CHAPTER I

SECTION 'A'
AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

The 73rd Constitutional amendment gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, regular elections, regular flow of funds through Finance Commissions, *etc*. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-government. In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

Post the 73rd amendment, the State enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish a three-tier PRI system at the village, taluk and district levels in the State and framed rules to enable PRIs to function as institutions of local self-government.

1.2 State profile

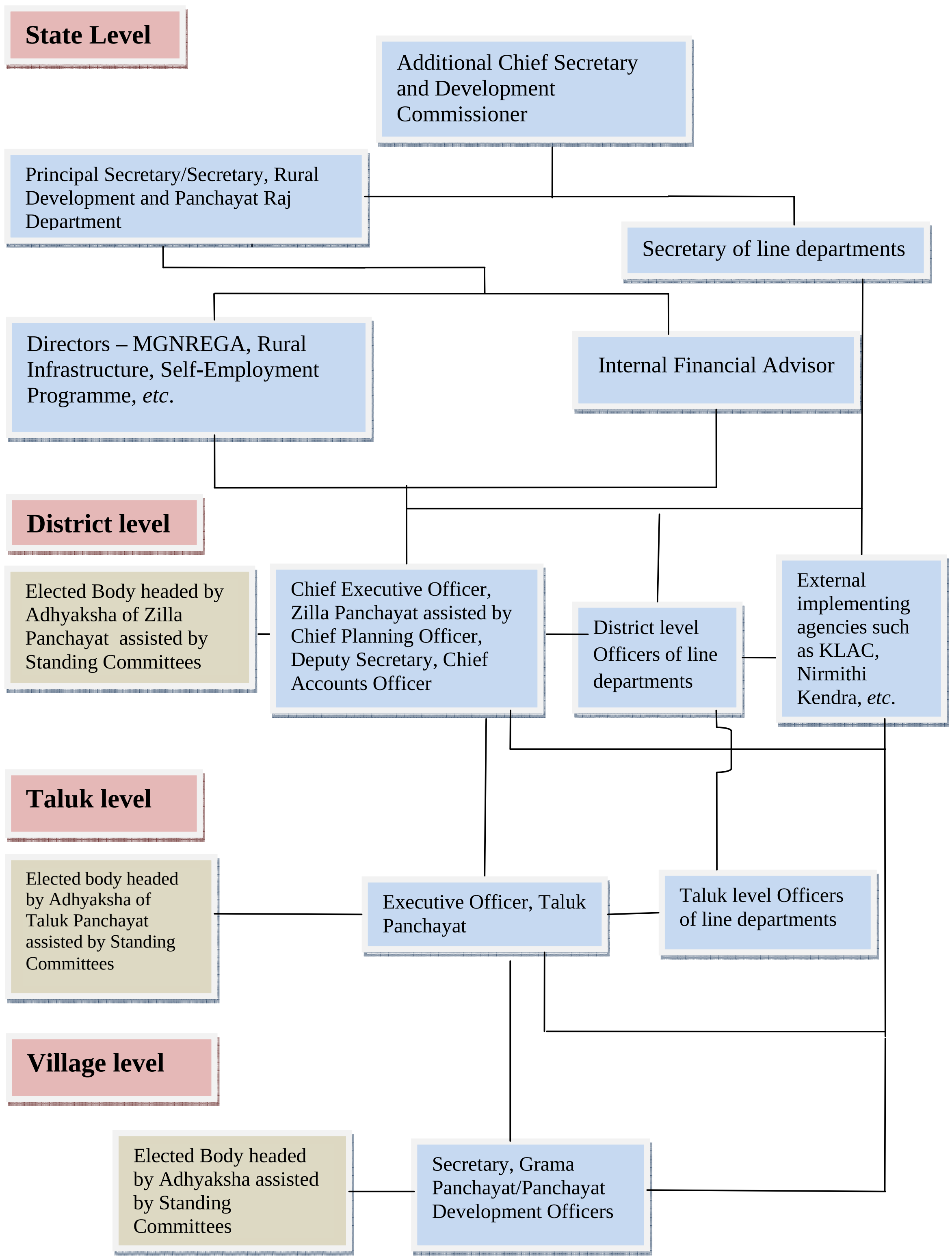
The comparative demographic and developmental picture of the State is given in **Table 1.1** below. The population growth in Karnataka has been close to the national average. However, there has been a decline in the population growth rate in the last two decades. The decennial population growth rate in the last decade was 18 *per cent*. The State, with its urban population at 34 *per cent* of total population, is currently ranked as the fifth most urbanised among all States. The urban and rural population decadal growth rates are 29 *per cent* and 12 *per cent* respectively. By 2011, the State's projected population is 6.25 crore. Women comprise 49 *per cent* of the population. Karnataka has a total literacy rate of 67 *per cent* compared to the rate of 65 *per cent* among Indian States. The service sectors along with the agricultural sector dominate the State's economy. The State has 114 backward taluks out of which 39 taluks are most backward and spread over 14 districts.

Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	52,851	1,02,861	9
Population density	Sq.Km	276	313	14
Urban population (*per cent*)	1,000s	17,962 (34)	28,612	7
Number of PRIs	Numbers	5,833	2,40,000 (Approx)	14
Number of Zilla Panchayats (ZP)	Numbers	29	540 (Approx)	8
Number of Taluk Panchayats (TP)	Numbers	176	6,000 (Approx)	13
Number of Grama Panchayats (GP)	Numbers	5,628	2,34,000 (Approx)	14
Gender ratio	1,000 males	965	933	9
Poverty ratio	Percentage	20	NA	NA
Literacy	Percentage	67	65	16

Source: Economic Survey 2009-10 and Karnataka at a glance 2008-09 NA-Not available

1.3 Organisational structure of PRIs



1.3.1 Standing Committees

PRIs shall constitute standing committees to perform the assigned functions. The political constitution of the committees is given in **Table 1.2** below:

Table 1.2: Political constitution of the Standing Committees

<table>
<tr><th>Level of PRIs</th><th>Chief Political Executive</th><th>Standing Committees</th><th>Political executives</th></tr>
<tr><td>GP</td><td>Adhyaksha</td><td>(a) Production Committee
(b) Social Justice Committee
(c) Amenities Committee</td><td rowspan="3">Chairman (Elected among the elected members of GPs, TPs and ZPs)</td></tr>
<tr><td>TP</td><td>Adhyaksha</td><td>(a) General Standing Committee
(b) Finance Audit and Planning Committee
(c) Social Justice Committee</td></tr>
<tr><td>ZP</td><td>Adhyaksha</td><td>(a) General Standing Committee
(b) Finance Audit and Planning Committee
(c) Social Justice Committee
(d) Education and Health Committee
(e) Agricultural and Industries Committee</td></tr>
</table>

Source: KPR Act.

The PRI-wise roles and responsibilities of the Standing Committees are given in **Appendix 1.1**.

1.4 Decentralised planning

In pursuance of article 243 ZD of the Constitution of India and Section 310 of the KPR Act, the State Government has constituted District Planning Committee (DPC) during April 2001. The DPC consists of the following members.

- The members of the House of People who represent the whole or part of the district;
- The members of the Council of State who are registered as electors in the district;
- Adhyaksha of the Zilla Panchayat;
- Mayor or the President of the Municipal Corporation or the Municipal Council respectively, having jurisdiction over the headquarters of the district; and
- Such number of persons, not less than four-fifth of the total number of members of the Committee, as may be specified by the Government, elected in the prescribed manner from amongst the members of the ZP/Town Panchayat and Councillors of the Municipal Corporations and Municipal Councils in the district, in proportion to the ratio between the population of the rural areas and of the urban areas in the district.

All the members of the State Legislative Assembly whose constituencies lie within the district, the members of the State Legislative Council who are registered as electors in the district and the Deputy Commissioner are permanent invitees of the Committee.

The Chief Executive Officer is the Secretary of the Committee. The Adhyaksha of the ZP is the Chairman of the DPC and the Mayor or President of the Municipal Corporation or the Municipal Council respectively having jurisdiction over the headquarters of the district, is the Vice-Chairman.

The role and responsibility of the DPC is to consolidate the plans prepared by the ZPs, TPs, GPs, Town Panchayats, Municipal Councils and the Municipal Corporations in the district and prepare a draft development plan for the district as a whole.

