanagere, eight packages in Karwar and five packages in Koppal

for accepting the single tenders instead of rejecting the same for lack of competition as stipulated in the guidelines issued by the State Government during December 2002.

3.1.10.3 Delay in completion of tendering process

As per paragraph 8.1.2 of the Operations Manual, all formalities relating to the issue of tender notice, finalisation of tender and award of works shall be completed within 71 days (120 days in case of re-tendering).

Audit, however, observed that there were delays ranging from 21 to 181 days in the tender process of road works in the test-checked PIUs.

The State Government replied (February 2016) that as per KTPP Rules, 2000, the minimum time prescribed for tender submission was 60 days for tenders in excess of Rupees Two crore and all other processes require additional time.

The reply was not acceptable as PMGSY guidelines were required to be followed as per Government orders for implementation of NGNRY. It was observed that the time frame fixed as per the Operations Manual had not been adhered to and also more time was taken for processing the tenders.

3.1.10.4 Violation of insurance clause

As per Paragraph 9.3.1 of the Operations Manual and Clause 13 of the Standard Bidding Document (SBD), the contractor was liable to provide insurance cover with effect from the date of start to the date of completion for the events which were due to contractor's risk, such as damage or loss to work, equipment, personal injury or death, *etc*. The insurance policies and certificates (@ 0.1 *per cent* of the contract amount) were required to be delivered by the contractor to the engineer, for approval, before the date of their start.

Out of 113 selected packages in test-checked six PIUs, insurance cover was not provided for 50 packages. Three packages (KS-04-5A3, KS-04-05B1 and KS-04-05B2) in Belagavi PIU were dropped and remaining 60 packages were partially covered *i.e.* the insurance cover was not provided for the stipulated period. Failure of PIUs to ensure mandatory insurance of works not only contravened the contract conditions but it was also against the interest of the Government with regard to safety measures. This had also resulted in allowing undue benefits to the contractors to the extent of ₹48 lakh, worked out @ 0.1 *per cent* of contract amount of ₹480.08 crore in these packages.

The State Government replied (February 2016) that most of the works were covered under insurance. However action would be taken to get all the works insured under the NGNRY.

Recommendation 2: The Government may create an accountability framework to hold officials responsible for poor contract management.

3.1.11 Execution of works

3.1.11.1 Delay in completion of works

As per paragraph 13.1 of PMGSY guidelines, the road projects would be executed by PIUs and completed within a period of nine months from the date of issue of the work order. In case the period for execution is likely to be adversely affected by monsoon or other seasonal factors, the time period for execution may be suitably determined while approving the work programme but shall not exceed 12 calendar months in any case.

Audit observed that in the test-checked PIUs, 59 *per cent* of works (664 works out of total 1,119 works) were completed with delays ranging from 6 to 990 days. The reasons such as land disputes, change of works, shifting of utilities, heavy rains, closure of sand quarries, *etc*. were attributed for such delays.

The State Government replied (February 2016) that though farmers had consented to give their land at the time of preparation of DPR, they were reluctant to do so at the time of execution of works. Legal issues had also emerged in the way of execution in terms of stay granted by the courts and some of the roads had posed issues of shifting of utilities.

The reply was not acceptable as the delay could have been avoided had the transect walk been done properly and created confidence among farmers to spare their land as the purpose of road connectivity was meant for their benefits and shifting of utilities was not a major issue in rural areas.

3.1.11.2 Violation of Environmental Laws

The Wild Life Protection Act, 1972 and Forest Conservation Act, 1980, prohibit formation of roads inside reserve forest area and wild life sanctuaries.

In contravention to these provisions, five[14] test-checked PIUs had executed 13 road works which involved improvement of 49.07 km of roads in forest areas. An expenditure of ₹12.67 crore was incurred on these works. Illustrative photographs taken during JPV of two such roads have been shown below:

	
Sampolli to T-04 in PIU, Karwar (07.07.2015)	**Mingeli to Gund in PIU, Karwar (05.07.2015)**

[14] Bengaluru Rural, Karwar, Koppal, Mandya and Shivamogga

The State Government replied (February 2016) that there was no case of violation of environmental laws as the roads in the forest area were tackled with due consent of the forest authorities.

The reply was not acceptable, as during JPV, it was observed that the 13 road works mentioned above were upgraded from the existing surface conditions though the forest authorities had given the consent with the condition that the road should be maintained/developed on 'as is where is' basis.

3.1.11.3 Unfruitful expenditure on abandoned works

Audit observed that a total of 11 works (tendered cost-₹14.90 crore) for upgrading 42.75 km of roads in six test-checked PIUs had been abandoned, after achieving financial progress of ₹12.20 crore (82 *per cent*) and physical progress of 34.43 km (81 *per cent*). Reasons attributable for these incomplete works were land disputes, objection from Forest department, *etc*.

Thus, the failure of PIUs to ensure completion of works had defeated the envisaged objective of providing better connectivity. This had rendered an expenditure of ₹12.20 crore as unfruitful. An illustration is given below to explain this observation.

Illustration 1

With an objective of providing an all-weather road to the border villages of Karnataka and Goa, a road work from Maingini to T-01 was proposed by PIU, Karwar for 9.50 km at an estimated cost of ₹2.74 crore (tendered cost-₹3.59 crore). The work, however, was foreclosed (March 2013) after achieving a physical progress of 6.65 km (70 *per cent*) and financial progress of ₹2.88 crore (80 *per cent*) due to objection from the Goa Forest department. It was observed during JPV (03.07.2015) that the entire road was passing through the dense forest area and had ended abruptly at a stream near Goa border. Thus, due to the abrupt end of road at Goa border, the expenditure of ₹2.88 crore had become wasteful.

The State Government replied (February 2016) that though the DPR had been prepared for a total length of 9.50 km, it had executed only 6.80 km in Karnataka jurisdiction benefitting five habitations in the border area since it had been realised that the DPR was prepared defectively and 2.70 km out of 9.50 km was found to be in Goa territory. The reply was not acceptable as it was noticed during JPV that there was only one habitation at chainage 2.50 km and beyond this the road was passing through the forest area.

Recommendation 3: The Programme Implementation Units may be advised to ensure availability of land and necessary clearances from forest and environment authorities before undertaking such projects.

3.1.11.4 Incorrect approval for execution of works through work slips

As per the codal provisions, the work slips are prepared when there is an excess over the sanctioned estimates, due to change in design or other cause, is beyond the authority (more than 125 *per cent*) of the Divisional Officer to pass finally, *i.e.*, work slips are prepared only for those items where the executed quantity exceeds 125 *per cent* of the estimated quantity.

The Audit observed that the 12 works in two[15] test-checked PIUs were executed without preparation of DPRs and the entire expenditure of ₹5.73 crore incurred on these works was met through work slips. It was further observed that these works had been awarded without calling tenders and were entrusted to the contractors who were executing other NGNRY works. An illustration is given below to explain this observation more clearly.

Illustration 2

A work from Kakkeri to Pradnya Ashram for a road length of 1.80 km (estimated cost - ₹81.86 lakh) in PIU, Belagavi (Package No. KS-04-19), was executed based on a work slip. The work had commenced on 15.12.2013 without preparation of DPR and even without obtaining administrative approval (31.01.2014) and technical sanction (18.02.2014). An amount of ₹81.63 lakh was incurred on this work. It was seen during JPV (19.06.2015) that there was no habitation on the stretch, except an Ashram at the end of the road. Therefore, the execution of this work on work slip involving an expenditure of ₹81.63 lakh was not justifiable.

The State Government replied (February 2016) that the work slips were prepared when the quantity had exceeded by 125 *per cent* and there was no need to prepare DPRs as they were part and parcel of bill of quantities (BOQ) and entrustment of the work to the original contractor was in order.

The reply was not acceptable as these 12 works were taken up on the basis of work slips and question of quantity exceeding 125 *per cent* did not arise.

3.1.11.5 Non-maintenance of electronic Measurement Books

The Government had prescribed (December 2009) procedures for maintenance of electronic Measurement Books (eMBs) in respect of works contracts valuing more than ₹25 lakh. Considering the importance of this document, the procedures, *inter alia*, had stipulated that final measurements after check measurement by AEE/EE should be recorded in non-rewritable Compact Discs (CDs) and that the CDs should be indexed and stored at the Divisional office.

It was, however, observed that none of the test-checked PIUs had kept a record of final measurements in non-rewritable CDs. Instead, the spread sheets (hard copy) of final measurements were attached with Running Account Bills concerned.

[15] Belagavi-eight works (₹4.19 crore) and Koppal-four works (₹1.54 crore)

The State Government replied (February 2016) that action would be taken to keep a record of final measurements in non-rewritable CDs.

3.1.11.6 Non-utilisation of retrievable metal

According to the Manual provisions about rural roads, the use of locally available material while taking up road works should be thoroughly and judiciously explored in the larger interest of economy. In this context, the metal retrievable from the existing scarified surface is reusable during the reconstruction of pavement.

It was observed in 13 selected packages (Phase I) of eight PIUs that chainages having worn out BT/WBM surfaces were identified for upgradation. However, the quantity of metal retrievable after scarifying[16] these surfaces was not considered and deducted from the quantity of WBM required for Grade III metalling, as was done for Phase II works. This resulted in excess requirement of metal to the extent of 30,340 cubic metre (cum) and consequential extra expenditure to the tune of ₹2.99 crore[17] (worked out by Audit considering that 75 *per cent* of the metal retrieved was reusable).

The State Government replied (February 2016) that at the time of preparation of DPRs, it was planned to use the available existing metal from the existing worn out BT and suitable tests through trial pits were conducted to ensure both quality and quantity of existing metal, granular sub-base (GSB) and binding material. In cases, where quality was found to be suitable, the existing material had been considered in the design. It was further stated that details would be obtained from PIUs and suitable reply would be furnished.

The reply was not acceptable as it was observed that quantity of retrievable metal was not considered in any of the road works in test-checked PIUs in Phase I works and these were also not supported by appropriate test reports.

3.1.11.7 Excess expenditure on embankment works

The embankment works were to be carried out with approved materials deposited at site from roadway cutting and excavation from drains. The quantity of soil to be brought from outside (borrow pits) was to be limited to the quantity of soil required in excess of the deposited soil. For this purpose, the detailed measurement and quantity statement had been worked out in the approved DPR estimate.

Audit test-checked the records of eight PIUs and found that in 24 packages, though 6,71,011 cum soil was available from unlined surface drain and roadway cutting, only 5,48,736 cum was utilised. Non-utilisation of balance quantity of 1,22,275 cum was not supported by sufficient justification,

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[16] scarification is a process of removal of a pavement surface, in accordance with the prescribed specifications.

[17] Belagavi-₹35.17 lakh (one package); Bengaluru Rural-₹25.32 lakh (one package); Davanagere-₹53.63 lakh (two packages); Kalaburagi-₹68.86 lakh (four packages); Karwar-₹21.19 lakh (one package); Koppal-₹29.37 lakh (one package); Mandya-₹26.75 lakh (two packages) and Shivamogga-₹39.06 lakh (one package)

resulting in avoidable expenditure of ₹2.03 crore for bringing soil from borrow areas.

It was further observed in 12 packages in six test-checked PIUs that the quantity of embankment actually executed was in excess of quantity worked out in approved DPRs. This resulted in bringing excess quantity of soil (2,53,095 cum) from borrow areas with an excess expenditure of ₹4.19 crore.

The PIUs stated that the entire quantity of deposited soil was not useful due to poor CBR and attributed the reasons for increase in quantity to the directions given by the SE/Chief Engineer (CE) during their inspections.

The State Government replied (February 2016) that during inspection, SE/CE had verified that the quantity of soil used in embankment was as per DPR and the utilisation of soil was based on the test reports.

The replies were not acceptable as non-utilisation of the entire quantity of deposited soil was not supported with the test reports and details of disposal of the same (such as trip sheets, site of deposit, *etc.*). Further, there were instances where quantity of soil utilised was higher than the quantity proposed in DPRs.

3.1.11.8 Adoption of incorrect data rate

The estimates provided in the DPR included an item ‘construction of GSB using well graded material’ provided *vide* item 4.1 (A)(iii) of the relevant SR of PRED circle of the test-checked PIUs. Scrutiny of records in test-checked PIUs showed that an item was inserted in addition to the above item in the tender, namely, ‘construction of Granular Sub-base by providing well graded material (utilising the locally available material after scarifying the 100 millimetre (mm) thick existing granular surface)’. Since there was no such item in the SR, rate analysis was done and data rates were worked out. The only difference between the item provided in SR and data rate was that in the latter case, there was no cost of material, transportation, lead and lift involved as the material to be utilised was locally available after scarifying the surface. Therefore, the data rate should be less than the SR rate.

The data rates worked out in test-checked PIUs ranged from ₹573.66 to ₹721.53 per cum which were higher than the SR rates (₹487 to ₹629.37). Analysis of data rate worked out by SE, Davanagere showed that the data rate was calculated wrongly by adding ₹87 (cost of labour, machinery, overheads and contractor’s profit) to the SR rate (₹599.40). Analysis of data rates was not furnished by other PIUs. Approval of inflated data rates resulted in undue benefits to the contractors and facilitated excess payments to the extent of ₹4.93 crore in 16 selected packages of test-checked PIUs.

The State Government replied (February 2016) that the data rate approved by the office of the SE, Davanagere was for overall thickness of 15 centimetre (cm) GSB with fresh and available material at site (10 cm thick for materials from new borrow pits and 5 cm thick material available at site after scarifying existing road surface), which worked out to ₹428.85 per cum.

The reply was not tenable as the data rate worked out was ranging from ₹687.17 (zone I) to ₹755.89 (zone III) and was much higher than the rate arrived at as stated in the reply. Further, BOQ provides two distinct items of GSB from borrow pits (SR item) and utilising scarified 100 mm thickness. The original data rate worked out was depicting only the GSB from the scarified surface and the borrow pit quantity was not considered.

3.1.11.9 Injudicious determination of pavement design

As per provisions of IRC:SP 72-2007, gravel (aggregate-surfaced) base with thickness from 175 mm to 275 mm can take up to 1,00,000 ESAL applications when the CBR of sub-grade is five and above.

It was seen that CBR values in 13 selected packages of five PIUs were five and above and cumulative ESAL applications were less than 1,00,000, for which gravel base with thickness up to 275 mm was sufficient. However, the upgradation of roads in these packages was taken up by providing bituminous tarring for a length of 204.96 km which involved an expenditure of ₹19.89 crore[18]. Provision of higher specifications of pavement design was contrary to IRC norms and hence, extra expenditure aggregating ₹19.89 crore on such specifications was avoidable.

The State Government replied (February 2016) that the technical circular dated 17.04.2009 issued by National Rural Roads Development Agency (NRRDA) provides for premix carpet (PMC) and seal coat towards providing bituminous sealed roads.

The reply was not tenable as the circular provides for PMC and seal coat in medium and heavy rain fall areas but Audit observed that higher specifications were provided in other than heavy rain fall areas such as Bengaluru Rural, Davanagere, Kalaburagi, *etc*.

3.1.11.10 Inadmissible expenditure on repair works

As per provisions of the Operations Manual, repairs to BT or cement concrete roads were not permissible even if the surface condition was bad.

Audit scrutiny, however, revealed that repair works, involving an expenditure of ₹2.46 crore, were carried out in three selected packages of two PIUs (Package No. KS-12-02 of Davanagere and Package Nos. KS-27-01 and KS-27-02 of Karwar).

The State Government replied (February 2016) that no repair works were undertaken, only the works of resurfacing of potholes/depression filling were executed which was a value addition, thereby enhancing the life of pavement.

The reply was not acceptable as the resurfacing of potholes/depression filling were repair works which were not permissible under NGNRY.

[18] Bengaluru Rural-₹7.17 crore (three packages); Davanagere-₹1.27 crore (two packages); Kalaburagi-₹4.65 crore (three packages); Koppal-₹1.82 crore (one package) and Mandya-₹4.98 crore (four packages)

3.1.11.11 Non-restriction of carriageway width to 3.0 metres

As per provisions stipulated in the Operations Manual and the Manual on rural roads, a carriageway of 3.0 m may be designed instead of the normal 3.75 m in respect of roads with low traffic volume (less than 100 motorised vehicles per day).

It was noticed that traffic volume of 148 roads taken up (2010-15) for upgradation in 21 selected packages of eight PIUs ranged from 22 to 95 motorised vehicles per day. Instead of restricting the width to 3.0 m, these roads were provided with carriageway width of 3.75 m, which resulted in avoidable expenditure of ₹13.92 crore[19].

The State Government replied (February 2016) that they had taken cognizance of traffic intensity and community acceptability as per technical circular dated 17.04.2009 issued by NRRDA for designing carriageway width of 3.75 m.

The reply was not acceptable as there was no mention about relaxation of carriageway width in the circular dated 17.04.2009. Moreover, circular dated 13.10.2010 reiterated the restriction of carriageway width to 3.0 m.

3.1.11.12 Excess expenditure due to execution of items using manual means

The Chief Operating Officer, KRRDA, had instructed (February 2013) that two items, namely, 'Construction of unlined surface drains' and 'Clearing and grubbing of road land', should be executed using mechanical means. In exceptional cases where use of machines was not feasible (*e.g.*, within village limits, digging in soft/hard rocks, *etc*.), manual means were allowed after approval of the competent authority. The PRED SR also provides for execution of these items using mechanical means which is more economical, fast and smooth in comparison to manual means.

In contravention to these instructions, three[20] test-checked PIUs had adopted manual means for these two items while preparing estimates of 17 selected packages. The justification and approval of the competent authority for using manual means were not available on record. Failure to include mechanical means while executing these 17 packages had resulted in excess expenditure of ₹85.68 lakh.

The State Government replied (February 2016) that manual means of execution were applied in cases of village limits, digging of soft/hard rocks, reserve forest areas, *etc*. This was incorporated in the estimates and sanctioned by the competent authority.

[19] Belagavi-₹2.10 crore (two packages); Bengaluru Rural-₹0.30 crore (one package); Davanagere-₹1.52 crore (two packages); Kalaburagi-₹3.20 crore (five packages); Karwar-₹2.40 crore (two packages); Koppal-₹1.60 crore (two packages); Mandya-₹1.10 crore (five packages) and Shivamogga-₹1.70 crore (two packages)

[20] Bengaluru Rural, Karwar and Mandya

The reply was not tenable as manual means alone was adopted in several packages and the estimates did not indicate the chainages separately where the manual and mechanical means were applicable.

3.1.11.13 Incorrect reporting

As per the progress reports of two test-checked PIUs (Kalaburagi and Karwar), the following three works were reported to be completed at a total cost of ₹178.61 lakh. It was, however, observed during JPV (July and September 2015) that the alignment of these works was changed at the time of execution and was not exhibited in the records (progress reports, measurement books, *etc.*) of PIUs, which was incorrect. The details have been given in **Table 3.3** below:

Table 3.3: Details of change in alignment of works

Sl. No.	PIU	Package No.	Work reported as completed	Work actually executed	Expenditure incurred (₹ in lakh)
1	Kalaburagi	KS-15-03B	Gadadana Tanda to T-05	Kolkunda Dodda Tanda to L-060	93.00
2	Karwar	KS-27-01	Kanmadlu to T-04	MDR to Shri Durga Parameswari Temple	59.05
3		KS-27-01	Bendekan to L-84	Moosanagar to 1.53 chainage	26.56
Total					**178.61**

Source: Progress Reports and JPV

The execution of the work in a manner which was not in compliance with the approved DPR amounted to misleading stakeholders. Moreover, the actual execution of work and the one as per records was at variance with each other. This had also facilitated execution of works without preparation of DPRs and without the approval of the competent authority.

