Chapter-I

Rural Development and Panchayat Raj Department

Accountability framework and financial reporting in Panchayat Raj Institutions

1.1 Introduction

Consequent to the 73rd Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993, to establish three tier Panchayat Raj Institutions (PRIs) at the village, taluk and district levels and framed rules to enable PRIs to function as institutions of local self-government. The amendment enumerated functions to be transferred to PRIs in the Eleventh Schedule of the Constitution.

PRIs aim to promote participation of people and effective implementation of rural development programmes for economic development and social justice.

1.1.1 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1**. 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	National
Population	1,000s	61,095	12,10,570
Population density	Persons per sq km	319	382
Urban population	Percentage	38.70	31.20
Number of PRIs	Numbers	6,228	2,40,540 (approx)
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (approx)
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (approx)
Number of Gram Panchayats (GPs)	Numbers	6,022	2,34,000 (approx)
Gender ratio (females per 1,000 males)	Numbers	973	943
Literacy Rate	Percentage	75.40	73.00

Source: Economic Survey Report 2016-17 and Census 2011

1.2 Organisational structure of Panchayat Raj Institutions

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**.

1.2.1 Standing Committees

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

Table 1.2: Constitution of the Standing Committees

Level of PRIs	Chief Executive	Standing Committees	Executive of Standing Committees
Gram Panchayat	*Adhyaksha*	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	a) *Adhyaksha* b) *Upadhyaksha* c) Chairman (Elected from amongst Scheduled Caste/Scheduled Tribe members)
Taluk Panchayat	*Adhyaksha*	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	a) *Upadhyaksha* b) *Adhyaksha* c) Chairman (Elected from amongst members of other Standing 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	a) *Upadhyaksha* b) *Adhyaksha* c) Chairman (Elected from amongst members of other Standing Committee) d) -do- e) -do-

Source: KPR Act, 1993

1.3 Accountability framework

1.3.1 Ombudsman

As per the recommendations of the Thirteenth Finance Commission (TFC), the State Government was required to put in place a system of independent local body Ombudsman to investigate complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials.

The State Government appointed (March 2014) different Government Officers as Ombudsmen through a notification, for different tiers of PRIs, which specified that the Ombudsmen would report to Government. This negated the spirit of appointing independent authority for investigating complaints of corruption and maladministration.

1.3.2 Audit mandate

1.3.2.1 The Karnataka State Audit and 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 audited entities and to the State Government.

The status of audit conducted by KSAD, as of September 2017, in respect of GPs in the State is shown in **Table 1.3**:

Table 1.3: Status of audit of GPs by KSAD, as of September 2017

Year	Number of GPs	Number of GPs audited
2012-13	5,630	5,085
2013-14	5,629	5,105
2014-15	5,629	5,064
2015-16	6,022	5,267
2016-17	6,022	2,161

Source: Information furnished by KSAD

1.3.2.2 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 196[1] units under PRIs up to the year 2016-17 had been completed as of March 2017.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) module to CAG by amending KPR Act, 1993. At the end of March 2017, 25 GPs were audited under TGS module for the year 2016-17.

1.3.2.3 Response to Inspection Reports

The Karnataka Zilla Panchayat (Finance & Accounting) Rules, 1996 [KZP (F&A) Rules, 1996], stipulate that the heads of the Departments/Drawing and Disbursing Officers of ZPs shall attend to the objections issued by the Accountant General promptly. It further stipulates that the ultimate responsibility for expeditious settlement of audit objections rest with the Chief Executive Officers (CEOs) of ZPs. As of March 2017, 3,783 Inspection Reports (IRs) consisting of 16,480 paragraphs were outstanding in various PRIs as detailed in **Table 1.4**.

Table 1.4: Statement showing the details of outstanding IRs and paragraphs up to the audit period 2015-16

Unit	More than 10 years (till 2006-07)		5 to 10 years (2007-08 to 2011-12)		3 to 5 years (2012-13 to 2013-14)		2014-15		2015-16		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
ZPs including TPs and line departments	1,735	4,149	1,193	5,668	385	2,608	177	1,440	167	1,539	3,657	15,404
GPs	0	0	27	204	65	508	32	337	2	27	126	1,076
Total	**1,735**	**4,149**	**1,220**	**5,872**	**450**	**3,116**	**209**	**1,777**	**169**	**1,566**	**3,783**	**16,480**

Source: Inspection Reports

Out of 3,783 IRs outstanding, 1,735 IRs (46 *per cent*) containing 4,149 paragraphs (25 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs. The details of IRs and paragraphs outstanding are in **Appendix 1.2**.

