

## Chapter-II

### Department of Rural Development and Panchayat Raj

#### 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 ZP (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. 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 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/Principal Director of State Audit and Accounts Department for audit.

We observed that there were delays in preparation of annual accounts and their approval in two tiers of PRIs *i.e.* ZPs and TPs. There were delays ranging from 4 days to 181 days in submission of annual accounts for the year 2015-16 by 24 ZPs<sup>2</sup>. The delays in submission of annual accounts for the year 2015-16

<sup>2</sup> Delays by ZPs: (i) less than 30 days (7 ZPs), (ii) 31-60 days (3 ZPs), (iii) 61-90 days (2 ZPs), (iv) 91-120 days (8 ZPs), (v) 121-150 days (1 ZP), (vi) 151-180 days (2 ZPs) and (vii) 181 days and above (1 ZP)

by 113 TPs<sup>3</sup> ranged from 4 days to 222 days. Four ZPs and 29 TPs had not submitted the annual accounts (February 2017).

### 2.2.1.1 Deficiencies in Zilla Panchayat and Taluk Panchayat accounts

The deficiencies noticed in the accounts of ZPs and TPs during 2015-16 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 17 ZPs for the year 2015-16 reflected huge balances relating to earlier period as detailed in **Appendix 2.1**. 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, 13 ZPs had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2016 have been detailed in **Appendix 2.2**.
- The treasuries had written back in 2015-16 the unspent balances of ZPs pertaining to the years 2013-14 and 2014-15 and TPs for the year 2013-14 amounting to ₹408.96 crore and ₹10.15 crore respectively under Fund-II<sup>4</sup> account of ZP to the Government account. However, 19 ZPs had not adjusted the written back amount of ₹326.79 crore in their annual accounts of 2015-16 resulting in overstatement of balances.
- The State Government had withdrawn an amount of ₹797.52 crore from the TP Fund account out of the grants released to the TPs during the year 2014-15. In respect of 169 TPs which have forwarded the accounts, the withdrawal amounted to ₹770.23 crore. We noticed that 10 TPs have not reduced the withdrawn amount of ₹48.14 crore from their annual accounts, resulting in overstatement of receipts and also the closing balances to that extent.
- In respect of 21 TPs, the receipt and expenditure in the annual accounts has been exhibited in accordance with the Fund Account transactions at the Treasury which included the withdrawn and the surrendered Fund amount. This resulted in overstating of transactions by ₹104.93 crore in respect of these TPs.

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<sup>3</sup> Delays by TPs: (i) less than 30 days (36 TPs), (ii) 31-60 days (14 TPs), (iii) 61-90 days (20 TPs), (iv) 91-120 days (8 TPs), (v) 121-150 days (14 TPs), (vi) 151-180 days (9 TPs) and (vii) 181 days and above (12 TPs)

<sup>4</sup> ZP Fund-II account relates to the State grants and unspent balances under this account should be written back to the Government account at the end of each financial year as per Government Order dated 8.9.2004.

### 2.3 Non-remittance 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. They were to remit them to the authorities<sup>5</sup> concerned within the time frame prescribed by the State Government after retaining 10 per cent of the Cess amount collected as collection charges.

In 71 GPs of the six test-checked TPs, ₹3.61 crore (excluding collection charges) collected towards various Cesses during the period 2011-12 to 2015-16 was retained by the GPs without remitting it to the authorities concerned, resulting in irregular retention of Cess revenue.

### 2.4 Thirteenth Finance Commission grants

#### 2.4.1 Huge unspent balances lying in Panchayat Raj Institutions accounts

The funds released under TFC were to be utilised as per the prescribed guidelines based on the approved action plans prepared by the PRIs. We noticed huge unspent balances of TFC grants amounting to ₹125.90 crore (₹37.91 crore (ZPs) + ₹82.70 crore (TPs) + ₹5.29 crore (GPs)) lying in the bank accounts of the ZPs, TPs and test-checked GPs as at the end of March 2016 even after completion of the TFC period (2010-11 to 2014-15). This indicates the failure of PRIs to utilise the grant released to them within the TFC period.

