



CHAPTER-II

RESULTS OF AUDIT

Chapter summary

Swachcha Grama Yojana

- ◆ **Scheme launched without relevant data regarding the number of households in the villages**
- ◆ **Delay in repayment of loans resulted in additional liability of Rs.2.77 crore towards interest**
- ◆ **Defective estimates leading to non-execution of all the components**
- ◆ **Non-shifting of compost yards/manure pits to outskirts of the villages**
- ◆ **Monitoring of the implementation of the scheme was poor**

Programme implementation, material and human resource management in selected Zilla Panchayats

- ◆ **Functioning of District Planning Committees was improper**
- ◆ **Loss of assistance to be provided for implementation of centrally sponsored schemes**
- ◆ **Instances of unfruitful/irregular/inadmissible expenditure in implementation of development schemes**
- ◆ **Large number of vacant posts in Health and Family Welfare Department**

Implementation of Swajaldhara Programme

- ◆ **Delay in sending proposals resulted in non-receipt of funds on time**
- ◆ **Shortfall in collection of community contribution**
- ◆ **Instances of non-adherence to guidelines**
- ◆ **Quality control/monitoring mechanism was inadequate**

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Audit Paragraphs

- ◆ **Physical progress of the works entrusted to external agencies was not commensurate with the funds released**
- ◆ **There was abnormal delay in settlement of disciplinary cases and monitoring of pending cases was poor**
- ◆ **Subversion of internal controls resulted in fraudulent drawal of funds**
- ◆ **Unfruitful expenditure due to delay in completion of water supply projects and buildings**
- ◆ **Irregular diversion of funds/foodgrains from development schemes towards construction of a meeting hall**
- ◆ **Government response to Audit Report poor**

CHAPTER II – RESULTS OF AUDIT

SECTION ‘A’ – PERFORMANCE REVIEWS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.1 Swachcha Grama Yojana

Highlights

The State Government launched the Swachcha Grama Yojana in October 2000 to bring in total change in the physical environment of the villages by improving roads, sanitation, drainage, etc. The scheme proposed to cover 1300 villages with a total outlay of Rs.260 crore.

The scheme was launched without relevant data regarding the number of households in the villages and the selection of villages was improper, which adversely affected implementation of the scheme.

(Paragraphs 2.1.6.1 and 2.1.6.2)

Delay in release of funds to the Karnataka Land Army Corporation for repayment of loan resulted in additional liability of Rs.2.77 crore towards interest. There were instances of diversion of funds amounting to Rs.7.44 crore.

(Paragraphs 2.1.7.2 and 2.1.7.3)

Physical achievement of works varied from 2 to 78 per cent in the test-checked Zilla Panchayats, whereas in Zilla Panchayat, Bangalore (Rural) no work had been completed even after five years of commencement of the scheme.

(Paragraph 2.1.8.1)

The estimates for the works were defective as expenditure in excess of prescribed limits was incurred on roads and drains resulting in non-execution of other components of the scheme.

(Paragraph 2.1.8.2)

The roads laid at a cost of Rs.6.87 crore in 209 villages did not conform to the specifications prescribed. The compost yards/manure pits were not shifted to outskirts of the villages, as required and there was shortfall in construction of toilets.

(Paragraphs 2.1.8.3 to 2.1.8.5)

There was excess expenditure of Rs.10.94 lakh towards subsidy for smokeless chulahs.

(Paragraph 2.1.8.6)

In test-checked Zilla Panchayats, there was shortfall in collection of community contribution aggregating Rs.2.13 crore and, in certain cases, contribution was collected from a few persons, contrary to guidelines.

(Paragraphs 2.1.9.1 and 2.1.9.2)

Contrary to the guidelines, lead and lift charges aggregating Rs.42.29 lakh were paid even though locally available materials were used. No provisions were made for the maintenance of completed works in villages.

(Paragraphs 2.1.10 and 2.1.11)

Monitoring of the implementation of scheme was poor as there was no control mechanism at the State level and district level committees/Swachcha Grama Yojana Committees did not meet and monitor as envisaged.

(Paragraphs 2.1.13 and 2.1.14)

2.1.1 Introduction

Recognising the need for a total change in the physical environment for improving the quality of life of the rural population, the State Government launched (October 2000) Swachcha Grama Yojana (SGY) in selected villages in all the Zilla Panchayats (ZPs). The programme aimed at providing a healthy environment devoid of the hazards of smoke and other forms of pollution.

The scheme envisaged amenities/facilities with the following five components called ‘panchasutras’ to improve the environment in villages.

- ❖ Paving of internal roads and streets in the villages. Internal roads and streets to be asphalted or covered with stone slabs
- ❖ Construction of efficient sullage and storm/rain water drains
- ❖ Provision of community compost yards and removal of manure pits from the dwelling areas of the village to a place at the outskirts
- ❖ Construction of household latrines, community latrine complexes and school toilets
- ❖ Provision of smokeless chulahs for all households.

Phase-I of the scheme was launched (October 2000) in the State with an outlay of Rs.200 crore covering 1000 villages with an allocation of Rs.0.20 crore for each village. The coverage was enhanced in March 2002 to 1300 villages with an outlay of Rs.260 crore. Phase-II of the programme was launched in January 2004 with an outlay of Rs.100 crore covering 1000 villages.

2.1.2 Organisational structure

The organisational structure for implementation of the programme, as of March 2006, was as under:

Organisation/Agency	Responsibility
Rural Development and Panchayat Raj Department	➤ Overall implementation of the programme
Karnataka Land Army Corporation	➤ Nodal agency for raising loan from HUDCO [^] ➤ Management of scheme funds
Chief Executive Officer, Zilla Panchayat	➤ Selection of villages ➤ According administrative sanction for works ➤ Monitoring and supervision
Grama Panchayats	➤ Collection of community contribution and registration with ZP ➤ Implementation and monitoring of programme ➤ Maintenance of completed works
Swachha Grama Yojana Committees	➤ Ensuring preparation of estimates as per the demands of villagers ➤ Implementation of scheme in a time bound manner ➤ Ensuring quality of works executed

[^] Housing and Urban Development Corporation

2.1.3 Scope of audit

Performance appraisal of the implementation of Phase-I of the scheme up to March 2006 was conducted (June - September 2006) by test-check of records of Secretary, Rural Development and Panchayat Raj (RDPR) Department, Zilla Panchayats, Managing Director of Karnataka Land Army Corporation (KLAC), Panchayat Raj Engineering Divisions (PREs), Deputy Directors of KLAC and Grama Panchayats (GPs).

The coverage of Audit in the review was:

- 8^β out of 27 districts (30 per cent)
- 240 out of 487 villages selected for implementation of scheme (49 per cent)
- Rs.69.74 crore out of total expenditure of Rs.192.37crore (36 per cent).

Phase-II of the scheme, launched in January 2004, was not covered in audit since even as of September 2006 only Rs.26.65 crore had been incurred on the scheme and the works were still at a preliminary stage.

2.1.4 Audit objectives

Performance appraisal of the scheme was conducted to examine whether the

- Scheme was implemented economically, efficiently and completed as per schedule
- Selection of villages was as per guidelines
- The scheme had achieved its objectives in the villages where it was implemented
- Effective and proper monitoring system was in place
- Implementation of the scheme had helped in improving the physical environment of the villages.

2.1.5 Audit Criteria and Methodology

The audit criteria and methodology adopted were as follows:

Audit Criteria:

- Prescribed time schedule for release of funds
- Prescribed levels of release of amounts
- Prescribed procedure for selection of villages
- Guidelines for the constitution of monitoring agencies.

^β Bangalore (Rural), Belgaum, Bellary, Haveri, Koppal, Mandya, Tumkur and Udupi

Methodology:

- Discussion of the criteria and methodology of audit (July 2006) with RDPR Department and accommodating their suggestions
- Review of records relating to monitoring
- Test-check of files relating to loans, release of funds and data relating to selection of villages maintained by RDPR Department and the implementing agency. Review of physical and financial parameters and effectiveness of their performance through trend analysis.

Audit Findings

The audit findings are discussed in the succeeding paragraphs:

2.1.6 Planning**2.1.6.1 Programme formulated without relevant data**

The scheme was launched without proper data of households in the villages

SGY was a major initiative by the State Government to provide a clean and healthy physical environment in the villages. As per the 2001 census, the State had 29,406 villages out of which 27,481 villages were inhabited. The scheme was to be implemented in the villages with 400-500 households. The Government had no data regarding the number of households in the villages. The Government accepted (January 2007) that such data was not available and was to be compiled.

2.1.6.2 Improper selection of villages**❖ Uneven distribution of benefits**

The selection of villages was improper as the coverage was not as specified in the guidelines

For becoming eligible for selection under the scheme, the GPs were to fulfill, inter alia, the following conditions:

- ✓ ensure villagers participation in the preparation/implementation of the scheme
- ✓ collect 10 *per cent* of capital cost of the scheme from villagers and deposit with ZP for registration.

The villages were to be selected by the ZPs from the registered GPs which had deposited 50 *per cent* of the required public contribution alongwith a resolution of the GP agreeing to abide by the conditions. It was noticed in ZP, Belgaum that 10 villages were selected though they had not deposited the 50 *per cent* public contribution within the stipulated time (April 2001).

The guidelines stipulated that the villages were to be selected in such a manner that different parts of all taluks of the district get the benefit. It was, however, noticed in ZP, Belgaum that 28 villages were selected in Chikkodi taluk whereas in Khanapur taluk only two villages were selected. Similarly, in Sandur taluk in ZP, Bellary, 19 villages were selected whereas no village was selected in Siruguppa taluk.

❖ ***Selection of villages having more households***

The scheme envisaged execution of all the five panchasutras in the selected villages with an allocation of Rs.20 lakh per village. It was stipulated that the scheme was to be implemented in villages having 400-500 households and per capita expenditure was to be in the range of Rs.500 to Rs.800. The ZPs violated these guidelines and it was noticed in audit that the estimates were prepared at Rs.20 lakh per village irrespective of the number of households. In the test-checked ZPs, the scheme was implemented in 141 (29 per cent) villages with households ranging from 1000 to more than 2000, contrary to the guidelines.

The Chief Executive Officers (CEOs) of ZPs did not ensure even distribution of selection in all taluks. Further, selection of villages by CEOs with more than the prescribed number of households resulted in thin distribution of per capita expenditure which affected the overall implementation of the programme particularly in the components relating to provision of smokeless chulahs and individual latrines.

2.1.7 Financial performance

Available funds were not utilised by the implementing agency in full

2.1.7.1 Funds for the implementation of Phase-I were proposed to be mobilised with Rs.208 crore (80 per cent) loan from HUDCO, Rs.26 crore (10 per cent) Government grants and Rs.26 crore (10 per cent) from community contribution. The Government, however, restricted (November 2005) the loan to Rs.160 crore (62 per cent) and increased its share of grant from Rs.26 crore to Rs.74 crore but actual grants released were only Rs.66.77 crore. As of

March 2006, the details of funds received by KLAC, and expenditure incurred thereagainst were as under:

(Rupees in crore)

Year	Funds received by KLAC				Expenditure
	HUDCO loan	Government grants	Community contribution	Total	
2001-02	60.00	10.00	12.18	82.18	35.78
2002-03	80.00	5.00	2.47	87.47	81.03
2003-04	20.00	1.00	2.35	23.35	39.19
2004-05	-	0.60	1.81	2.41	20.90
2005-06	-	50.17	0.50	50.67	15.47
Total	160.00	66.77	19.31	246.08	192.37

It would be seen that the implementing agency could not utilise the available funds fully.

2.1.7.2 In order to provide funds for the implementation of the scheme, the KLAC entered into loan agreement with HUDCO (January 2001) with Government as guarantor. The Government, being the guarantor for the loan, was to release funds to KLAC for repayment of HUDCO loan. The loan agreement between KLAC and HUDCO stipulated that the loan amount would be drawn in four instalments between January and October 2001 and failure of KLAC to draw the loan amount as per schedule would result in payment of commitment charges at 0.10 *per cent* of balance amount. As the preparatory work before implementing the programme got delayed, the KLAC with the concurrence of the Government, rescheduled (July 2002) the drawal of instalments of loan. The KLAC drew the loan instalment starting from May 2001 and the last instalment was drawn in March 2004.

Delay in repayment of loan resulted in excess payment of Rs.2.77 crore towards interest

Further, the conditions of the loan agreement with HUDCO stipulated that the principal alongwith interest had to be repaid in 51 quarterly instalments commencing from 30 June 2003. In case the instalments were not paid on due dates, the overdue instalment would attract compound interest at the respective rate of interest with additional 2 *per cent* for the delayed repayment and penal interest at 2 *per cent* of overdue instalments. As of June 2006, the total outstanding to HUDCO amounted to Rs.115.76 crore (Principal Rs.40.78 crore and interest Rs.74.98 crore). As against this, Government released only Rs.99.87 crore to KLAC for repayment to HUDCO with delays ranging from one to 12 months. The KLAC repaid this amount to HUDCO (Rs.31.37 crore

as principal and Rs.68.50 crore as interest). The short and belated release of funds for repayment of loans resulted in additional interest liability of Rs.2.77 crore (Rs.1.93 crore of compound interest and Rs.0.84 crore of penal interest).

2.1.7.3 The KLAC/ZP diverted scheme funds aggregating Rs.7.44 crore to other activities, which was yet to be recouped (August 2006). The details are as under:

Agency	Amount diverted (Rupees in lakh)	Diverted during	Purpose
KLAC	710.63	2001-06	Interest earned on scheme account was diverted for administrative expenditure of KLAC
ZP, Belgaum	18.90	July 2001 to April 2002	For preparation of maps/geo-physical survey
KLAC, Tumkur	13.97	December 2001 to December 2003	Out of Rs.118.81 lakh diverted to other schemes, Rs.13.97 lakh was yet to be recouped
Total	743.50		

2.1.8 Programme implementation

2.1.8.1 Physical achievement

In each village, all the envisaged components of the scheme were to be completed within nine months. The details of physical achievement, for the State, as of March 2006 were as below:

Agency to which the work was entrusted	Number of villages			Expenditure (Rupees in crore)
	Allotted	Completed	Balance	
PREDs	697	152	545	92.43
KLAC	453	240	213	74.57
Nirmithi Kendra	148	88	60	25.37
Total	1298	480	818	192.37

For the State as a whole, the physical progress of completion of works in all respects was only 37 *per cent* even after five years of the launching of the programme whereas the financial achievement was 78* *per cent* of the funds released (refer paragraph 2.1.7.1).

* Including expenditure on incomplete projects

Similar variations were noticed between physical and financial progress upto March 2006 in the test-checked ZPs as detailed under:

Zilla Panchayat	Funds released (Rupees in crore)	Target	Completed	Balance	Expenditure (Rupees in crore)
		(Number of villages)			
Bangalore (Rural)	15.23	85	-	85	6.38
Belgaum	23.52	125	38*	87	18.67
Bellary	11.61	59	46	13	10.41
Haveri	9.57	50	10	40	7.65
Koppal	6.08	32	19	13	5.92
Mandya	10.94	59	1	58	7.10
Tumkur	7.46	39	9	30	6.69
Udupi	7.54	38	19	19	6.92
Total	91.95	487	142	345	69.74

* Component-wise details not furnished in respect of 30 villages

Execution of works was tardy and physical achievement was not commensurate with financial progress

It would be seen that while the financial achievement varied from 42 to 97 per cent, achievement of physical targets ranged from 2 to 78 per cent with ZP, Bangalore (Rural) not achieving even a single physical target. Thus, the physical achievement was poor even after five years of launching of the scheme. The CEOs of ZPs generally attributed the poor physical achievement to delay in release of funds during the initial years, non-collection of community contribution, etc. The reply is not tenable as adequate funds were available with the implementing agency from the beginning and the CEOs were responsible for collecting community contribution.