[1] 68 units under RDPR and 128 units under 9 line departments.

1.4 Financial profile and reporting

1.4.1 Financial Profile

1.4.1.1 Resources of the Panchayat Raj Institutions

The resource base of PRIs consists of own revenue, 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 1.3**.

The trends of resources of PRIs for the period 2014-15 to 2016-17 are shown in **Table 1.5**:

Table 1.5: Trends and composition of resources of PRIs

(₹ in crore)

Source	2014-15	2015-16	2016-17
Zilla Panchayats			
State Grants/Assigned Revenue	9,031.34	7,586.51	9,912.95
Grants from GoI for Centrally Sponsored Scheme (CSS)	460.53	1,866.65	474.35
Central Finance Commission	109.14	22.60	0.00
Other Receipts	229.19	255.24$^{\beta}$	70.96$^{¥}$
Total	**9,830.20**	**9,731.00**	**10,458.26**
Taluk Panchayats			
State Grants/Assigned Revenue	11,967.50	11,868.60	14,950.80
Grants from GoI for CSS	523.25	1,682.62	80.89
Central Finance Commission	218.29	45.23	0.00
Other Receipt	22.80$^{\sharp}$	20.61$^{\beta}$	8.98$^{¥}$
Total	**12,731.80**	**13,617.01**	**15,040.68**
Gram Panchayats			
Own Revenue$^{\Sigma}$	333.23	330.53	331.67
State Grants/Assigned Revenue	1,889.53	2,486.16	2,900.40
Grants from GoI for CSS	24.30	4.19	0.00
Central Finance Commission	764.00	1,130.07	1,373.59
Total	**3,011.06**	**3,950.95**	**4,605.66**

Source: Finance Accounts
β Figures in respect of 29 ZPs and 164 TPs
¥ Figures in respect of 13 ZPs and 96 TPs
♯ Figures in respect of 172 TPs
∑ www.panchatantra.kar.nic.in, a website of RDPR department

1.4.1.2 Application of Resources

The trends of application of resources of ZPs and TPs for the period 2014-15 to 2016-17 are given in **Table 1.6**:

Table 1.6: Application of resources

(₹ in crore)

Source	2014-15	2015-16	2016-17
Zilla Panchayats			
State Grants/Assigned Revenue	6,852.57	7,709.76	7,340.98
Grants from GoI for CSS[¥]	3,545.07	3,331.18	1,829.46
Central Finance Commission	118.54	102.28	6.98
Total	**10,516.18**	**11,143.22**	**9,177.42**
Taluk Panchayats			
State Grants/Assigned Revenue	11,430.95	11,605.30	13,616.67
Central Finance Commission	181.66	195.65	28.15
Total	**11,612.61**	**11,800.95**	**13,644.82**

¥ Grants from GoI for CSS includes the expenditure incurred by TPs also

Source: 2014-15 – Audited figures for 30 ZPs and 172 TPs
2015-16 – Audited figures for 29 ZPs and 164 TPs
2016-17 – Figures as furnished by Treasury for State Grants/Assigned Revenue and annual accounts of 13 ZPs and 96 TPs for CSS/CFC

The consolidated details of application of resources in respect of GPs are not available as GPs are audited by CAG under TGS module and there were arrears in conduct of audit by the primary auditor (KSAD).

It can be seen from **Tables 1.5 and 1.6**, that the receipts of ZPs and TPs increased by 13 *per cent* and the expenditure relating to State Grants and assigned revenue increased by 15 *per cent* during 2016-17 as compared to 2014-15.

1.4.1.3 Short receipt of Fourteenth Finance Commission grants

The Fourteenth Finance Commission (FFC) allocated grants of ₹8,359.79 crore towards basic grants for GPs[2] of the State for the period 2015-16 to 2019-20 and ₹928.87 crore towards performance grants for the period 2016-17 to 2019-20. GoI was to release the grants for each year in two instalments (June and October) every fiscal year. The release of second instalment was subject to receipt of Utilisation Certificate (UC) for the first instalment.