The State Government replied (February 2016) the change in alignment was done at the request of elected representatives and work slip and EIRL was approved. Though, the State Government accepted the change of alignment, the fact, however, remains that the basic records depicted execution of work as per original alignment.

3.1.11.14 Levy and recovery of liquidated damages

In order to enforce discipline and ensure completion of road works within the stipulated time frame, the tender conditions and the Operations Manual provided for levy of liquidated damages for delays attributable to the contractors. Liquidated damages were leviable at the rate of one *per cent* of the initial contract price, rounded off to the nearest thousand per week, subject to a maximum of 10 *per cent* of the initial contract price.

It was noticed that delays in completion of five package works in PIU, Mandya, ranged from 134 to 230 days, for the reasons attributable to the contractors and liquidated damages amounting to ₹207.87 lakh were recoverable. However, only a sum of ₹1.60 lakh was recovered, which resulted in extending undue benefits to the contractors to the extent of ₹206.27 lakh.

Sequence of events indicated that officials entrusted with the duties failed to perform their duties as per the contract provisions and in the process, they had allowed undue benefits to the contractors.

The State Government replied (February 2016) that the work was delayed due to non-availability of metal for base layer and surface layer and delay was not due to the fault of the contractor.

The reply was not acceptable as in an item rate tender, the contractor is responsible for procurement of materials.

3.1.11.15 Inadmissible payments on maintenance of roads

As per the Government's instructions and tender conditions, the contractors were required to maintain roads for a period of five years after execution of works.

It was noticed by Audit that out of 119 selected roads in eight PIUs, 106 roads were completed and an amount of ₹55.70 lakh had been paid towards maintenance cost. However, maintenance of these roads was not carried out as observed during JPV. There were issues such as, sunken carriageway and BT chipped off (nine roads), shoulders and drains filled with wild vegetation (94 roads), potholes (47 roads), *etc*. In respect of eight completed works, maintenance was not carried out due to non-completion of packages as a whole. Further, register/details pertaining to maintenance works were not maintained in the test-checked PIUs. Hence, the payment of ₹55.70 lakh was not admissible.

The State Government accepted the observation and stated (February 2016) that necessary instructions had been issued in this regard.

Instances of irregularities and deficiencies in implementation pointed out above were indicative of inadequate supervision and monitoring of works. Further, the maintenance of completed roads was neglected, which not only defeated the objective of providing good quality all-weather roads but was also fraught with the risk of rendering the investment unproductive.

3.1.12 Quality management and monitoring

A three-tier quality management mechanism was envisaged under NGNRY for ensuring that the quality of roads conformed to the prescribed standards. The first tier was in-house quality control system of the PIU, the second tier was District Quality Monitors (DQMs) and third tier was State Quality Monitors (SQMs).

3.1.12.1 Setting-up of field laboratory

The contractor was required to establish a field laboratory with all required equipment and testing facilities before commencement of work and no payments were to be made to the contractor until establishment of such a laboratory.

It was observed that documentary evidence such as date of establishment of laboratory, entries in quality control registers, reports of DQM/SQM, certificates by AEE/EE, *etc.*, relating to establishment of field laboratory were not maintained properly in the test-checked PIUs. In the absence of the same, Audit could not ascertain whether field laboratories had been established by the contractors.

The State Government replied (February 2016) that the establishments of field laboratories was ensured by the DQM/SQMs during their inspections and recorded in the inspection reports. Particulars of field labs were also uploaded in the Grama Patha website.

The reply was not acceptable as documentary evidence was not provided by the test-checked PIUs and no such details could be noticed in the Grama Patha website as it was not fully functional (February 2016).

Deficiencies noticed in quality control in test-checked PIUs are given below:

i) The issue register for supplying quality control registers to the AEs (in-charge of the work) concerned was not maintained in any of the test-checked PIUs.

ii) The monthly returns of the tests conducted were not produced.

iii) Instances of incomplete entries of tests conducted to satisfy quality parameters, non-recording of certificates/non-attestation of each stage of construction, entries for stage passing left blank, *etc.*, were noticed in 204 (44 *per cent*) out of 461 works in test-checked PIUs.

The State Government replied (February 2016) that quality control registers were issued by the KRRDA to all the PIUs which were recorded in the issue register. The monthly returns of the test conducted by the PIUs were submitted to the KRRDA during monthly meeting and it was recorded in Grama Patha website. Particulars of test conducted concerning quality parameters and stage passing details were entered in the quality registers by the contractors and verified by the PIUs.

The reply was not acceptable as the issue registers and monthly returns were not produced to Audit by the test-checked PIUs. Further, the details of tests conducted had not been recorded in the quality control registers as noticed during audit.

3.1.12.2 Quality assurance in execution of works

As per provisions contained in the Quality Assurance Handbook for Rural Roads, the AEE and EE are required to exercise quality control checks and certify the works at various stages (embankment, GSB, WBM, *etc.*) on the basis of tests. In order to assure quality in execution of works, it was necessary that only after each activity (stage) was cleared for quality assurance, the subsequent activity should be taken up.

It was, however, observed that the AEE/EE in test-checked PIUs had not ensured compliance with this provision as Audit had noticed 87 cases where subsequent activity was completed before stage passing/completion of previous activity, *e.g.*, GSB was completed even before stage passing of embankment works and WBM (Grade II) was completed before stage passing of GSB works. Thus, the completion of subsequent layer before certifying the quality of previous layer may result in early deterioration of roads.

The State Government replied (February 2016) that necessary instructions would be issued to PIUs to follow the norms in this regard.

3.1.12.3 Grievance redressal mechanism

Maintenance of a complaint register in each PIU was required to record the grievances received from the general public and for disposal of the complaints, so as to maintain transparency in implementation of NGNRY.

Audit observed that none of the test-checked PIUs had maintained the envisaged complaint register. As such, there was no mechanism in place to attend to complaints and their disposal in respect of NGNRY. In the absence of such registers, Audit could not ascertain the status of complaints received and settled and whether it was done within the stipulated time frame of 30 days.

The State Government replied (February 2016) that action would be taken to maintain complaint registers.

3.1.12.4 Inspection by SQM/DQM

The SQMs/DQMs were required to inspect each road work at least three times-two times during progress of work and once within one month of its completion. The SQMs/DQMs were required to submit the report in the prescribed format and grade the work as Satisfactory (S), Satisfactory Requiring Improvement (SRI) and Unsatisfactory (US) based on their observations. In respect of works graded as SRI and US, Action Taken Report (ATR) thereon would be submitted by the PIUs concerned to the State Quality Coordinator (SQC). After receipt of ATR, another SQM/DQM would be deputed to verify the corrective action taken and submit re-gradation proposal.

- ***Shortfall in inspections***

As per information furnished by the KRRDA, a total of 926 works were completed in eight test-checked PIUs. Against the stipulated 2,778 inspections (each work thrice), only 1,847 inspections were conducted by SQM/DQM, resulting in shortfall to the extent of 34 *per cent* (931 inspections). Further, there were delays in inspection by SQM/DQM ranging from 1 to 17 months in respect of 126 completed works, indicating deficiencies in functioning of the second and third tiers of the quality control mechanism.

It was further noticed that 58 out of 119 selected works in eight PIUs were not inspected at all by SQMs.

Audit noticed the following deficiencies while conducting JPV of 119 roads which had not been pointed out during inspections by SQM/DQM:

- 37 roads were provided with inadequate super elevation and did not have extra widening at curves;
- 27 roads were without guard stones at appropriate places; and
- 36 roads were without cautionary and informatory sign boards.

The State Government replied (February 2016) that instructions would be given to PIUs to get the minimum number of DQM inspections done as per norms. It was also stated that owing to more number of works, the inspections were not carried out due to shortage in the number of DQM/SQMs and they would be instructed to carry out the inspections and record the observations as per the required conditions.

Recommendation 4: The system of quality assurance should be strengthened to ensure compliance with quality control checks and timely inspections at various stages of works.

3.1.12.5 Monitoring at State level

The Monthly Programme Implementation Calendar (MPIC) submitted by the KRRDA to RDPR did not contain phase-wise (Phase I and Phase II) physical and financial progress, rendering it unsuitable for effective monitoring. Phase-wise details had assumed importance as NGNRY was taken up in phases with the objective of upgrading rural roads in a time-bound manner and even after lapse of target dates, 216.65 km in Phase I and 1,348.00 km in Phase II were yet to be completed (March 2015).

Apart from these progress reports, no records and quarterly progress reports relating to various aspects of NGNRY (such as, forest and environmental clearances, delays in award of contracts, delays in completion of works, *etc*.) were maintained by the RDPR Department. As a result, the nodal department was unable to monitor the Scheme activities closely and failed to identify key problem areas and constraints in the implementation of NGNRY.

The State Government replied (February 2016) that the MPIC was prepared for the Scheme and hence, phase-wise bifurcation did not arise.

The reply was not acceptable as phase-wise targets had been fixed under NGNRY. The reply was silent about non-maintenance of relevant records at RDPR Department.

3.1.12.6 Unfruitful expenditure incurred on 'Grama Patha'

On the lines of the online monitoring and management system of PMGSY, the KRRDA had decided (February 2011) to introduce an online monitoring system (Grama Patha) for monitoring of physical progress, financial progress, quality control and maintenance of the road works executed under NGNRY.

The work of developing Grama Patha was entrusted (March 2011) to M/s. Wisdom Security Services and an amount of ₹18 lakh was paid (August-November 2011 and May 2013) towards development of Grama Patha. A server was hired by KRRDA for hosting Grama Patha, for which hire charges amounting to ₹10.62 lakh were paid to M/s. Aware Consultants between December 2011 and April 2015.

It was observed that the Grama Patha, which was to serve as an online web-based system with centralised database to monitor the implementation of NGNRY had several inadequacies such as data relating to tendering and award of works, agreement and schedule, project status, road inspection history, quality reports, financial data, PIU-wise data, *etc.*, were either not being available or incomplete. Further, Management Information System (MIS) Reports were not available to the PIU for monitoring at PIU level and at the State level for overall monitoring.

As a result of partial operationalisation and non-updation of all aspects of Grama Patha, the online monitoring mechanism of the Scheme had failed to be effective and was, thus, not helpful in monitoring and decision making. This resulted in the expenditure of ₹28.62 lakh incurred on Grama Patha not achieving its intended purpose.

The State Government replied (February 2016) that the financial module and report generation module were under progress and would be installed in the Grama Patha shortly.

Recommendation 5: The State Government may address the deficiencies in the online monitoring system (Grama Patha) to make it a useful tool for monitoring.

3.1.13 Conclusion

The NGNRY did not achieve its intended objective of upgrading 10,000 km of rural roads by the end of March 2014 owing to various deficiencies in planning, ineffective monitoring and operational deficiencies. Against the targeted length of 9,406.47 km for Phases I and II, only 5,725.09 km (61 *per cent*) of roads had been upgraded by March 2014. Sixteen *per cent* (1,528.47 km) of roads were yet to be upgraded (March 2015) even after the lapse of one year after the target date.

The PIUs did not maintain the updated status of connectivity and condition of roads under their jurisdiction. As a result, selection of road works was flawed and there were instances of selecting works which were not as per the priority list and taking up of works which did not conform to the prescribed provisions. There were deficiencies in detailed project reports, rendering many of them unreliable and unrealistic. This led to preparation of inflated estimates and consequential avoidable expenditure and higher costs of construction. Lack of coordination among various agencies implementing the road works in rural areas resulted in frequent changes to works and abandonment. The system of award of work was inadequate as there were cases of invitation of tenders without technical sanctions, acceptance of single tenders, delays in finalisation of tenders, and failure to ensure mandatory insurance of works.

Execution of works was deficient as instances of substantial time overruns, abandonment of works, non-recovery of liquidated damages, non-maintenance of electronic measurement books, *etc.*, were noticed. The three-tier quality control mechanism was not adequately operationalised and monitoring was ineffective, leading to execution of works in violation of the standard design and specifications prescribed in the Rural Roads Manual. Many of the road works completed under the Scheme for which huge investments were made, were not maintained properly, thereby not achieving the objective of providing good quality all-weather roads in the designated rural areas.

SECTION 'B'- COMPLIANCE AUDIT

DEPARTMENT OF PRIMARY AND SECONDARY EDUCATION

3.2 Irregular award of work

Commissioner, Department of Public Instructions had issued a work order for installing steam boilers in 365 schools without following the prescribed norms. The work order was subsequently cancelled, which resulted in locking up of funds amounting to ₹9.89 crore.

The provisions of Government of Karnataka (Transaction of Business) Rules, 1977, *inter alia*, stipulate that administrative approval for works estimated to cost more than ₹5.00 crore should be obtained from the Cabinet. As per the Karnataka Transparency in Public Procurements (KTPP) Act and Rules made thereunder, the tender inviting authority should ensure a minimum period of 60 days for submission of tenders, the cost of which exceeds ₹2.00 crore. Any reduction in time should be specifically authorised by superior authority for reasons to be recorded in writing. Further, as per guidelines issued (December 2002) by the State Government, fresh tenders are required to be invited when less than three tenders are received for a work.

With a view to implement Mid Day Meal Scheme (MDM) effectively, the Chief Minister had decided (July 2013) to provide steam boilers at a cost of ₹10.00 crore in schools having student strength of 500 or more. Accordingly, the Commissioner, Department of Public Instructions (Commissioner) submitted (5 August 2013) a proposal to the State Government to install steam boilers at a unit cost of ₹2.25 lakh. The State Government accorded (31 August 2013) approval in-principle with instructions which, *inter alia*, included submission of detailed project report before obtaining final approval and adherence to provisions of KTPP Act. The funds required for this purpose were to be met out of MDM grants released during the year 2013-14.

Audit scrutiny of the records (January 2015) in the office of the Joint Director, MDM showed that the Department had invited (24 February 2014) short-term tender for supplying steam boilers against which two tenders were received. The tender of M/s. HT Sharadha Ranganatha Enterprises was rejected due to technical reasons and the sole tender of M/s. Vadambai K. Sohanraj, Davanagere (agency) was accepted. The agency had quoted ₹2.51 lakh per unit and after negotiation with the Commissioner, the agency agreed (May 2014) to supply steam boilers to 365 schools at ₹2.48 lakh per unit. The Commissioner issued (May 2014) work order to the agency and released ₹2.74 lakh each to 365 schools, which included an amount of ₹0.26 lakh for buying utensils, serving unit, *etc*.

Audit further noticed that the State Government ordered (1 September 2014) the Commissioner to cancel the work order because (i) the work order was issued without the final approval of the Government; (ii) the approval of the Cabinet was not obtained even though the estimated cost was more than ₹5.00 crore; and (iii) only one agency had participated and final negotiated rate of ₹2.48 lakh was more than the Commissioner's initial proposal of ₹2.25 lakh.

Besides, further scrutiny of records by Audit had also revealed as under:

- The State Government had approved (17 February 2014) the invitation of short-term tender and the time allowed for submission of tenders was only 17 days (25 February 2014 to 13 March 2014), for which no justification was forthcoming from the records made available to Audit. Further, the State Government had approved the invitation of short-term tender without insisting on the approval of the Cabinet;

- Instead of inviting fresh tenders due to lack of competition, the Commissioner had negotiated and awarded (May 2014) the work to the single bidder;

- Though the State Government had instructed the Commissioner to cancel the work order on 1 September 2014, the work order was cancelled only on 7 October 2014 *i.e.* after a delay of 37 days, by which time the agency had supplied steam boilers to 86 schools (September 2014) and had received ₹9.94 lakh from four[21] schools. The Audit had also ascertained (June 2015) that steam boilers were not put to use in any of these 86 schools.

Thus, the work order issued by the Commissioner, disregarding prescribed norms, had to be cancelled by the State Government, thereby defeating the envisaged objective of effective implementation of MDM in the identified schools, locking up of MDM funds of ₹9.89 crore with 361 schools, and unauthorised expenditure of ₹9.94 lakh.

While accepting audit observations, the State Government stated (May and July 2015) that the matter was under investigation and the Accounts Superintendent and the case worker had been placed under suspension. It was further stated that the funds released to schools could not be withdrawn as the agency had filed a writ petition in the Hon'ble High Court of Karnataka. The reply was not convincing as no action was taken against the Commissioner who had issued the work order without obtaining the Government's approval and had also not cancelled the tender immediately after receiving the Government order. Further, the litigation and locking up of funds could have been avoided if the State Government and the Commissioner had ensured compliance with the prescribed norms before issuing the work order.

[21] Chitradurga- two schools and Davanagere- two schools (@ ₹2,48,400 per school)

3.3 Non-construction of kitchen-cum-stores

Failure to utilise central assistance of ₹7.76 crore by the Zilla Panchayat, Kalaburagi resulted in non-construction of kitchen-cum-stores in 1,293 schools, thereby depriving the school children of the facility for storage and preparation of their food under hygienic conditions.

The facility of kitchen-cum-store is an essential component of Mid Day Meal Scheme (MDM) to ensure supply of hygienic and hot cooked meals to the children and also for safe storage of food grains at the school level. Absence of kitchen-cum-store or inadequate facilities would expose children to the dangers of food poisoning and other health hazards as well as fire accidents. Till 2008-09, the Government of India (GoI) provided 100 *per cent* assistance, up to a maximum of ₹60,000 per unit, for the construction of kitchen-cum-stores. During December 2009, the GoI revised the norms and decided that the cost of construction would be determined on the basis of State Schedule of Rates and plinth area norms. The cost of construction under revised norms was to be shared between GoI and the State Government in the ratio of 75:25. This was not applicable for units sanctioned earlier.

During 2007-08, the GoI had sanctioned construction of kitchen-cum-stores in 1,293 schools of undivided Kalaburagi[22] district at a unit cost of ₹60,000. For this purpose, the State Government had released (February 2009) the central assistance of ₹7.76 crore to the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Kalaburagi for onward release to School Development and Monitoring Committees (SDMCs).

Audit further noticed that instead of transferring the funds to SDMCs, the CEO, ZP, Kalaburagi had remitted (31 March 2009) the unutilised grant of ₹7.76 crore to ZP Fund-I[23] account on the basis of the instructions issued (21 March 2009) by the Finance Department, Government of Karnataka (FD) to draw funds at the time of execution of programmes.

Thereafter, the CEO, ZP, Kalaburagi did not initiate any action to draw and utilise funds during the years 2009-10 and 2010-11. After a lapse of more than 33 months from the date of remittance to Fund-I account, the ZP, Kalaburagi requested (January 2012) the FD to accord approval to withdraw the amount from Fund-I account. This was necessitated as the remitted amount of ₹7.76 crore was not shown as unutilised balances in Treasury Schedule of 2008-09, for which the reasons were not forthcoming from the records. Hence, the ZP, Kalaburagi was not able to withdraw it.

The delayed efforts of the ZP and further correspondence (January, April, May and July 2014) with the FD to obtain the approval to withdraw the amount had not been conclusive. Hence, the GoI grant of ₹7.76 crore had remained unutilised since 2008-09. This has resulted in non-construction of

[22] erstwhile Gulbarga district, which was bifurcated into Gulbarga and Yadgir districts during December 2009. Consequent to bifurcation, 286 out of 1,293 schools were transferred to Yadgir district and 1,007 schools remained in Kalaburagi district.

[23] The balances under ZP Fund-I account continues as a rolling fund with the balances carried over to the next financial year, which could be utilised in subsequent years.

kitchen-cum-stores in 1,293 schools, depriving the children of envisaged infrastructural facilities in their schools for more than six years. The Education Officer, MDM, Kalaburagi informed (July 2015) that cooking in these 1,293 schools was being done in temporary sheds and vacant classrooms. This not only contravened the provisions of MDM guidelines but also deprived the school children of the envisaged facility for storage and preparation of their food in a hygienic environment for a period of more than six years. Further, as the revised cost under plinth area norms was not applicable to these 1,293 units, the State Government would have to bear extra financial burden, if any, due to time and cost overruns.