2.1.8.2 Defective estimates

The average cost for each component of panchasutra in a village, as per model estimate of the scheme, was as under:

Component	Average cost (Rupees in lakh)
Paving of internal roads/streets and construction of sullage/storm water drains	10.00
Construction of school toilets	2.00
Construction of individual household latrines	6.00
Provision of smokeless chulahs for all households	0.75
Provision of community compost yards	1.25
Total	20.00

All the envisaged components of the scheme were not executed due to excess expenditure on roads/drains

The guidelines provided for variation up to 10 to 20 per cent in average cost with a condition that such variation should not result in non-execution of any other component. Scrutiny of estimates in the test-checked ZPs revealed that the road and drain works were taken up at the cost of other components. The expenditure on roads and drains varied from Rs.12.51 lakh to Rs.19.11 lakh

indicating excess expenditure ranging from 4 to 59 *per cent*. This resulted in non-execution of components such as shifting of manure pits, construction of toilets and installation of smokeless chulahs in 102 villages out of 112 villages in test-checked ZPs where the scheme was stated to have been completed.

Audit scrutiny in the test-checked ZPs further revealed that in 136 villages where work was in progress the estimates did not include one or more of the remaining components of the scheme, namely, shifting of manure pits, construction of toilets and installation of smokeless chulahs. The CEOs had accorded sanction to these works, even though the estimate had not contained all the components.

2.1.8.3 Road works not as per specifications

Construction of roads did not conform to the specifications of guidelines

In order to improve the environment in villages, the guidelines stipulated that inner roads in the selected villages were to be either black-topped or covered with stone slabs. Audit scrutiny in test-checked ZPs revealed that in 209 villages where road works had been executed with an expenditure of Rs.6.87 crore, the roads had neither been black-topped nor covered with stone slabs and the works did not conform to the specifications prescribed. Thus, an expenditure of Rs.6.87 crore had not served the desired objective of the scheme.

2.1.8.4 Non-shifting of community compost yards and manure pits

Non-shifting of compost yards/manure pits to outskirts denied hygienic environment to the villagers

Audit scrutiny revealed that out of 112 villages in test-checked ZPs where the scheme was stated to have been completed, in 80 villages compost yards/manure pits had not been shifted to a place outside the habitation. In respect of 194 out of 240 villages in test-checked ZPs where the work was still in progress, the yards/pits had not been shifted even after five years of commencement of the scheme, thus depriving the villages a hygienic environment. The guidelines stipulated that second instalment of funds was to be released to GPs only after the shifting of manure pits to the outskirts of the villages within 3 months from the date of commencement of works. Audit, however, noticed that the second instalment in all the cases was released in contravention of the guidelines.

2.1.8.5 Non-construction of individual toilets

Guidelines provided for construction of 200 individual household toilets in each village with a cost not exceeding Rs.3500 with each beneficiary contributing Rs.500. In respect of 79 out of 112 villages where work was stated to have been completed, audit scrutiny revealed that against the requirement of construction of 15,800 individual household toilets, only 5,792 (37 per cent) had been constructed. Reasons for not constructing the remaining toilets were not forthcoming. Diversion of earmarked funds for this purpose to other components of the scheme could also not be ruled out in audit.

2.1.8.6 Irregularities in installation of smokeless chulahs

The following irregularities were noticed, during test-check, in installation of smokeless chulahs.

- ❖ In respect of 27 villages in three* ZPs where work was stated to have been completed, the chulahs have not been installed in any of the houses.
- ❖ The guidelines provided for payment of subsidy of Rs.125 in the form of materials to beneficiaries. In 48 villages under 7♥ ZPs, an expenditure of Rs.22.80 lakh was incurred on provision of smokeless chulahs to 9,489 households with subsidy ranging from Rs.128 to Rs.421. This resulted in excess expenditure of Rs.10.94 lakh towards the subsidy.

Excess expenditure of Rs.10.94 lakh towards subsidy

2.1.9 Deficiency in collection of community contribution

There was a shortfall in collection of community contribution aggregating Rs.2.13 crore in test-checked ZPs

2.1.9.1 The scheme guidelines prescribed that, for becoming eligible for the benefits under the scheme, community contribution at the rate of 10 per cent of the total estimated cost (Rs.20 lakh) was to be collected from the villagers and 50 per cent of such collections was to be deposited with the ZP for registration. It was observed that, as of March 2006, there was shortfall in collection of community contribution aggregating Rs.6.67 crore in the State

* Bellary, Haveri and Koppal

♥ Bangalore (Rural), Belgaum, Bellary, Haveri, Koppal, Tumkur and Udipi

and such shortfall in test-checked ZPs aggregated Rs.2.13 crore as shown in the table below:

Zilla Panchayat	Number of villages selected	Community contribution (Rupees in lakh)		
		Due	Collected	Shortfall
Bangalore (Rural)	85	170.00	97.81	72.19
Belgaum	125	250.00	219.00	31.00
Bellary	59	118.00	99.25	18.75
Haveri	50	100.00	90.00	10.00
Koppal	32	64.00	32.00	32.00
Mandya	59	118.00	100.00	18.00
Tumkur	39	78.00	50.55	27.45
Udupi	38	76.00	72.15	3.85
Total	487	974.00	760.76	213.24

(Source : Progress reports of KLAC)

The ZPs replied that they could not collect the community contribution in full, though efforts were made.

2.1.9.2 The villages were to make a community contribution of Rupees two lakh (10 per cent of estimated cost) with a minimum of Rupees one lakh in cash and the balance in the form of cash/labour/material. This condition was included to involve the villagers in implementation of the scheme to give them a sense of ownership of assets created under the scheme. It was noticed during test-check that in 25 villages, community contribution amounting Rs. 25 lakh was diverted from MPLAD/MLA grants. It was also noticed in some other villages that contractors had made contributions towards the scheme.

2.1.10 Inadmissible expenditure

Inadmissible expenditure aggregating Rs.42.29 lakh towards lead and lift charges

The guidelines stipulated that the estimates for the works should not include lead and lift charges as locally available materials were to be utilised for the works. The Government relaxed (January 2002) the condition and allowed inclusion of lead and lift charges in the estimate, with the concurrence of Swachha Grama Committees, only after the CEOs of ZPs certified on personal inspection that the materials were not available within five Kms. Audit scrutiny revealed that in four[£] ZPs, lead and lift charges aggregating Rs.42.29 lakh were paid in 116 villages even though the materials were procured within five Kms.

[£] Bangalore (Rural)-57, Haveri-18, Mandya-19 and Tumkur-22

2.1.11 Non-provision for maintenance

Provision was not made for the maintenance of facilities/assets created under the scheme

The guidelines stipulated that GPs in consultation with Grama Sabhas were to meet the expenditure for maintenance of the facilities created under the scheme, by levy and collection of taxes from villagers and include it in the annual budget. The joint inspection of 10 villages in four* test-checked districts by audit with the officials of the implementing agencies, revealed that the road conditions had deteriorated and drains had clogged, indicating poor maintenance of facilities created under the scheme. It was noticed in audit that taxes had not been levied by the GPs for the maintenance of the facilities. The GPs stated that taxes were not levied as villagers were unwilling to pay additional taxes. The GPs had also not drawn up any plan of action for maintenance of assets.

2.1.12 Other points of interest

2.1.12.1 Irregular payment of service charges

The KLAC generally levied service charges of five *per cent* in respect of works undertaken. The guidelines, however, stipulated that the KLAC would not levy service charges in respect of works entrusted under the scheme. Audit scrutiny revealed that KLAC had collected service charges of Rs.3.22 crore, in contravention of guidelines.

2.1.12.2 Non-remittance of statutory deductions

Audit noticed that in 122 GPs in three[∞] test-checked ZPs, the following statutory deductions aggregating Rs.52.12 lakh made from contractors' bills had not been remitted, by the Secretaries of GPs, to the Government account as of June 2006.

Nature of deduction	Amount not remitted (Rupees in lakh)
Income tax	8.42
Sales tax	11.65
Royalty	6.85
Security Deposit	25.20
Total	52.12

* Belgaum, Bellary, Haveri and Tumkur

[∞] Bangalore (Rural), Belgaum and Haveri

2.1.12.3 Awareness programme not conducted

The guidelines prescribed that before the preparation of estimates awareness programme was to be conducted to enable the villagers to understand the programme and offer their suggestions in the Grama Sabhas regarding the works to be taken up. Audit scrutiny revealed that in the villages test-checked, no awareness programme had been conducted.

2.1.13 Monitoring and evaluation

There was no mechanism for monitoring of the scheme at the State level

2.1.13.1 For any scheme to succeed close monitoring at the prescribed levels and periodical evaluation of the impact of the scheme is essential. The scheme guidelines had not envisaged any mechanism for monitoring the implementation of the scheme at the State level. HUDCO had also insisted on a monitoring system at the State level. The KLAC had intimated (March 2001) HUDCO that constitution of monitoring agency, including a representative of HUDCO, was under active consideration of the Government, but as of September 2006, the monitoring agency at the State level had not been constituted. The lack of an effective system for monitoring the implementation of the scheme at the State level adversely impacted the scheme.

2.1.13.2 Government constituted (June 2002) monitoring committees at the ZP level under the presidentship of CEOs. The committees were to meet once in a month and review the implementation. It was noticed in test-checked ZPs that the number of meetings held by the committees ranged from one to eight during the period from July 2002 to March 2006, indicating that the scheme was not effectively monitored even at the ZP level.

2.1.13.3 The NABARD consultancy services conducted an impact assessment and submitted (June 2004) its report to the Government. The report contained following suggestions.

- All financial matters including settlement of bills to be centralised with nodal agency
- SGY Committees to have selected GP members and prominent citizens of the villages as members
- In a village, all the components of the scheme to be implemented by a single agency.

No decision of the Government on the Report had been taken even after over two years (November 2006).

2.1.14 SGY Committees

**SGY
Committees did
not function, as
envisaged**

The guidelines envisaged constitution of SGY Committees headed by the GP President in all the villages covered under the scheme. The functions of the committee included preparation of estimates based on the suggestions of villagers and ensuring that quality of work was good and execution was as per schedule. Test-check of records in the ZPs revealed that the number of meetings held by SGY Committees ranged from one to ten indicating ineffective functioning of the committees.

Thus, there was no effective monitoring system at any level to ensure that the quality of work was good and was completed as per schedule. This adversely affected the achievement of objectives of the scheme.

2.1.15 Conclusions

Though the financial achievement of the scheme in the test-checked ZPs ranged from 42 to 97 *per cent*, the achievement of physical targets did not keep pace affecting the fulfillment of the objectives of the scheme even after five years of its launching mainly on account of the following:

- ⇒ The selection of villages was not as per guidelines
- ⇒ The financial management was poor and delay in repayment of instalments of loan as per schedule resulted in additional burden
- ⇒ All the components of the scheme were not implemented, defeating the goal of the scheme of providing a clean environment
- ⇒ The physical achievement was poor even after over three years of scheduled completion
- ⇒ Action Plan for maintenance of facilities created was not prepared
- ⇒ The monitoring mechanism at all levels was not effective and SGY Committees were not functioning effectively.

2.1.16 Recommendations

- An Action Plan should be prepared for covering all the villages in a time bound manner
- The Government should release adequate funds as per schedule, for repayment of loan to avoid additional interest burden
- Implementation of all components of the scheme has to be ensured to achieve the objective of a clean environment in villages
- Action Plan for maintenance of assets has to be drawn up
- Effective monitoring should be ensured at all levels and special emphasis should be laid on activating SGY Committees.

2.1.17 The points brought out in review were referred to Government in November 2006; reply had not been received (December 2006). In the exit conference held (January 2007) the Government stated that remedial action would be taken on the issues pointed out in the review report.

2.2 Programme implementation, material and human resource management in selected Zilla Panchayats

Highlights

Zilla Panchayats were implementing various centrally sponsored and State sector development schemes. Apart from various departments, Panchayat Raj Engineering Divisions were also functioning under the jurisdictional control of Zilla Panchayats. A review of programme implementation, material and human resource management in five selected Zilla Panchayats during 2000-06 inter alia revealed that the Zilla Panchayats lost assistance aggregating Rs.18.82 crore and there were instances of unfruitful/irregular/inadmissible expenditure in the implementation of development schemes, etc.

Annual District Development Plans were prepared in a routine manner as Taluk Panchayats and Grama Panchayats did not forward their plan proposals for incorporation in the Annual District Development Plans. District Planning Committees were either not constituted or did not meet as envisaged. There was shortfall in collection of funds towards the District Planning Committee Fund.

(Paragraph 2.2.4.1)

During 2000-06, an amount of Rs.18.82 crore was deducted from the assistance to be provided to Zilla Panchayats for implementation of Centrally Sponsored Schemes towards their share by the Government of India and the State Government.

(Paragraph 2.2.5.1)

In the implementation of the Sampoorna Grameena Rozgar Yojana during 2000-06, there were instances of denial of 18.66 lakh mandays of employment to the rural poor, irregular diversion of foodgrains (Rs.1.81 crore) and execution of inadmissible works (Rs.10.10 lakh), etc.

(Paragraph 2.2.5.2)

Under Swarnajayanti Gram Swarozgar Yojana, there was irregular expenditure of Rs.33.51 lakh and subsidy of Rs.10.64 lakh was released in excess of the admissible amount.

(Paragraph 2.2.5.3)

There was shortfall in collection of matching contribution aggregating Rs.2.97 crore towards Eleventh Finance Commission Grants. Irregular expenditure to the tune of Rs.60.19 lakh was also noticed.

(Paragraph 2.2.5.4)

Under the Chief Minister Rural Road Development Programme, the Zilla Panchayats, Mandya and Raichur transferred an amount aggregating Rs.4.41 crore to Nirmithi Kendra and Karnataka Land Army Corporation just to avoid lapse of grant, and there was inadmissible expenditure of Rs.32.71 lakh in Zilla Panchayat, Raichur.

(Paragraph 2.2.5.5)

Failure of the Zilla Panchayat, Mandya in handing over a completed water supply scheme to the concerned Grama Panchayat resulted in unfruitful expenditure of Rs.99.62 lakh. In Zilla Panchayat, Raichur acquisition of proper land and comprehensive estimate for a water supply scheme were not ensured leading to Rs.1.52 crore remaining blocked. Thus, the total expenditure of Rs.2.52 crore remained unfruitful.

(Paragraph 2.2.5.6)

Failure to adhere to the time schedule for completion of school sanitation project in Maddur taluk resulted in Zilla Panchayat, Mandya losing assistance amounting to Rs.1.04 crore from UNICEF during 2001-03, and additional burden of Rs.1.52 crore to the State exchequer.

(Paragraph 2.2.5.8)

Panchayat Raj Engineering Division, Raichur, executed water supply works costing Rs.1.45 crore without any approved action plans. Test-check disclosed payment of Rs.26.07 lakh on tampered vouchers, against which execution of works was doubtful.