The allocation of basic grant to GPs in the State for the year 2016-17 was ₹1,388.62 crore. As against this, the State received ₹1,368.21 crore (₹684.16 crore as first instalment (July 2016) and ₹684.05 crore as second instalment (November 2016)). Similarly, as against the allocation of performance grant of ₹182.15 crore, the State received ₹179.46 crore. The release orders stated that the grants were released on 'pro-rata basis as per number of duly constituted Rural Local Bodies'. Thus, there was a short release of central grants of ₹23.10 crore for the year 2016-17. This was on account of the fact that duly elected bodies existed only in 5,932 GPs, against the existing 6,022 GPs.

2 ZPs and TPs were not entitled for grants under FFC.

1.4.1.4 Irregular release of basic grants to ineligible Gram Panchayats

FFC guidelines stipulated release of grants to duly constituted Panchayats[3]. As per UC submitted (May 2016 and May 2017) to GoI by the State Government, the elected bodies were in place only in 5,932 out of 6,022 GPs.

However, the basic grants were invariably released to all GPs irrespective of the duly elected body being in place and thus, violated the stipulations of FFC guidelines.

1.4.1.5 Non-transfer of Thirteenth/Fourteenth Finance Commission grants

- The Thirteenth Finance Commission (TFC) guidelines stipulated that all the funds received from GoI must be transferred to PRIs within five days of its receipt. Though the term of TFC concluded at the end of the year 2014-15, an amount of ₹13.92 crore was still retained by State Government in a bank account[4] at the end of October 2017, which included ₹7.66 crore of interest earned. The State Government had not transferred ₹6.26 crore to PRIs as required. Further, out of ₹13.92 crore, an amount of ₹13.68 crore had been irregularly invested by the State Government in four Sweep-in[5] deposit accounts in the same branch, which was against the spirit of TFC.
- The funds received from GoI under FFC were to be released to GPs within 15 days of receipt. However, an amount of ₹55.84 lakh received from GoI towards FFC grants had been irregularly invested by the State Government in three Sweep-in deposit accounts in the same branch. This resulted in irregular retention of funds besides violation of guidelines.

1.4.1.6 Pooling of funds

The State Government was operating a bank account at State Bank of India (erstwhile State Bank of Mysore), G-Seva Branch, for receipt and transfer of grants received under TFC. The account had substantial balances (₹173.58 crore as of March 2017) that included grants not transferred to PRIs as well as interest earned. We observed that the funds pertaining to SFC and the grants received under FFC were also operated through this account till November 2016.

Consequently, the department should ensure proper reconciliation of receipt and expenditure of funds received from these different sources. However, this had not been done. In the absence of reconciliation, we could not ensure the correctness of transfers of funds under FFC and the actual quantum of funds

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[3] A duly constituted Panchayat means a Panchayat where elections have been held and an elected body is in place as provided in Part IX and IX A of the Constitution.

[4] Account No. 64062923099 with State Bank of India (erstwhile State Bank of Mysore), G-Seva Branch, for receipt and transfer of grants received under the TFC.

[5] A Sweep-in Account is a bank account that automatically transfers amounts that exceed, or fall short of, a certain level into a higher interest-earning investment option at the close of each business day.

pertaining to FFC remaining in the account. The absence of reconciliation would also impact proper accounting/reporting of 'interest earned' on TFC, FFC and SFC grants.

1.4.1.7 Absence of reconciliation

The State Government was operating a bank account for receipt and transfer of FFC grants from November 2016. The funds received from GoI were to be apportioned among eligible GPs for which appropriate account numbers were to be intimated to the bank for transfer of funds. The Department had not maintained proper database of account numbers of GPs and thus, substantial funds transferred by bank were rejected back repeatedly. This led to avoidable delay in transfer of funds to local bodies. Though department claimed to have re-transmitted the funds to GPs, the necessary reconciliation statement was not made available to audit.

Thus, in the absence of proper records and reconciliation statement, audit could not ensure and vouch transfer of grants in full to all GPs.

The contention of audit is also justified from the data hosted on www.panchatantra.kar.nic.in, a website of RDPR department, which exhibited non-receipt of FFC grants by many GPs.