While accepting (May and November 2015) audit observation, the Education Department attributed bifurcation of Gulbarga district into Kalaburagi and Yadgir, and lack of permission from FD for utilisation of funds remitted to Fund-I account as reasons for delay of 33 months in initiating action to utilise funds. It was further stated that FD had given permission (July 2015) to draw the amount and CEOs of Kalaburagi and Yadgir had been instructed to complete the construction of kitchen-cum-stores during 2015-16 by getting additional funds from other sources. The reply, however, failed to explain the reasons for not transferring funds to SDMCs and non-exhibition of ₹7.76 crore as unutilised balances in Treasury Schedule of 2008-09, which necessitated seeking approval from FD. The status of construction of 1,293 kitchen-cum-stores and extent of additional cost involved was awaited (December 2015).

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

3.4 Incorrect computation leading to short collection of revenue

There was short collection of property tax of ₹22.68 crore by six Gram Panchayats due to non-adoption of Annual Letting Value for calculation of property tax in respect of resorts.

As per Chapter XIII (Taxes and Fees) under Section 199 of Karnataka Panchayat Raj Act, 1993 (KPR), every Gram Panchayat (GP) shall, in such manner and subject to such exemptions as may be prescribed and not exceeding the maximum rate specified in Schedule IV, levy tax upon buildings and lands which are not subject to agricultural assessment, within the limits of Panchayat area. Under Chapter III of the KPR (Gram Panchayat Taxes and Fees) Rules, 1994, the rate of tax to be levied by the GP is prescribed as 10 *per cent* of the Annual Letting Value (ALV) of the building per annum.

It was observed during audit (April-May 2015) that six[24] GPs in the Taluks of Madikeri and Virajpet of Kodagu district had fixed the property tax on the basis of nature of buildings instead of on ALV basis, by passing resolutions. In respect of eight holiday resorts located in the jurisdiction of these GPs for the period 2009-15, ₹0.48 crore was collected towards property tax.

[24] Galibeedu, K.Nidugane, Kadagadalu and Kakkabe (Madikeri Taluk); Kedamalluru and Siddapura (Virajpet Taluk)

Audit ascertained from the Commercial Taxes Department that the total rental receipts in respect of these resorts for the corresponding period had worked out to ₹231.69 crore, 10 *per cent* of which amounted to ₹23.16 crore. As against this amount, GPs had collected ₹0.48 crore only. The details have been given in **Appendix 3.3**. Hence, non-levy of the appropriate rate of 10 *per cent* of ALV in respect of these resorts led to short collection of property tax by the GPs amounting to ₹22.68 crore.

The State Government replied (January 2016) that the GPs were collecting property taxes in accordance with the Government circular dated 24.05.2003, based on the plinth area as fixed by the GPs. The reply was not acceptable as the GPs had not taken into account the actual rent collected by these resorts, before fixing property tax. Moreover, the reply was silent about audit objection pertaining to the property tax collected by the GPs for the period 2009-15 being far less than 10 *per cent* of the ALVs (Luxury tax) filed by the resorts with the Commercial Taxes Department.

3.5 Avoidable payment of interest

Inordinate delay in settlement of full compensation towards land acquisition resulted in avoidable payment of interest of ₹17.39 lakh.

Paragraph 153 of Karnataka Financial Code, 1958 (KFC) stipulates that compensation for land should be settled before its possession is taken. If it becomes necessary to pay interest due to delays in payment of such compensation, the defaulting Government servants will be personally liable to bear the payment of interest. Further, as per Paragraph 24-A of KFC, money indisputably payable, should not, as far as possible, be left unpaid and inevitable payments should not be postponed.

The audit scrutiny of records in the office of the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Bengaluru Urban showed (December 2014) that eight acres of land in survey numbers 64/10, 65 and 66 of Jaraganahalli, belonging to Shri Banashankari Temple, was acquired (July 1977) for Taluk Development Board[25], Bengaluru South (TDB). The Assistant Commissioner, Bengaluru Sub-division had determined the compensation payable as ₹1.11 lakh. It was seen that the compensation of ₹1.11 lakh was not fully settled as the CEO, TDB had deposited (October 1973) only ₹0.92 lakh with the Tahsildar, Bengaluru South, leaving a balance of ₹0.19 lakh unpaid for more than 35 years in spite of several written requests by the land owners *i.e.* temple authorities.

The Executive Officer (EO), Shri Banashankari Temple had requested (August 2013) the EO, Taluk Panchayat (TP), Bengaluru South to pay the balance amount of compensation along with interest. Since the said land was in the joint possession of TP and ZP, the EO of TP, Bengaluru South requested the CEO, ZP, Bengaluru Urban to pay the balance amount of ₹0.19 lakh along with interest. The ZP, in its General Body meeting, approved (October 2013) the payment of ₹17.58 lakh (including interest of ₹17.39 lakh for the delayed

[25] erstwhile name of Taluk Panchayat

payment) to Shri Banashankari Temple, which was paid to the Temple during March 2014. However, the reasons for delays in payment of compensation were neither forthcoming from the records nor furnished to Audit (May 2015).

Thus, delay by the then CEO, TDB/ZP as well as EO, TP/Block Development Officer (BDO), in making inevitable and indisputable payment of compensation had resulted in an extra expenditure of ₹17.39 lakh, which was avoidable.

The State Government stated (January 2016) that the delay in making payment was due to administrative reasons. The Government's reply, however, failed to explain what the administrative reasons were for delays in making avoidable payment of compensation along with interest thereon.

DEPARTMENT OF SOCIAL WELFARE

3.6 Diversion of grant

An amount of ₹1.00 crore was irregularly diverted out of grant earmarked for constructing a building at Chitradurga, towards acquisition of a site at Bengaluru on lease basis.

The conditions attached to a grant enjoin that the grant should be utilised for the intended purpose and should, in no way, be diverted for any other activity. The provisions of Karnataka Financial Code, 1958 (KFC) stipulate that in the case of non-recurring grants for specified objects, the sanction order should specify the time limit within which the grant or each instalment of it is to be spent. The sanctioning authority should use its discretion in authorising payments according to the needs of the work and see that the money is not drawn in advance of the requirements. Further, there should be no occasion for rush for payment of these grants in the month of March.

The audit scrutiny of records (January 2015) in the office of the District Social Welfare Officer (DSWO), Chitradurga showed that on the basis of budget proposals (March 2012) for the year 2012-13, the Government had sanctioned (February 2013) a grant of ₹4.00 crore to Shri Shivasharana Madara Channaiah Gurupeeta, Chitradurga (Gurupeeta) under Special Component Plan. The grant was to be utilised for the construction of a building at Gurupeeta to promote community welfare and to provide educational and infrastructural facilities. As per conditions stipulated in the grant release order (March 2013), the building should be completed within a period of two years or within the extended time frame duly authorised. This condition was, however, removed *vide* order dated 14 November 2013.

The Commissioner, Social Welfare Department, Bengaluru (SWD) had released (23 March 2013) ₹4.00 crore to the joint account of the Deputy Commissioner (DC) and DSWO, Chitradurga for onward release to Gurupeeta in instalments against an estimate of ₹4.81 crore for the construction of the building. The first instalment of ₹1.00 crore (25 *per cent*) was released to the Gurupeeta during December 2013.

Audit scrutiny further showed that Bengaluru Development Authority (BDA) had allotted (January 2008) a civic amenity (CA) site measuring 1,790.64 square metre in the Telecom Employees' Cooperative Housing Society, Hennur, Bengaluru to the Gurupeeta on 30 years' lease basis for *Samudaya Bhavan* (Community Hall). As per instructions (March 2010) of the then Hon'ble Chief Minister, the lease amount was to be borne by the Government and Urban Development Department (UDD) was instructed to issue order in this regard. Since there was no provision in the budget to release grant to Gurupeeta for acquiring land, the Principal Secretary, SWD had instructed (February 2014) the DC, Chitradurga to transfer an amount of ₹1.00 crore, out of the sanctioned grant of ₹4.00 crore, to BDA towards the lease amount. This included lease amount of ₹0.48 crore and interest of ₹0.52 crore (@18 *per cent*) for the delayed payment. Out of second instalment of ₹1.20 crore (30 *per cent*), the DSWO, Chitradurga had transferred ₹1.00 crore to BDA during March 2014 and released the balance amount of ₹0.20 crore to Gurupeeta during November 2014. The third instalment of ₹1.20 crore was released during June 2015. The fourth instalment was yet to be released (October 2015).

Thus, transfer of ₹1.00 crore to BDA towards lease amount of the site led to diversion of grant, which was earmarked for the construction of a building at Gurupeeta. Moreover, it was observed that the entire grant of ₹4.00 crore was released to the DC/DSWO, Chitradurga in the month of March 2013 and was drawn in advance of requirements. Further, the sanction order did not specify any time limit within which the grant was to be utilised. These actions not only contravened the provisions of KFC but were also indicative of lack of financial prudence.

The State Government replied (October 2015) that the grant was released to Gurupeeta for incurring expenditure on community welfare, education and providing basic amenities. It was also stated that purchase of site/lease was part and parcel of providing basic amenities to Gurupeeta. The reply was not acceptable as the grant was released specifically for constructing the building at Chitradurga. Hence, the transfer of ₹1.00 crore to BDA towards lease cost of site at Bengaluru was irregular which amounted to diversion of grant. Besides, the reply was silent about deletion of the clause specifying time limit for utilisation of grant and drawal of entire funds in the month of March 2013.

Chapter - IV

An overview of Urban Local Bodies

CHAPTER IV

URBAN DEVELOPMENT DEPARTMENT

AN OVERVIEW OF URBAN LOCAL BODIES

4.1 Introduction

4.1.1 The 74th Constitutional amendment enacted in 1992 had envisaged creation of local self-governments for the urban area population and the municipalities had been accorded constitutional status for governance. The amendment had empowered Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for the economic development and social justice with regard to 18 subjects listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State as of March 2015 have been shown in **Table 4.1** below:

Table 4.1: Category-wise ULBs in Karnataka State

Urban Local Bodies	Number of ULBs
City Corporations (CCs)	11
City Municipal Councils (CMCs)	42
Town Municipal Councils (TMCs)	93
Town Panchayats (TPs)	68
Notified Area Committees (NACs)	5

Source: Administrative Report of Urban Development Department for the year 2014-15

The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area has been divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

4.2 Organisational Structure

4.2.1 The Urban Development Department (UDD) is headed by the Additional Chief Secretary to Government of Karnataka and is the nodal department.

The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under the UDD.

4.2.2 Composition of ULBs

All the ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP have four Standing Committees, BBMP has 12 Standing Committees to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. The Municipal Administration, Town Planning and Urban Land Transport are the subordinate wings of UDD.

Out of 214 ULBs in the State, Audit test-checked the records of BBMP and eight[26] other ULBs to review the financial reporting system in ULBs.

4.3 Financial profile

4.3.1 Resources of ULBs

The finances of ULBs include receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans from financial institutions or nationalised banks as the State Government may approve. The ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. While the authority to collect certain taxes is vested with the ULBs, authority pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc*., is vested with the State Government. The own non-tax revenue of ULBs comprise fee for sanction of plans/mutations, water charges, *etc*.

4.3.2 Release of grants to ULBs

The details of grants released by the State Government to ULBs during the period 2010-15 have been shown in **Table 4.2** below:

Table 4.2: Statement showing release of grants

(₹ in crore)

ULBs	2010-11		2011-12		2012-13		2013-14		2014-15	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	617	616	2,800	2,864	3,544	2,669	4,348	3,632	4,956	4,372
CMCs/TMCs	1,789	1,936	1,252	1,126	1,513	1,126	1,629	1,139	1,589	1,365
TPs/NACs	474	423	285	258	290	214	344	248	312	273
Total	**2,880**	**2,975**	**4,337**	**4,248**	**5,347**	**4,009**	**6,321**	**5,019**	**6,857**	**6,010**

Source: State Budget Estimates and Finance Accounts

4.3.2.1 Short release of funds to the ULBs

As per the recommendations (December 2008) of the Third State Finance Commission, the State Government was to release 10 *per cent* (₹7,487 crore) of Non Loan Net Own Revenue Receipts (NLNORR) to ULBs during 2014-15. As against this, the State Government had released 8.03 *per cent* (₹6,010 crore) of NLNORR, resulting in short release of ₹1,477 crore during 2014-15.

[26] One CC-Vijayapura; Four CMCs-Madikeri, Nippani, Sagar and Sira; and Three TMCs-Gowribidanur, Mudalagi and Nelamangala

4.3.3 Property Tax

The State Government had introduced the Self Assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2015 in respect of 213 ULBs (except BBMP) has been shown in **Table 4.3** below:

Table 4.3: Position of demand, collection and balance of Property Tax in 213 ULBs

(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2010-11	96.69	258.65	355.34	290.03	65.31	82
2011-12	65.31	290.97	356.28	288.72	67.56	81
2012-13	67.56	342.20	409.76	295.30	114.46	72
2013-14	114.46	384.03	498.49	362.26	136.23	73
2014-15	136.23	446.56	582.79	416.32	166.47	71

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹65.31 crore in 2010-11 to ₹166.47 crore in 2014-15. The ULBs need to make efforts to collect remaining amounts without further delay.

The targets fixed and collections against targets in respect of BBMP have been shown in **Table 4.4** below:

Table 4.4: Position of target and collection of Property Tax in BBMP

(₹ in crore)

Year	Target	Collection	Percentage of collection to total target
2010-11	1,500.00	1,108.00	74
2011-12	1,600.00	1,210.00	76
2012-13	2,000.00	1,358.00	68
2013-14	2,500.00	1,323.18	53
2014-15	2,900.00	1,810.13	62

Source: Furnished by BBMP and UDD report

It can be seen that the BBMP had not achieved the targets during 2010-15. The collection made in 2013-14 was less than the collection made in the year 2012-13 in absolute terms.

4.3.4 Realisation of water charges

It is the duty of every municipality to provide supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and non-domestic users is charged at the prescribed rates.

The details of demand, collection and arrears for the five years ended 31 March 2015 in respect of the test-checked ULBs[27] have been shown in **Table 4.5** below:

Table 4.5: Details of collection of water charges in selected ULBs for the period 2010-15

(₹ in crore)

Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CMC, Madikeri	0.25	2.63	2.88	2.14	0.74	74
CMC, Nippani	0.16	5.99	6.15	5.46	0.69	89
CMC, Sagar	0.08	2.84	2.92	2.59	0.33	89
CMC, Sira	0.41	4.13	4.54	3.38	1.16	74
TMC, Gowribidanur	0.10	1.55	1.65	1.01	0.64	61
TMC, Mudalagi	0.00	0.49	0.49	0.49	0.00	100
TMC, Nelamangala	0.37	1.10	1.47	0.98	0.49	67
Total	**1.37**	**18.73**	**20.10**	**16.05**	**4.05**	**80**

Source: Information furnished by ULBs

It can be seen from the above table that in these test-checked ULBs, a sum of ₹16.05 crore (80 *per cent*) was collected during 2010-15 towards water charges against a total demand of ₹20.10 crore, leaving a balance of ₹4.05 crore.

4.3.5 Realisation of rent from commercial properties

The details of demand, collection and arrears for the five years ended 31 March 2015 in respect of the test-checked ULBs (except BBMP) have been shown in **Table 4.6** below:

Table 4.6: Position of demand, collection and balance of rent in selected ULBs for the period 2010-15

(₹ in crore)

Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CC, Vijayapura	0.66	7.33	7.99	7.85	0.14	98
CMC, Madikeri	0.14	2.17	2.31	1.65	0.66	71
CMC, Nippani	0.04	0.97	1.01	0.98	0.03	97
CMC, Sagar	0.13	1.27	1.40	1.02	0.38	73
CMC, Sira	0.20	0.82	1.02	0.89	0.13	87
TMC, Gowribidanur	0.08	0.93	1.01	0.60	0.41	59
TMC, Mudalagi	0.01	0.57	0.58	0.48	0.10	83
TMC, Nelamangala	0.09	1.05	1.14	1.07	0.07	94
Total	**1.35**	**15.11**	**16.46**	**14.54**	**1.92**	**88**

Source: Information furnished by ULBs

It may be seen from the above table that in test-checked ULBs, a sum of ₹14.54 crore (88 *per cent*) was collected during 2010-15 towards rent against a total demand of ₹16.46 crore, leaving a balance of ₹1.92 crore. The realisation of rent was less than 75 *per cent* in case of TMC, Gowribidanur (59 *per cent*), CMCs, Madikeri (71 *per cent*) and Sagar (73 *per cent*).

[27] Except BBMP and CC, Vijayapura, where water supply functions are entrusted to Bengaluru Water Supply and Sewerage Board and Karnataka Urban Water Supply and Drainage Board respectively.

4.3.6 Remittance of Cess amount

The ULBs 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 the same to the authorities[28] concerned within the time frame prescribed by the State Government after retaining 10 *per cent* of the Cess collected as collection charges.

4.3.6.1 Non-remittance of Cess amount by ULBs

As of March 2015, eight test-checked ULBs had not remitted Cess amount of ₹7.06 crore, out of ₹12.58 crore collected towards Health, Library and Beggary Cesses (excluding opening balance of ₹2.75 crore), to the State Government as detailed in **Appendix 4.1**.

4.3.6.2 Non-remittance of Cess amount by BBMP

As of March 2015, BBMP had not remitted an amount of ₹177.96 crore out of ₹403.29 crore collected towards Library and Beggary Cesses to the State Government.

The BBMP had collected ₹674.07 crore towards Health Cess during 2010-15 but it had not remitted the entire Cess amount to the Government.

The BBMP replied that Health Cess was not remitted as BBMP was providing healthcare to the people through its own hospitals. The reply was not acceptable as the Karnataka Health Cess Act, 1962 does not provide for utilisation of Cess by the ULBs.

4.4 Devolution of Functions and Funds

The 74th Constitutional amendment had envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2015, the State Government had transferred 14 functions to ULBs. Two[29] functions were being implemented by both ULBs and the State Government. The other two functions, namely, Urban Planning and Fire Services had not been transferred to the ULBs.

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

[28] Education Cess - Education Department, Health Cess - Health Department, Beggary Cess - Directorate of Beggary, and Library Cess - Department of Libraries

[29] (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department) (2) Slum improvement and up-gradation (ULBs and Slum Development Board)

4.5 Accountability framework

4.5.1 Powers of the State Government

As per the Acts governing ULBs, the State Government has the following powers for monitoring the proper functioning of the ULBs:

- to frame rules to carry out the purposes of KMC and KM Acts;
- to dissolve those ULBs which fail to perform or default in the performance of any of the duties imposed on them;
- to cancel a resolution or decision taken by the ULBs if the State Government is of the opinion that it has not been legally passed or is in excess of the powers conferred by provisions of the Acts;
- to regulate classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

4.5.2 Vigilance mechanism

The Lokayukta appointed by the State Government has the power to investigate and report on allegations or grievances relating to the work and conduct of officers and employees of ULBs.

4.5.3 Audit mandate

The Controller, Karnataka State Accounts Department (KSAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs except NACs to the Comptroller and Auditor General of India (CAG) under Section 14 (2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with effect from 2008-09 and under Technical Guidance and Supervision with effect from 2011-12 onwards, by amending the statutes (October 2011).

4.5.4 Arrears in Primary Audit

As against 214 ULBs and five NACs under the purview of audit, the audit of accounts of 200 ULBs for the period up to 2013-14 was conducted by Controller, KSAD as of 31 March 2014.

