

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 compliance audit of the Urban Local Bodies. A synopsis of the findings is presented in this overview.

1. An overview of Panchayat Raj Institutions

The total receipts and expenditure of Panchayat Raj Institutions increased by 33 per cent during 2011-12 to 2015-16. The Inspector General of Registration and Commissioner of Stamps had not transferred the required additional stamp duty for the year 2015-16 to Taluk Panchayats. The additional stamp duty of ₹40.08 crore for the year 2014-15 (including the revalidated additional stamp duty of ₹0.41 crore for the year 2012-13 to Taluk Panchayats, Raibag and Malavalli) was uploaded on 20 January 2017 with a delay of 49 days. Only 35 per cent of the units planned were audited by Karnataka State Audit and Accounts Department as of December 2016.

(Chapter I)

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 retained the Cess amount collected without remitting it to authorities concerned. There were irregularities in utilisation of Thirteenth Finance Commission grants. The interest paid to Gram Panchayats for the delay in release of Fourteenth Finance Commission grants was short by ₹5.15 crore. 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.

(Chapter II)

3. Implementation of National Rural Drinking Water Programme

The National Rural Drinking Water Programme (NRDWP) aims to provide every rural person with adequate quantity of safe water for drinking, cooking and other domestic basic needs on a sustainable basis while also adopting a decentralised approach involving Panchayat Raj Institutions and community organisations. This basic requirement should meet minimum water quality standards and be readily and conveniently accessible at all times and in all situations.

The implementation of NRDWP for the period 2012-13 to 2015-16 was reviewed through a performance audit during April to September 2016. We observed that implementation of the programme had various shortcomings.

Due to non-establishment of required institutions and deficiencies in those constituted, the envisaged institutional support at various levels was not adequately forthcoming. Projects remained incomplete due to their being taken up without ensuring the sustainability of the water source and availability of land, etc. Against the target of providing 55 litres per capita per day of water to 50 per cent of the rural population, the State Government could achieve provision to only 14 per cent of the rural population.

Though the achievement of the State in respect of improvement in quality of water in affected habitations was appreciable, the number of habitations that slipped back increased. Also, besides some ineligible works being taken up under the sustainability component, the maintenance of sustainability structures was also deficient.

Water Testing Laboratories were not established in 76 out of 176 taluks in the State. The functioning of the taluk and district laboratories were deficient as the tests for all envisaged parameters were not being conducted. There were also irregularities in the tender process regarding the selection of firms for establishing the laboratories. Moreover, only 62 per cent of the water purification units were commissioned in the State.

Weak financial management resulted in the operation of many unauthorised accounts. Funds were parked in various bank accounts and transactions made without proper authorisation. Due to absence of proper reconciliation there were variations between the figures uploaded in the Integrated Management Information System, financial statements prepared by the Chartered Accountants and Utilisation Certificates submitted to Government of India, resulting in incorrect reporting to Government of India. The State Government stated (February 2017) that a Committee formed by the Government to look into the opening and operation of all these accounts has submitted a report and action is being initiated by the department for detailed reconciliation.

The department also failed in monitoring the requirement of transferring unutilised funds by the Zilla Panchayats back to the Government, which resulted in retention of huge funds by them. Two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities.

Monitoring and evaluation were not adequate as the Monitoring Cell and Investigation Unit was yet to be set up. None of the six monthly social audits had been done. The evaluation of the implementation of the programme through external agencies, which would enable remedial action on its shortcomings, was also yet to be conducted.

(Paragraph 3.1)

4. Compliance Audit - Panchayat Raj Institutions

➤ *Non-utilisation of funds meant for emergency works in rehabilitated villages*

The Zilla Panchayat, Ballari failed to utilise ₹13.83 crore to provide emergency basic infrastructure facilities to 16 villages rehabilitated due to floods.

(Paragraph 3.2)

➤ *Loss to Government due to non-availing of central excise duty exemption*

Non-availing of the benefit of central excise duty exemption available on pipes supplied for eight test-checked water supply schemes in Chamarajanagar, Mandya and Dakshina Kannada districts resulted in loss of ₹8.91 crore to the Government.

(Paragraph 3.3)

➤ *Short recovery of liquidated damages*

Incorrect adoption of rates resulted in short recovery of liquidated damages of ₹27.14 lakh from contractors of tank rejuvenation works executed by the Panchayat Raj Engineering Division, Hassan.