(Paragraph 2.2.5.10)

Materials costing Rs.1.52 crore were diverted from one scheme to another. Stock valued at Rs.42.47 lakh were lying surplus in Panchayat Raj Engineering Divisions, Raichur and Udupi. During 2002-06, the Executive Engineers of Panchayat Raj Engineering Divisions, Haveri and Raichur procured materials costing Rs.2.71 crore in excess of sanctions.

(Paragraphs 2.2.6.1 to 2.2.6.3)

There were large number of vacant posts in the Health and Family Welfare Department of Zilla Panchayats affecting the implementation of various health programmes.

(Paragraph 2.2.7.1)

2.2.1 Scope and Audit methodology

Audit test-checked (April-September 2005 and June-July 2006) the programme implementation, material and human resource management in selected five[¥] Zilla Panchayats (ZPs) covering the period from 2000-01 to 2005-06. The Audit methodology adopted for the review involved examination of records of the ZPs, Panchayat Raj Engineering Divisions (PREs) and District Health and Family Welfare Department in test-checked ZPs. The draft review was forwarded (February 2006) to the Principal Secretary to Government of Karnataka, Rural Development and Panchayat Raj Department; reply is awaited (December 2006).

2.2.2 Audit objectives

The main objectives of the review were to ascertain whether:

- ⇒ Planning for the implementation of development schemes was adequate
- ⇒ District Planning Committees were constituted and were functioning, as required
- ⇒ The development schemes were implemented as envisaged in the respective guidelines
- ⇒ Available material/human resources were utilised to the optimum.

2.2.3 Audit criteria

The Audit criteria adopted were:

- ⇒ The Karnataka Panchayat Raj Act 1993 and instructions issued by State Government
- ⇒ Guidelines issued by Central/State Government for the implementation of development schemes.

[¥] Bangalore (Urban), Haveri, Mandya, Raichur and Udupi

Audit findings

Audit findings arising from the review are discussed below:

2.2.4 Planning process

2.2.4.1 Plan proposals not forwarded by Grama Panchayats/ Taluk Panchayats

CEOs did not insist TPs/GPs to forward their plan proposals and DPCs functioning was improper

In accordance with the provisions of the Karnataka Panchayat Raj Act 1993 (KPR Act), the Grama Panchayats (GPs) were required to forward their plan proposals to the Taluk Panchayats (TPs) for consolidation and onward transmission to the ZPs concerned. The District Planning Committee (DPC) in the ZPs were to prepare the Annual District Development Plan (ADDP) based on the fiscal ceilings communicated by the Planning Department duly incorporating the development plans of the TPs and GPs. It was, however, noticed in all the test-checked ZPs that the GPs/TPs did not forward their plan proposals for consolidation and the Chief Executive Officers (CEOs) of the ZPs did not insist on the lower tiers of Panchayat Raj Institutions (PRIs) to forward the envisaged proposals. In the absence of defined needs of the grass root level, the DPC/ZP prepared the ADDP in a routine manner. Further, the ZPs did not furnish the information regarding the preparation/forwarding of the ADDP to the Government.

The DPC was to meet once in a quarter. The DPC was not constituted in ZP, Bangalore (Urban) while in other ZPs selected for sample check, though it had been constituted it did not meet as envisaged. The State Government constituted (April 2001) the DPC Fund with contributions from PRIs[¥] and local bodies. The Fund was to be utilised for payment of sitting fees to members, commissioning of studies, etc. In the test-checked ZPs, as against Rs.2.96 crore to be collected towards DPC Fund during the years 2001-06, an amount of Rs.0.29 crore only had been collected in ZPs, Mandya and Udupi. The other ZPs did not collect any amount towards the DPC Fund.

The spirit of decentralised planning was diluted due to the ineffective functioning of DPCs and preparation of ADDPs in a routine manner.

[¥] Contributions from PRIs, per annum, were prescribed at the following rates:
ZPs - Rupees two lakh, TPs - Rs.25,000 and GPs - Rs.5,000

2.2.5 Programme implementation

2.2.5.1 Loss of assistance

Assistance of
Rs.18.82 crore
lost under
various
schemes

The ZPs were implementing various centrally sponsored schemes^Ω and the funds released for such schemes were required to be spent in accordance with the conditions stipulated in the respective scheme guidelines. Due to non-fulfillment of prescribed conditions resulting in shortfall in spending, excess carryover, etc., in the five test-checked ZPs, it was noticed that the Government of India deducted an amount of Rs.14.26 crore while releasing the subsequent instalments. Similarly, the State Government also deducted Rs.4.56 crore towards their share resulting in a total loss of assistance of Rs.18.82 crore under various schemes during the years 2000-06 as detailed below:

Schemes	Period	Amount deducted (Rupees in crore)		
		Central	State	Total
Bangalore (Urban)				
SGRY	2005-06	0.55	0.18	0.73
IAY	2000-04	0.97	0.34	1.31
SGSY	2000-01 and 2005-06	0.62	0.21	0.83
PMGY	2004-05	0.18	--	0.18
TOTAL		2.32	0.73	3.05
Haveri				
SGRY	2000-01	0.24	0.08	0.32
IAY	2000-05	1.32	0.44	1.76
SGSY	2000-02 and 2003-04	0.87	0.29	1.16
PMGY	2000-02 and 2004-05	0.45	--	0.45
TOTAL		2.88	0.81	3.69
Mandya				
SGRY	2005-06	0.24	0.08	0.32
IAY	2003-05	0.66	0.29	0.95
SGSY	2005-06	0.27	0.09	0.36
PMGY	2000-01 and 2004-05	0.20	--	0.20
TOTAL		1.37	0.46	1.83
Raichur				
SGRY	2000-01 and 2005-06	0.70	0.23	0.93
IAY	2000-05	3.52	1.17	4.69
SGSY	2001-02 and 2003-06	1.67	0.82	2.49
PMGY	2001-02 and 2004-05	0.81	--	0.81
TOTAL		6.70	2.22	8.92
Udupi				
SGRY	2000-01 and 2005-06	0.44	0.18	0.62
IAY	2000-02	0.40	0.13	0.53
SGSY	2001-02	0.11	0.03	0.14
PMGY	2004-05	0.04	--	0.04
TOTAL		0.99	0.34	1.33
GRAND TOTAL		14.26	4.56	18.82

^Ω Sampoorna Grameena Rozgar Yojana (SGRY), Indira Awaas Yojana (IAY), Swarnajayanti Gram Swarozgar Yojana (SGSY), Pradhan Mantri Gramodaya Yojana (PMGY), etc.

Points noticed with regard to implementation of individual schemes are discussed below:

2.2.5.2 Sampoorna Grameena Rozgar Yojana

The main objective of the Sampoorna Grameena Rozgar Yojana (SGRY) scheme was to provide additional wage employment to the rural poor and to create assets. The scheme guidelines stipulated that expenditure should be in the ratio of 60:40 between the wage and material components.

Audit scrutiny of the implementation of the scheme revealed:

❖ Excess expenditure on materials

Denial of 18.66 lakh mandays of employment to the rural poor defeated the objective of the scheme

During 2000-06, total expenditure of Rs.123.36 crore was incurred in the test-checked ZPs for the implementation of SGRY. It was noticed during audit that as against the admissible amount of Rs.49.34 crore, Rs.58.49 crore had been incurred on procurement of materials resulting in excess expenditure of Rs.9.15 crore. The excess expenditure on procurement of materials resulted in corresponding reduction in the available funds towards wages leading to denial of 18,66,083 mandays of employment to the rural poor defeating the objective of the scheme.

❖ Irregular diversion of foodgrains

Foodgrains costing Rs.1.81 crore diverted to housing schemes

During the years 2001-03, a total quantity of 16,277 metric tonnes (rice and wheat) of foodgrains were released to ZP, Raichur for the implementation of SGRY. It was noticed in audit that ZP, Raichur irregularly diverted 3027.60 metric tonnes of foodgrains costing Rs.1.81 crore to various schemes such as Indira Awaas Yojana, Ashraya/Ambedkar Housing Schemes denying additional wage employment to the rural poor since these schemes were not wage employment schemes. These amounts were yet to be recouped (July 2006). The CEO, ZP, Raichur replied that foodgrains were diverted based on a Government circular (July 2002), to meet the shortage of funds under housing schemes. The reply is not tenable since the guidelines of housing schemes did not contemplate issue of foodgrains to beneficiaries. As such, the decision of the Government in ordering diversion of foodgrains from a labour oriented programme to beneficiary oriented schemes resulted in denial of additional wage employment.

❖ ***Non-recovery of cost of gunny bags***

Short recovery of cost of empty gunny bags was Rs.66.65 lakh

Under the SGRY, foodgrains were supplied to the implementing officers in 50 kilogram gunny bags and the cost of empty gunny bag was fixed at Rupees three per bag. The Implementing Officers of the scheme were responsible for recovery of cost of gunny bags. It was noticed in four* ZPs that as against the recovery of Rs.84.71 lakh, being the cost of 28,23,556 gunny bags supplied during 2001-06, an amount of Rs.18.06 lakh only had been recovered resulting in short recovery of Rs.66.65 lakh. The ZPs were thus denied additional funds for meeting incidental expenditure.

❖ ***Expenditure on inadmissible works***

Expenditure of Rs.10.10 lakh incurred in violation of scheme guidelines

The SGRY guidelines specifically prohibit construction of high school buildings under the scheme. It was, however, noticed in PRED, Bangalore (Urban) that during 2001-04 an amount of Rs.10.10 lakh had been incurred on construction of high school buildings, contrary to guidelines. The Executive Engineer, PRED, Bangalore (Urban) replied that such works were executed with the approval of the ZP.

2.2.5.3 ***Swarnajayanti Gram Swarozgar Yojana***

Swarnajayanti Gram Swarozgar Yojana (SGSY) envisaged providing income generating assets to individuals and Self-Help Groups (SHGs) living below the poverty line through micro-enterprises in rural areas.

Audit scrutiny of the implementation of the scheme revealed the following:

❖ ***Irregular expenditure***

Sample check disclosed that in five[Ⓐ] TPs of ZP, Haveri and ZP/TP, Udupi that an amount of Rs.33.51 lakh was irregularly spent during 2002-06 towards construction of shopping complexes, veterinary hospitals, meeting halls, procurement of materials, etc., in contravention of guidelines.

* Bangalore (Urban), Haveri, Mandya and Udupi

[Ⓐ] Hanagal, Haveri, Hirekerur, Ranebennur and Shiggaon

❖ **Excess release of subsidy**

The guidelines for the implementation of SGSY stipulated that the quantum of subsidy in respect of SHGs would be 50 *per cent* of the project cost subject to per capita subsidy of Rs.10,000 or Rs.1.25 lakh whichever was less. It was noticed in test-check that six^Σ TPs under ZP, Haveri released subsidy of Rs.10.64 lakh in excess of the admissible amount to 44 SHGs, contrary to the provision of the guidelines.

2.2.5.4 Eleventh Finance Commission Grants

❖ **Non-contribution of matching grants**

Matching contribution of Rs.2.97 crore short collected from PRIs

During 2001-04, Eleventh Finance Commission grants amounting to Rs.48.77 crore were released by the Government to the three tiers of PRIs under the test-checked ZPs. The grants were to be utilised for taking up of development works such as maintenance/repairs to school buildings and veterinary dispensaries, roads, providing safe drinking water and sanitation, primary health services, street lightings, maintenance of common property resources, etc. The ZPs, TPs and GPs were required to contribute 25 *per cent* (Rs.12.19 crore) of the amount released to them by the Government as matching contribution.

It was, however, noticed that the PRIs contributed only Rs.9.22 crore with a shortfall in contribution aggregating Rs.2.97 crore. The PRIs at Haveri and Udupi contributed the required amount in full. Three[♦] ZPs did not contribute anything towards matching contribution whereas the contribution from TPs and GPs was only partial in these districts. According to the guidelines, the State Government was to provide funds towards matching contribution in case the PRIs were unable to contribute. Neither the State Government had released any funds towards contribution of PRIs which failed to make their contribution nor efforts were made by the PRIs to obtain funds from the Government. This resulted in PRIs restricting their action plans to the extent of funds received.

^Σ Byadagi, Hanagal, Haveri, Ranebennur, Savanur and Shiggaon

[♦] Bangalore (Urban), Mandya and Raichur

❖ ***Irregular expenditure***

Irregular expenditure aggregating Rs.60.19 lakh

The funds released by the Government under Eleventh Finance Commission grants were to be utilised for development works. It was, however, observed that the Executive Officers of TPs (four) and Secretaries of GPs (26) under four^Ω ZPs irregularly approved expenditure of Rs.60.19 lakh towards construction of buildings for GP/TP offices, purchase of furniture, etc., which were not contemplated under the scheme. Utilisation of funds meant for maintenance/repairs of common properties on construction and furniture was irregular.

2.2.5.5 ***Chief Minister Rural Road Development Programme***❖ ***Transfer of funds to avoid lapse of grants***

Irregular transfer of funds of Rs.4.41 crore to avoid lapse of grants

Under the Chief Minister Rural Road Development Programme (CMRRDP), an amount of Rs.4.32 crore was released to PRED, Mandya during the year 2004-05. The division, however, could utilise only Rs.1.55 crore and the balance amount aggregating Rs.2.77 crore was transferred (March 2005) by CEO, ZP, Mandya to Nirmithi Kendra, a construction agency, which was not involved in the implementation of the programme. The amount was returned to the division in April 2005. Forty *per cent* of the funds were to be utilised for already committed works and for payment of pending bills. Though the division had pending bills amounting to Rs.3.60 crore as of March 2005, funds were irregularly transferred to avoid lapse of grants. Similarly, out of Rs.2.82 crore received during 2004-05, the CEO, ZP, Raichur transferred (March 2005) Rs.1.64 crore to Karnataka Land Army Corporation (KLAC) which was not the implementing agency during that period.

The transfer of funds by CEOs of ZPs during the fag end of the financial year, just to avoid lapse of grants, was not proper.

^Ω Bangalore (Urban), Haveri, Mandya and Raichur

❖ **Inadmissible expenditure**

Administrative expenditure was in excess of admissible percentage

The scheme guidelines for CMRRDP stipulated five *per cent* of expenditure towards administrative cost, traffic volume studies, etc. It was, however, noticed in PRED, Raichur that during the period 2004-06, the division had adopted 17 *per cent* in all the estimates towards administrative cost, work charged establishment, etc. This resulted in inadmissible expenditure of Rs.32.71* lakh.

2.2.5.6 Unfruitful expenditure on water supply schemes

There was unfruitful expenditure of Rs.2.52 crore due to abnormal delay in completion of schemes

(a) The work of water supply scheme to Melukote village under ZP, Mandya was taken up during 1995 with the assistance of World Bank in the form of loan. During the first phase of work, borewells were drilled. Since the available water was not sufficient, the second phase of work was taken up (1999-2000) with a proposal to supply water from a nearby tank. The work was completed during March 2002 at a total cost of Rs.99.62 lakh. Though the scheme was completed in March 2002, the same was handed over to the GP only in May 2006 after a delay of more than four years. Even as of July 2006, water had not been supplied to the village rendering expenditure of Rs.99.62 lakh unfruitful. Reasons for the long delay in handing over the work and non-supply of water were not forthcoming. The water scarcity problems faced by the rural population also remained unaddressed.