DPC did not visualise a comprehensive plan for the district development

Audit observed that the DPCs did not forward the Annual District Development Plans (ADDPs) to the State Government for integration with the State plan. The DPCs finalised the ADDPs by merely consolidating the plan proposals received from the line departments without visualising the plan for the district development. None of the DPCs had engaged technical experts in different fields during the preparation of the development plans**.**

1.5 Financial profile

1.5.1 Fund flow to PRIs

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central Government grants for maintenance and development purposes. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Tables 1.3** and **1.4** below respectively. The authorities for reporting use of funds in respect of ZPs, TPs and GPs are Chief Accounts Officer (CAO), Executive Officer (EO) and Secretary/Panchayat Development Officer (PDO) respectively.

Table 1.3: Fund flow mechanism in PRIs

<table>
<tr><th rowspan="2">Nature of Fund</th><th colspan="2">ZPs</th><th colspan="2">TPs</th><th colspan="2">GPs</th></tr>
<tr><th>Source of fund</th><th>Custody of fund</th><th>Source of fund</th><th>Custody of fund</th><th>Source of fund</th><th>Custody of fund</th></tr>
<tr><td>Own receipts</td><td>-</td><td>-</td><td>Assessees and users</td><td>Bank</td><td>Assesses and users</td><td>Bank</td></tr>
<tr><td>Assigned revenues</td><td rowspan="2">State Government</td><td rowspan="2">Treasury</td><td rowspan="2">State Government</td><td rowspan="2">Treasury</td><td rowspan="2">State Government</td><td rowspan="2">Treasury/ Bank</td></tr>
<tr><td>SFC</td></tr>
<tr><td>CFC/CSS</td><td>GOI</td><td>Bank</td><td>GOI</td><td>Bank</td><td>GOI</td><td>Bank</td></tr>
<tr><td>State plan</td><td>State Government</td><td>Treasury</td><td>State Government</td><td>Treasury</td><td>State Government</td><td>Treasury/ Bank</td></tr>
</table>

Source: As furnished by the Rural Development and Panchayat Raj Department/PRIs
CSS-Centrally Sponsored Scheme; GOI-Government of India

Table 1.4: Fund flow arrangements in flagship schemes

Sl.No.	Scheme	Fund flow
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	GOI and State Government transfer their respective shares of MGNREGA funds in a bank account, called State Employment Guarantee Fund (SEGF), set up outside the state accounts. Commissioner-State Rural Employment Guarantee is the custodian of SEGF and administers onward transfer of funds from it to ZPs, TPs and GPs.
2	Sarvashiksha Abhiyan (SSA)	The funding pattern of SSA is aligned with the Five Year Plans. The funding was to be shared between the Central and State Governments in the ratio of 75:25 during Tenth Five Year Plan (2002-07) and 50:50 thereafter. The State Government releases the funds to the district level officers through CEOs of ZPs, who in turn releases to School Development Management Committees for implementation of the Scheme.
3	National Rural Health Mission (NRHM)	Funds for NRHM were released by GOI to the States through two separate channels. State Finance Department releases funds for direction and administration, rural and urban family welfare services, procurement of supplies and services, *etc*. and directly to the State Health Society for implementation of the Scheme. From the year 2007-08, the States were to contribute 15 *per cent* of the required funds duly reflecting their requirements in a consolidated Programme Implementation Plan (PIP). Funds were provided on the basis of approval of these PIPs by GOI.
4	Mid Day Meals (MDM)	The central assistance received is credited to the State funds and the State Government after including its allocation of funds, release funds to the ZPs. The Central assistance for the Scheme was provided by way of free supply of foodgrains and also expenditure reimbursed in the form of subsidy for transportation and cost of cooking. In addition, assistance for physical infrastructure like kitchen-cum-store, water supply, *etc*. was also provided by GOI.

Source: Scheme guidelines and performance review reports of Civil and PRIs

The grants enjoin upon sanctioning authorities in GOI to ensure proper utilisation of grant money. This is achieved through receipt of progress reports, Utilisation Certificates (UCs) and internal audit of scheme accounts in PRIs by the CAO. Each sanction of grant contains certain conditions of grant-in-aid mentioned in General Financial Rules, 2005.