#### 2.4.2 Irregularities in utilisation of grants

The State Government issued (June 2013) guidelines for utilisation of TFC grants which stipulated various works/activities that could be taken up with TFC grants. Scrutiny of records in test-checked TPs revealed the following discrepancies.

##### a) Utilisation of funds of ₹32.16 lakh on ineligible works

Six test-checked TPs utilised an amount of ₹32.16 lakh for purchase of vehicle, repair works of TP Executive Officer/staff residential quarters, TP Office, President/Vice President chambers, etc., which were not admissible under the guidelines.

##### b) Release of funds of ₹9.37 lakh to an aided educational institution for building construction/repairs

TP, Kumta released an amount of ₹9.37 lakh to Janatha Vidyalaya, an aided school under the management of Canara Welfare Trust for

<sup>5</sup> Health Cess - Health Department, Education Cess – Education Department, Beggary Cess- Directorate of Beggary and Library Cess- Department of Libraries

construction and improvement to the school buildings during the years 2013-14 and 2014-15, which was not permitted under the guidelines.

## **2.5 Fourteenth Finance Commission Grants**

The Fourteenth Finance Commission (FFC) allocated grants of ₹8,359.79 crore towards basic grants for GPs 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. The grants for each year were to be released by GoI 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.

### **2.5.1 Short release of grants**

The allocation of basic grant to the GPs in the State for the year 2015-16 was ₹1,002.85 crore. As against this, the State received ₹972.36 crore (₹501.43 crore as first instalment (July 2015) and ₹470.93 crore as second instalment (March 2016)). The second instalment was released by GoI on the last day of the financial year *i.e.*, 31 March 2016 and the release order stated that the grants were released on ‘pro-rata basis on the basis of information provided by the State Government’. Thus there was a short release of central grants of ₹30.49 crore for the year 2015-16.

### **2.5.2 Transfer of grants from State Government to Gram Panchayats**

#### **2.5.2.1 Delay in transfer of grants and short payment of interest**

The FFC guidelines stipulated that the funds should be transferred to the accounts of GPs within 15 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. We observed that the State Government transferred the first instalment of grants, received on 29 July 2015, in three spells with delays ranging from 21 to 192 days excluding the prescribed time limit. The second instalment received on 31 March 2016 was transferred with delays ranging from 12 to 46 days. Consequently, the State Government paid (March 2016) an interest of ₹1.43 crore to the GPs for the belated release of first instalment and the interest for the belated release of second instalment was not paid so far. The interest paid, which was clearly avoidable, was also found to be short paid by ₹5.15 crore as detailed in **Table 2.1**.

**Table 2.1: Details of delay in transfer of grants and short payment of interest**

(₹ in crore)

Instalment	Grant received from GoI	Date of receipt from GoI	Grants transferred to GPs	Date of transfer to GPs	No. of days of delay	Interest to be paid*	Interest paid	Balance to be paid
First	501.43	29.07.2015	354.80	02.09.2015 to 14.09.2015	21 to 33	1.35	0.57	0.78
			116.59	09.02.2016	181	3.32	0.00	3.32
			20.89	29.01.2016 and 20.2.2016	170 to 192	0.57	0.62	-0.05
			7.09	NF	NF	NF	0.24	-0.24
<b>Total</b>			<b>499.37</b>			<b>5.24</b>	<b>1.43</b>	<b>3.81</b>
Second	470.93	31.03.2016	117.72	27.04.2016	12	0.23	0.00	0.23
			336.21	03.05.2016 to 31.05.2016	18 to 46	1.11	0.00	1.11
<b>Total</b>			<b>453.93</b>			<b>1.34</b>	<b>0.00</b>	<b>1.34</b>
<b>Grand Total</b>	<b>972.36</b>		<b>953.30</b>			<b>6.58</b>	<b>1.43</b>	<b>5.15</b>

Source: Information provided by Rural Development and Panchayat Raj Department (RDPR) and bank pass sheets

\* Interest calculated at the prevailing reverse repo rate on the date/s of transfer of funds. The Department/State Government needs to ascertain the actual date of credit of funds from GPs and calculate the exact amount of interest to be released.