1.4.1.8 Release of additional stamp duty

As per Section 205 of 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 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.

The additional stamp duty of ₹46.78 crore for the year 2015-16 was released to TPs only during September 2017 and the additional stamp duty to TPs for the year 2016-17 was not transferred (October 2017). IGR stated (October 2017) that additional stamp duty would be transferred after receipt of complete information from all the District Registrars and necessary reconciliation.

1.4.2 Reporting framework

1.4.2.1 Financial reporting in PRIs is a key element of accountability. Matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by ZPs and TPs are governed by the provisions of KPR Act, 1993, KZP (F&A) Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

1.4.2.2 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) of KZP (F&A) Rules, 1996 and Rule 30(4) KPR TP (F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006. As per the recommendations of TFC, PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by GoI.

ZPs prepared the accounts in MPAS formats from 2011-12 onwards. However, many of TPs had not prepared the annual accounts in MPAS format and thus, defaulted in complying with the norms, as detailed in **Table 1.7**.

Table 1.7: Status of annual accounts of TPs in MPAS format

Year	Number of TPs which submitted annual accounts	Number of TPs not prepared accounts in MPAS format
2013-14	174	16
2014-15	172	7
2015-16	164	20
2016-17	96	13

Source: Annual accounts of TPs

GPs in the State were yet to adopt MPAS formats for their accounts.

1.4.2.3 Status of accounts in Zilla Panchayats and Taluk Panchayats

KPR Act, 1993, stipulates that the annual accounts are to be prepared and approved by the General Body of PRIs within three months from the closure of the financial year and are to be forwarded to the Accountant General/Principal Director of State Audit and Accounts Department for audit.

For the year 2016-17, while only two ZPs had submitted their annual accounts within the timeframe, 11 ZPs submitted the accounts with delays ranging from 5 days to 86 days. Seventeen ZPs had not submitted the accounts for the year 2016-17 to the Accountant General, even at the end of October 2017. Similarly, while 17 TPs had submitted their annual accounts for the year 2016-17 within the timeframe, the delays in submission of annual accounts by 79 TPs ranged from 5 days to 110 days. Eighty TPs had not submitted the annual accounts to the Accountant General, even at the end of October 2017.

The range of delay in submission of annual accounts by ZPs and TPs for the year 2016-17 is exhibited in **Table 1.8**.

Table 1.8: Delay in submission of annual accounts by ZPs and TPs (as of October 2017)

Delay	Number of ZPs	Number of TPs
No delay	2	17
1-30 days	6	40
31-60 days	3	14
61-100 days	2	20
More than 100 days	-	5
Total	**13**	**96**

Source: Compilation of receipt of annual accounts by this office

Further, two[6] TPs had not submitted their annual accounts for the year 2013-14 and four[7] TPs for the year 2014-15.

1.4.2.4 Deficiencies in accounts of Zilla Panchayat and Taluk Panchayat

Significant deficiencies noticed in the accounts of ZPs and TPs during 2016-17 are 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 seven ZPs (out of 13 ZPs that submitted accounts) for the year 2016-17 continued to reflect huge balances relating to earlier period as detailed in **Appendix 1.4**. This indicated that 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 ZPs. However, six ZPs (out of 13 ZPs that submitted accounts) had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2017 are detailed in **Appendix 1.5**.

1.5 Conclusion

The receipts of ZPs and TPs increased by 13 *per cent* and the expenditure relating to State Grants and assigned revenue increased by 15 *per cent* during 2016-17 as compared to 2014-15. There was short receipt of FFC grants by ₹23.10 crore. TFC grants of ₹13.92 crore, which included an interest of ₹7.66 crore and FFC grants of ₹55.84 lakh were not released to GPs but were invested in sweep-in deposit accounts. IGR had not transferred the required additional stamp duty for the year 2016-17 to TPs. There was a delay in submission of annual accounts for the year 2016-17 by ZPs (5 to 86 days) and TPs (5 to 110 days) to the Accountant General. As of March 2017, 1,735 IRs (46 *per cent*) containing 4,149 paragraphs (25 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs.

[6] TPs – Chintamani and Shahpur.
[7] TPs – Afzalpur, Deodurg, Shahpur and Srinivasapura.