1.5.2 Resources: Trends and Composition

Table 1.5 below shows the trends of resources of PRIs for the period 2005-06 to 2009-10.

Table 1.5: Time series data on resources of PRIs

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10#
Own Revenue	111.96	138.34	133.64	144.74	NA
CFC transfers (Twelfth Finance Commission Grants)	177.60	177.60	177.60	177.60	177.60
Grants from State Government and Assigned Revenues	7,580.47	7,962.34	9,488.13	9,841.85	10,380.70
GOI grants for CSS/State Schemes *	1,815.33	2,372.98	2,680.40	3,285.09	5,032.20**
Other receipts*	109.74	171.24	99.57	82.29	13.28
Total	**9,795.10**	**10,822.50**	**12,579.34**	**13,531.57**	**15,603.78**

Source: Certified annual accounts up to 2008-09 and un-certified accounts for 2009-10 for ZPs and TPs; figures as furnished by State Accounts Department local audit circle for GPs

* excluding TPs

** increase in releases under MGNREGA

excludes GPs

NA: not available

1.5.3 Application of Resources: Trends and Composition

Table 1.6 below shows the trends of application of resources of ZPs and TPs sector-wise for the period 2005-06 to 2009-10:

Table 1.6: Application of resources sector-wise

(₹ in crore)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
ZILLA PANCHAYATS					
State grants and Assigned Revenues					
Capital Expenditure	**397.24**	**157.92**	**38.61**	**17.92**	**0**
Social Services	376.79	139.38	31.95	17.61	0
Economic Services	20.45	18.54	6.66	0.31	0
Revenue Expenditure	**3,335.05**	**3,096.32**	**3,454.69**	**3,558.22**	**3,534.47**
General Services	96.58	94.82	105.34	123.22	115.56
Social Services	2,027.14	1,896.58	2,253.07	2,574.15	2,582.76
Economic Services	1,206.14	1,104.34	1,095.83	860.85	836.15
Suspense	5.19	0.58	0.45	0	0
CSS/State Schemes					
Capital Expenditure	**2.08**	**4.61**	**57.72**	**64.08**	**8.58**
Social Services	2.08	4.26	57.72	64.08	8.58
Economic Services	-	0.35	-	-	-
Revenue Expenditure	**860.72**	**2,407.48**	**1,941.02**	**1,455.20**	**1,606.60**
General Services	0	0	0	0	0.72
Social Services	283.75	363.36	454.52	548.18	375.08
Economic Services	576.97	2,044.12	1,486.50	907.02	1,230.80
Total	**4,595.09**	**5,666.33**	**5,492.04**	**5,095.42**	**5,149.65**
TALUK PANCHAYATS					
Capital Expenditure	**1.49**	**1.63**	**0**	**0**	**0.16**
General Services	0	0	0	0	0
Social Services	0.97	1.38	0	0	0.15
Economic Services	0.52	0.25	0	0	0.01
Revenue Expenditure	**2,845.07**	**3,192.26**	**3,951.21**	**4,537.89**	**4,493.31**
General Services	0.23	0.25	65.95	0	0
Social Services	2,556.22	2,827.53	3,427.17	4,194.75	4,100.53
Economic Services	278.20	279.15	350.04	334.84	385.81
Suspense	10.42	85.33	108.05	8.30	6.97
Total	**2,846.56**	**3,193.89**	**3,951.21**	**4,537.89**	**4,493.47**
Grand Total	**7,441.65**	**8,860.22**	**9,443.25**	**9,633.31**	**9,643.12**

Source: Separate Audit Reports (SARs) of ZPs and consolidated SARs for TPs up to the year 2008-09; un-certified accounts for ZPs and 141 TPs for 2009-10.

ZPs control over expenditure was ineffective due to direct transfer of GOI funds to implementing agencies

Reduction in capital expenditure over the years was due to transfer of funds by GOI directly to the implementing agencies not routed through ZP and TP funds. This rendered the ZPs control over expenditure ineffective and also resulted in their inability to monitor the progress of works/expenditure incurred through GPs, external agencies and also district level offices.