The audit of accounts in the test-checked ULBs (except TMC, Mudalagi) was in arrears. In CMCs, Sagar and Madikeri, audit had been done up to 2012-13. In respect of BBMP, CC, Vijayapura, CMCs, Sira and Nippani, TMCs, Gowribidanur and Nelamangala, the audit had been done up to 2013-14.

4.5.5 Response to audit observations

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to KSAD within three months from the date of issue of IRs. The amount kept under objection for want of details and the amount kept under objection involving recovery in respect of CCs and other ULBs as on 31 March 2015 has been detailed in the **Table 4.7** below:

Table 4.7: Details of amounts kept under objection in ULBs

(₹ in crore)

ULBs	Amount kept under objection for want of details	Amount kept under objection involving recovery
CCs	6,039.95	1,551.55
CMCs/TMCs/TPs	1,836.29	279.33
Total	**7,876.24**	**1,830.88**

Source: Information furnished by KSAD

The status of outstanding amount proposed for recovery and kept under objection by the KSAD in their reports in respect of the test-checked ULBs as on 31 March 2015 has been detailed in **Table 4.8** below:

Table 4.8: Outstanding amount as on 31 March 2015 in respect of test-checked ULBs

(₹ in crore)

Name of the ULBs	Report for the year	Amount kept under objection for want of details	Amount kept under objection involving recovery	Period
BBMP	2013-14	4,769.18	1,291.51	1964-65 to 2013-14
CC, Vijayapura	2013-14	33.06	18.25	1947-48 to 2013-14
CMC, Madikeri	2012-13	10.76	0.57	1965-66 to 2012-13
CMC, Nippani	2013-14	7.04	7.35	1964-66 to 2012-13
CMC, Sagar	2012-13	7.02	0.50	1946-49 to 2012-13
CMC, Sira	2013-14	14.94	0.68	1972-73 to 2013-14
TMC, Gowribidanur	2013-14	9.09	3.01	1943-44 to 2013-14
TMC, Mudalagi	2014-15	0.27	0.11	1973-74 to 2014-15
TMC, Nelamangala	2013-14	9.03	0.48	1996-97 to 2013-14
Total		**4,860.39**	**1,322.46**	

Source: Local Audit (KSAD) Report

It is evident from **Table 4.7** and **Table 4.8** that neither the State Government nor the ULBs had taken steps to clear the audit objections.

4.6 Conclusion

There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent from commercial properties. Out of 18 functions to be devolved to the ULBs, the State Government had devolved only 14 functions. There was shortfall in remittance of Cess amount by the ULBs and the BBMP had not remitted the Health Cess collected on behalf of the State Government. There was poor response to audit observations by ULBs.

Chapter - V

Financial Reporting in Urban Local Bodies

CHAPTER V

URBAN DEVELOPMENT DEPARTMENT

FINANCIAL REPORTING IN URBAN LOCAL BODIES

5.1 Framework

5.1.1 Financial reporting in the public sector is a key element of accountability. According to the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the Urban Local Bodies (ULBs) shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet and Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the auditor appointed by the State Government, within two months from the end of the financial year.

5.1.2 Municipal reforms

The initiative of municipal reforms was started during 2006 through the '*Nirmala Nagara*' programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance redressal system, *etc*. These reforms have since been adopted by all the ULBs of the State under Karnataka Municipal Reforms Project (KMRP).

The Municipal Reforms Cell (MRC) working under the Directorate of Municipal Administration (DMA) is responsible for computerisation and maintaining accounts on Fund Based Accounting System (FBAS) in ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP). To ensure better governance and efficient service delivery through the use of technology and process re-engineering, the State Government had initiated (2005) the process of computerisation of municipal functions in all the ULBs of the State in a phased manner.

5.1.3 Accounting reforms

On the recommendations of Eleventh Finance Commission, the Government of India (GoI) had entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the Comptroller and Auditor General of India (CAG).

The Ministry of Urban Development, GoI has developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government has brought out the KMABR based on the NMAM with effect from 1 April 2006. The KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2015, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001.

5.1.4 Preparation and certification of accounts of ULBs

According to KMABR, the financial statements of ULBs are to be audited by the Chartered Accountants (CAs) appointed by the DMA. The Commissioner/Chief Officer of ULBs concerned should submit the Annual Financial Statements for each year within two months from the end of financial year to the financial auditor and the auditor should complete the audit within four months (July) from the date of closure of financial year (March). The CA, after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. The Audited Accounts should be adopted by the Council within five months from the end of the financial year. The **Table 5.1** below indicates the status of accounts prepared by ULBs and certified by the CAs during 2010-15 (November 2015).

Table 5.1: Status of preparation and certification of accounts as on November 2015

Year	Total number of ULBs required to prepare accounts	Number of ULBs which prepared the accounts	Number of ULBs accounts certified	Number of ULBs accounts yet to be certified
2010-11	213	213	213	0
2011-12	213	213	213	0
2012-13	213	213	210	3
2013-14	213	213	187	26
2014-15	213	158	0	213
Total	**1,065**	**1,010**	**823**	**242**

Source: As furnished by DMA

5.1.5 Preparation and certification of accounts of BBMP

In terms of Provision 9(2) of part II of Schedule IX to the KMC Act, the Commissioner, BBMP is required to prepare Annual Accounts for the year 2014-15 and produce the same along with relevant records to the Chief Auditor for scrutiny not later than the first day of October 2015. However, BBMP had not prepared the Annual Financial Statements for the year 2013-14 and 2014-15 for want of information from unit offices. The Controller, Karnataka State Accounts Department (KSAD) is the Statutory Auditor for the BBMP. The BBMP had submitted the Annual Accounts for the years 2008-13 to the KSAD for scrutiny, which were yet to be certified (November 2015).

5.2 Comments on Accounts

5.2.1 Statement of expenditure for advances/deposits with external agencies

As per Rule 73 of KMABR, the amount paid to Public Works Department/other external agencies should be treated as advance and a statement showing the outlay incurred during each month with up-to-date figures should be obtained and adjusted against the advances paid. Five[30] test-checked ULBs had released ₹7.36 crore during 2013-14 as advances to

[30] CMCs: Madikeri (₹0.46 crore), Nippani (₹2.60 crore), Sagar (₹0.68 crore) and Sira (₹2.82 crore), TMC: Nelamangala (₹0.80 crore)

external agencies but had not taken any action to obtain statement of expenditure along with unspent amount, if any, and adjust it against the advances.

5.2.2 Fixed Assets

None of the tests-checked ULBs had maintained the records showing full particulars including quantitative details and location of fixed assets and conducted physical verification of fixed assets during the five years ended 31 March 2015. In the absence of this, the correctness of valuation of fixed assets and impact on depreciation exhibited in the Annual Financial Statements of test-checked ULBs could not be assessed.

5.3 Thirteenth Finance Commission grants

The Thirteenth Finance Commission (TFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission had recommended grant-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes, over and above the share of the States. The grants were envisaged to be released under two component, *viz.*; general basic grant and performance grant in two instalments, for five years, with effect from the year 2010 onwards.

The GoI released two instalments of general basic grants of ₹333.02 crore and one instalment of performance grant of ₹122.69 crore for the year 2014-15 to ULBs. The GoI had not released second instalment of performance grant for the year 2014-15 (November 2015).

5.3.1 Delayed release of funds

The TFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within five days from the date of receipt of grant from GoI, failing which the State Government would be liable to release the instalment with interest at the Reserve Bank of India (RBI) rate for the delayed period. The GoI released general basic grant during July 2014, March 2015 and performance grant during March 2015. Audit observed that there were delays ranging from 18 to 43 days in transfer of funds to ULBs. The interest of ₹1.79 crore for the delay in transferring of funds was not released to ULBs by the State Government.

5.3.2 Poor utilisation of TFC grants by the test-checked ULBs

Out of ₹60.04 crore received by the test-checked ULBs during the period 2010-15, only ₹34.72 crore (ranging from 36 to 67 *per cent*) was utilised, as detailed in **Table 5.2**.

Table 5.2: Details of TFC grants in test-checked ULBs

(₹ in crore)

Name of the ULB	Grants released						Amount utilised	Balance	Percentage of utilisation
	2010-11	2011-12	2012-13	2013-14	2014-15	Total			
CC, Vijayapura	1.91	3.45	3.47	6.21	5.39	20.43	13.67	6.76	67
CMC, Madikeri	0.50	0.91	1.55	2.37	0.56	5.89	3.11	2.78	53
CMC, Nippani	0.63	1.20	1.51	1.85	0.48	5.67	2.06	3.61	36
CMC, Sira	0.65	1.23	1.98	1.89	0.90	6.65	4.01	2.64	60
CMC, Sagar	0.65	1.22	1.80	1.60	1.32	6.59	3.87	2.72	59
TMC, Gowribidanur	0.55	1.05	1.65	1.41	0.60	5.26	2.68	2.58	51
TMC, Mudalagi	0.57	1.09	1.62	1.79	0.26	5.33	3.04	2.29	57
TMC, Nelamangala	0.37	0.70	1.51	1.43	0.21	4.22	2.28	1.94	54
Total	**5.83**	**10.85**	**15.09**	**18.55**	**9.72**	**60.04**	**34.72**	**25.32**	**58**

Source: As furnished by ULBs

5.3.3 Non-maintenance of separate cash book and bank account

It was observed that the test-checked ULBs (except BBMP) had not maintained separate bank account as envisaged in the guidelines and no separate cash book was maintained for TFC grants.

BBMP had not maintained cash book or any other records/grant register for recording grant-wise receipt and component-wise expenditure of TFC grants during the year 2014-15. The BBMP had not furnished utilisation certificate (UC) to the Audit. In the absence of basic records, cash book and grant register, the correctness of grant receipts and component-wise expenditure could not be assessed.

These issues would not only impact the process of obtaining UCs but there was also the risk of misappropriation of funds.

5.3.4 Diversion of grant

BBMP had diverted TFC grant of ₹22.30 crore for repayment loans (₹20.24 crore) and payment of salaries (₹2.06 crore). This was done by transferring the funds irregularly from TFC bank account.

5.3.5 Non-preparation of action plan by BBMP

As per guidelines issued (18 August 2010) by the State Government for utilisation of TFC grants, an Action Plan was to be prepared and approved by the Council/Government before utilisation of grants. However, no such Action Plan had been prepared and got approved by the Council before utilisation of grants.

5.4 Internal control

The State Government did not have an Internal Audit Wing to oversee the functions of ULBs. It was also observed that ULBs were not adhering to financial rules as the statement of expenditure was not obtained and Annual Accounts were not prepared and certified within the stipulated dates. Non-maintenance of cash books, bank books and mandatory registers indicated inadequate internal control system in ULBs. Further, there was no system of conducting physical verification of stores in the test-checked ULBs.

The Annual Accounts of BBMP were not prepared and certified within the stipulated dates. The ledger accounts prepared under FBAS were not properly balanced at the end of each financial year. The bank accounts were not reconciled periodically. The cash books, grant registers and records envisaged in fund based accounting manual for recording the transactions out of borrowings were not maintained. Internal audit system was not in existence in BBMP. These deficiencies in maintenance of books of accounts and absence of internal audit system indicated that the internal control was not effective in BBMP.

5.5 Conclusion

In spite of preparation of accounts by ULBs, there was shortfall in certification of accounts by the CAs during the years 2012-15. The Annual Accounts of BBMP for the years 2008-13 had not been certified. Statement of expenditure was not obtained from external agencies to which ULBs had paid advances. The ULBs had not utilised the entire TFC grants during the period 2010-15. 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.

Chapter - VI

Results of Audit of Urban Local Bodies

CHAPTER VI – RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE AUDIT

URBAN DEVELOPMENT DEPARTMENT

6.1 Implementation of Welfare Schemes in Urban Local Bodies

Executive summary

The Urban Local Bodies, including Bruhat Bengaluru Mahanagara Palike, implemented various individual and community welfare activities to improve the socio-economic conditions of the urban poor belonging to Scheduled Castes/Scheduled Tribes, other economically weaker sections and differently-abled persons with the funds specifically allocated for welfare activities. However, the Urban Local Bodies, including Bruhat Bengaluru Mahanagara Palike, did not implement the welfare activities effectively.

The planning mechanism was deficient due to non-prioritisation of welfare activities, delays in finalisation of Annual Action Plans and selection of ineligible works, which led to defeating the objectives of these schemes. Physical targets for providing benefits were set without having a database of population to be targeted, which led to under-achievement of targets. The benefits could not flow to the beneficiaries due to poor Information, Education and Communication activities and lack of help to the eligible beneficiaries to fill the application forms properly.

The Urban Local Bodies had not adhered to the norms specified for the allocation, transfer and utilisation of untied State Finance Commission grants and Municipal funds meant for welfare activities. Under-utilisation of funds had affected the planning and delivery of intended benefits to more beneficiaries under the scheme. Also, non-maintenance of control registers for community works and non-submission of periodical returns by the implementing offices to higher authorities for review of actual physical and financial progress led to inadequate or non-implementation of many activities.

6.1.1 Introduction

In order to promote the socio-economic interests of the weaker sections of society and in particular, of the Scheduled Castes and Scheduled Tribes (SCs/STs), other economically weaker sections (OEWS) and differently-abled persons living in urban areas, the Urban Local Bodies (ULBs), including Bruhat Bengaluru Mahanagara Palike (BBMP), implemented various welfare schemes under health, education, employment, housing, infrastructure, *etc*. The guidelines for implementation of welfare schemes in respect of SCs/STs were issued in 1977 and for OEWS and differently-abled persons in February 2012. The scheme is funded by the State Government (33 *per cent* of State Finance Commission (SFC) untied grants and Municipal Corporations (own revenue)) to implement activities under welfare schemes in the ratio of 40:60 between individual welfare activities and community development works.

6.1.2 Organisational set-up

The organisational structure with reference to welfare scheme activities has been given below:

Authority	Responsibilities
Additional Chief Secretary to Government, Urban Development Department (UDD)	Overall supervision and release of grants to ULBs
Director, Municipal Administration (DMA)	Supervision and administration of the City Corporations (CCs)
Deputy Commissioners (DCs)	Overall monitoring and fund management
Commissioners of CCs	Implementation of welfare scheme activities

6.1.3 Audit objectives

The objectives of the performance audit were to assess whether:

- appropriate planning and institutional mechanism were in place to implement the welfare schemes for SCs/STs, OEWS and differently-abled persons.
- the identification of beneficiaries was done by following the prescribed procedures and in accordance with the norms, rules and criteria laid down.
- the implementation of welfare schemes was done economically, efficiently and effectively to achieve the objectives of the welfare schemes.

6.1.4 Audit criteria

The sources of audit criteria for the performance audit are:

- Circulars/instructions issued by Government/ULBs on the welfare schemes for SCs/STs, OEWS and differently-abled persons.
- Karnataka Financial Code (KFC) and Manual of Contingent Expenditure, 1958 (MCE).

6.1.5 Audit scope and methodology

Performance Audit of welfare schemes for the period 2012-15[31] was conducted (April to October 2015) by test-check of records at the zonal offices of Bengaluru East and Bommanahalli of BBMP along with two out of eight CCs, *i.e.* Ballari and Kalaburagi. 'Simple random sampling without replacement' method was used to select the units.

[31] Since welfare activities for OEWS and differently-abled persons were implemented from February 2012, performance audit was conducted for three years (2012-15).

An Entry Conference was held on 27 April 2015 to discuss the audit objectives and methodology with the Additional Chief Secretary to the Government, UDD, and Commissioners of BBMP and other ULBs. The Exit Conference was held on 15 December 2015 to discuss the audit findings.

Acknowledgement

Audit acknowledges the cooperation extended by the staff of UDD, BBMP and CCs of Ballari and Kalaburagi for conducting the performance audit.

Audit findings

The audit findings are discussed in the succeeding paragraphs.

6.1.6 Planning and Institutional Mechanism

- **Planning**

In accordance with the circular issued by UDD in February 2012 (circular), the Annual Action Plans (AAPs) for all ULBs were to be approved by the Council comprising Corporators of the respective ULBs and submitted for approval to the DC of the district, and a copy of the approved AAPs were to be submitted to the DMA. DMA's approval was essential for those activities which were not specified in the UDD circular.

In respect of BBMP, based on the funds provided in the budget for welfare schemes, the Standing Committee for Social Justice approved the zonal allocation of funds and provided the list of activities to be considered in respect of individual welfare activities. Accordingly, AAPs were prepared and submitted to BBMP by the zones for approval by the Commissioner.

6.1.6.1 Delays in preparation of AAPs

As per the UDD circular, the Council of the CC was to submit the AAPs by 30 April of each year based on the funds allocated without waiting for the release of funds and these were to be approved by the DC within 31 May of that year.

Audit noticed that AAPs were finalised after a delay[32] of 63 days to 494 days for the years 2012-13 to 2014-15 at CCs, Ballari and Kalaburagi. Further, it was noticed that CC, Ballari, had not prepared the AAP for the year 2013-14 on the basis of allocation of funds. The AAP was instead prepared on the basis of release of funds which was made in three instalments as per DC's orders (July 2013, November 2013 and October 2014), resulting in delay of 483 days.

The test-checked zonal units of BBMP as well as the main office of BBMP failed to adhere to the instructions of the State Government in the preparation

[32] CC, Ballari-99 days (2012-13), 185 days (2014-15);
CC, Kalaburagi- 494 days (2012-13), 63 days (2013-14), 139 days (2014-15)

of AAPs for the entire review period. Delays in processing and approval of AAPs by BBMP ranged between 240 and 300 days during 2012-15.

The delay in processing of AAPs denied the timely benefits to the targeted beneficiaries.

The State Government attributed (January 2016) the delay to administrative constraints and election code of conduct, and stated that henceforth delay would be minimised. The reply was not tenable in the absence of details of the administrative constraints and for the fact that election codes of conduct were for a limited period during March to May 2013 and April to May 2014.

6.1.6.2 Non-prioritisation of activities

As per the UDD circular, ULBs were to accord priorities for selection of various components of the scheme in the order of health, construction of individual toilets, providing gas connection, providing underground drainage and water connection, education, employment and others.

It was observed that the priority list prepared by the BBMP zones was not in accordance with the UDD circular.

The State Government replied (January 2016) that priority would be accorded as per the UDD circular.

6.1.6.3 Non-preparation of AAPs for community developmental works related to OEWS and differently-abled

As per UDD circular, out of 7.25 *per cent* funds allocated for OEWS and 3 *per cent* for differently-abled persons, ULBs were to allocate 60/50 *per cent* of the allocated funds for the community development (infrastructure) works for OEWS/differently-abled persons.

For the entire review period, in the test-checked BBMP zonal offices, it was noticed from the AAPs under the welfare schemes that at the divisional level, no community development works for the benefit of OEWS and differently-abled population were planned and executed.

The State Government stated (January 2016) that this would be complied with in future.

- **Institutional mechanism**

6.1.6.4 Inadequate manpower

In the BBMP East Zone, the Welfare Officer was assisted only by a Manager and the Welfare Officer's post in Bommanahalli Zone was held as additional charge by the Assistant Revenue Officer (ARO) with no supporting staff. Moreover, specific orders for the officials explaining their roles and responsibilities and delegation of powers for carrying out welfare activities in respect of staff holding additional charge were not issued by DMA/UDD to the ULBs, thereby lacking in clarity with regard to the responsibilities of each officer.

In the test-checked CCs, welfare activities were implemented by the existing staff. The post of Deputy Commissioner (Administration) in-charge of welfare schemes as Nodal Officer for planning, implementation and monitoring at CCs remained vacant though the posts were sanctioned in 2011. Inadequate manpower resulted in activities proposed under AAPs either not being taken up at all or taken up in specific areas only.