(b) Under the Sub-mission Programme, the work of water supply scheme to Salikyapur and nine other villages in Devadurga taluk under ZP, Raichur at an estimated cost of Rs.2.17 crore was administratively approved (September 2001) by the Government and technically sanctioned (February 2002) by the Chief Engineer (CE), PRE Department, Bangalore. The work was entrusted (August 2002) to KLAC with stipulation to complete the work within 18 months. During the period from November 2002 to September 2005, a total sum of Rs.1.71 crore was released to KLAC against which KLAC incurred Rs.1.52 crore on the scheme. During the execution, the work was hampered due to land disputes and therefore progress in the work was slow. The work remained incomplete even as of November 2006 rendering the expenditure of Rs.1.52 crore unfruitful. It was also noticed that the estimate did not include

* Rs.22.03 lakh during 2004-05 and Rs.10.68 lakh during 2005-06

provision for power supply. The estimated cost was likely to escalate with the addition of cost of power supply.

The failure of the ZP, Mandya in handing over the completed scheme to the concerned GP even after four years of completion and ZP, Raichur in preparing the estimates covering all the requisite components of the work and to ensure acquisition of proper land before entrustment of work to KLAC, resulted in the total expenditure of Rs.2.52 crore on these schemes remaining unfruitful so far.

2.2.5.7 Avoidable extra expenditure due to defective estimate

Adoption of defective estimates resulted in avoidable extra expenditure of Rs.33 lakh

The estimate prepared by Executive Engineer (EE), PRED, Raichur for the water supply scheme to Yaradona and six other villages in Lingasugur taluk of Raichur district was technically sanctioned (October 2001) by CE, PRE Department, Bangalore and the work was entrusted (October 2002) to a contractor at his tendered cost of Rs.2.19 crore based on the schedule of rates (SR) of 1999-2000. The estimate was prepared without considering the site conditions. During earth excavation, it was found that the strata was highly permeable and seepage water had collected in the key trench. The issue was referred to a technical agency and the agency suggested some technical modifications and CE instructed (December 2003) PRED, Raichur to adopt the recommended modifications. Accordingly, the estimate was revised to Rs.2.52 crore (excluding some items of work and adding certain new items), based on the SR of 2002-03, of which the cost of additional items was Rs.88 lakh. Had the earlier plan and estimate been prepared after duly inspecting the site and designing the alignments with additional items required, the extra expenditure of Rs.33 lakh[¥] could have been avoided. The project taken up in the year 2002 was yet to be completed (November 2006).

The EE, PRED, Raichur accepted (September 2005) that the avoidable extra expenditure was due to failure in conducting trial pits and not getting the soil tested before preparation of the original estimate.

[¥] Difference in cost of additional items between SR of 1999-2000 and 2002-03

2.2.5.8 Loss of UNICEF assistance

Tardy implementation led to loss of assistance aggregating Rs.1.04 crore besides additional burden of Rs.1.52 crore

The school sanitation project was aiming at promoting environmental sanitation and hygiene education, with financial assistance from UNICEF and State Government. It was proposed to implement the scheme during 2000-01 in 250 primary schools of Maddur taluk under ZP, Mandya and the project was to be completed by December 2002. The total cost of the project was Rs.3.38 crore, for which UNICEF was to provide assistance of Rs.1.97 crore and the remaining Rs.1.41 crore was to be given by the State Government. By the end of December 2002, the ZP could complete the project only in 100 schools for which UNICEF reimbursed Rs.93 lakh (Rs.54 lakh in cash and Rs.39 lakh in the form of material); the balance claims were rejected by UNICEF as the project was not completed in other schools within the stipulated time. The project was completed (March 2006) in 229 schools by incurring an expenditure of Rs.3.86 crore. The scheme was not implemented in the balance 21 schools due to land problems.

Thus, failure of the CEO, ZP, Mandya to monitor the progress of work and to adhere to the time schedule for completion of the project in all the selected schools resulted in ZP, Mandya losing UNICEF assistance to the tune of Rs.1.04 crore besides leading to additional burden of Rs.1.52 crore to State exchequer.

2.2.5.9 Unfruitful expenditure on construction of minor irrigation tanks

Delay of more than 10 years in completion of two MI tank works rendered expenditure of Rs.46.21 lakh unfruitful

PRED, Mandya commenced the work of construction of two* Minor Irrigation (MI) tanks during 1994-95 (sanctioned during 1988-89) with a total estimated cost of Rs.19.60 lakh. In both the cases, the commencement was unduly prolonged due to improper planning and delay in land acquisition. As of November 2006, even after incurring a total expenditure of Rs.46.21 lakh on these works, both the works remained incomplete.

The Assistant Executive Engineer (AEE), PRE Sub-division, Pandavapura attributed delay in acquisition of land, escalation in cost, execution of additional items of work, non-release of funds in time, etc., for the delay in

*At Agatahalli and Gujaganahalli in Pandavapura taluk

completion of the projects. The reply is not tenable as it was noticed in test-check that though sufficient funds were released to these works in the initial years there was no corresponding physical progress. It is evident that efforts made by AEE, PRE Sub-division, Pandavapura to complete the works were inadequate and approval of the works was accorded without ensuring availability of land in advance.

Thus, failure of the EE, PRED, Mandya in ensuring suitable land and AEE, PRE Sub-division, Pandavapura in completing the work, commenced in 1994-95, rendered the expenditure of Rs.46.21 lakh unfruitful besides denying the beneficiaries of the irrigation facilities. Further, approval for the expenditure incurred in excess of the sanctioned estimate had not been obtained (November 2006). The project cost may escalate further due to efflux of time. Responsibility had not been fixed for undue delay in completion of these minor works.

2.2.5.10 Works without action plans and payments made on tampered vouchers

An amount of Rs.26.07 lakh paid on tampered vouchers

During the test-check of records of EE, PRED, Raichur, it was noticed that 459 water supply works costing Rs.1.45 crore had been executed without any approved action plans during 2003-05. Test-check of vouchers in respect of sinking borewells revealed that an amount aggregating Rs.26.07 lakh was paid on 106 vouchers which were tampered with by changing the name of work/scheme and measurement book number, irregularly pasting the vouchers, etc. The EE, PRED, Raichur did not object to such irregularities and passed them for payment. The execution of these works was doubtful. The matter calls for detailed investigation and fixation of responsibility on the officials involved.

2.2.5.11 Loss due to improper design

Loss of Rs.40.45 lakh due to adoption of improper design

In ZP, Udupi, the road work to connect villages Nancharu and Kokharne was executed (April 2003) through KLAC under the Pradhan Mantri Gram Sadak Yojana (PMGSY) at an expenditure of Rs.40.45 lakh. Due to heavy rain, the road was totally damaged during 2003. The State Quality Monitor for

PMGSY reported that the pavement totally failed due to weak sub-grade and non-provision of proper drainage layer. An alternative design estimated to cost Rs.49.95 lakh was proposed (May 2004) which was yet to be approved (November 2006). Thus, the failure of the EE, PRED, Udipi to adopt the proper design considering the local soil conditions resulted in loss of Rs.40.45 lakh. Action to fix responsibility had not been taken in the matter.

2.2.6 Material management

2.2.6.1 Diversion of material from one scheme to another

Material costing Rs.1.52 crore were diverted from one scheme to another

The material procured for implementation of a particular scheme should not be diverted to any other scheme. It was noticed in PRED, Raichur that during the period 2000-05 the EE diverted material costing Rs.1.52 crore from one scheme to another as shown below and the cost of material diverted was yet to be recouped (July 2006).

Scheme from which diverted	Period	Scheme to which diverted	Cost of material (Rupees in lakh)
General Stock	2000-05	Various schemes	145.65
Hyderabad Karnataka Development Board schemes	2001-05	Member of Parliament Local Area Development Scheme	2.31
Swajaldhara	2004-05	Various schemes	4.53
Total			152.49

The EE replied (February 2007) that the materials were utilised on the scheme for which it was diverted and no schemes suffered due to such diversions. The reply is not tenable as stores were procured under General Stock for the implementation of Plan schemes such as water supply, sanitation, road works, etc. Diversion of stores from General Stock to other schemes affected the implementation of Plan schemes and expenditure of the other schemes were understated to the extent the stores were diverted.

2.2.6.2 Physical verification and surplus stock

The EEs of the PREDs were required to verify their stock half-yearly (March and September) on or before 15 of the month following the closure of half-yearly accounts. Similarly, the EEs were also responsible to arrange for the verification of stock at the sub-divisional level. It was, however, noticed in ZPED, Raichur that physical verification of stock was in arrears from

September 2005 onwards and at the sub-divisional level, stock verification was in arrears since 2000-01.

The procurement of stores in a PRED should be generally need based. It was noticed in PREDs, Raichur (including sub-divisions) and Udupi that there was surplus stock valued at Rs.42.47[¥] lakh and some of these articles were procured way back in 1972. No action was initiated by the EEs of the divisions to dispose of the material. The cost of obsolete stock lying in sub-divisions of PRED, Raichur had not been assessed since 2000-01.

2.2.6.3 Procurement in excess of sanctions

Procurement of stores costing Rs.2.71 crore, in excess of sanctions

The EEs of the PREDs were responsible for procurement of stores, based on the sanctions accorded by the ZP. Procurement in excess of sanctions was strictly prohibited. It was, however, noticed in two PREDs that the EEs procured materials valued at Rs.2.71 crore far in excess of sanctions accorded, as detailed below:

Panchayat Raj Engineering Division	Period of procurement	Sanctioned for	Procured for	Excess
		(Rupees in lakh)		
Haveri	2002-03	68.21	76.52	8.31
Raichur	2002-03	360.06	380.95	20.89
	2003-04	205.43	310.00	104.57
	2004-05	Nil	85.17	85.17
	2005-06	Nil	51.86	51.86
Total				270.80

The EE, PRED, Raichur replied that the materials were procured for early completion of spill over works and proposal for the post-facto approval for the purchases in excess of sanctions was submitted to ZP. The reply was not tenable as huge expenditure was incurred in excess of sanctions and further, quantity of material required for the works taken up was to be estimated in advance and sanctions obtained. Evidently, the EEs failed to prepare a realistic estimate and adequate efforts were not made to obtain the approval, on time.

2.2.7 Human resource management

The State Government issued instructions (November 2003) stipulating creation of human resource database by all the controlling officers. None of the ZPs test-checked had, however, prepared such a database.

[¥] Raichur – Rs.23.47 lakh and Udupi – Rs.19 lakh

2.2.7.1 Vacant posts

Large number of vacant posts in hospitals/PHCs denying health care to the rural poor

A review of human resource management in the Health and Family Welfare Department of selected ZPs disclosed that large number of posts (both medical and para-medical) remained vacant in hospitals/primary health centers (PHCs), adversely affecting health care services to the rural poor. As of July 2006, the percentage of vacancy of doctors ranged from 6 (Bangalore-Urban) to 27 (Haveri) whereas the percentage of vacancy of para-medical staff ranged from 13 (Bangalore-Urban) to 43 (Udupi). There is an urgent need to get the vacant posts filled so that the intended benefits of various health schemes reach the rural poor.

2.2.7.2 Deputations without sanctioned posts

Rs.33.28 lakh paid as salary to deputationists serving against non-sanctioned posts

It was noticed in test-check that during 2001-06, 29 officials under four[¥] ZPs were on deputation from ZPs/PHCs/PREDs to other offices like, District Health Offices, PRE sub-divisions, TPs, etc., within the same ZP, even though there were no sanctioned posts. Expenditure of the order of Rs.33.28 lakh (as worked out by Audit) had been incurred on salaries paid to them during their deputation period (as of July 2006, these officials were still continuing on deputation).

2.2.8 Monitoring and evaluation

District Rural Development Agency (DRDA) guidelines prescribed constitution of a 'Monitoring Wing' headed by a Project Economist and functioning directly under the supervision of the Project director. The wing, apart from monitoring the progress of all the programmes, was to carry out evaluation/impact studies regularly. It was, however, noticed that none of the ZPs test-checked had constituted such a wing.

Similarly, according to KPR Act, the Chief Executive Officers of the ZPs were required to inspect the subordinate offices for the purpose of examining books of accounts, registers and other records. No such inspections were conducted in any of the ZPs test-checked. Though it was stated in reply to an audit query that inspections were conducted by field officers, no documentary evidence could be made available to Audit.

[¥] Bangalore (Urban) - 12, Mandya - 11, Raichur - 4 and Udupi - 2

2.2.9 Recommendations

- ✓ The functioning of DPCs should be streamlined so that the needs of the lower tiers of PRI system are obtained and incorporated in the ADDP
- ✓ Monitoring of programme implementation of centrally sponsored schemes should be strengthened to improve service delivery and avoid loss of Central/State assistance
- ✓ Responsibility should be fixed for diversion and excess procurement of stores to curtail surplus stock/idle investment
- ✓ An effective monitoring mechanism should be put in place, as envisaged in the KPR Act and scheme guidelines.

2.2.10 The observations/issues brought out in the review were referred to Government in February 2006; reply had not been received (December 2006).

2.3 Implementation of Swajaldhara Programme

Highlights

The reform initiatives in the rural drinking water sector were scaled up throughout the country by Government of India by launching (December 2002) the 'Swajaldhara' programme. The scheme was implemented in the State from 2002-03 onwards. The implementation of the scheme suffered due to long delay in completion of works and shortfall in collection of community contribution. There were instances of non-adherence to guidelines such as irregular purchase of land, centralised procurement of materials, etc. Monitoring mechanisms were inadequate.

The State Government neither entered into Memorandum of Understanding with Ministry of Rural Development, Government of India nor prepared Vision Statement resulting in Panchayat Raj Institutions losing additional funds, in the form of incentives and implementation of the Scheme without any clear spelt vision.

(Paragraph 2.3.7)

Delay in submission of proposals to Government of India resulted in non-receipt of funds in time. Consequently, 25 per cent of the works taken up during 2002-04 in test-checked Zilla Panchayats remained incomplete rendering the expenditure of Rupees two crore unfruitful.

(Paragraphs 2.3.8 and 2.3.9)

There was shortfall in collection of community contribution aggregating Rs.82.38 lakh in respect of 86 water supply works.

(Paragraph 2.3.10)

Contrary to the guidelines, an expenditure of Rs.10.51 lakh had been incurred on purchase of land and materials costing Rs.32.46 lakh were procured centrally.

(Paragraph 2.3.12)

In the test-checked Zilla Panchayats, amount aggregating Rs.1.27 crore released towards Information, Education and Communication activities remained unutilised and no training/awareness programme was conducted.

(Paragraph 2.3.13)

Quality control/monitoring mechanism in place was not adequate. Details of inspections conducted were not available with Zilla Panchayats and excepting Udupi, Core Group was not constituted in any of the Zilla Panchayats.

(Paragraph 2.3.14)

2.3.1 Introduction

Several reform initiatives were introduced by the Government of India (GOI) in the rural water supply sector to institutionalise community participation in order to ensure sustainability of systems and sources, by adopting a demand responsive strategy. As part of the above initiatives, GOI launched (December 2002) the ‘Swajaldhara Programme’ in the State from the year 2002-03 to be implemented through Panchayat Raj Institutions (PRIs). The Grama Panchayats (GPs)/Taluk Panchayats (TPs) were to propose drinking water supply schemes. In respect of schemes with facility to supply 40 litres per capita per day (lpcd) of water, the community contribution was to be 10 *per cent* of the estimated capital cost, while it was to be 20 *per cent* in respect of schemes with a service level of more than 40 lpcd. The GOI was to provide the remaining funds. The entire operation and maintenance cost was to be borne by the GP/TP concerned.