(Paragraph 3.4)

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 17 functions. There was a shortfall in remittance of Health Cess, Library Cess, Beggary Cess and Urban Transport Cess by the Urban Local Bodies to the authorities concerned. Bruhat Bengaluru Mahanagara Palike had not remitted the Health Cess and short remitted the Beggary Cess collected on behalf of the State Government. There was poor response to audit (Karnataka State Audit and Accounts Department) observations by Urban Local Bodies.

(Chapter IV)

6. Financial reporting in Urban Local Bodies

In spite of preparation of accounts by Urban Local Bodies, there was a shortfall in certification of accounts by the Chartered Accountants during the year 2015-16. The annual accounts of Bruhat Bengaluru Mahanagara Palike for the years 2014-15 and 2015-16 were yet to be audited by Karnataka State Audit and Accounts Department. Statement of expenditure had not been obtained from external agencies to which Urban Local Bodies had paid

advances. The Urban Local Bodies had not utilised the entire Thirteenth Finance Commission grants during the period 2011-12 to 2015-16. The State Government had not released the interest payable of ₹0.57 crore to Urban Local Bodies for delayed transfer of Fourteenth Finance Commission grants. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of deficiencies in maintenance of books of accounts.

(Chapter V)

7. Compliance Audit - Urban Local Bodies

➤ Collection of property tax in Urban Local Bodies

The finances of the Urban Local Bodies comprise receipts from own resources, grants, assistance from Government of India, State Government and loans from financial institutions and nationalised banks. Own resources comprise tax and non-tax revenues realised by the Urban Local Bodies. Property tax is one of the most important sources of tax revenue for Urban Local Bodies. The audit on collection of property tax was conducted from April to August 2016 covering the period from 2013-14 to 2015-16.

We observed that the absence of a detailed and exhaustive survey by the Urban Local Bodies resulted in many of the properties remaining outside the tax net. Improper maintenance of property registers/Demand Collection and Balance registers and failure of the Urban Local Bodies to comply with the provisions of the Acts led to evasion and default in payments of tax. Failure to revise the tax rates periodically, adopt present market value for taxation and non-levy of penalty on unlawful buildings and for short payment of tax resulted in loss of revenue to the Urban Local Bodies. Incorrect adoption of tax rates and not allowing rebate for timely payments resulted in excess collection of tax by the Urban Local Bodies. The provisions regarding collection of property tax/service charges on exempted properties were not uniform under the Acts, resulting in many of properties functioning on commercial lines remaining outside the tax net. Non-constitution of the Karnataka Property Tax Board and absence of proper monitoring by the Director of Municipal Administration contributed to the inefficient functioning by the Urban Local Bodies with regard to property tax assessment and its realisation.

(Paragraph 6.1)

➤ Loss of revenue due to non-collection of urban transport cess

Non-collection of urban transport cess resulted in loss of revenue to the extent of ₹19.51 lakh in the City Municipal Council, Udupi during 2013-14 and 2014-15 and ₹1.65 crore in the City Corporation, Mangaluru during 2013-14 to 2015-16.

(Paragraph 6.2)

➤ **Short payment of property tax**

Incorrect declarations in property tax returns and non-payment of property tax for a constructed building resulted in short payment of tax to the extent of ₹1.83 crore.

(Paragraph 6.3)

➤ **Avoidable payment of service tax on exempted solid waste management packages**

Payment of service tax for solid waste management packages which were exempted, resulted in avoidable loss of ₹1.38 crore to the City Corporation, Ballari.

(Paragraph 6.4)

➤ **Loss of revenue due to non-levy of penalty on cess component**

Failure to devise the property tax assessment forms appropriately in City Corporation, Mangaluru and City Municipal Council, Udupi resulted in non-levy of penalty on the cess component and consequent loss of revenue of ₹1.21 crore (2010-11 to 2015-16).

(Paragraph 6.5)

➤ **Non-levy of property tax on advertisement structures**

City Corporation, Davanagere, City Corporation, Mangaluru and City Municipal Council, Udupi failed to realise revenue aggregating ₹89.61 lakh due to non-levy of property tax on advertisement structures during the year 2015-16.

(Paragraph 6.6)

➤ **Loss of revenue due to non-levy of health cess on advertisement tax**

Non-levy of health cess on advertisement tax resulted in loss of revenue amounting to ₹77.56 lakh which included collection charges of ₹7.76 lakh due to the City Corporation, Mangaluru during the period 2012-13 to 2015-16.

(Paragraph 6.7)

➤ **Denial of benefit of rebate on cess component of property tax**

Failure of the City Corporation, Mangaluru in allowing the mandatory rebate of five per cent on the cess component of property tax resulted in over-assessment of tax to the extent of ₹35.09 lakh during the period from 2012-13 to 2015-16.

(Paragraph 6.8)