The State Government accepted (December 2015 and January 2016) the audit observations and replied that as no separate posts were sanctioned in BBMP for implementation of welfare schemes, additional charge was given to AROs. However, the reply was silent regarding the delegation of powers for carrying out welfare activities and non-filling up of the post of Deputy Commissioner in-charge of welfare schemes.

Recommendation 1: ULBs may ensure adequacy of manpower for the implementation of welfare schemes intended for SCs/STs, OEWS and differently-abled persons.

6.1.6.5 Absence of mechanism for identification of community developmental activities in BBMP

In BBMP, welfare activities were implemented by the Welfare Section (for individual components) and Engineering Division (for community developmental activities) at the zonal level. Identification of works should have been finalised after assessing the requirement of the community.

In the test-checked zonal offices of BBMP**,** no zone-wise AAPs had been drawn up for civil works related to community development activities to be executed by the Engineering Division. This was due to lack of survey of the works required in the areas where the target groups resided.

The State Government accepted (January 2016) the deficiency in maintaining these records.

6.1.6.6 Selection of ineligible works

The Pulikeshinagar division of BBMP East Zone had proposed 19 works in AAPs which were not in the approved works list in the UDD circular, such as construction of arch/improvements to temples and installation of Vivekananda Statue, that were estimated at a cost of ₹1.42 crore for the years 2011-12 to 2014-15. Out of this, 11 works were completed (October 2015) at a cost of ₹0.60 crore.

The State Government accepted (January 2016) the audit observation that these works selected were not eligible under the scheme.

Recommendation 2: Proper and effective mechanism needs to be put in place to ensure that the activities are taken up as envisaged in the Government circular.

6.1.7 Financial performance

6.1.7.1 Allocation of fund

The welfare schemes were funded by both the State Government and Municipal Corporation, reserving 33 *per cent* (34.35 *per cent* from 2014-15) of both the SFC untied grants and own sources of revenue of the Municipal Corporation. The funds were allocated at 22.75 *per cent* for SCs/STs (revised to 24.10 *per cent* from 2014-15), 7.25 *per cent* for OEWS and 3 *per cent* for differently-abled persons to implement the welfare schemes in the ratio of 40:60 between individual welfare activities (like Education, Employment, Health and Housing) and community development (infrastructure) works.

- ***Shortfall in allocation and release of funds for welfare schemes by DMA***

The details of allocation of SFC untied grants and releases to ULBs (other than BBMP) by DMA have been given in **Table 6.1** below:

Table 6.1: Details of allocation and releases to ULBs (other than BBMP)

(₹ in crore)

Year	SFC untied grants	Required allocation towards welfare schemes as per prescribed percentage	Actual allocation towards welfare schemes (Percentage)	Releases made for welfare schemes	Short release for welfare schemes (Percentage)
2012-13	758.42	250.28 (33)	240.68 (31.73)	117.79	122.89 (51)
2013-14	776.69	256.31 (33)	205.76 (26.49)	101.46	104.30 (51)
2014-15	820.76	281.93 (34.35)	210.48 (25.64)	110.19	100.29 (48)
Total	**2,355.87**	**788.52**	**656.92**	**329.44**	**327.48 (50)**

Source: Details furnished by Poverty Alleviation Cell

It can be seen from the above table that there was short allocation of SFC untied grant by the DMA to the extent of ₹131.60 crore and even the allocated fund was short released to the extent of ₹327.48 crore for the welfare schemes during 2012-15.

The State Government replied (December 2015) that out of untied grants received by the ULBs, provision was made for spillover works of previous financial years. The reply of the State Government does not address the issue regarding short allocation of SFC untied grant by the DMA.

- ***Incorrect determination of weightage and allocation of funds in BBMP***

The UDD order (June 2014) specified that the SFC untied grants would be allocated to various ULBs on the basis of four parameters, namely, Population (40 *per cent*), Geographical area (20 *per cent*), SC/ST population (20 *per cent*) and Illiteracy (20 *per cent*). Accordingly, weightage was assigned to each ULB on the basis of these parameters and allocations made.

Audit observed that:

(a) The weightage determined for BBMP was 30.825 *per cent* on the basis of these four parameters. Accordingly, the allocation due for BBMP on the total SFC untied funds of ₹1,018.83 crore for the year 2014-15 worked out to ₹314.05 crore. However, the actual allocation made to BBMP was ₹207.36 crore (20.35 *per cent*) only. Thus, there was a shortfall in allocation of SFC untied funds to BBMP to the extent of ₹106.69 crore resulting in short allocation of funds of ₹36.65 crore for welfare activities.

(b) Out of the four parameters, the figures considered for all ULBs in respect of 'Total population', 'SC/ST population' and 'Illiterates' were as per 2011 Census, whereas the figures adopted for 'Geographical area' were as per 2001 Census.

An examination with regard to the area position in respect of BBMP in terms of 2001 and 2011 Census showed that the area of BBMP had increased from 549.84 sq km to 709.96 sq km due to amalgamation of seven City Municipal Councils (CMCs), one Town Municipal Council (TMC) and 110 villages. The impact of this was increase of area weightage by 0.64 *per cent* and corresponding allocation of funds was ₹6.52 crore during the year 2014-15. Proportionate funds to be allocated for welfare scheme at 34.35 *per cent* works out to ₹2.24 crore. Thus, non-adoption of 2011 Census data for 'area' resulted in denial of ₹2.24 crore for welfare fund.

The State Government stated (January 2016) that due to non-authentication of area figures for 2011 by Census Department, 2001 figures were adopted, and action would be taken to consider correct weightage during 2016-17.

➢ ***Allocation of funds in BBMP***

The State Government had allocated SFC untied grants of ₹622.23 crore to BBMP during the period 2012-15. However, the BBMP had not maintained the details of funds allocated for welfare scheme activities out of SFC grants and BBMP's own revenue. As a result, the quantum of funds actually transferable to welfare schemes could not be determined.

It was also seen that there were no norms for allocation of funds to each ward. There were huge gaps between the SC/ST population and the funds allocated for welfare schemes in Pulikeshinagar Division, BBMP East Zone, as detailed in **Table 6.2** below:

Table 6.2: Ward-wise details of works approved and amount allocated for the period 2012-13 to 2014-15

Ward Number	Total population*	SC/ST population* (Percentage)	Number of works approved (Percentage)	Amount allocated (₹ in lakh) (Percentage)
31	41,936	5,909 (14)	5 (5)	99.00 (6)
32	39,334	5,330 (14)	9 (8)	90.00 (5)

Ward Number	Total population*	SC/ST population* (Percentage)	Number of works approved (Percentage)	Amount allocated (₹ in lakh) (Percentage)
47	42,135	8,063 (19)	54 (50)	967.34 (57)
48	35,814	7,543 (21)	-	-
60	35,334	10,321 (29)	9 (8)	90.00 (5)
61	38,050	7,038 (18)	24 (22)	391.33 (23)
78	28,835	2,691 (9)	7 (7)	63.93 (4)
Total	**2,61,438**	**46,895**	**108 (100)**	**1,701.60 (100)**

Source: Details furnished by BBMP offices * As per 2011 Census data

It can be seen from the above table that no funds were allocated for Ward No.48 and 57 *per cent* of the total funds allocated to the division were provided to Ward No.47 although the SC/ST population was only 19 *per cent*. Similarly, uneven distribution of funds was also noticed in community development activities in these wards.

The State Government stated (January 2016) that population criteria would be adhered to for allocation of funds to wards.

6.1.7.2 Non-allocation of Entry Tax devolution fund to welfare scheme account by City Corporation

According to Government order of March 2014, CCs were to allocate 33 *per cent* of Entry Tax devolution fund received from Government to welfare scheme account. However, CC, Ballari, had not transferred ₹1.14 crore to welfare scheme fund out of ₹3.44 crore received as Entry Tax devolution fund during 2013-14. This has resulted in denial of ₹1.14 crore for welfare activities.

On this being pointed out, DMA stated (December 2015) that the issue would be looked into.

6.1.7.3 Delay in transfer of funds

Audit observed that CC, Ballari, had not adhered to these stipulations as there were delays ranging from 1 to 12 months in transferring the funds to welfare accounts during 2012-15. It was also seen that though the CC, Ballari, had received SFC untied grants during March 2013 (₹1.39 crore) and April 2014 (₹2.77 crore), out of this, proportionate amount of ₹0.92 crore was not transferred to welfare accounts (August 2015).

The State Government replied (December 2015) that the amount would be transferred to welfare accounts as prescribed in the guidelines.

Recommendation 3: The State Government may ensure that the norms prescribed for allocation of funds are adhered to and funds are released in a timely manner to the respective welfare accounts.

6.1.7.4 Utilisation of fund in ULBs

As per provisions of the scheme guidelines (February 2012), the funds provided for welfare schemes should be utilised in the same financial year. In case of unavoidable circumstances, the funds should be utilised within the next financial year.

The receipts and expenditure, including grants from SFC untied and Municipal revenue, of the ULBs in respect of welfare schemes for the period 2012-15 have been given in **Table 6.3** below:

Table 6.3: Statement of receipt and expenditure in ULBs (except BBMP)

(₹ in crore)

Year	Opening balance	Current year's receipts for welfare schemes	Total available funds (col.2+3)	Expenditure incurred out of opening balance (Percentage)	Expenditure incurred out of current year's receipts (Percentage)	Total expenditure (col.5 + 6)	Unspent closing balance (Percentage)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
2012-13	212.46	162.31	374.77	132.26 (62)	73.54 (45)	205.80	168.97 (45)
2013-14	168.97	147.99	316.96	134.87 (80)	66.58 (45)	201.45	115.51 (36)
2014-15	115.51	164.78	280.29	154.88 (134)	66.35 (40)	221.23	59.06 (21)

Source: Statement furnished by Poverty Alleviation Cell

There were persistent savings ranging from 21 to 45 *per cent* of the funds available. Thus, the ULBs had failed to fully utilise the funds even within the next financial year, resulting in non-implementation of welfare activities proposed in the previous year's AAPs.

In the test-checked ULBs, there were persistent savings ranging from 48 to 75 *per cent* in all the years due to activities planned in the AAP not being fully executed and also due to accumulation of previous year balances which were not spent in the subsequent years.

The State Government attributed (December 2015) the savings to non-availability of sufficient individual beneficiaries and administrative reasons such as delay in according approval, finalisation of tenders and frequent changes in activities proposed in AAPs.

6.1.7.5 Non-maintenance of the expenditure in ratio of 40:60

As per UDD circular, expenditure should be made in the ratio of 40:60 for implementing individual components (such as, housing, education, micro enterprises, providing gas stove, *etc.*) and execution of community works.

It was observed that in the test-checked CCs, Ballari and Kalaburagi, the expenditure was maintained in the ratio of 40:60.

However, this ratio was not maintained at the test-checked zonal offices of BBMP and individual welfare activities were not given their due weightage in any of the three years (2012-15) as detailed in **Table 6.4** below:

Table 6.4: Details of expenditure on individual and community works in selected zones of BBMP

Zone	Year	Total expenditure (₹ in crore)	Individual components		Community works	
			Expenditure (₹ in crore)	Percentage	Expenditure (₹ in crore)	Percentage
Bengaluru East Zone	2012-13	39.16	5.05	13	34.11	87
	2013-14	32.27	1.81	6	30.46	94
	2014-15	17.67	1.13	6	16.54	94
Bommanahalli	2012-13	7.27	1.59	22	5.68	78
	2013-14	12.92	0.49	4	12.43	96
	2014-15	9.09	0.31	3	8.78	97

Source: Furnished by BBMP offices

It was observed that BBMP had spent a much higher percentage than that prescribed for community works as compared to the individual components, thereby not adhering to Government instructions.

The State Government replied (January 2016) that action would be taken to maintain the ratio henceforth.

6.1.7.6 Inadmissible expenditure

Paragraph 7.4 of the scheme guidelines (February 2012) stipulated that a maximum of ₹50,000 in a year could be given as grant to celebrate Dr. Ambedkar Jayanthi/Babu Jagjivan Ram Jayanthi under community component.

It was seen that against the permissible limit of ₹1.50 lakh for three years (2012-15), CC, Ballari, had incurred an expenditure of ₹5.53 lakh out of SC/ST scheme funds towards celebration of Dr. Ambedkar Jayanthi/ Babu Jagjivan Ram Jayanthi on eight events conducted during 2012-15.

This not only contravened the provisions of the scheme guidelines but also resulted in reduction of ₹4.03 lakh meant for community development component.

The State Government replied (December 2015) that expenditure had been incurred as per the action plan. The reply was not acceptable as it contravened the provisions of the guidelines and approval of the DMA was also not obtained.

6.1.7.7 Non-receipt of expenditure statements and utilisation certificates

As per approved AAPs (2012-14), CC, Kalaburagi, had released ₹160.11 lakh to seven implementing agencies for executing works and procuring items. However, in none of these cases, the CC had stipulated the dates for completion and submission of utilisation certificates/expenditure statements. As of August 2015, the CC had not received the details of expenditure incurred and utilisation certificates from these seven implementing agencies. As such, the CC could ensure neither the utilisation of released amounts nor the achievement of the intended objectives. The details have been given in **Appendix 6.1**.

The State Government stated (December 2015) that utilisation certificates from implementing agencies were received. However, reason for delay in utilisation of funds was not furnished.

6.1.8 Selection of beneficiaries

6.1.8.1 Physical targets fixed without basis

The creation and maintenance of a database through proper and complete survey of the target population provides institutions an information base and knowledge inputs for the purpose of planning, policy-making, implementation, monitoring and evaluation of the programmes to achieve the intended objective. The database serves the purpose of identification of beneficiaries and setting of targets. Further, the awareness of potential beneficiaries and other stakeholders is key to ensuring the effectiveness in the implementation of all the welfare activities.

Audit observed that the test-checked zonal offices of BBMP and CCs had not maintained a database of SCs/STs, OEWS and the differently-abled population of each ward to identify the beneficiaries for specific welfare scheme activities. Thus, no mechanism for identifying the targeted groups was in place to facilitate systematic planning of the welfare schemes.

It was also observed that physical targets fixed (2012-15) for each activity of the welfare schemes in the test-checked zones of BBMP could not be achieved and the number of applications received was 9 to 14 *per cent* of the physical targets fixed as detailed in **Table 6.5** below:

Table 6.5: Statement showing achievement of physical targets

Period	Bengaluru East Zone		Bommanahalli Zone	
	Physical target fixed as per AAPs	Number of applications received (Percentage)	Physical target fixed as per AAPs	Number of applications received (Percentage)
2012-13	18,711	1,470 (8)	5,280	360 (7)
2013-14	7,601	1,965 (26)	3,096	470 (15)
2014-15	6,698	1,277 (19)	3,680	224 (6)
Total	**33,010**	**4,712 (14)**	**12,056**	**1,054 (9)**

Source: As furnished by BBMP

This was due to lack of Information, Education and Communication (IEC) activities and absence of mechanism for identifying the targeted groups.

The State Government replied (January 2016) that a database was not created as it was not prescribed and action would be taken to conduct surveys. It was also replied that IEC activities would be promoted to create awareness among the beneficiaries.

Recommendation 4: A reliable database may be created to identify the eligible beneficiaries and set realistic targets.

6.1.8.2 Defective and invalid applications

The Audit scrutiny of applications submitted (2014-15) by the beneficiaries in the test-checked units showed that the majority of the applications submitted were invalid as the applications were incomplete, unsigned, defective and also all documents required (caste certificates, income certificates, *etc.*) were not found enclosed. There was no 'Help Desk' to facilitate illiterates even though the targeted population comprises a sizeable number of illiterates.

In Bommanahalli Zone, 856[33] applications received during the year 2012-15 were not processed (October 2015) as these were found defective and 198 applications received in respect of two activities (subsidy towards vehicles - auto-rickshaw and car) under Micro Enterprises component were finalised after a delay of 18 months.

The State Government replied (January 2016) that the creation of facilitation cell (Help Desk) would be considered.

Recommendation 5: The State Government may consider IEC activities to educate eligible target population and help desk to assist eligible population in applying for the benefits.

6.1.8.3 Selection of ineligible beneficiaries

Audit observed that BBMP had deviated from the conditions prescribed in the UDD circular for the implementation of welfare schemes as indicated in the **Table 6.6** below:

Table 6.6: Deviations from the conditions prescribed by UDD

Sl. No.	Issue	Conditions stipulated by BBMP	Provision in Government order
1	Age limit	SC/ST – 18 to 40 years; Backward Classes and Minorities (BCM) – 18 to 35 years	Age limit not stipulated
2	Validity period of Caste certificate	SC/ST – 5 years; BCM – Current year	Valid until it is cancelled
3	Validity of Income Certificate	For all – Current year	Valid for five years
4	Income limit for Minorities	Annual family income – ₹2 lakh	Income limit for all – ₹1 lakh for all activities except Education (₹2 lakh)

Source: Orders of UDD and BBMP

Even the conditions stipulated for selection of beneficiaries by BBMP were not adhered to (2012-14) by zonal officers of the test-checked zones. Consequently, 91[34] beneficiaries who were paid ₹24.11 lakh for two activities were not eligible on account of prescribed age limit, current year's income certificate, *etc*.

[33] SCs/STs (277), differently-abled persons (92) and OEWS/BCM (487)

[34] 42 beneficiaries under subsidy towards auto-rickshaws (₹16.17 lakh) and 49 under the education assistance programme (₹7.94 lakh)

The State Government accepted the audit observation and agreed (December 2015) to take necessary action.

6.1.9 Implementation of schemes

The various components of the welfare schemes included health, education, housing, micro enterprises, *etc*. The deficiencies noticed in the implementation of these components are discussed in succeeding paragraphs.

6.1.9.1 Health

➢ ***Non-provision of health insurance to differently-abled persons***

The scheme guidelines (February 2012) had a provision for giving '*Arogyasree*' Health Insurance to differently-abled persons out of the funds provided under the scheme. However, CC, Ballari, made payment (November 2013) of ₹4.22 lakh (a single premium) for 26 beneficiaries to Life Insurance Corporation of India (LIC), Ballari, for "LIC's *Bima Bachat Policy*", a money back policy which was not a health insurance coverage.

Thus, payment of ₹4.22 lakh towards a non-medical policy was not correct and defeated the objective of providing envisaged health insurance to differently-abled persons.

The State Government stated (December 2015) that money back policy was considered as paying premium amount regularly by the beneficiaries might have been difficult. The reply was not acceptable as health insurance was to be provided by the Government, and therefore premium should have been paid out of the scheme funds.

6.1.9.2 Education

➢ ***Extension of benefits to non-entitled students***

Paragraph 6.5.3 of the scheme guidelines (February 2012) provided for reimbursement of fee to the extent of 50 *per cent* to students pursuing MBBS/BE courses in Government and Government-aided institutions.

In 2012-13, CC, Ballari, provided financial assistance for reimbursement of fee of ₹3.88 lakh to 170 students pursuing B.A./B.Sc./B.Com. courses and ₹3.81 lakh to 82 students of M.Sc./M.Com.

The entire expenditure of ₹7.69 lakh incurred by the CC, Ballari, was irregular, as the expenditure was incurred on students who were not entitled, thus, defeating the objective of the scheme.

The State Government replied (December 2015) that CC, Ballari had obtained approval for distribution of incentives to the students who were studying under various courses as per scheme guidelines Paragraph 6.5.1 and to cover maximum number of students under the programme, their college fee was reimbursed. This reply was not acceptable as prior approval of the DMA was required for any deviation from the scheme guidelines, which had not been obtained.

➢ ***Providing financial assistance for purchase of laptops/desktops***

The scheme guidelines provided for extension of financial assistance of not more than ₹25,000 to the eligible meritorious SC/ST and OEWS students pursuing MBBS/BE courses for purchase of computer laptop/desktop.