It can also be seen from the above table that the State Government transferred an amount of ₹953.30 crore to the GPs against the actual receipt of ₹972.36 crore. The reasons for non-release of the balance of ₹19.06 crore was not forthcoming from the records made available to audit.

Further, the interest was to be paid on the actual amount released to each GP. We, however, observed that the State Government directed (March 2016) the ZPs to release interest of ₹2,305 to each GP irrespective of the amounts actually released, which was incorrect.

### 2.5.2.2 Transfer of grants to Zilla Panchayats

The FFC guidelines envisaged transfer of grants directly to the GPs by the State Government. In contravention of these directions, the State Government released third spell of first instalment grants of ₹7.09 crore and interest of ₹1.43 crore to ZPs for onward release to GPs. The transfer of amounts from ZPs to GPs was however not made available to audit, in the absence of which, the actual amount of interest due to GPs could not be worked out in audit.

### 2.5.3 Submission of Utilisation Certificates to Government of India

The State Government furnished the UCs for the first and second instalments of basic grants for the year 2015-16 on 14 March 2016 and 25 May 2016 respectively. We observed that the UCs submitted were incorrect as stated below:

- (i) The first instalment of grant of ₹501.43 crore was received by the State Government on 29 July 2015 as per the credit confirmation slip issued by the Finance Department. However, the date of receipt of grants was indicated in the UC as 5 August 2015.

- (ii) The transfer of second spell of grants of ₹21.27 crore was indicated in the UC as 9 December 2015 whereas the actual transfer occurred on 29 January 2016.
- (iii) The UC for the second instalment indicates that the transfer of grants took place on 31 March 2016 *i.e.* the date on which the grants were received. However, the amount was credited to the bank account of the department only on 15 April 2016 and subsequently this was transferred to the GPs on 5 May 2016.
- (iv) The UCs indicated that the entire grants received from GoI was transferred though an amount of ₹19.06 crore was yet to be transferred.

Thus, the above indicates that the report of the State Government to GoI regarding the utilisation of grants received under the FFC was incorrect.

#### **2.5.4 Pooling of funds**

The State Government was operating a bank account at State Bank of Mysore, G-Seva Branch, for receipt and transfer of grants received under the TFC. The account had substantial balances that included grants remaining not transferred to PRIs as well as interest earned. We observed that the funds pertaining to State Finance Commission (SFC) and the grants received under the FFC were also operated through this account. Consequently, the department was required to ensure proper reconciliation of receipt and expenditure of funds received from these different sources. However, the same 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 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.

## **2.6 Other issues**

### **2.6.1 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 ₹1,312.74 crore outstanding under Fund-II accounts of ZP (₹523.70 crore) and TP (₹789.04 crore) for the year 2015-16.

### **2.6.2 Retention/locking of funds**

- a) An amount of ₹243.93 crore pertaining to various closed/inactive schemes for the last one to five years was lying unspent in non-operative bank accounts of 24 ZPs as on 31 March 2016. 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 ₹243.93 crore.

- b) The main account of ZP, Davanagere (A/c No. 54042043217, State Bank of Mysore) was credited (March and April 2012) with an amount of ₹68.63 lakh (four transactions) through RTGS. The purpose for which these amounts were transferred was not communicated to the ZP either by GoI or State Government despite repeated correspondence with the Ministry of Rural Development at the Centre and RDPR at the State. Hence, the ZP could not utilise the grants. The same continued to remain in the savings bank account resulting in non-utilisation and consequent locking of Government grants for over four years.
- c) The main account of ZP, Chitradurga (A/c no. 54044357460, State Bank of Mysore) included unspent balance of ₹108.04 lakh as at the end of March 2016 pertaining to schemes/departments such as *Namma Bhoomi Namma Thota*, Social Welfare Department *etc.* The ZP remitted (July 2016) an amount of ₹38.62 lakh to the Government account. The balance of ₹69.42 lakh continued to be retained by the ZP as of November 2016.

## 2.7 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 retained the Cess amount collected without remitting it to authorities concerned. There were irregularities in utilisation of TFC grants. The interest paid to GPs for the delay in release of FFC grants was short by ₹5.15 crore. 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.