2.3.2 Objectives of Swajaldhara scheme

Salient objectives of Swajaldhara were:

- Adoption of a demand responsive approach alongwith community participation in decision making
- Community contribution to develop a sense of ownership
- PRIs to plan, implement, operate, maintain and manage water supply schemes
- Full ownership of drinking water assets with appropriate levels of PRIs
- Conservation measures through rain water harvesting and ground water recharging systems
- Shifting the role of the Government from direct service delivery to that of policy formulation, monitoring and evaluation.

2.3.3 Scope and methodology of audit

During the year 2002-03, the Swajaldhara Programme was implemented in five[£] Zilla Panchayats (ZPs). From 2003-04 onwards, the scheme was extended to the entire State. Audit test-checked the implementation of the scheme in eight[¶] ZPs covering the period from 2002-03 to 2005-06. In addition, Audit collected information from the Karnataka Rural Water Supply and Sanitation Agency (KRWSSA), the nodal agency for implementation of Swajaldhara in the State.

2.3.4 Audit objectives

The objectives of the audit were to assess whether:

- the scheme was planned properly and executed efficiently and economically;
- adequate funds were available for the implementation of the scheme;
- community participation was in place, as envisaged;
- works were completed within the stipulated time;
- the implementing agencies adhered to the guidelines; and
- monitoring mechanisms were adequate.

2.3.5 Audit criteria

The Audit criteria used to assess performance were:

- guidelines issued by GOI for the implementation of the scheme;
- model Memorandum of Understanding (MoU) forwarded by GOI; and
- instructions issued by Central/State Government from time to time.

[£] Haveri, Raichur, Shimoga, Tumkur and Udupi

[¶] Bangalore (Urban), Belgaum, Bellary, Haveri, Raichur, Shimoga, Tumkur and Udupi

2.3.6 Institutional set up

The institutional set up for the implementation of Swajaldhara in the State was as shown below:



A State Water and Sanitation Mission (SWSM) was to be constituted at the State level, which in turn was to have an Apex Committee and an Executive Committee, for policy guidance and overall monitoring of the implementation of the scheme. The Government appointed (October 2003) KRWSSA as the SWSM for the State.

At the district level, a District Water and Sanitation Committee (DWSC) headed by Chief Executive Officer (CEO) was to be constituted by the ZP. The Committee was to scrutinise and approve the proposals submitted by the GPs, formulate and monitor the implementation of the programme. The Village Water and Sanitation Committee (VWSC) at the village level was, inter alia, responsible for ensuring community contribution, planning/ designing, procurement of material, selection of contractors and implementation, operation and maintenance of the completed schemes, etc.

Audit findings

The audit findings are discussed in the succeeding paragraphs:

2.3.7 Planning

The State Government neither entered into MoU nor prepared Vision Statement

In order to avail funds under Swajaldhara, the State Government was to enter into a MoU with the Department of Drinking Water Supply, Ministry of Rural Development, GOI. The State Government was required to prepare a comprehensive Vision Statement, action plan and an agreed time frame for initiating and scaling up of reforms. Based on the Vision Statement, the State Government was to formulate an Annual Action Plan through an interactive process with districts with clearly set qualitative, quantitative and financial targets, reflecting community based planning and implementation. The State Governments entering into MoU with the Ministry of Rural Development were eligible for performance driven incentives, as envisaged in the Model MoU.

It was, however, noticed during audit (July 2006) that the State Government had neither entered into a MoU nor prepared the Vision Statement. This had resulted in PRIs, being the implementing agencies, losing additional funds in the form of incentives. Even after four years of commencement, the programme was implemented in the State without any clearly spelt out vision.

2.3.8 Funds management

As of March 2006, the details of allocation of funds, releases by GOI, community contribution collected and expenditure incurred during the period 2003-06, for the State as a whole, were as below:

(Rupees in lakh)

Year	Allocation	Releases	Community Contribution	Interest accrued	Total funds available	Expenditure
2002-03	218.17	218.15	27.65	7.62	253.42	171.89
2003-04	1397.03	1387.03	141.20	8.40	1536.63	1160.09
2004-05	1620.54	1154.09	244.73	4.75	1403.57	1082.66
2005-06	2253.99	1690.49	260.83	1.61	1952.93	182.84
Total	5489.73	4449.76	674.41	22.38	5146.55	2597.48

(Source: Information collected from KRWSSA)

It would be seen that only 68 to 77 *per cent* of the available funds were utilised for the implementation of the scheme during 2002-05, the percentage of utilisation during 2005-06 was meagre (nine *per cent*).

Similar trends were also noticed in respect of districts test-checked as outlined below:

(Rupees in lakh)

Year	Allocation	Releases	Community contribution	Interest accrued	Total funds available	Expenditure
2002-03	218.17	218.15	27.65	7.62	253.42	171.89
2003-04	617.50	612.50	65.12	4.02	681.64	595.29
2004-05	1203.04	823.21	202.70	1.41	1027.32	785.26
2005-06	1093.99	820.49	119.62	--	940.11	129.28
Total	3132.70	2474.35	415.09	13.05	2902.49	1681.72

(Source: Information collected from KRWSSA)

There was delay ranging from five to seven months in submission of proposals to GOI

In the ZPs test-checked, the percentage of utilisation during 2002-05 ranged between 68 and 87 and only 14 *per cent* of the funds available were utilised during 2005-06. While the ZPs attributed delay in release of funds and awarding tenders as reasons for under-utilisation of funds, it was noticed in test-check that in all the three years the implementing agencies had submitted proposals for release of funds to GOI with a delay ranging from five to seven months, after the beginning of the financial year. The delay in submission of proposals resulted in non-receipt of funds in time and consequent delay in completion of schemes.

2.3.9 Physical achievement

The position of physical achievement under the Swajaldhara programme, for the State as a whole, is exhibited in the table below:

Year	Number of schemes approved	Estimated cost (Rupees in lakh)	Number of schemes completed	Balance
2002-03	52	246.06	29	23
2003-04	308	1507.61	234	74
2004-05	213	1558.71	134	79
2005-06	329	2625.00	17	312
Total	902	5937.38	414	488

Similar details in respect of districts test-checked are as follows:

Year	Number of schemes approved	Estimated cost (Rupees in lakh)	Number of schemes completed	Balance
2002-03	52	246.06	29	23
2003-04	125	660.36	103	22
2004-05	132	1137.26	93	39
2005-06	109	1164.87	10	99
Total	418	3208.55	235	183

Expenditure of Rupees two crore on incomplete works remained unfruitful

Though the schemes were to be completed within 12-18 months, it was noticed that, of the 360 works taken up during 2002-04 in the State, 97 works (27 per cent) remained incomplete (March 2006). In the test-checked ZPs also, 45 (25 per cent) out of 177 works taken up during 2002-04 remained incomplete (March 2006) and consequently the expenditure of Rupees two crore incurred on these schemes remained unfruitful even after lapse of three-four years of commencement.

The delay in submission of proposals to GOI by the implementing agencies and consequent delay in receipt of funds and entrustment of works resulted in water supply schemes, though small in magnitude, remaining incomplete even after a long delay. This indicated that the efforts made towards implementation of Swajaldhara scheme and monitoring of implementation were inadequate.

2.3.10 Implementation of the scheme

❖ Community contribution

There was shortfall in collection of community contribution aggregating Rs.82.38 lakh

(i) The guidelines stipulated community contribution at 10 and 20 per cent of the estimated project cost from the beneficiaries for the schemes proposed to provide upto 40 lpcd and more than 40 lpcd of water respectively. The test-check of records revealed that there was a shortfall in collection of community contribution aggregating Rs.82.38 lakh in respect of 86 water supply works, as detailed below:

(Rupees in lakh)

Zilla Panchayat	Number of projects	Cost of projects	Community contribution		
			Due	Collected	Shortfall
Bangalore (Urban)	8	82.65	10.91	5.54	5.37
Belgaum	3	9.04	0.89	0.72	0.17
Bellary	5	715.00	71.50	38.59	32.91
Haveri	24	135.27	26.65	14.21	12.44
Raichur	15	97.36	12.48	7.42	5.06
Shimoga	5	40.10	4.27	2.56	1.71
Tumkur	9	41.06	4.43	2.31	2.12
Udupi	17	226.00	45.20	22.60	22.60
Total	86	1346.48	176.33	93.95	82.38

The community contribution collected as a percentage of the estimated capital cost of projects ranged from 5 *per cent* in Bellary to 11 *per cent* in Haveri. Further, details of receipt of community contribution in the form of labour/material were not available in the test-checked ZPs.

(ii) The guidelines further stipulated that the community contribution collected in excess of 10 *per cent* of the project cost was to be credited to an operation and maintenance fund. Contrary to the guidelines, it was noticed in four[¥] ZPs that in respect of nine works, an amount of Rs.10.66 lakh was refunded by the Secretaries of GPs to the contributors, after getting the work approved, the reasons for which were not on record.

2.3.11 Execution of unauthorised works

Unauthorised works costing Rs.1.85 crore executed

The scheme was to be implemented by VWSCs after obtaining prior approval of DWSCs for all the works. It was, however, noticed during the test-check that in four[£] ZPs 25 works costing Rs.1.85 crore were taken up by the VWSCs even though they had not been approved by the DWSCs. The ZPs replied that post-facto approval would be obtained from the DWSCs for the works.

2.3.12 Non-adherence to guidelines

❖ Irregular purchase of land

Expenditure of Rs.10.51 lakh on acquisition of land, in disregard of guidelines

The guidelines prohibited expenditure towards purchase of land and buildings. It was, however, noticed in ZP, Raichur that an expenditure of Rs.10.51 lakh was incurred on acquisition of land for four water supply works. The CEO, ZP, Raichur, released funds for acquisition of land for these works, in disregard of scheme guidelines. No reason was on record for this lapse.

[¥] Belgaum, Haveri, Raichur and Udupi

[£] Belgaum (5), Haveri (2), Raichur (16) and Tumkur (2)

❖ **Centralised procurement of materials**

Contrary to guidelines, materials costing Rs.32.46 lakh were procured centrally

As per the guidelines, materials required for execution of works under Swajaldhara were required to be procured by VWSC and centralised procurement of material was prohibited. Test-check by Audit revealed that the EE, PRED, Raichur procured materials costing Rs.32.46 lakh centrally. Though CEO, ZP, Raichur replied that the materials were procured based on the request from VWSCs, no documentary evidence in this regard could be produced to Audit. Further, details such as village-wise actual requirement, issues and balance, etc., were not available with the ZP or PRED.

2.3.13 Information, Education and Communication activities

Amount aggregating Rs.1.27 crore released towards IEC activities remained unutilised

Scheme guidelines contemplated creating awareness among the implementers (PRIs, Non-Government Organisations, users, etc.) through Information, Education and Communication (IEC) activities. Though the scheme commenced in 2002-03, the first instalment of funds for IEC activities was released only in August 2004. GOI released funds aggregating Rs.4.27 crore to ZPs during the period from August 2004 to April 2006. It was, however, noticed that out of Rs.1.42 crore released to test-checked ZPs for IEC activities, a sum of Rs.14.99 lakh had been utilised in five* ZPs. The balance funds aggregating Rs.1.27 crore were lying with the ZPs.

IEC activities were aimed at capacity building and communication strategy as the end-users were required to own, operate and maintain the completed projects. The SWSM was to provide regular training courses for PRIs, members of user groups, implementing agencies, etc. The details of such activities were not available due to which it could not be ascertained if PRIs were adequately prepared to implement projects under Swajaldhara and whether awareness had been created among beneficiaries for social mobilisation and subsequent maintenance of the completed projects.

* Belgaum (Rs.1.00 lakh), Shimoga (Rs.1.27 lakh), Raichur (Rs.11.82 lakh), Tumkur (Rs.0.05 lakh) and Udupi (Rs.0.85 lakh)

2.3.14 Quality control and monitoring

The statutory Committees did not meet, as required

The Apex/Executive Committee were required to meet atleast once in every quarter. Though an Apex Committee was constituted (December 2004) in the State, it did not meet even once and the Executive Committee met only twice during the period 2004-06. This indicated that monitoring of the Swajaldhara scheme was inadequate at the State level.

Quality control mechanism was inadequate

The guidelines stipulated inspection of the implementation of Swajaldhara including quality of civil works, once every quarter. The SWSM was also to establish a system of random inspection of projects by a team of experts. At the district level, the line departments were to supervise the implementation apart from providing technical support. Details of such periodic/random inspections were not available in any of the ZPs.

At the district level, a Core Group consisting of professionals in the field of drinking water supply, engineering, sociology/social sciences, etc., was to be positioned by the ZPs to assist DWSC in implementing the project activities. The Core Group was to review the progress of the implementation and give inputs on communication and development strategy, technology options, sustainable exploitation of drinking water sources, community health, financial viability of the schemes, etc., to DWSC. It was, however, noticed in test-check that except ZP, Udupi, none of the ZPs constituted the Core Group. The CEOs of the ZPs replied that action would be taken to form the Core Group. Thus, failure of the CEOs of the ZPs to constitute Core Groups resulted in implementation of the scheme without clear data on the envisaged development indicators.

2.3.15 Sustainability of sources

The implementing authorities were required to take up conservation measures through water harvesting/ground water recharging activities. The State Government was to prescribe policy parameters in respect of exploitation of ground water sources through the Vision Statement and encourage the PRIs to take suitable initiatives for ensuring sustainability of safe water sources. As mentioned in paragraph 2.3.7 no such Vision Statement was prepared by the

State Government. None of the test-checked implementing agencies had adopted envisaged conservation measures for prolonged sustenance of intended water sources.

2.3.16 Other points of interest

❖ *Non-remittance of statutory deductions*

Statutory deductions towards Income Tax, Sales Tax and Royalty made from the bills paid to contractors aggregating Rs.10.72 lakh were not remitted to concerned heads of account by GP Secretaries as shown below:

Zilla Panchayat	Number of works	Income Tax	Sales Tax	Royalty	Total
		(Rupees in lakh)			
Bangalore (Urban)	4	0.83	1.25	0.07	2.15
Belgaum	2	0.02	0.32	-	0.34
Haveri	10	0.42	0.68	0.25	1.35
Raichur	18	1.31	3.08	0.01	4.40
Shimoga	7	0.14	0.27	0.11	0.52
Tumkur	12	0.15	-	-	0.15
Udupi	5	0.42	1.25	0.14	1.81
Total	58	3.29	6.85	0.58	10.72

In response to an audit query, most ZPs stated that action would be taken/instructions would be issued to remit the sums to concerned heads of account.

2.3.17 Conclusions

- The Vision Statement clearly projecting the identified road map and milestones for the implementation of the scheme was not prepared, as required
- Delay in preparation of action plans and sending proposals to GOI resulted in non-receipt of funds in time and consequent non-completion of schemes within the timeframe
- The ZPs did not adhere to guidelines as there were instances of irregular expenditure on purchase of land, centralised procurement of materials, etc.
- In the absence of Core Group and periodic/random inspections, quality control and monitoring mechanisms were weak
- Water conservation activities through water harvesting/recharge activities to ensure safe water sources were not taken up in any of the ZPs test-checked.