The CC, Ballari supplied 69 computers/laptops costing ₹18.43 lakh during 2012-15 under education component. Out of this, 59 computers/laptops were issued to SC/ST and OEWS students as per norms. The deviations noticed in supply of remaining 10 computers/laptops are detailed below:

- ***Supply of computers to a school***

  Five computers valued ₹1.68 lakh were supplied (October 2012) to the library of Mahanandi Kotam School to facilitate learning of computers for the students studying in SSLC and above, along with furniture and computer revolving chair costing ₹0.54 lakh.

  Supply of computers and furniture to a school by incurring an expenditure of ₹2.22 lakh contravened the provisions of the scheme guidelines. Therefore, the entire expenditure of ₹2.22 lakh was irregular.

  The State Government replied (December 2015) that supply of computers and furniture were made only to those schools where SC/ST students were in maximum numbers. The reply was not acceptable as it was neither provided in the UDD circular nor the approval of the DMA was obtained for such deviation.

- ***Issue of computers/laptops to reporters***

  For the year 2012-13, DC, Ballari, instructed (July 2012) the Commissioner, CC, Ballari, to include the activity of issue of laptop/desktop to SC/ST reporters. Accordingly, the CC, Ballari, issued (October 2012) supply order to M/s. Blue Soft, Ballari, for supply of five computers/laptops at unit rate of ₹0.40 lakh (Directorate General of Supplies and Disposals rate) and distributed these to reporters.

  Inclusion of the activity of issue of computers/laptops to SC/ST reporters in the AAP and providing computers/laptops valuing ₹2.00 lakh to the reporters contravened the prescribed norms and also resulted in avoidable expenditure to that extent.

  The State Government replied (December 2015) that laptops were issued to SC/ST reporters as per the approved AAP. The reply was not acceptable as the approval of the DMA was required in case of any deviation from the scheme guidelines.

6.1.9.3 Housing

- ***Delay in completion of houses***

The beneficiary had to construct the house within six months. The details of physical and financial progress of construction of houses in the two test-checked zones of BBMP have been given in **Table 6.7** below:

Table 6.7: Statement showing status of individual houses in Bommanahalli and East Zone, BBMP (August 2015)

Year	Sanctioned work		Completed works		Work in progress		Yet to start
	Number	Amount (₹ in lakh)	Number	Amount (₹ in lakh)	Number	Amount (₹ in lakh)	Number
Bengaluru East Zone							
2012-13	540	2,247	50	150	266	1,023	224
2013-14	317	862	17	51	152	433	148
2014-15	75	230	0	0	48	149	27
Bommanahalli Zone							
2012-13	83	249	28	84	53	159	2
2013-14	116	348	22	66	71	213	23
2014-15	0	0	0	0	0	0	0
Total	**1,131**	**3,936**	**117**	**351**	**590**	**1,977**	**424**

Source: Progress reports of BBMP zonal offices

Audit observed the following:

Out of 1,131 houses sanctioned for the period 2012-15, only 117 houses (10 *per cent*) were completed and 424 beneficiaries were yet to commence the construction of the houses. It was also seen that 590 houses were incomplete, which rendered the expenditure of ₹19.77 crore incurred on these incomplete houses as unfruitful.

In both these zonal offices, control registers to monitor the progress of construction of houses were not maintained, which indicated absence of monitoring at the zonal level.

The State Government replied (January 2016) that control registers would be maintained for effective monitoring. The reply does not explain the reason for delay in completion of houses.

- ***Non-adherence to the norms in release of funds***

As per BBMP circular (September 2008), ₹3.00 lakh to each beneficiary towards construction of *pucca* house was to be released in four instalments.

In contravention, three beneficiaries in Bommanahalli Zone were paid full amount of ₹3.00 lakh each in single instalment and 83 beneficiaries were paid more than 50 *per cent* in a single instalment. Amount involved in these 86 cases was ₹172.21 lakh. Payment of amount in lump sum without linkage to progress of construction of houses was irregular.

The State Government replied (January 2016) that norms prescribed for release of fund would be adhered to.

➢ ***Non-execution of housing project***

Under Housing component for Mundargi Ashraya Scheme, ₹36 lakh was released (February and December 2014) by CC, Ballari to Rajiv Gandhi Housing Corporation Limited, Ballari for 120 applicants (differently-abled persons) at ₹30,000 each. However, the funds remained unused as the project was yet to start (August 2015) and thus, the purpose of this welfare activity was not served.

The State Government replied (December 2015) that action would be taken to complete the project.

6.1.9.4 Micro enterprises

The '*Swavalambane'* (self-reliance) scheme, an economic support programme for unemployed youths, provided for financial subsidy towards purchase of commercial vehicles. Each selected beneficiary was eligible for financial assistance at the rate of 25 *per cent* of the cost of the vehicle or 25 *per cent* of the loan availed by the applicant for the purpose, whichever is less, subject to a maximum limit of ₹1.00 lakh.

➢ ***Delay in release of subsidy***

At BBMP East Zone, 257 applications for financial assistance under '*Swavalambane'* Scheme were received between January 2013 and April 2014. The Committee headed by the Joint Commissioner (JC), East Zone, BBMP scrutinised (June 2014) the applications and finalised the list of 116 beneficiaries for financial assistance. However, only 90 selected beneficiaries received the subsidy amount. The selected candidates were referred to the firms/dealers (M/s. Prerana Motors Pvt. Ltd. and M/s. RNS Motors Ltd.) for making the initial down payment and to arrange for loan from banks/financial institutions.

M/s. Prerana Motors Pvt. Ltd. intimated (June 2014 and July 2014) the receipt of applications from 53 beneficiaries and requested for release of subsidy amount of ₹1.00 lakh each to facilitate the delivery of vehicles.

M/s. RNS Motors Ltd. intimated (July 2014) the receipt of applications from 37 beneficiaries and requested for release of subsidy amount of ₹1.00 lakh each to facilitate the delivery of vehicles.

The JC, East Zone, BBMP, submitted (August 2014) the DC bill for ₹90 lakh to the Chief Accounts Officer, BBMP. However, the amount was released during August 2015 after a delay of 12 months.

As a result of delay in release of funds, 90 beneficiaries lost the opportunity of gaining self-employment from May 2014 despite payment of ₹25,000 each as margin money deposit.

In Bommanahalli Zone, BBMP, 66 applications were selected in July 2014 for being provided financial assistance under this scheme. The vehicle dealer confirmed the receipt of applications and payment of margin money deposit in September 2014. However, the subsidy amount in respect of 31 out of 66 selected applicants had not been released by BBMP to the dealer (June 2015). This had deprived these 31 identified beneficiaries the opportunity of becoming self-employed.

The State Government replied (January 2016) that due to shortage of funds for welfare activities, timely payment of subsidy could not be made. The reply was not acceptable as BBMP should have obtained its due share from the SFC untied grants from the Government as detailed in *Paragraph 6.1.7.1*.

6.1.9.5 Purchase of bicycles under Kanakasiri scheme

The '*Kanakasiri*' scheme envisaged to provide bicycles to unemployed youths belonging to economically weaker sections of SCs/STs and BCM categories to engage themselves in activities like milk/vegetable/fruit/flower vending and newspaper delivery. The AAP for the year 2011-12 of BBMP East Zone stipulated a physical target of 20 bicycles to each ward at the rate of ₹5,000 per unit, with a financial target of ₹44 lakh and physical target of 880 bicycles. The scheme was implemented by the Welfare Officer, BBMP East Zone during the year 2012-13.

The JC (Welfare) East Zone, BBMP, Bengaluru accorded (February 2013) permission to procure and supply 2,684 bicycles for distribution to 61 beneficiaries in each of the 44 wards of BBMP East Zone. The Commissioner, in an order (May 2012) directed East Zone, BBMP, to procure bicycles from the District Supply and Marketing Co-op Society (DSMS), Bengaluru, or from M/s. Shah Cycle Trading Company at the quoted rate of ₹4,750, which was the lowest. Work orders were given (July 2012) to M/s. Shah Cycle Trading Company for supply of a total of 1,342 bicycles and to DSMS for supply of 1,342 bicycles within 15 days from the date of the work order.

In this regard, the Audit observed as under:

- As against the original proposal of 2,684 bicycles, only 2,046 were procured. The reason for short procurement was not available on record.

- Though the bicycles were to be supplied within July 2012, the same were supplied after a delay of 4-16 months but no penalty was levied for violation of the contractual terms.

- As per the codal provisions, payment for supplies is not permissible unless stores have been received and surveyed.

  It was, however, seen that there was no mention of the brand name and serial numbers of the bicycles in the invoices. There were also no certificates endorsing the availability of the various fittings as per the Schedule of specifications and quality assurance certificates, in the records. The zonal office made the payments but did not have any documents to indicate the correctness of the quality and quantity.

- Advertisement about the scheme, number of applications received, scrutinised, rejected, shortlisted and selected for each ward was not made available to Audit. This indicates that the procurement of bicycles was not demand-based but executed in a routine manner without any details of basic data/demand. It also indicates that beneficiaries were selected only after procurement.

- Actual dates and actual number of bicycles distributed to beneficiaries were not available on record. There were no documents available regarding acknowledgements obtained from the beneficiaries for the 2,046 bicycles distributed. In the absence of proper records/acknowledgements, it could not be confirmed that the bicycles had actually been distributed to the beneficiaries.

Thus, the zonal office had not followed any of the regular procedures such as receiving of applications, shortlisting of the applications, taking inventory into stock, obtaining acknowledgements from the beneficiaries, *etc*. In the absence of documentary/photographic evidence for the receipt and distribution and the absence of basic records regarding implementation of this scheme, the actual purchase of 2,046 bicycles costing ₹67.94 lakh appeared doubtful.

The State Government concurred (January 2016) with the audit observations.

6.1.9.6 Non-supply of equipment to beneficiaries

As per the UDD circular, the timeline prescribed for completion of the process of receipt and finalisation of application for individual benefits was October every year.

It was seen that 1,216 applications were received at the BBMP East Zone for availing individual benefits such as cooking gas, tailoring machines, vehicle for handicapped, dhobi kit, barber kit, push cart, bicycle and water filter during 2012-13 to 2014-15. However, even as of December 2015, the BBMP had not supplied the above equipment due to non-completion of the tender process. Failure to complete the tender process in time, despite receipt of applications, resulted in denial of the scheme benefits to the targeted beneficiaries.

The State Government accepted the observation and stated (January 2016) that reason for non-finalisation of tender would be looked into and intimated to Audit.

6.1.9.7 Non-implementation of the scheme of providing gas connection

The UDD circular made provision for rendering financial assistance for providing gas connection and cylinder from Government-owned companies to families having no gas connection.

The CC, Ballari paid ₹20.35 lakh to gas agencies in June 2014, to provide gas connection to 1,272 beneficiaries. Out of this, 600 beneficiaries (47 *per cent*) had not taken gas connection from the gas agencies (July 2015). Thus, ₹9.60 lakh remained with the gas agencies for more than one year as no time limit was fixed by CC either for the beneficiaries to avail the benefit or for the gas agencies to return the funds related to the unavailed gas connection.

The State Government, while concurring with the audit observation, stated (December 2015) that the funds lying with gas agencies were adjusted in 2014-15. The fund was not utilised as the beneficiaries were not able to purchase accessories. The reply was silent about the action taken to get the gas connections for the remaining 600 beneficiaries.

The CC, Kalaburagi, had allocated ₹51 lakh in the AAPs for 2012-15 for providing gas connection and gas cylinder to the urban poor and 214 beneficiaries were shortlisted (July 2014). However, this was not provided to beneficiaries (August 2015).

The State Government stated (December 2015) that scrutiny of applications was held up due to elections and tenders would be called for after the Member of Legislative Council (MLC) election. The reply was not acceptable as public sector gas companies should have been involved for providing gas connections instead of calling for tenders.

6.1.10 Monitoring

6.1.10.1 Poor monitoring by DMA

The Poverty Alleviation Cell established by the DMA for monitoring the schemes under Swarna Jayanti Shahari Rozgar Yojana (SJSRY) was given the additional responsibility of monitoring the implementation of the welfare schemes. The Poverty Alleviation Cell had reviewed only financial progress under welfare schemes, but not the physical progress of activities as it was not prescribed by the DMA. There were variations between the figures maintained in the ULBs and Poverty Alleviation Cell which indicated poor monitoring by DMA. The details have been given in **Table 6.8** below:

Table 6.8: Variation in figures between CC and Poverty Alleviation Cell

(₹ in crore)

Unit	Year	Total available funds			Expenditure			Unspent balance		
		Poverty Alleviation Cell	CC	Difference	Poverty Alleviation Cell	CC	Difference	Poverty Alleviation Cell	CC	Difference
CC, Ballari	2012-13	9.29	8.56	0.73	4.11	4.47	(-) 0.36	5.18	4.09	1.14
	2013-14	8.96	6.48	2.48	2.77	2.18	0.59	6.19	4.30	2.49
	2014-15	6.99	10.83	(-)3.84	1.78	2.28	(-) 0.50	5.21	8.55	(-)3.34
CC, Kalaburagi	2012-13	27.66	21.61	6.05	5.43	7.33	(-)1.90	22.23	14.28	7.95
	2013-14	28.06	22.38	5.68	5.20	5.45	(-)0.25	22.86	16.93	5.93
	2014-15	32.67	28.01	4.66	10.25	10.19	0.06	22.42	17.82	4.60

Source: As furnished by CCs and Poverty Alleviation Cell

The State Government replied (December 2015) that action would be taken to reconcile the figures.

6.1.10.2 Absence of provision to monitor correctness of fund transfer to welfare account

In respect of Municipal Fund, though the actual municipal revenue collected and the amount transferred to the welfare account were shown in the statement of financial progress furnished by ULBs to DMA, the percentage of amount to be transferred to the welfare account could not be determined as there was no provision in the statement to indicate either the permissible aggregate deductions or the net municipal revenue, or both. In the absence of the provision, DMA could not verify and ensure the correctness of the fund transferred to the welfare account by all ULBs.

6.1.10.3 Absence of monitoring mechanisms in BBMP

In order to monitor physical and financial status of works approved and executed, a control register has to be maintained at divisional/zonal offices.

BBMP had neither prescribed a system of maintaining checks in the form of a control register in the divisions nor issued directions to the divisional/zonal offices to furnish periodical reports on various works. These reports are to inform on the status of works approved, reasons for delay and the actual expenditure incurred by the divisional offices besides indicating the status of pending bills. As a result, consolidated details of the scheme activities (individual and community benefits) were not maintained at the zonal office.

The State Government stated (January 2016) that control registers would be maintained for effective monitoring of the activities approved.

6.1.10.4 No Grievance Redressal Mechanism

No Grievance Redressal Mechanism was in place in BBMP/ULBs and the requisite Complaint Register was not maintained to facilitate the targeted population to address its grievances to the competent authorities on receipt of benefits under the welfare schemes.

The State Government replied (December 2015) that the existing Public Grievance Redressal Cell in ULBs monitors all complaints registered pertaining to all sections and DMA would be establishing shortly, a State Level Cell Centre for public grievance redressal. The reply was not acceptable as the existing Public Grievance Redressal Cell was addressing only the general complaints related to ULBs' functions but not related to the welfare schemes.

6.1.10.5 No Impact Assessment Study

It was observed that Impact Assessment Study on the implementation of activities under the welfare schemes had not been conducted. Thus, due to non-evaluation of the individual and community benefits provided under the schemes, the extent of improvement in the socio-economic condition of the beneficiaries could not be assessed (October 2015).

The State Government stated (January 2016) that impact assessment was not conducted as the same was not envisaged in the guidelines. However, non-study of the impact on beneficiaries would result in no feedback on the achievement and hence would not enable any course correction.

Recommendation 6: Effective implementation of welfare activities should be ensured by close monitoring at the level of DMA and the ULBs/BBMP by devising suitable registers and returns.

6.1.11 Conclusion

The ULBs, including BBMP, did not implement the welfare activities effectively. The planning mechanism was deficient due to non-prioritisation of welfare activities, delays in finalisation of AAPs and selection of ineligible works, which led to defeating the objectives of these schemes. Physical targets for providing benefits were set without having a database of population to be targeted, which led to under-achievement of targets. The benefits could not flow to the beneficiaries due to poor IEC activities and lack of help to the eligible beneficiaries to fill the application forms properly.

The ULBs had not adhered to the norms specified for the allocation, transfer and utilisation of untied SFC grants and Municipal funds meant for welfare activities. Under-utilisation of funds had affected the planning and delivery of intended benefits to more beneficiaries under the scheme.

Also, non-maintenance of control registers for community works and non-submission of periodical returns by the implementing offices to higher authorities for review of actual physical and financial progress led to inadequate or non-implementation of many activities. This resulted in below-par implementation of the welfare scheme, with the result that the schemes did not deliver the expected benefit to beneficiaries as envisaged. Also, the lack of feedback on the progress of the welfare schemes, in the absence of an Impact Assessment Study, resulted in loss of the opportunity to make mid-course corrections during implementation of the welfare schemes.

SECTION 'B'- COMPLIANCE AUDIT

6.2 Short payment of property tax

Incorrect classification of property and non-payment of property tax for a constructed building resulted in short payment of tax to the extent of ₹83.45 crore.

The State Government notified (January 2009) Bruhat Bengaluru Mahanagara Palike (BBMP) Property Tax Rules, 2009 to introduce self-assessment of property tax under Unit Area Value system. Different rates were determined for different area or street by classifying into zones, different nature of use to which the vacant land or building is put and for different class of buildings and vacant lands. For this purpose, the jurisdictional area of BBMP was classified into six value zones (A, B, C, D, E and F) on the basis of guidance value published by the Department of Stamps and Registration and properties were categorised into 18 groups (five residential and 13 non-residential). Large scale industrial buildings, including Information Technology and Biotechnology companies, came under Category XIV (i) and were liable to pay tax at the rate of ₹8 (tenanted) and ₹4 (self-occupied) per square feet (sft). However, all non-residential buildings with central air conditioning facility were classified under Category VIII, for which the property tax in 'D' Zone was payable at the rate of ₹10 per sft.

It was also stipulated that in case of completion of building prior to 1 October, property tax on constructed building was to be paid for the full year. In case of short payment of property tax, the assessee was liable to pay twice the difference of tax as penalty along with interest at two *per cent* per month on the tax evaded.

The audit scrutiny of property tax returns filed by M/s. Manyata Promoters Private Limited (assessee) at Rachenahalli Village, Bengaluru East Taluk showed that the assessee had incorrectly declared the buildings[35] under Category XIV (i) and had paid the property tax at the rate of ₹8 per sft. The correct classification would be Category VIII as the buildings were equipped with central air conditioning facility. Accordingly, the assessee was liable to pay property tax at the rate of ₹10 per sft (D Zone/Category VIII). As per the information furnished (January 2016) by the Assistant Revenue Officer, Byatarayanpura Sub-division, Yelahanka Zone, BBMP (ARO), the short payment of property tax for one year worked out to ₹9.61 crore.

It was also observed during audit that the Karnataka Industrial Area Development Board (KIADB) had issued occupancy certificate on 10 September 2012 for the Block 'G4' constructed by the assessee. The Development Officer and Executive Engineer-II, KIADB had certified that the building was complete in all respects and was ready for occupation. It was, however, seen that instead of paying the tax on constructed building for the full year (2012-13), the assessee had paid (September 2013) property tax of ₹51.57 lakh on constructed building only for the second half of 2012-13. For

[35] 18 Blocks - JA, B, C, D1, D2, D3, D4, E, F2, F3, G1, G2, G4, H1, H2, K, L5 and L6

the first half of 2012-13, the property tax was paid (August 2013) for the vacant site which amounted to ₹0.92 lakh, which was incorrect.