1.5.4 Quality of Expenditure

The Thirteenth Finance Commission has made recommendations on the need to improve the quality of expenditure to obtain better inputs and outcomes. The availability of better infrastructure in the social, educational and health sector in the country generally reflects the quality of its expenditure. In view of the importance of public expenditure on development heads for social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 1.7** below shows the key parameters for evaluating the quality of expenditure of ZPs and TPs:

Table 1.7: Statement showing quality of expenditure

(₹ in crore)

Year	Total Expenditure	Development Expenditure (DE)	Percentage of DE to Total	Social Sector Expenditure (SSE)	Percentage of SSE to Total	Capital Expendi-ture (CE)	Percentage of CE to Total
2005-06	7,441.65	NA	NA	4,867.11	65.40	400.81	5.39
2006-07	8,860.22	NA	NA	5,087.47	57.42	164.16	1.85
2007-08	9,443.25	11.74	0.12	6,134.76	64.96	96.33	1.02
2008-09	9,633.31	9.63	0.10	7,317.08	75.96	82.00	0.85
2009-10	9,643.12	13.18	0.14	7,058.37	73.20	8.74	0.09

Source: RDPR Progress Reports and SARs up to 2008-09 and un-certified accounts for 2009-10
NA: not available

Percentage of expenditure on social sector increased gradually

Audit observed that the percentage of expenditure on social sector gradually increased over the years.

1.5.5 During 2008-09 and 2009-10 public investment in social sector and rural development through major CSS is given in **Table 1.8** below:

Table 1.8: Statement showing investment through major CSS

(₹ in crore)

Schemes	2008-09		Percentage of shortfall (-)/ excess (+) in utilisation	2009-10		Percentage of shortfall (-)/excess (+) in utilisation
	Release	Expenditure		Release	Expenditure	
MGNREGA	651.42	357.87	(-) 45.06	3026.29	2641.88	(-) 12.70
SSA	878.90	868.16	(-) 1.22	743.26	794.91	(+) 6.95
Pradhan Mantri Gram Sadak Yojana (PMGSY)	1290.08	1450.78	(+) 12.46	2222.94	2364.59	(+) 6.37
Indira Awas Yojana (IAY)	419.93	206.08	(-) 50.93	753.94	532.84	(-) 29.33
Integrated Wasteland Development Programme (IWDP)	13.47	8.47	(-) 37.12	9.20	6.03	(-) 34.46
Swarna Jayanti Gram Swarozgar Yojana	124.09	107.50	(-) 13.37	134.72	120.03	(-) 10.90

Source: Annual Report of RDPR, Progress reports of Education Department, Watershed and Rajiv Gandhi Rural Housing Corporation Limited
Note: Release does not include additional grants provided. Expenditure more than release was due to provision of additional grants.

While there was considerable increase in expenditure on MGNREGA and PMGSY Schemes compared to previous year, there was decline in expenditure on SSA and IWDP Schemes. The utilisation by the PRIs of the funds available has shown improvement.

1.5.6 Rural Development programmes

The RDPR aims at facilitating development of rural areas through a number of State and District Sector programmes. Major programmes/schemes implemented by PRIs are detailed in **Appendix 1.2.**

The allocation and expenditure during 2008-09 and 2009-10 is indicated in **Table 1.9** below.

Table 1.9: Statement showing allocation and expenditure in respect of Rural Development Programmes

(₹ in crore)

Schemes	2008-09		Percentage of shortfall (-)/ excess (+) in utilisation	2009-10		Percentage of shortfall (-)/excess (+) in utilisation
	Allocation	Expenditure		Allocation	Expenditure	
Grama Swaraj Project	160.03	135.01	(-) 16	115.00	40.86	(-) 64
Suvarna Gramodaya Yojana	1,000.60	366.65	(-) 63	245.90	78.68	(-) 68
Mukya Mantri Grameena Raste Abhivruddi Yojane	100.00	61.89	(-) 38	148.28	28.47	(-) 81
Swacha Grama Yojane	430.59	271.78	(-) 37	430.59	27.29	(-) 94

Source: Annual Reports of RDPR Department

1.5.7 Recommendations on Expenditure Reforms Commission

In pursuit of reforming the expenditure system, the Government established Expenditure Reforms Commission in 2009-10 and its report in February 2010 brought out the following recommendations.