2.3.18 Recommendations

- There is a need for the State Government to prepare the Vision Statement to clearly spell out its commitment to reforms in water and sanitation sector
- Time schedule for implementation of the scheme should be adhered to
- Community contribution as per scheme norms may be encouraged to ensure community participation and to develop a sense of ownership
- Quality control mechanism should be strengthened by involving the specialists from line departments
- Responsibility may be fixed for arranging/conducting inspections and forming Core Groups
- Conservation measures for sustainability of natural resources should be undertaken as part of the scheme.

2.3.19 The matter was referred to the Government in June 2006; reply had not been received (December 2006).

SECTION ' B' - PARAGRAPHS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.4 Works entrusted to external agencies

The Zilla Panchayats (ZPs) or the departments under their jurisdiction normally entrust the work of construction of buildings, etc., taken up under various development schemes, to external agencies* for execution. The entrusting agencies were to monitor the speedy completion of the works and hand over the completed works to departments concerned. Audit reviewed the execution of works like construction/repairs to office buildings, hostel buildings, school buildings, rural housing schemes, etc., entrusted to the external agencies during the period 2003-04 to 2005-06 through test-check of records in five* ZPs. The points noticed during the review are detailed in the succeeding paragraphs.

2.4.1 Funds management and physical progress of works

(a) Financial position

The details of funds released by ZPs/departments in the test-checked districts, to these agencies and the expenditure incurred during the period 2003-06, as consolidated from the progress reports, is given below:

(Rupees in lakh)

Year	Karnataka Land Army Corporation			Nirmithi Kendra		
	Funds released	Expenditure incurred	Balance	Funds released	Expenditure incurred*	Balance
2003-04	4814.67	4950.65	(-) 135.98	1562.93	1329.72	233.21
2004-05	836.35	776.62	59.73	784.15	415.08	369.07
2005-06	881.40	534.01	347.39	827.63	508.80	318.83

(Source : Progress Reports of the agencies)

* Excluding ZP, Bellary, as Nirmithi Kendra, Bellary did not render accounts for the funds received, which is commented separately.

* Karnataka Land Army Corporation - a Government company and designated agency for departmental works, Nirmithi Kendra – a registered society in each district under the Chairmanship of Deputy Commissioner.

* Belgaum, Bellary, Davanagere, Hassan and Koppal

The ZP-wise details of releases and expenditure were as below:

(Rupees in lakh)

Zilla Panchayat	Karnataka Land Army Corporation			Nirmithi Kendra		
	Funds released	Expenditure incurred	Balance	Funds released	Expenditure incurred	Balance
Belgaum	1647.24	1524.90	122.34	360.73	339.80	20.93
Bellary	2909.83	3036.30	(-) 126.47	632.06	NA	632.06
Davanagere	760.67	458.41	302.26	652.78	532.45	120.33
Hassan	13.27	13.47	(-) 0.20	365.97	272.06	93.91
Koppal	1201.41	1228.20	(-) 26.79	1163.17	1109.29	53.88

NA – Not available

It would be observed from the above that during 2003-06, sufficient funds were not released by the departments in ZPs, Bellary and Koppal to KLAC, hampering the execution of works.

(b) Physical progress of works

As of March 2006, the status of works entrusted by the test-checked ZPs during the period 2003-06 was as below:

Year	Karnataka Land Army Corporation				Nirmithi Kendra*			
	Entrusted	Completed	In progress	Not yet started	Entrusted	Completed	In progress	Not yet started
2003-04	19325	14800	3932	593	2836	2710	112	14
2004-05	3030	2178	823	29	1220	815	403	2
2005-06	403	139	235	29	1990	915	892	183

(Source : Progress Reports of the agencies)

* Excluding ZP, Bellary, as Nirmithi Kendra, Bellary did not furnish details of works.

Large number of works remained incomplete

As would be seen from the table, out of 22,355 works entrusted to KLAC during 2003-05, 4,755 works (21 per cent) and out of 4,056 works entrusted to Nirmithi Kendras, 515 works (13 per cent) remained incomplete, even though the scheduled time for completion was three to six months from the date of entrustment. Adequate efforts were not made by the ZPs/departments to get the works completed within the stipulated time which rendered the investment of about Rs.9.07^u crore on these works unfruitful. Further, the ZPs were also not able to furnish the status of completed works, viz., whether the same were handed over to the user departments/beneficiaries, particulars of occupancy in respect of housing schemes, etc.

^u KLAC – Rs.7.60 crore and Nirmithi Kendras – Rs.1.47 crore

2.4.2 *Blocking up of funds*

An amount aggregating Rs.1.98 crore remained blocked up, as works did not commence

It was noticed during the test-check that in four[¥] ZPs, despite provision of adequate funds, 228 works (including houses and school buildings) entrusted to KLAC during the period 2003-06 were yet to be commenced due to various reasons like non-identification of site, land disputes, withdrawal of works, etc. An amount aggregating Rs.1.60 crore released to KLAC for execution of these works had remained blocked.

Similarly, the test-check disclosed that an amount of Rs.38.48 lakh released by three^Ω ZPs to Nirmithi Kendras for execution of 64 works under various schemes (including houses and school buildings) remained blocked as the works entrusted to the agency were not started.

Thus, failure of the ZPs/departments in ensuring availability of land free from all encumbrances before entrusting the work and to monitor commencement of work after release of funds resulted in blocking up of Rs.1.98 crore besides denying the intended benefits of the schemes to the rural poor.

2.4.3 *Inadmissible expenditure*

Inadmissible expenditure aggregated Rs.66.09 lakh

The KLAC was authorised to charge five *per cent* of the total project cost as service charges. It was noticed in three^α test-checked divisions that service charges of seven to ten *per cent* were charged by KLAC which resulted in inadmissible expenditure of Rs.66.09 lakh.

2.4.4 *Non-maintenance of nominal muster rolls*

NMRs were not maintained by the executing agency for foodgrains costing Rs.5.18 crore

According to the guidelines of the Sampoorana Grameena Rozgar Yojana, the executing agencies were required to maintain nominal muster rolls (NMRs) for payment made to the labourers, duly recording the quantum of cash and foodgrains issued. During 2003-06, a total quantity of 8,281 metric tonnes of foodgrains costing Rs.5.18 crore was issued by two^β ZPs to various divisions of KLAC. It was noticed in test-check that none of the divisions of KLAC maintained NMRs in support of distribution/utilisation of foodgrains and the

[¥] Belgaum (80), Bellary (137), Davanagere (7) and Koppal (4)

^Ω Davanagere (6), Hassan (2) and Koppal (56)

^α Bellary, Hadagali and Koppal

^β Belgaum and Bellary

entrusting departments also did not insist on maintenance/production of the required NMRs. The Deputy Directors of KLAC replied that the foodgrains were issued to the Group Leaders responsible for execution, and hence the NMRs were not maintained. In the absence of NMRs, proper utilisation of foodgrains could not be ascertained in audit.

2.4.5 Monitoring of works

The ZPs/departments were entrusting the works to external agencies. In turn, the agencies were submitting their progress reports and utilisation certificates to the entrusting authorities. The control mechanism in the ZPs to watch the physical/financial progress of the works entrusted was reviewed.

It was noticed that details such as date of completion of work, date of handing over, number of houses constructed, etc., were not available with ZPs/departments nor was any mention made in the utilisation certificates furnished by the agencies. In a particular case in ZP, Bellary it was noticed that during 2003-06, a sum of Rs.6.32 crore was released to Nirmithi Kendra, Bellary. The Nirmithi Kendra, however, did not render any account. An inquiry was conducted by the Chief Accounts Officer, ZP, Bellary and an official (the then Manager of Nirmithi Kendra) was relieved from his duties for alleged misappropriation and non-maintenance of accounts. The inquiry was still in progress (August 2006).

Weak monitoring of progress of works by the ZPs was attributable to the failure of the implementing agencies to render timely and comprehensive details of progress of work and was fraught with the risk of funds being misappropriated. There is a need to prescribe a suitable utilisation certificate incorporating all the relevant details to enable closer monitoring of works.

2.4.6 Conclusions

- ⇒ Physical progress of the works entrusted to these agencies was not commensurate with the funds released
- ⇒ Availability of suitable land for execution of works was not ensured before entrustment resulting in blocking of funds
- ⇒ There was no mechanism in the ZPs to monitor progress of work.

2.4.7 Recommendations

- ✓ Release of funds for the works entrusted should be streamlined
- ✓ ZPs/Departments may be instructed to entrust the works and release funds only after ensuring availability of suitable land, to avoid blocking up of funds
- ✓ Responsibility should be fixed for delays in completion of works
- ✓ Proper mechanism should be in place to monitor timely completion of works and utilisation of funds to avoid misappropriations, frauds, etc.

The matter was referred to Government in August 2006; reply had not been received (December 2006).

2.5 Disciplinary cases pending settlement in Zilla Panchayats

2.5.1 Introduction

The officers and staff required for performing various functions entrusted to Panchayat Raj Institutions (PRIs) were posted by the Government from amongst its own officers and staff. Though these Government servants were on deputation to PRIs, the Karnataka Civil Services (Classification, Control and Appeal) Rules, 1957 [KCS (CCA) Rules] (as amended in March 2002) prescribe that the Chief Executive Officer of Zilla Panchayat (ZP) shall have the powers of the appointing authority in respect of Government servants of Group B, C and D and Doctors working in Primary Health Centres, for placing them under suspension and of the disciplinary authority for the purpose of taking disciplinary proceedings against such Government servants and to impose any of the penalties specified in Sub Rules I to IV(a) of Rule 8 of KCS (CCA) Rules.

Delays in disposal of disciplinary cases mitigates the gravity of the offence, makes recovery of pecuniary loss to the Government difficult besides affecting the morale of the accused/charged employees and others in the organisation. In order to avoid delays in finalisation of disciplinary cases, the Government fixed (June 2001) the following time schedule and prescribed that the entire disciplinary proceedings should be completed and final orders issued within nine months from the date of misconduct coming to the notice of the

Disciplinary Authority. The time schedule prescribed for different stages of processing was as below:

Serial Number	Stage of proceedings	Time prescribed
1	Completion of preliminary inquiry and issue of charge sheet	One month
2	Obtaining reply of charged officer, appointment of Inquiry Officer and Presenting Officer	One month
3	Conducting of inquiry and submission of inquiry report	Four months
4	Scrutiny of inquiry report by the Disciplinary Authority	One month
5	Issuing copy of inquiry report to charged officer and obtaining explanation, if any	One month
6	Passing final orders	One month

The Government further stated that the officers responsible for delay in finalisation of disciplinary cases shall be liable for action for dereliction of duty.

2.5.2 Audit coverage

Audit test-checked (May and June 2006) the processing of disciplinary cases in seven^u ZPs covering the period 2003-04 to 2005-06 and also collected information from Secretary, Rural Development and Panchayat Raj (RDPR) Department.

2.5.3 Audit findings

Important points noticed in audit are summarised in the succeeding paragraphs.

2.5.3.1 Pending cases

As of March 2006, there were 200 disciplinary cases pending settlement in the test-checked ZPs. The age-wise break-up of cases was as under:

Sl. No.	Age of cases	Nature of charges		
		Misappropriations/ defalcations, etc.		Other cases not involving money value
		Number of cases	Amount (Rupees in crore)	Number of cases
1	Above 3 years	61	1.72	9
2	2 to 3 years	15	2.50	11
3	1 to 2 years	23	1.45	27
4	Less than one year	21	0.73	33
Total		120	6.40	80

^u Bangalore (Rural), Chamarajanagar, Chikmagalur, Hassan, Kolar, Mandya and Mysore

Abnormal delay in settlement of 61 cases involving an amount of Rs.1.72 crore

Sixty one cases involving Rs.1.72 crore were still pending finalisation even after delays ranging from one to more than three years. Similarly, of the 120 cases of misappropriation, eight cases (seven *per cent*) involving Rs.2.68 crore (42 *per cent*) out of a total amount of Rs.6.40 crore, were pending with Government.

2.5.3.2 Delay at different stages of processing

❖ Issuing charge sheet

There was delay ranging from one month to more than five years in issuing charge sheet

The time prescribed for issue of charge sheet was one month from the date of misconduct coming to the notice of the Disciplinary Authority. It was noticed in test-checked ZPs and RDPR Department that there were delays ranging from one month to more than five years in issuing charge sheets in 123 cases (including 49 cases without money value) involving Rs.3.43 crore. Even in respect of the 41 completed cases during the test-check period, there were delays ranging from one month to more than five years in issuing charge sheets. Out of these cases, in respect of one case in ZP, Kolar, charge sheet had not been issued even after four years. The ZP stated (June 2006) that the matter was under investigation and that instructions of the Government were awaited.

❖ Appointing Inquiry Officer

In 56 cases there was delay ranging from one month to more than five years in appointing Inquiry Officers

The Government stipulated that the Inquiry Officer had to be appointed within one month from the date of issue of charge sheet. It was noticed that in 56 cases in the test-checked ZPs, there was delay ranging from one month to more than five years in appointing the Inquiry Officers. In ZP, Chikmagalur there were three cases in which there was delay of more than four years. In one case, the Inquiry Officer had not been appointed even after four years.

❖ Finalisation of inquiry report

Abnormal delay in finalisation of inquiry report in 56 cases involving Rs.1.43 crore

The Inquiry Officer was to complete the inquiry and submit a report to the Disciplinary Authority within a period of four months from the date of entrustment of inquiry. Test-check disclosed that even after delays ranging from one year to more than ten years, the Inquiry Officers' reports had not been received in 56 cases (including 12 cases without money value) involving

Rs.1.43 crore. In one case (ZP, Kolar) the inquiry report had not been submitted even after ten years from the date of appointing the Inquiry Officer. Similarly, in respect of completed cases during the test-check period there were delays ranging from one year to more than five years in completing inquiry in 40 cases. The department attributed the delay to administrative reasons, delayed production of records, etc.

The Government with the intention of completing the inquiries expeditiously, decided (April 1998) to appoint retired District Judges and retired officers as Inquiry Officers. It was noticed that in 26 cases entrusted to retired District Judges, the inquiry reports had not been finalised in respect of 21 cases even after delays ranging from two to 25 months.

❖ *Issuing final orders*

There were delays of two to nine months in passing final orders in six cases

The time prescribed by the Government for issue of final orders by the Disciplinary Authority after the receipt of inquiry report was three months. Test-check disclosed that in respect of six cases [five cases in Government and one case in ZP, Bangalore (Rural)], the final orders had not been passed even after delays ranging from two to nine months.

2.5.4 Monitoring of cases

Ineffective internal control mechanism resulted in delay in processing of disciplinary cases

The Head of the Department had to review once every three months the disciplinary cases initiated against Group ‘C’ and ‘D’ Government servants and take necessary steps to expeditiously dispose of the cases. It was further prescribed that while conducting the inspection of subordinate offices, delays in processing of outstanding disciplinary proceedings had to be specifically reviewed. In respect of Group ‘A’ and ‘B’ servants, the Secretary to Government had to conduct a similar review. It was, however, noticed that, such a review had not been conducted at any stage in any of the test-checked ZPs and Government. Effective steps had not been taken to expedite the disposal of disciplinary cases indicating lack of a proper internal control mechanism.