Thus, incorrect classification of property and non-payment of property tax on constructed building (G4) resulted in short payment of tax to the extent of ₹83.45 crore for the period 2008-16 (detailed in **Appendix 6.2**).

While accepting audit observation, the State Government stated (January 2016) that at the instance of Audit, the demand notice for short payment of property tax had been issued on 1 June 2015. The assessee had filed (16 December 2015) a Writ Petition in the Hon'ble High Court of Karnataka and the Hon'ble Court had directed BBMP not to initiate coercive action till the next date of hearing. Further progress in this case was awaited (February 2016).

6.3 Loss of additional Stamp Duty

City Corporation, Belagavi lost revenue of ₹91.88 lakh receivable as additional stamp duty.

As per Section 140 of Karnataka Municipal Corporation Act, 1976, a duty on transfer of immovable property shall be levied in the form of surcharge at the rate of two *per cent* of the duty imposed by the Karnataka Stamp Act, 1957 (KSA) on instrument of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area.

The Karnataka Municipal Corporations Rules, 1977 - Chapter II (Taxation) Rules 3(2) & (3) also stipulate that the District Registrar shall credit the additional stamp duty (surcharge) collected to the Corporation fund after deducting three *per cent* towards expenses incurred thereof.

The Section 33 of the KSA envisages that every person in-charge of a public office before whom the instrument is produced shall impound it, in case, it is not duly stamped.

As per the District Registrar, Belagavi (February 2011), additional stamp duty (surcharge) pertaining to the period from April 2005 to June 2009 to be released to the City Corporation (CC), Belagavi was ₹122.39 lakh. Out of this, based on the inspection report of the Deputy Inspector General of Registration (Vigilance Wing), Bengaluru (December 2003), an amount of ₹91.88 lakh was deducted towards acceptance of documents without payment of requisite stamp duty during the period 1990-2002. Details have been indicated in the **Table 6.9** below:

Table 6.9: Details of short collection of stamp duty by CC, Belagavi from April 1990 to March 2002

(₹ in lakh)

Sl. No.	Nature of document	No. of cases	Amount of stamp duty short paid on documents
1	Lease Deed (Rent)	583	11.22
2	Trade License	10,307	3.04

Sl. No.	Nature of document	No. of cases	Amount of stamp duty short paid on documents
3	Sale Deed	32	5.52
4	Gift Deed (*Bakshees*)	46	25.52
5	Right of Relinquishing Deed	165	15.50
6	Partition Deed	143	18.14
7	Family Settlement Deed	14	8.15
8	Others (*Korike Patra*)	6,839	4.79
Total			**91.88**

Source: Inspection Report of Deputy Inspector General of Registration (Vigilance Wing), Bengaluru

The negligence in accepting various instruments submitted to CC without proper scrutiny and lapse on the part of the Commissioner, CC, Belagavi by not invoking Section 33 of the KSA in impounding those instruments where requisite Stamp Duty was not paid, under intimation to the Deputy Registrar, resulted in loss of revenue of ₹91.88 lakh from the additional stamp duty (surcharge) payable to the CC, Belagavi for the period from April 2005 to June 2009.

The State Government replied (January 2016) that in all these eight cases, there was no loss to the Government exchequer but had issued notices in respect of cases pertaining to Sl. Nos. 4 to 7 of Table 6.9 as per Accountant General's direction to collect the differential amount of stamp duty. The reply is not acceptable as the requisite stamp duty should have been levied as per the provisions of KSA, which had not been done and hence there has been a loss to the exchequer.

6.4 Unproductive expenditure on construction of vermi pits

Failure to operationalise and generate vermi compost even after construction of the vermi compost pits, resulted in unproductive expenditure of ₹50.00 lakh for over four years.

The Municipal Commissioner, City Municipal Council (CMC), Raichur had proposed construction of vermi pits and other development works as part of Solid Waste Management (SWM) in landfill site at Raichur City under State Finance Commission (SFC) grants. The total estimated cost of the work was ₹50 lakh. The Deputy Commissioner, Raichur approved the action plan (January 2009) and a short term tender was called for during September 2009. The work was entrusted to a contractor (October 2009) at the negotiated rate of ₹49.55 lakh. The work order was issued (November 2009) for completion of the work within 90 days.

The work had three components *viz*; (i) construction of vermi pits as part of SWM, (ii) earthwork in excavation and levelling of inertisation area, (iii) construction of compost yard in landfill site for SWM and its related works. The vermi pits were constructed to process solid waste into vermi compost.

All the three components of work were completed (February 2011) after a delay of one year for which an amount of ₹50 lakh was paid to the contractor.

The audit scrutiny of records of CMC, Raichur (March 2014) revealed that despite lapse of four years from the date of completion of this work, the CMC had not started vermi compositing activities at the landfill site. It was also observed during joint physical verification (February 2015) that the vermi pits were surrounded by stone pillars. The thatched roof constructed earlier, above vermi pits, was not in existence and no composting activities were being carried out.

	
Vermi pits on completion (10.02.2011)	**Condition of vermi pits after four years (04.02.2015)**

This resulted in unfruitful expenditure of ₹50 lakh and the objective of avoiding organic wastes from filling up landfill as well as producing natural fertiliser could not be achieved. This had also posed health hazards and adversely affected the environment.

On this being pointed out by Audit, the Municipal Commissioner stated (October 2014) that a notice had been issued to the Environmental Engineer concerned.

The State Government replied (December 2015) that the construction of vermi pits had been completed and that the vermi pits were being used to produce vermi compost which had been sold to local farmers and income of ₹7.50 lakh earned during 2015-16. However, the reply is not satisfactory as the vermi pits were not operational during the period 2011-15 and no vermi compost was produced in these four years.

6.5 Incorrect declaration of built-up area resulting in short payment of property tax

Incorrect declaration of built-up area in property tax returns resulted in short payment of tax to the extent of ₹31.56 lakh, besides non-levy of interest and penalty.

The provisions of Karnataka Municipal Corporations Act, 1976 provide for levy and collection of property tax on all buildings and vacant land under the jurisdiction of Bruhat Bengaluru Mahanagara Palike (BBMP). The State Government had notified (January 2009) BBMP Property Tax Rules, 2009 to introduce self-assessment of property tax under Unit Area Value system. The non-residential buildings on Ballari Road, Bengaluru were categorised under 'D' Zone and were liable to pay tax at the rate of ₹8 (tenanted) and ₹4 (self-occupied) per square feet (sft). For parking area, the tax was payable at

50 *per cent* of these rates. In case of short payment of property tax, the assessee was liable to pay twice the difference of tax as penalty along with interest at two *per cent* per month on the tax evaded.

Test-check of records (January 2015) in the office of the Assistant Revenue Officer, J.C. Nagar Sub-division, Bengaluru East Zone, BBMP showed that M/s. HMT Limited (assessee) had declared (2008-09) built-up area of 1,36,282 sft (Ground floor + six floors) for HMT Bhavan (Property Identification Number 98-46-59) situated on Ballari Road, Bengaluru. This included self-occupied area of 75,795 sft and tenanted portion of 60,487 sft, with car parking area as 'Nil'. Accordingly, the assessee computed the property tax payable as ₹20.74 lakh and paid (March 2009) ₹19.70 lakh, after availing rebate of ₹1.04 lakh (@ five *per cent*). For the years 2009-14, the assessee continued to pay property tax with the built-up area as 1,36,282 sft.

Audit obtained the floor-wise details of built-up area from the ARO and observed that the built-up area was 2,00,288 sft which included basement area of 28,159 sft. The Audit calculated the property tax on built-up area of 2,00,288 sft, considering the tenanted portion of 60,487 sft (as declared by the assessee) and treating basement (28,159 sft) as parking area. The tax payable worked out to ₹26 lakh.

Thus, incorrect declaration of built-up area in the property tax returns filed by the assessee had resulted in short payment of ₹5.26 lakh every year, aggregating to ₹31.56 lakh for the period 2008-14. The short payment of ₹31.56 lakh for the years 2008-14 was, therefore, recoverable from the assessee along with penalty of ₹63.12 lakh and interest thereon.

The ARO, J.C. Nagar Sub-division replied (January and October 2015) that the built-up area of 2,00,288 sft, as furnished to Audit, was based on the information provided by the assessee himself. It was further stated that demand notice for the differential built-up area would be issued after re-assessing the tax liability.

At the instance of Audit, the State Government instructed (4 January 2016) the Assistant Director, Town Planning (East), BBMP, to verify the built-up area of HMT Bhavan. The built-up area was found (5 January 2016) to be 1,84,049 sft (self-occupied – 95,190 sft and tenanted portion – 88,859 sft), on which the property tax payable worked out to ₹28.765 lakh for one year.

While accepting audit observation, the State Government stated (13 January 2016) that the demand notice for differential amount of ₹64.20 lakh (2008-16) had been issued on 7 January 2016. The status of payment of differential amount by the assessee was awaited (January 2016).

6.6 Loss of revenue

City Corporation, Davanagere lost revenue of ₹17.80 lakh due to non-collection of urban transport cess during 2013-14.

The State Government constituted (August 2012) an Urban Transport Fund to finance initiatives and capacity building for urban transport, with budgetary support and amount to be raised through cess on property tax. For this purpose, the State Government notified (20 August 2013) the Karnataka Municipal Corporations (Urban Transport Fund) Rules, 2013 (UTF Rules, 2013) which provided for levy of urban transport cess on property tax. These rules stipulated that all demands raised on property tax from the date of these rules coming into effect, shall include two *per cent* cess on the property tax so levied. It also stipulated that in case the property tax on any property had already been collected for the year 2013-14, a supplementary demand of two *per cent* towards urban transport cess was to be raised and collected.

Audit scrutiny of records (February 2015) in the office of the Commissioner, City Corporation, Davanagere (CC) showed that the CC had collected property tax of ₹8.90 crore for the year 2013-14. However, the urban transport cess for 2013-14 was not collected as the CC had passed (January 2014) a resolution to levy the cess only from 1 April 2014. This was in contravention of the provisions of UTF Rules, 2013 which mandated levy of urban transport cess from the year 2013-14 onwards.

Thus, the decision of the CC not to levy urban transport cess for the year 2013-14, as mandated by the UTF Rules, 2013, resulted in revenue loss of ₹17.80 lakh (@ two *per cent*) in respect of property tax of ₹8.90 crore collected during the year 2013-14.

The State Government accepted (November 2015) the audit observation and stated that action would be taken to collect the differential amount of cess for the year 2013-14.

Angam Chand

Bengaluru **(L Angam Chand Singh)**
The **Principal Accountant General**
(General and Social Sector Audit)

Countersigned

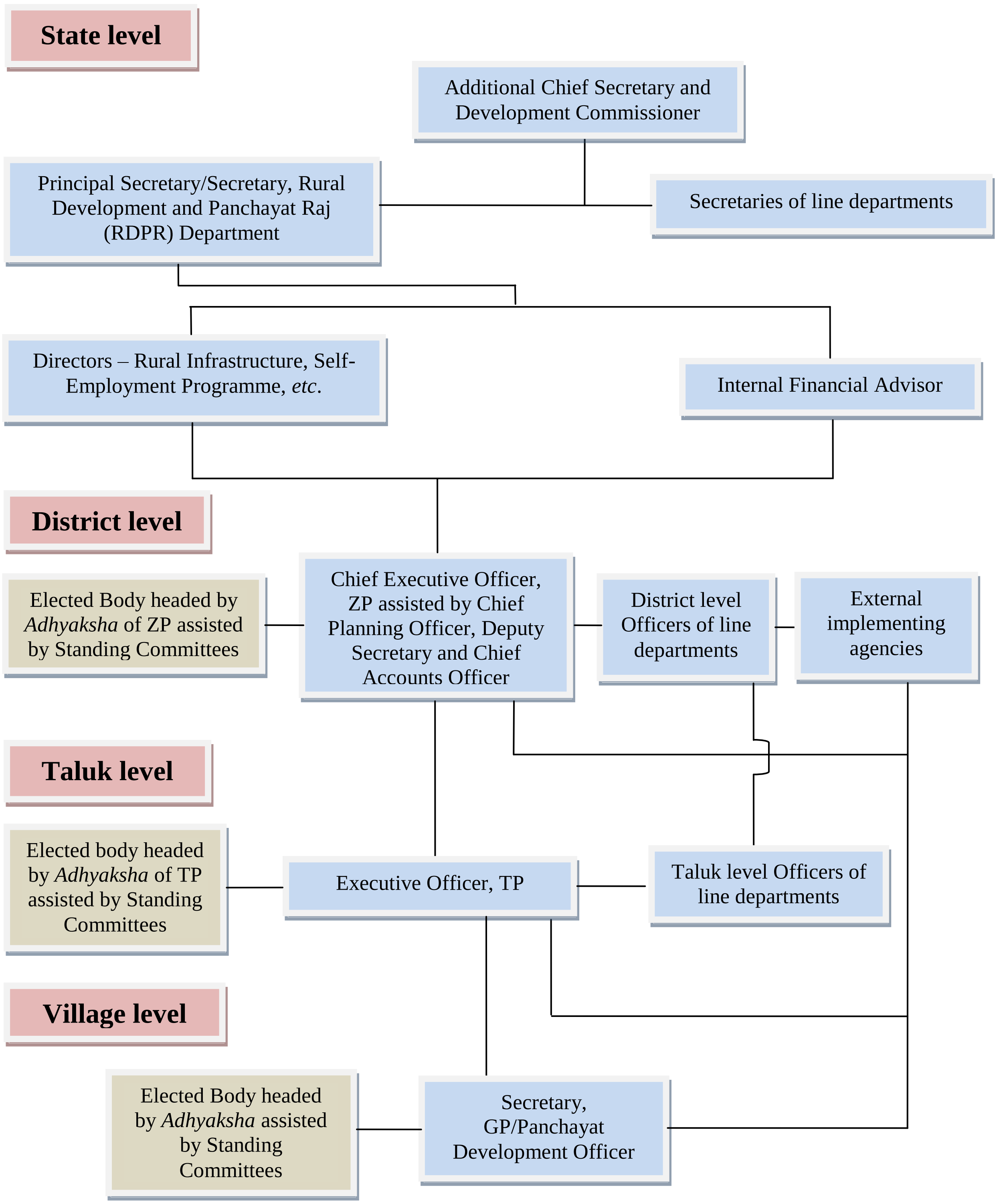
New Delhi **(Shashi Kant Sharma)**
The **Comptroller and Auditor General of India**

Appendices

Appendix 1.1

Organisational structure of PRIs

(Reference: Paragraph 1.3/Page 1)



Appendix 1.2
Statement showing fund details of flagship schemes
(Reference: Paragraph 1.4.1/Page 2)

(₹ in crore)

Scheme	Opening balance	Releases	Total fund available	Expenditure w.r.t total fund available (Percentage)
Mahatma Gandhi National Rural Employment Guarantee Scheme	117.43	1,711.86*	1,829.29	1,683.65 (**92**)
National Rural Drinking Water Programme	241.58	1,647.37	1,888.95	1,833.95 (**97**)
Pradhan Mantri Gram Sadak Yojana	158.87	319.54	478.41	433.20 (**91**)
Nirmal Bharat Abhiyan	190.84	454.26	645.10	592.01 (**92**)
Gram Swaraj Yojana	-	33.51	33.51	28.65 (**85**)
Suvarna Gramodaya Yojana	39.51	422.76	462.27	425.61 (**92**)

Source: Annual Report of RDPR (2014-15)

* Releases under MGNREGS includes miscellaneous receipts of ₹4.25 crore.

Appendix 1.3
Statement showing Inspection Reports and Paragraphs outstanding as at the end of March 2015
(Reference: Paragraph 1.9/Page 5)

Zilla Panchayat	More than 10 years (till 2004-05)		5 to 10 years (2005-06 to 2009-10)		3 to 5 years (2010-11 & 2011-12)		2012-13		2013-14		2014-15		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Bagalkote	14	28	29	90	8	61	7	56	12	86	5	51	75	372
Ballari	68	155	40	226	9	63	8	73	2	28	7	51	134	596
Belagavi	125	271	61	228	10	54	2	13	9	23	5	49	212	638
Bengaluru Rural	9	12	39	108	6	29	8	31	2	28	0	0	64	208
Bengaluru Urban	68	92	194	517	23	139	9	54	7	37	5	34	306	873
Bidar	41	98	32	193	4	31	5	72	5	62	6	49	93	505
Chamarajanagar	5	6	47	161	6	25	5	23	17	124	1	8	81	347
Chikkaballapur	27	51	50	229	18	121	0	0	5	28	4	30	104	459
Chikkamagaluru	31	40	49	191	16	90	3	33	17	90	3	24	119	468
Chitradurga	11	22	30	155	13	117	7	33	11	71	1	12	73	410
Dakshina Kannada	19	24	22	52	7	35	6	25	12	72	5	39	71	247
Davanagere	40	72	32	66	12	44	12	83	21	160	4	32	121	457
Dharwar	62	128	81	204	24	75	5	35	2	12	7	80	181	534
Gadag	67	171	41	153	8	81	7	55	9	63	2	20	134	543
Hassan	24	36	40	130	9	48	10	47	8	51	5	54	96	366
Haveri	23	38	50	145	17	126	4	45	1	19	6	42	101	415
Kalaburagi	74	192	37	130	10	61	5	55	12	102	4	37	142	577
Kodagu	16	25	21	110	7	35	2	10	13	86	1	12	60	278
Kolar	69	158	71	331	15	60	5	41	13	72	6	42	179	704
Koppal	12	25	38	189	14	92	2	15	13	114	6	53	85	488
Mandya	60	99	49	168	12	98	11	57	4	41	2	18	138	481
Mysuru	2	11	57	228	17	102	3	16	18	117	6	42	103	516
Raichur	55	159	37	244	6	54	2	39	15	142	5	52	120	690
Ramanagara	43	86	45	137	8	40	2	21	4	31	5	48	107	363
Shivamogga	28	47	34	97	12	69	9	36	4	64	1	5	88	318
Tumakuru	31	49	66	297	18	104	3	15	2	21	4	45	124	531
Udupi	6	9	26	106	7	48	6	20	9	54	0	0	54	237
Uttar Kannada	82	211	53	199	15	88	7	38	19	126	3	29	179	691
Vijayapura	74	147	47	162	4	10	5	31	2	19	9	76	141	445
Yadgir	35	121	18	128	2	16	0	0	3	29	1	10	59	304
Total	**1,221**	**2,583**	**1,436**	**5,374**	**337**	**2,016**	**160**	**1,072**	**271**	**1,972**	**119**	**1,044**	**3,544**	**14,061**

Source: Inspection Reports

Appendix 2.1

List of PRIs selected for financial reporting

(Reference: Paragraph 2.2.1/Page 7)

Sl. No.	Zilla Panchayats	Sl. No.	Gram Panchayats
1	Bagalkote	1	Hosur
		2	Kadampur
		3	Kandagal
		4	Mugalolli
		5	Murnal
		6	Muthur
		7	Nidangundi
		8	Rampur
		9	Shurpali
		10	Tulasigeri
		11	Yadalli
2	Kodagu	12	Galibeedu
		13	Guddehosur
		14	K. Nidugane
		15	Kadagadalu
		16	Kedkal
		17	Kunjila (Kakkabe)
		18	Siddapur
3	Vijayapura	19	Almathi
		20	Alur
		21	Bijjur
		22	Chimmalagi
		23	Jainapur
		24	Kolhar
		25	Rakkasagi

Appendix 2.2

Statement showing amount under 'II PWD cheques' and 'II Forest cheques' under Major Head 8782 for the year 2014-15

(Reference: Paragraph 2.2.1.1/Page 8)

(₹ in crore)