2.5.5 Conclusions

- Disciplinary cases had not been completed within the stipulated period of nine months
- There was delay at every stage of processing of disciplinary cases
- Monitoring of processing of disciplinary cases was poor indicating weak internal control mechanism.

2.5.6 Recommendations

- Effective steps should be taken to expedite the disposal of disciplinary cases
- Internal control mechanism has to be strengthened for continuous monitoring of disciplinary cases
- Responsibility, as contemplated in Government instructions, has to be fixed on those responsible for delay in processing of cases.

The matter was referred to Government in August 2006. The Government stated (January 2007) that orders had been issued for strengthening the monitoring system and that it would review the pending disciplinary cases every quarter.

2.6 Uneconomical establishment of Mechanical Sub-divisions

2.6.1 Introduction

Consequent on abolition of the erstwhile Public Health Engineering Divisions/Well Boring Divisions, Mechanical Sub-divisions were constituted (December 1999) in the State and these Sub-divisions were to function under the administrative control of Panchayat Raj Engineering Divisions (PREDS). These Sub-divisions were to be headed by an Assistant Executive Engineer (AEE) assisted by Assistant/Junior Engineers, Geologists, supporting staff for drilling and general administration. The functions of the Sub-divisions were to survey, drill, clean and hydrofracture the borewells for water supply schemes, on the recommendations of the Zilla Panchayats (ZPs). These Mechanical Sub-divisions were equipped with rigs and the supporting vehicles

and spares transferred from the former divisions. Sinking of borewells was to be entrusted to private agencies only in exceptional circumstances.

2.6.2 Idle machinery

Many of the rigs remained idle for want of repairs

Test-check of records in nine[^] Mechanical Sub-divisions revealed that 13 out of 28 rigs which were transferred to these divisions remained idle for want of repairs during the period from 2002-03 to 2004-05. Due to over exploitation of ground water and depleting water table, there was a need to drill borewells deeper than 200-300 metres in many parts of the State. It was, however, observed that available rigs in these divisions were not capable of drilling to a depth of more than 100-150 metres and many of the rigs had outlived their age and were beyond repairs. Though many of the rigs and carriers were proposed for scrapping, no action had been initiated by the Sub-divisions/PREDS/ZPs to acquire new rigs to meet the needs of water supply schemes.

Of the 10,123 borewells drilled in these districts during the period from 2002-03 to 2004-05, only 1,116 (11 *per cent*) were drilled by these divisions and the rest were entrusted to private agencies in disregard of the instructions of Chief Engineer, Panchayat Raj Engineering Department. In Kolar and Mandya, sinking of all 2,717 borewells was entrusted to private agencies while in respect of divisions at Chitradurga and Dharwad, the percentage of borewells drilled departmentally was one and six respectively, as the divisions either did not possess any rigs or available rigs were under repairs. It was, however, noticed in Bangalore (Urban) that though the division possessed six rigs in working condition, only nine *per cent* of the borewells were dug departmentally. The AEEs of the Sub-divisions attributed entrustment of works to private agencies to rigs awaiting repairs, non-availability of required bits, etc. The entrustment of works to private agencies indicated that the Sub-divisions did not take adequate measures to get the rigs/machinery repaired.

[^] Bangalore (Urban), Chitradurga, Dharwad, Gulbarga, Kolar, Mandya, Mysore, Raichur and Tumkur

2.6.3 Surplus stock

Stock valued at Rs.88.36 lakh remained surplus/obsolete

As of March 2005, these Sub-divisions had surplus/obsolete stock of spare articles (oil, wrenches, casing pipes, drilling hammers/bits, etc.) valued at Rs.88.36 lakh. The AEEs of the Sub-divisions had replied that as these materials were supplied from erstwhile divisions, they could not utilise the spares due to non-compatibility with the rigs and that proposals had been submitted to declare these items as obsolete. Even as of March 2006, the approval was yet to be accorded.

2.6.4 Idle staff

Salary paid to the staff became largely infructuous as more than 89 per cent of the drilling work was entrusted to private agencies

As more than 89 per cent of the work of sinking borewells was entrusted to private agencies, the expenditure of Rs.7.88 crore incurred by the test-checked divisions during the period from 2002-03 to 2004-05 towards pay and allowances on the establishment had become largely infructuous. The staff of the mechanical sub-divisions were attending to minor works like cleaning, hydrofracturing, etc., of the existing borewells, though there were a large number of vacant posts (both technical and administrative) in various divisions of Panchayat Raj Engineering Department.

On this being pointed out, the Executive Engineer, Panchayat Raj Engineering Department, Bangalore replied (July 2005) that as the cost of repairs of the machinery would be very high and spares for the rigs were not available, action had been initiated to dispose of the machinery. It was further replied that the services of surplus staff would be made use of on other activities of Panchayat Raj Engineering Department. Details of action taken on the above proposals were not made available (December 2006).

Evidently, there is a need to review the functioning of these mechanical sub-divisions, as major portion of the works were entrusted to private agencies though huge amount of expenditure was being incurred on establishment at the same time.

The matter was referred to Government in February 2006; reply had not been received (December 2006).

2.7 Fraudulent drawal of funds on fictitious bills

Gross subversion of prescribed internal controls, involving officials at various levels of Panchayat Raj Engineering Division/Zilla Panchayat/District Treasury, Haveri, facilitated fraudulent drawal of funds aggregating Rs.96.41 lakh by preferring fictitious travelling allowance/contingent bills

The State Government in Rural Development and Panchayat Raj Department requested (December 2004) for a special audit of accounts of the Executive Engineer (EE), Panchayat Raj Engineering Division (PRED), Haveri, on the alleged misappropriation of funds in the division. The special audit of PRED, Haveri covering the period from April 2002 to November 2004 was conducted during January 2005. It was noticed in the course of special audit that during the period from September 2002 to November 2004, in disregard of Article 22-A of Karnataka Financial Code and Rule 576-A of Karnataka Civil Services Rules, claims of travelling allowance (TA) were irregularly admitted and paid to an extent of Rs.76.72 lakh (164 bills). Besides, it was also noticed that amount aggregating Rs.23.46 lakh was fraudulently claimed through contingent bills (68 bills).

Serious irregularities noticed in special audit, inter alia, included:

- Time barred claims were admitted and paid, without any valid reason for condoning the delay in preferring claims
- Claims were not supported by any documentary evidence such as approved tour programmes, proper tour diaries, etc.
- TA was claimed even for officials not borne on the establishment
- There were instances of claims being preferred more than once for the same person for the same month/dates
- The officials had signed in the attendance register against the dates shown to have been on tour
- Stock register was not maintained properly
- Stock certificates were not available on record for receipt of materials
- Many of the supply bills contained arithmetical inaccuracies and interpolations and in some cases payments were made even when photocopies of the sub-vouchers were attached to the claims
- Cheques were issued in favour of the EE, even for supply bills and payments towards postal stamps/electricity/telephone charges.

The failure of the EE, PRED and Chief Accounts Officer (CAO), Zilla Panchayat (ZP), Haveri in exercising proper checks, as prescribed in codes/manuals, facilitated misappropriation of huge funds by the then Manager* of PRED, Haveri over a period of more than two years. The key controls at various levels were subverted. An organised operation involving officials at PRED/ZP/treasury could not be ruled out. The District Treasury Officer failed to exercise prescribed checks and notice irregularities/ arithmetical inaccuracies in the claims and passed them for payment in a routine manner.

The subversion of internal control mechanism was as under:

Authority responsible for exercising controls	How controls failed
EE, PRED, Haveri	<ul style="list-style-type: none"> • Did not reconcile the expenditure of the division with the accounts of ZP • Did not object to the overwritings/interpolations/corrections in the cash book • Condoned delay in preferring claims without any valid reason • Did not insist for approved tour programmes and tour diaries • Instead of preferring a single claim for a month, preferred large number of claims in many months • Did not notice that claims were being preferred twice or thrice • Failed to ensure proper maintenance/closure of registers such as cash book, stock register, etc. • Did not reconcile the expenditure with budget allocation • Did not insist on proper acknowledgements for disbursements
CAO, ZP, Haveri	<ul style="list-style-type: none"> • Internal audit of the division was not conducted since inception (1998-99) • Did not exercise effective control over budget allocation and expenditure thereagainst • Did not reconcile the expenditure with the plus and minus memorandum of treasury • The audit of vouchers received from treasury was not conducted and failed to notice continued fraudulent drawal of huge funds • Did not object to the huge and substantial expenditure on TA/contingent bills
District Treasury Officer, Haveri	<ul style="list-style-type: none"> • Did not object even though large number of bills were preferred during a single month • Admitted and paid TA bills which were preferred without non-drawal certificates and approved tour programmes • Irregularly issued cheques in favour of EE even for the payment of electricity and telephone charges • Payments were made even for the contingent bills supported by photocopies of supply vouchers • Did not insist attestation from competent authority for the interpolations in telephone/supply bills

* Shri O.Lakshmana, who worked as Manager from 1995-96 to November 2004.

The EE, PRED, Haveri while accepting the misappropriation of funds, had stated (June 2005) that the amount of fraudulent drawals by the then Manager was Rs.96.41 lakh, as some of the claims were genuine. The Manager found responsible for the fraud had repaid an amount of Rs.25.72 lakh and was kept under suspension (November 2004). The balance was yet to be recovered (September 2006). Four officials of District Treasury, Haveri were also kept (November 2004) under suspension. No action was, however, taken against the EE and the CAO for failure to check the misappropriation which continued for long.

The Chief Executive Officer, ZP, Haveri stated (December 2005) that the failure of the EE to scrutinise the bills with reference to the grants released by the ZP facilitated fraudulent drawal of funds and also stated that internal audit of the division was not conducted due to shortage of staff. Further developments in the matter are awaited. The matter calls for detailed investigation and action.

The matter was referred to Government in March 2005; reply had not been received (December 2006).

2.8 Unfruitful expenditure and abnormal escalation in cost besides delay in completion of a water supply scheme

ZP/ZPED, Koppal failed to call for tenders while taking up a work involving substantial funds and abandoned it. Delay in entrustment of work subsequently to another agency and lack of efforts to complete the project for supply of water to Bannikoppa and other villages rendered the expenditure of Rs.11.48 crore unfruitful. Further, apart from a cost escalation of about 785 per cent, the needy rural poor were also denied safe drinking water

The scheme for providing drinking water to Bannikoppa and 34 other villages in Koppal and Yelaburga taluks (under the jurisdiction of Raichur district before the formation of Koppal district), at an estimated cost of Rs.3.30 crore, was administratively approved (January 1992) by the State Government and technically sanctioned by the Engineer-in-Chief, Public Health Engineering, Bangalore. It was proposed to draw water from the backwaters of the dam across the Thungabhadra river near Hospet in Bellary District. The work was taken up (1991-92) departmentally by the Zilla Panchayat Engineering

Division (ZPED), Koppal and was stopped (1994-95) after incurring an expenditure of Rs.2.08 crore. A mention was made in the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 1996 regarding non-completion of the scheme and non-utilisation of material costing Rs.0.52 crore procured for the scheme. The Public Accounts Committee (PAC) in its Report (Tenth Assembly) presented in July 1999 recommended various measures for expeditious completion of works of similar nature.

Based on a request of the State Government to take up the scheme under Sub-mission projects under Rajiv Gandhi National Rural Drinking Water Mission, the Government of India (GOI) accorded approval with revised estimated cost of Rs.8.14 crore (with extended coverage to four more villages) and released Rs.1.50 crore (February 1998). The State Government entrusted (June 2001) the balance work to the Karnataka Land Army Corporation (KLAC) with a stipulation to complete the work in 22 months. The reason for the long delay of more than three years in entrusting the work was not forthcoming.

During the period from August 2001 to March 2005, an amount of Rs.6.40 crore was released to KLAC and an expenditure of Rs.5.58 crore was incurred on the scheme. Meanwhile, the estimated cost of the scheme was revised (February 2005) to Rs.20.09 crore by KLAC which was approved by the Empowered Committee. In anticipation of the approval of Government to the revised estimate, a sum of Rupees three crore was further released to KLAC. As of July 2006, as against the total releases of Rs.9.40 crore, the KLAC had incurred Rs.10.71 crore on the scheme by completing slow sand filters, pure water sumps, over head tanks, pump house, etc. The work, however, remained incomplete even as of October 2006. To an enquiry, the Chief Accounts Officer, ZP, Koppal stated that the State Government had not released its share of funds (25 *per cent*), as required, and entire releases were only from Central Government. The reasons for GOI releasing more funds than admissible, even though approval had not been accorded by the Government to the revised estimate, were not forthcoming.

The Chief Executive Officer, ZP, Koppal attributed (October 2004 and February 2006) change in designs/alignment of pipes, delay in release of funds and acquisition of land and inclusion of additional items, etc., as reasons for non-completion of the scheme. Failure of the ZP/ZPED, Koppal in arranging sufficient funds over the years delayed the execution of the scheme which was scheduled for completion by April 2003. The estimated cost of the scheme was further revised (March 2006) to Rs.29.19 crore for which the approval was yet to be accorded by the Government (October 2006).

Despite the earlier recommendations (July 1999) of the PAC for speedy completion of the scheme, no efforts were made by the authorities concerned to complete the scheme early. Thus, due to lack of proper planning and failure of the ZP/ZPED, Koppal in taking effective action for completion of water supply scheme, taken up as far back as 1991, the expenditure of Rs.11.48 crore had been rendered unfruitful. Besides, the problem of water quality faced by the needy rural poor of 39 villages also remained unresolved. Further, the estimated cost of the project had already increased by about 785 *per cent* over a period of 15 years and was likely to escalate further.

The matter was referred to Government in February 2006; reply had not been received (December 2006).

2.9 Unfruitful expenditure on a water supply scheme

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Gadag to ensure availability of water and power supply before commencement resulted in water supply work remaining incomplete besides rendering the investment of Rs.5.69 crore unfruitful

Under Sub-mission Projects, the Government accorded (January 2000) administrative approval for the implementation of water supply scheme to Bidarahalli and seven other villages in Mundargi taluk of Gadag district at an estimated cost (based on the Schedule of Rates (SR) of 1996-97) of Rs.3.51 crore. As per the SR of 1999-2000, the estimate of the scheme was revised to Rs.5.78 crore. The Engineer-in-Chief (EIC), Rural Development Engineering Department (RDED), while according (February 2000) technical sanction, stipulated that the Executive Engineer (EE), Zilla Panchayat

Engineering Division (ZPED), Gadag had to obtain feasibility certificate regarding availability of power supply from Karnataka Power Transmission Corporation Limited (KPTCL)[‡] and permission from the Tungabhadra Board to draw water from the Tungabhadra river, the source identified for drawing water for the project. The work was to be completed by November 2002.

The work was entrusted (March 2001) to a contractor for Rs.6.31 crore, without obtaining either permission of the Tungabhadra Board to draw water from the river or feasibility certificate from the Hubli Electricity Supply Company (HESCOM), Gadag. The EIC did not ensure compliance of the conditions before approving the tender (March 2001).

As of May 2003, an expenditure of Rs.5.69 crore had been incurred and work of construction of intake wells, jack wells, balancing reservoir, slow sand filters, pump house, etc., had been completed. The power supply company HESCOM had reportedly stated that an express feeder line had to be provided and sent an estimate for Rs.85.22 lakh (revised to Rs.1.11 crore), which had not been contemplated in the original estimate. Permission from the Tungabhadra Board was yet to be received (August 2006). There was no progress in work since May 2003.

On this being pointed out, the Government endorsed (December 2004) the reply of the EE, PRED^{*}, Gadag that water supply was commissioned in four out of eight villages. However, the Government also endorsed (August 2006) the reply of the Chief Executive Officer, Gadag that in the absence of the express feeder line for power supply and permission from Tungabhadra Board to draw water, the scheme remained incomplete. Further, it was stated that the contract was rescinded (April 2006) at the risk and cost of the contractor and fresh tenders would be called to complete the balance work.

[‡] KPTCL was divided into several companies and Gadag falls under the jurisdiction of HESCOM

^{*} Zilla Panchayat Engineering Divisions were later renamed as Panchayat Raj Engineering Divisions

Thus, failure of the EE, PRED, Gadag to ensure availability of water and power supply before commencement of work, as stipulated in the technical note of EIC, resulted in the investment amounting to Rs.5.69 crore becoming unfruitful besides denial of safe drinking water to the rural population even after six years of commencement of the project. The estimated cost of the scheme may escalate further due to efflux of time.

2.10 Inadequate provision of funds resulted in unfruitful expenditure

Failure of the Zilla Panchayat, Davanagere in providing adequate funds for water supply scheme to Santhebennur and other villages rendered the expenditure of Rs.2.02 crore unfruitful besides denying drinking water to the needy rural population

Under the Integrated Rural Water Supply Programme, a comprehensive water supply scheme to provide safe drinking water to Santhebennur and four other villages of Channagiri Taluk in Davanagere District was administratively approved (January 1999) by the Government at an estimated cost of Rs.3.25 crore. The technical sanction was accorded by the Chief Engineer (CE), Panchayat Raj Engineering Department, Bangalore in February 1999. The Executive Engineer (EE), Panchayat Raj Engineering Division (PRED), Davanagere entrusted (January 2000) the work to a contractor at his tendered cost of Rs.3.39 crore. The work was to be completed in January 2002. The approved plan included proposal for construction of a filter house on gomal land^h in Jakkali village. The villagers objected to the construction and approached (January 2000) the court of law. The court pronounced the judgement in favour of the Department (September 2000). In the meantime, the department chose an alternative site to construct the filter house. Approval for the final design of jackwell was accorded by the Superintending Engineer in September 2001, only four months before the stipulated month of completion of work.

As of March 2003, the contractor showed financial progress of Rs.2.02 crore for which he was paid by the PRED. The PRED did not release the balance funds and the contractor stopped (March 2003) the work. The cost of balance

^h Area near the village set apart as grazing ground for cattle

work was estimated to be Rs.1.65 crore. In reply to the notices issued by the EE, the contractor attributed delay to non-release of balance funds and agreed to continue, provided funds were released. The EE recommended (March 2005) rescinding the contract at the risk and cost of the contractor and CE approved (February 2006) the recommendation.

The matter was referred to Government in March 2006. The Government endorsed (June 2006 and December 2006) the reply of the EE, PRED, Davanagere attributing the delay in completion of the scheme to non-provision of adequate funds and change in design and further stated that the contract had been rescinded and action would be taken to complete the work by calling fresh tender.

Thus, the failure of the ZP, Davanagere to provide sufficient funds for the scheme coupled with delay in retendering of work by EE, PRED, Davanagere rendered the expenditure of Rs.2.02 crore unfruitful besides, the objective of providing drinking water to Santhebennur and other four villages was not achieved even after the lapse of seven years.

2.11 Unfruitful expenditure on construction of a meeting hall and irregular diversions

Improper decision of the Zilla Panchayat, Chamarajanagar to construct a meeting hall by irregularly diverting the funds from development schemes rendered the expenditure of Rs.19.98 lakh unfruitful besides locking up of Rs.33 lakh with the construction agency

The State Government accorded (March 2003) administrative sanction for construction of a meeting hall for Zilla Panchayat (ZP), Chamarajanagar, at an estimated cost of Rs.63.10 lakh. The work was entrusted to Karnataka Land Army Corporation (KLAC). An amount of Rs.32.98 lakh* was released to KLAC between March 2003 and March 2005, by irregularly diverting the funds from various development schemes, which included foodgrains costing Rs.6.25 lakh. As of August 2004, the KLAC had incurred an expenditure of Rs.18.91 lakh on the work which was stopped at basement level. There was

* Swarnajayanti Gram Swarozgar Yojana – Rs.5.48 lakh, Sampoorna Grameena Rozgar Yojana – Rs.2.00 lakh, ZP budget - Rs.10 lakh and from other sources (details not available)

no significant progress after August 2004 and as of January 2006, the total expenditure on the work was Rs.19.98 lakh. Even though there was no progress in work after August 2004 and an advance of Rs.13 lakh was lying with the KLAC after adjustment of expenditure of Rs.19.98 lakh, further release of Rs.20 lakh was made (March 2006) to KLAC, just to avoid lapse of grant at the end of the financial year.

Meanwhile, the ZP shifted (November 2005) its offices to another new building (District Offices Complex under the jurisdictional control of the Deputy Commissioner, Chamarajanagar), adjacent to the construction site, which had sufficient space and also housed a meeting hall. The fact of construction of District Offices Complex in the vicinity was well within the knowledge of the ZP even before it started construction of the meeting hall. As such, there was no need for the ZP to go in for construction of a separate meeting hall, the work of which was stopped after incurring an expenditure of Rs.19.98 lakh.

On this being pointed out, the Chief Executive Officer, ZP, Chamarajanagar stated (July 2006) that the ZP was yet to decide on further construction of the meeting hall as the ZP office was housed in the District Offices Complex having a meeting hall.

Thus, the improper decision of the ZP, Chamarajanagar to construct the meeting hall rendered the expenditure of Rs.19.98 lakh unfruitful besides locking up of Rs.33 lakh with KLAC. Further, the diversion of foodgrains, meant for implementation of water conservation programmes under Sampoorna Grameena Rozgar Yojana towards construction of a building was irregular. The release of funds to KLAC at the fag end of the financial year, just to avoid lapse of grant, was also improper.

The matter was referred to Government in July 2006; reply had not been received (December 2006).

2.12 Non-collection of rent

Inadequate efforts of the Executive Officers of 15 Taluk Panchayats in realising rent of the shops resulted in non-recovery of rental revenue of Rs.1.13 crore

To augment their own resources for the Taluk Panchayats (TPs), the Karnataka Panchayat Raj Act provided that the TPs could lease/rent out the capital assets and properties placed under their control or vested with them or maintained out of the Taluk Panchayats Fund. An Asset Register of properties belonging to or vested with the TP was required to be maintained in each TP.

Audit collected information from 15 TPs regarding the recovery of rent from the tenants of the properties/shops rented out. Scrutiny of the information revealed that as of June 2006, an amount aggregating Rs.1.13 crore was outstanding as rent from the tenants (Appendix 2.1). The period for which rent was outstanding ranged as far back as 1985 to June 2006. Further, it was observed that many of the TPs had not maintained the asset register and rate of rent had not been revised periodically, as envisaged.

Evidently, the TPs were not making adequate efforts to augment their own resources. Thus, the inadequate efforts of the Executive Officers of the TPs in collecting the revenue, on time, resulted in non-realisation of rental revenue to an extent of Rs.1.13 crore.

The matter was referred to Government in February 2006. The Government endorsed (January 2007) the replies of TPs which stated that action was being taken to recover the outstanding rental revenue.

2.13 Misappropriation of foodgrains meant for poverty alleviation programmes

Failure of the Assistant Executive Engineer, Panchayat Raj Engineering Sub-division, Chikballapur in exercising effective control and supervision resulted in the misappropriation of foodgrains valued at Rs.13.87 lakh

Under various poverty alleviation programmes implemented through Zilla Panchayats, foodgrains were issued to labourers as part of wages, in addition to cash component for the work. The Assistant Executive Engineers (AEEs) at the Sub-division level were responsible for the receipt and issue of foodgrains allocated to the Zilla Panchayat Engineering Sub-divisions.

Audit scrutiny (February 2004) of records of Panchayat Raj Engineering Sub-division, Chikballapur in Kolar district for the period 2001-03 disclosed that during 2002-03, the foodgrains issued to labourers was only 1,108.67 MT as against 1,218.81 MT shown to have been issued. This had resulted in shortage of 110.14 MT of foodgrains, which had not been shown as closing stock. The value of this shortage, at the procurement price, was Rs.13.87 lakh. The Chief Executive Officer, Zilla Panchayat, Kolar, after a detailed verification, reported misappropriation of foodgrains by the Store Keeper aggregating 109.33 MT. Consequently, the Store Keeper was kept (June 2004) under suspension. On recovery of Rs.6.83 lakh from the store keeper, suspension was revoked (September 2005) and disciplinary proceedings (November 2005) had been initiated against the AEE and the Store Keeper.

Thus, failure of AEE in exercising effective control and supervision resulted in misappropriation of foodgrains valued at Rs.13.87 lakh which was meant for distribution to rural labourers under various poverty alleviation programmes. Further, though cost of the foodgrains found short was to be recovered at the procurement price, an amount of Rs.6.83 lakh had only been recovered from the Store Keeper, at the subsidised issue price, resulting in short recovery of Rs.7.04 lakh.

The matter was referred to Government in October 2004. Government replied (January 2007) that the matter had been viewed seriously. Criminal and departmental proceedings had been initiated against the AEE and Store Keeper and an Enquiry Officer was appointed for conducting the departmental enquiry.

2.14 Non-collection of compensation amount

Failure of Grama Panchayat, Method and Executive Officer, Taluk Panchayat, Hosadurga to raise the demand and to collect the compensation amount periodically had resulted in non-collection of Rs.54.15 lakh from a cement manufacturing company

Setting up of a cement factory in the jurisdiction of Grama Panchayats (GPs) is likely to affect the normal life of assets like roads, social forestry plantations, drinking water wells and sanitation, etc., resulting in environmental degradation. M/s. Karnataka Minerals and Manufacturing

Company Limited (KMMC), a company registered under Company's Act 1956 set up a cement manufacturing unit at Method village of Hosadurga taluk under Chitradurga district and started production in December 1985.

The Director of Industries and Commerce after granting licence for establishment of the mini cement plant entered into (June 1984) an agreement with the KMMC, which inter alia, stipulated payment of cash contribution, to compensate environmental degradation, by the KMMC to GP, Method. The installed capacity of the cement manufacturing unit was 200 tonnes per day, for which it was to contribute Rs.2 lakh per annum to the GP, Method from the date on which production began.

Scrutiny of accounts of Executive Officer (EO), Taluk Panchayat (TP), Hosadurga revealed that KMMC had paid only a sum of Rs.0.45 lakh during the period from 1985-2000. It was also observed that the GP had raised the demand only in January 2000. Meanwhile, KMMC was taken over by a new company M/s. Madras Cements Limited in September 2000. KMMC approached the Court (December 2002) and the case was dismissed due to non-presence of plaintiff (June 2003). The Chief Executive Officer (CEO), Zilla Panchayat, Chitradurga instructed (February 2005) EO, TP, Hosadurga to recover the dues from KMMC.

Thus, the laxity of GP, Method and EO, TP, Hosadurga to raise a demand even after the instructions of CEO and failure of Chief Accounts Officer to point out non-collection of dues by GP in internal audit resulted in non-collection of Rs.54.15 lakh (including interest) from KMMC. The CEO, ZP, Chitradurga stated (November 2006) that a fresh case has been filed (September 2006) by the GP, Method for recovery of dues. It was further stated that internal audit of GPs were not generally conducted unless there were specific complaints.

The matter was referred to Government in August 2006. Government endorsed (November 2006) the reply of the CEO, ZP, Chitradurga.

HEALTH AND FAMILY WELFARE DEPARTMENT

2.15 Unfruitful expenditure on construction of a hospital building

Defective design for construction of a hospital building which required execution of additional items of work and stoppage of work by the contractor due to non-payment of bills rendered the expenditure of Rs.96.17 lakh unfruitful

Consequent on upgradation (November 1992) of the primary health centre at Sathanur in Kanakapura taluk under Bangalore (Rural) Zilla Panchayat to a 50 bedded hospital, the Government accorded administrative approval (August 2001) for construction of a hospital building at an estimated cost of Rs.1.20 crore. The work was technically sanctioned (January 2002) by the Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore. The work was entrusted to a contractor at Rs.1.26 crore with an agreement (August 2002) that the work was to be completed within 30 months.

During the execution of the work, quantities of work executed exceeded the tendered quantities due to natural fall in ground level from 2 metres to 2.5 metres. The cost of excess quantities executed was Rs.45.85 lakh. Due to delay in payment of bills, the contractor stopped (January 2004) the work, after incurring an expenditure of Rs.96.17 lakh and had not responded to notices issued by the Assistant Executive Engineer, PRE Sub-division, Kanakapura. Even as of December 2006, the work remained incomplete, rendering the expenditure of Rs.96.17 lakh unfruitful. The District Health and Family Welfare Officer (DHFWO), Bangalore (Rural) district stated (January 2007) that the work remained incomplete due to non-provision of funds for construction of the hospital building. It was further stated that the balance work was proposed to be taken up under Karnataka Health Systems Development Project at a cost of Rs.1.85 crore.

Thus, the failure of the CE, PRE Department, Bangalore in preparing a design duly considering the site conditions, led to execution of additional items of work. Besides, inaction of the DHFWO, Bangalore (Rural) district and the EE, PRE Division, Ramanagaram in arranging timely payment of bills resulted

in stoppage of work by the contractor, thereby rendering the entire expenditure of Rs.96.17 lakh unfruitful.

The matter was referred to Government in August 2006; reply had not been received (December 2006).

GENERAL

2.16 Follow up on Audit Reports

According to the Hand Book of Instructions for speedy settlement of audit observations, etc., issued by the Finance Department, and the Rules of Procedure (Internal Working) of the Public Accounts Committee, the departments of Government should prepare and forward to Karnataka Legislative Assembly Secretariat, detailed explanations in the form of Action Taken Notes (ATNs) on the paragraphs/reviews featured in the Reports of the Comptroller and Auditor General of India, within four months of the presentation of the Reports in the Legislature, duly getting the ATNs vetted by Audit.

The details of presentation of the Reports of the Comptroller and Auditor General of India (Zilla Panchayats) from the year 2000-01 onwards, to the State Legislature, are given below:

Report	Month of presentation to the Legislature
2000-01	March 2003
2001-02	February 2004
2002-03	July 2005
2003-04	July 2006

ATNs have, however, not been received by Audit for many of the observations even as of November 2006. The department-wise position of pendency is furnished in the Appendix 2.2.

While the above Reports presented to the State Legislature featured audit comments noticed during the review of implementation of various schemes and serious irregularities like misappropriation of funds/stores, delay in

completion of schemes/buildings leading to idle investments, unfruitful/irregular/infructuous expenditure etc., the Government had not communicated (November 2006) details of action taken to plug the loop holes in the system that led to these financial improprieties. The departments concerned need to be instructed to forward the ATNs on the paragraphs/reviews featured in these Audit Reports to the Karnataka Legislature without undue delay.

BANGALORE
The

(USHA SANKAR)
Principal Accountant General
(Civil and Commercial Audit)

COUNTERSIGNED

NEW DELHI
The

(VIJAYENDRA N.KAUL)
Comptroller and Auditor General of India