Sl. No.	Name of the District	PWD cheques	Forest cheques
1.	Bagalkote	12.02	0.05
2.	Ballari	9.81	(-) 0.66
3.	Belagavi	17.38	0.79
4.	Bengaluru Rural	(-) 7.05	(-) 0.42
5.	Bengaluru Urban	5.14	0.04
6.	Bidar	(-) 0.54	0.25
7.	Chamarajanagar	2.49	0.004
8.	Chitradurga	0	0.01
9.	Dharwar	36.26	2.77
10.	Gadag	3.68	(-) 0.05
11.	Haveri	0.02	0
12.	Kodagu	(-) 13.03	2.64
13.	Kolar	2.71	0.90
14.	Koppal	(-) 0.69	0.18
15.	Mandya	1.98	(-) 0.003
16.	Mysuru	21.67	3.30
17.	Raichur	(-) 27.32	0.20
18.	Tumakuru	26.02	6.34
19.	Udupi	0.03	0
20.	Uttara Kannada	(-) 10.15	(-) 2.55
21.	Vijayapura	0	0.01

Source: Separate Audit Reports of ZPs

Appendix 2.3

Statement showing balances under Taluk Panchayat and Gram Panchayat suspense accounts for the year 2014-15

(Reference: Paragraph 2.2.1.1/Page 8)

(₹ in crore)

Sl. No.	Name of the District	TP Suspense account	GP Suspense account
1	Bengaluru Rural	19.50	(-) 7.05
2	Bengaluru Urban	11.36	(-) 0.67
3	Bidar	4.86	1.27
4	Chamarajanagar	(-) 20.78	0.25
5	Davanagere	(-) 0.84	0
6	Dharwar	1.04	1.34
7	Gadag	5.23	2.28
8	Hassan	9.18	0.03
9	Haveri	37.31	1.19
10	Kodagu	0	0.33
11	Kolar	(-) 0.22	0
12	Koppal	59.83	0
13	Mandya	1.99	(-) 7.22
14	Mysuru	5.07	(-) 5.94
15	Raichur	(-) 0.80	0.02
16	Tumakuru	0.04	0

Source: Annual Accounts of ZPs

Appendix 3.1
List of packages selected for detailed scrutiny for NGNRY
(Reference: Paragraph 3.1.5/Page 14)

Sl. No.	PIU	Phase I			Phase II		
		Package No.	No. of works	Length in km	Package No.	No. of works	Length in km
1.	Belagavi	KS-04-04	15	44.65	KS-04-15	17	30.64
2.		KS-04-05C	8	19.13	KS-04-16A	7	14.00
3.		KS-04-07	13	41.87	KS-04-19	14	32.61
4.		KS-04-08	17	39.45			
5.	Bengaluru Rural	KS-02-01	26	43.53	KS-02-04	8	30.05
6.		KS-28-02	19	38.81	KS-28-04	19	30.72
7.					KS-02-05B	7	15.20
8.	Davanagere	KS-12-01	13	38.10	KS-12-09	11	30.61
9.		KS-12-02	12	37.38	KS-12-11	9	30.49
10.	Kalaburagi and Yadgir	KS-15-01	14	35.20	KS-15-06	12	30.97
11.		KS-15-03B	7	19.86	KS-15-08	8	30.75
12.		KS-15-04A	3	12.23	KS-30-05	7	30.45
13.		KS-30-01	12	38.00			
14.	Karwar	KS-27-01	21	51.17	KS-27-08	3	17.60
15.		KS-27-02	6	32.48	KS-27-09	11	26.39
16.					KS-27-11	7	23.95
17.	Koppal	KS-20-02	10	47.30	KS-20-03	8	29.41
18.	Mandya	KS-21-02A	13	19.72	KS-21-04	18	30.00
19.		KS-21-02B	13	20.29	KS-21-09	16	30.74
20.		KS-21-03B	12	20.53			
21.	Shivamogga	KS-24-02	13	48.61	KS-24-08	14	29.99
22.					KS-24-09	12	30.71
Total			**247**	**648.31**		**208**	**525.28**

Appendix 3.2

List of works selected for joint physical verification (NGNRY) in eight test-checked PIUs

(Reference: Paragraph 3.1.5/Page 14)

Sl. No.	PIU	Phase	Package No.	Name of the Road From	Name of the Road To	Length in km
1.	Belagavi	I	KS-04-04	Sonatti	T-07	4.37
2.		I	KS-04-04	Jumanal	T-07	3.80
3.		II	KS-04-15	Malawat (Anagol)	Nathpainagar	2.20
4.		II	KS-04-15	Peeranwadi	Huncheynatti	1.03
5.		II	KS-04-16A	Peeranwadi	Khadarwadi	1.45
6.		I	KS-04-05C	Chunchwad	T-07	3.17
7.		I	KS-04-05C	Gundyanatti	T-04	4.05
8.		II	KS-04-15	Kangrali	SH	2.28
9.		II	KS-04-15	Kudremani-Nayakwadi	SH	3.08
10.		II	KS-04-15	Belagundi Cross	Bokanur	1.04
11.		II	KS-04-19	Kakkeri	Pradnya Ashram	1.80
12.		I	KS-04-07	Kerur Patil Vasti	T-01	1.70
13.		I	KS-04-07	Khotre Thota	T-04	2.30
14.		I	KS-04-07	Mulanki Vasti	T-02	4.30
15.		I	KS-04-07	Halijal Thota	T-05	4.80
16.		I	KS-04-07	Khot Thota	T-19	4.37
17.		I	KS-04-07	R S Temple	T-07	3.20
18.	Bengaluru Rural	I	KS-02-01	Alagondanahalli	T-05	2.77
19.		I	KS-02-01	Chinnandahalli	T-04	
20.		I	KS-02-01	Chowgondanahalli	T-01	2.06
21.		I	KS-02-01	Lingadheeramallasandra	L-075	
22.		I	KS-02-01	Sonnappanahalli	T-03	2.09
23.		I	KS-02-01	Yaluvanahalli	T-02	1.65
24.		II	KS-02-04	Amalgunte	T-09	4.48
25.		II	KS-02-04	Bhaktharahalli	T-03	5.3
26.		II	KS-02-04	Gowdanakunte	T-09	6.89
27.		I	KS-28-02	Gollahallidoddi	L-027	4.02
28.		I	KS-28-02	Iruligara Colony	T-05	3.06
29.		I	KS-28-02	Lingegowdanadoddi	T-03	0.9
30.		I	KS-28-02	Madegowdanadoddi	T-03	2.64
31.		I	KS-28-02	Ramadevaradurganadoddi	T-05	2.59
32.		II	KS-28-04	Hanumanthanagara	T-09	1.52
33.		II	KS-28-04	Kachuvanahalli	T-09	1.89
34.		II	KS-28-04	Nehrudoddi	Honniganadoddi (L-074)	1.18
35.		II	KS-28-04	Ramadevaradurganadoddi	SH-03	2.59
36.		II	KS-28-04	Saslapura	NH-209	3.16
37.		II	KS-02-05B	Alagondanahalli	Doddenahalli	2.69
38.		II	KS-02-05B	Chikkanallala	T-04	2.673
39.		II	KS-02-05B	Guddappanahalli	Sidlaghatta	2.36
40.	Davanagere	I	KS-12-01	Toppenahalli	Yakkegondi Road	2.48
41.		I	KS-12-01	K K Road	Doddabbigere	2.8
42.		I	KS-12-01	K K Road	Alur Road	2.1
43.		I	KS-12-02	Chandranahalli	T-11	5.36
44.		I	KS-12-02	Yaravanagathihalli	T-13	0.96
45.		I	KS-12-02	Shyagale Camp	T-13	4.98
46.		I	KS-12-02	Kodihalli	T-17	6.23
47.		II	KS-12-09	Nehru Nagar	T-10	1.6
48.		II	KS-12-09	Jigali	T-01	5.25
49.		II	KS-12-09	Hoteganahalli	T-01	4.02
50.		II	KS-12-09	Nittur	T-01	4.74
51.		II	KS-12-11	Kunchur	Kanavi Tanda	3.22
52.		II	KS-12-11	Itigudi	Kunchur Kere Tanda	2.07
53.		II	KS-12-11	Malavi Cross	Bevinahalli	2.14
54.		II	KS-12-11	Halavagalu	Nittur Basapur Road	2.85

Sl. No.	PIU	Phase	Package No.	Name of the Road		Length in km
				From	To	
55.	Kalaburagi and Yadgir	I	KS-15-01	Hallisalgara	Hallisalgara Tanda	5.3
56.		I	KS-15-01	Koinal Tanda Border	T-02	5.8
57.		I	KS-15-01	Nandgur	T-11	5.79
58.		I	KS-15-01	Nimbarga Tanda	Basavantwadi	2.8
59.		I	KS-15-03B	Gadadana Tanda	T-05	2.26
60.		I	KS-15-03B	Sankerajapura	T-03	2.26
61.		I	KS-15-04A	Kurkunda	T-17	3.09
62.		I	KS-30-01	Bidar-Srirangapatna Road	Chandlapura	5
63.		I	KS-30-01	Gonal	Kawadimatti	7.4
64.		I	KS-30-01	Hosalli doddi	T-07	3.2
65.		II	KS-15-06	Chintkunta	T-05	2.73
66.		II	KS-15-06	Kodi School Building	L-072 (Allapur)	2
67.		II	KS-15-06	Neemahosahalli	T-03	2
68.		II	KS-15-06	Vajjaragaon	T-06	1.9
69.		II	KS-15-08	Chennur	T-04	6.8
70.		II	KS-15-08	Rajwal	T-03	2.4
71.		II	KS-15-08	Revanur	Mavanur	2.4
72.		II	KS-30-05	Siddapur	Devarahalli	2.7
73.		II	KS-30-05	Jaigram	T-04	6.65
74.		II	KS-30-05	M T Palli	T-14	3.3
75.	Karwar	I	KS-27-02	Mallenahalli	Sirsi-Yellapur Road	5.10
76.		I	KS-27-02	Halligadde	T-08	8.62
77.		II	KS-27-09	Bachagaon	Arekoppa	3.45
78.		I	KS-27-02	Halasinakoppa	T-02	4.42
79.		II	KS-27-09	Banavasi	Kerekai Pedambail	1.60
80.		I	KS-27-02	Pedambail	T-06	3.39
81.		II	KS-27-11	Mingeli	Gund	1.30
82.		II	KS-27-11	Bhumiwada (Gangoda)	L-043	8.85
83.		I	KS-27-01	Madakarni	T-01	2.80
84.		I	KS-27-01	Maingini	T-01	6.80
85.		I	KS-27-01	Hotegali	T-01	2.30
86.		I	KS-27-01	Belur	T-02	4.00
87.		I	KS-27-01	Naitisavar	T-02	1.32
88.		I	KS-27-01	Bendekan	L-084	1.35
89.		I	KS-27-01	Kanmadlu	T-04	2.30
90.		I	KS-27-01	Sampolli	T-04	3.50
91.	Koppal	I	KS-20-02	G Benchamatti	T-03	5.71
92.		I	KS-20-02	Kadur	Taluk Border	8.75
93.		I	KS-20-02	Yapaladinni	T-02	1.77
94.		I	KS-20-02	Murlapur	T-09	2.25
95.		II	KS-20-03	Vanabellary	Irakalgadda	7.35
96.		II	KS-20-03	Kenchanadoni	Kukkanpalli	5.20
97.	Mandya	I	KS-21-02A	Chinnanadoddi	L-038	2.3
98.		I	KS-21-02A	Gollaradoddi	T-04	0.92
99.		I	KS-21-02A	Siddagowdanadoddi	T-02	1.93
100.		I	KS-21-02A	Naganahalli	T-02	3.35
101.		I	KS-21-02B	Hagadur	T-03	1.06
102.		I	KS-21-02B	Vaddaradoddi	T-02	3.57
103.		I	KS-21-02B	Savandipura	T-01	2.39
104.		I	KS-21-03B	Hunjanakere	T-01	3.93
105.		I	KS-21-03B	Madarahalli	T-02	3.5
106.		I	KS-21-03B	Molekoppalu	T-10	2.74
107.		II	KS-21-04	C M Koppalu	T-14	4.365
108.		II	KS-21-04	Gaddehosur	T-13	2.46
109.		II	KS-21-04	Hemmadahally	T-08	2.33
110.		II	KS-21-04	Keelanakoppalu	T-11	1.53
111.		II	KS-21-09	Chandre	L-076	1.56
112.		II	KS-21-09	Pattanagere	T-06	4.71
113.		II	KS-21-09	Avverahalli	T-17	4.2
114.	Shivamogga	I	KS-24-02	Veeranna Benavalli	T-04	5.04
115.		I	KS-24-02	Balemaranahalli	T-07	2.81
116.		I	KS-24-02	Hannerdukhandaka	T-09	8.35
117.		I	KS-24-02	Old Barandur	T-05	3.40
118.		II	KS-24-09	Avaka	T-04	1.24
119.		II	KS-24-09	Maithalli	T-02	4.00

Appendix 3.3

Loss of property tax to six Gram Panchayats

(Reference: Paragraph 3.4/Page 44)

(Amount in ₹)

Sl. No.	Name of the GP	Name of the Resort	Period	Total Annual Letting Value	10 *per cent* of Annual Letting Value	Property Tax collected by GPs	Short collection of Property Tax
1	Galibeedu	Vivanta by Taj	2012-15	44,96,77,772	4,49,67,777	5,74,063	4,43,93,714
		Hotel Coorg International & Heritage Resort	2009-15	9,70,58,574	97,05,857	4,35,140	92,70,717
2	K. Nidugane	Mahindra Holidays Resorts India Ltd.	2009-15	19,02,84,085	1,90,28,409	22,66,828	1,67,61,581
3	Kadagadalu	Capital Village Resorts	2010-15	36,10,800	3,61,080	61,215	2,99,865
4	Kakkabe	Tamra Real Estate Holdings and Developments (P) Ltd.	2010-15	10,56,45,222	1,05,64,522	2,48,342	1,03,16,180
		Misty Wood Resorts	2010-15	91,04,605	9,10,461	11,600	8,98,861
5	Kedamalluru	Mahindra Holidays Resorts India Ltd.	2010-15	1,53,96,232	15,39,623	3,19,942	12,19,681
6	Siddapura	Orange County Resorts and Hotels Ltd.	2009-15	1,44,61,50,609	14,46,15,061	8,92,509	14,37,22,552
Grand Total				**2,31,69,27,899**	**23,16,92,790**	**48,09,639**	**22,68,83,151**

Source: Records of GPs

Note: Annual Letting Value calculated based on Luxury Tax Returns filed by the resorts

Appendix 4.1

Statement showing details of Cess collected and remitted to Government account in selected ULBs for the period 2010-15

(Reference: Paragraph 4.3.6.1/Page 53)

(₹ in crore)

Sl. No.	Name of ULBs	Opening balance				Collection				Remittance				Balance as on March 2015			
		Health	Library	Beggary	Total	Health	Library	Beggary	Total	Health	Library	Beggary	Total	Health	Library	Beggary	Total
1	CC, Vijayapura	0.23	0.00	0.00	0.23	2.52	2.01	1.63	6.16	1.30	1.68	1.45	4.43	1.45	0.33	0.18	1.96
2	CMC, Madikeri	0.57	0.20	0.06	0.83	0.67	0.26	0.14	1.07	0.53	0.25	0.14	0.92	0.71	0.21	0.06	0.98
3	CMC, Nippani	0.38	0.16	0.08	0.62	0.66	0.27	0.13	1.06	0.20	0.08	0.20	0.48	0.84	0.35	0.01	1.20
4	CMC, Sagar	0.33	0.07	0.05	0.45	0.80	0.32	0.16	1.28	0.27	0.24	0.11	0.62	0.86	0.15	0.10	1.11
5	CMC, Sira	0.14	0.07	0.01	0.22	0.75	0.34	0.14	1.23	0.64	0.27	0.13	1.04	0.25	0.14	0.02	0.41
6	TMC, Gowribidanur	0.14	0.05	0.01	0.20	0.27	0.11	0.05	0.43	0.00	0.05	0.00	0.05	0.41	0.11	0.06	0.58
7	TMC, Mudalagi	0.09	0.01	0.01	0.11	0.15	0.06	0.03	0.24	0.23	0.07	0.03	0.33	0.01	0.00	0.01	0.02
8	TMC, Nelamangala	0.09	0.00	0.00	0.09	0.69	0.28	0.14	1.11	0.00	0.26	0.14	0.40	0.78	0.02	0.00	0.80
Total		**1.97**	**0.56**	**0.22**	**2.75**	**6.51**	**3.65**	**2.42**	**12.58**	**3.17**	**2.90**	**2.20**	**8.27**	**5.31**	**1.31**	**0.44**	**7.06**

Source: Records of ULBs

Appendix 6.1

Details of non-receipt of utilisation certificates from the implementing agencies

(Reference: Paragraph 6.1.7.7/Page 72)

Activity (Scheme)	Year	Implementing agency	Amount released (₹ in lakh)	Month of release
Renovation and upgradation of SC/ST hostels (22.75 *per cent*)	2012-13 and 2013-14	District Social Welfare Officer	33.00	November 2013
Construction of libraries (22.75 *per cent*)	2012-13	Deputy Director, Central Library	30.00	January 2014
Purchase of 450 number of mattress, cots and almirahs for four post-matric hostels (7.25 *per cent*)	2013-14	District Officer, Minorities Welfare Department	20.00	February 2014
Procurement of water purifiers, solar heaters, steam cooking and two-tier cots for hostels (7.25 *per cent*)	2013-14	District Backward and Minorities Welfare Department	32.01	January 2014
Procurement of solar water heaters, table, *etc*. (three *per cent*)	2013-14	Principal, Government school for differently-abled children	16.17	February 2014
	2013-14	Principal, Government school for blind children	8.11	May 2014
Procurement of tricycles and equipment for differently-abled children (three *per cent*)	2013-14	District Officer, Differently-abled people Welfare Department	20.82	January 2014
Total			**160.11**	

Source: Information furnished by CC, Kalaburagi

Appendix 6.2

Short payment of property tax by M/s. Manyata Promoters Private Limited for the period 2008-16

(Reference: Paragraph 6.2/Page 85)

(Amount in ₹)

Sl. No.	Block	Property tax paid	Property tax payable	Difference
1.	JA	2,34,01,581	4,83,60,496	2,49,58,915
2.	B	4,70,16,646	6,83,85,672	2,13,69,026
3.	C	22,71,87,836	37,85,97,896	15,14,10,060
4.	D1	5,09,46,149	12,00,31,384	6,90,85,235
5.	D2			
6.	D3	4,86,18,715	11,35,08,240	6,48,89,525
7.	D4	8,02,38,335	17,77,73,480	9,75,35,145
8.	E	8,41,42,793	20,18,34,768	11,76,91,975
9.	F2	12,74,35,464	19,29,29,728	6,54,94,264
10.	F3	3,09,41,367	5,15,55,346	2,06,13,979
11.	G1	4,33,98,480	6,16,96,904	1,82,98,424
12.	G2	3,60,10,445	5,51,26,788	1,91,16,343
13.	G4	3,50,76,132	6,05,33,372	2,54,57,240
14.	H1	7,37,52,470	10,37,70,848	3,00,18,378
15.	H2	2,59,89,240	4,64,57,488	2,04,68,248
16.	K	3,89,62,366	4,57,00,168	67,37,802
17.	L5	2,41,01,423	7,04,87,748	4,63,86,325
18.	L6	2,40,69,489	5,90,55,450	3,49,85,961
Total		**1,02,12,88,931**	**1,85,58,05,776**	**83,45,16,845**

Source: Information furnished by ARO, Byatarayanpura Sub-division, Yelahanka Zone, BBMP