- to plug the regional imbalances in the development of sectors like Health and Education not by merely earmarking increased allocations, but also by insisting on performance attainments against a set of pre-determined targets for expected outcomes in each sector, with a clear time line for the taluks identified as backward, more backward and most backward.
- investments in interventions that impact Human Development Index should be addressed on a priority basis, with earmarking of adequate allocations and emphasis on expenditure performance monitoring in relation to the objectives set for each scheme.
- every department should disclose key goals stated in measurable terms for its operations so that all intervention/schemes are benchmarked against that goal.
- all schemes/programmes/projects should have a sunset clause, indicating the objectives/goals to be achieved and specifying the terminal year in which such schemes/programmes/projects are to be closed.

Audit could not ascertain the follow-up action on the recommendations of the Commission (March 2011).

1.6 Devolution of Functions, Funds and Functionaries

1.6.1 The 73rd Amendment to the Constitution envisaged transfer of the functions to PRIs listed in the Eleventh schedule. The KPR Act has only an enabling provision for transfer of subjects to different tiers of PRIs. Accordingly, the State Government through executive orders had to transfer all the subjects to different tiers of PRIs. According to a study conducted by Ministry of Panchayati Raj in 2010, Karnataka State ranks second in the devolution index among the States. Subjects and functions transferred and yet to be transferred are detailed in **Appendix 1.3**.

1.6.2 However, for effective functioning of both State Government and PRIs, it is necessary to delineate the role and responsibilities of the State Government and each tier of PRI under each transferred subject. This exercise was done through Activity Mapping. The functions of Activity mapping not transferred to PRIs as of March 2010 are given in **Appendix 1.4.**

1.6.3 The KPR Act, 1993 has been further amended facilitating PRIs to perform better. Some of the important enabling provisions are:

- enhancing the minimum statutory developmental grant from ₹ five lakh to ₹ six lakh per GP. Taxation initiative of the GPs has been rationalised and specific guidelines and parameters have been ensured. This has resulted in a three-fold increase of the taxation demand. Karnataka has also been in the forefront in adopting the latest technology in transfer of funds to GPs through the process of internet banking;
- strengthening the GPs by creating one post of PDO in each of the 5,628 GPs and 2,500 Second Division Accounts Assistant posts in the larger GPs for effective implementation of programmes, effective utilisation of grants, *etc*.;
- enacting GPs (Budgeting and Accounting) Rules, 2006 to ensure transparency in the maintenance of accounts. Besides, Double Entry Accounting System has been introduced and is in progress in all GPs;
- developing a new interactive training programme to be transmitted through the satellite centre located at Abdul Nazir Sab State Institute for Rural Development, Mysore for training GP members. Establishment of Satellite Communication (SATCOM) centres for interactive training are in progress in five[1] other districts;
- initiating action for formulation of Comprehensive District Development Plan (CDDP) for the Eleventh Five Year Plan Period (2007-12). The ZPs have been advised to involve technical support institutions. Formulation of CDDP is under way in all ZPs.

1.7 Accountability framework

1.7.1 Authority and responsibility of State Government on PRIs

The Constitution empowers States to legislate on PRIs under Seventh Schedule and Part X of the Constitution of India. Further, in accordance with Panchayat Raj Act and rules made thereunder, the State Government exercises its powers in relation to PRIs as detailed in **Appendix 1.5.**

1.7.2 The KPR Act entrusts the State Government with the following powers so that it can monitor the proper functioning of the PRIs.

- call for any record, register, plan, estimate, information, *etc*. from the PRIs;
- inspect any office or any record or any document of the PRIs;

[1] Bangalore, Dakshina Kannada, Davanagere, Dharwad and Gulbarga

- inspect the works and development schemes implemented by PRIs; and
- take action for default of a Panchayat President, Secretary/PDO.

Despite the above mentioned duties and powers vested in the State Government for the enhancement of quality of public service and governance, Audit noticed numerous lapses/defects in the formulation and implementation of schemes, matters relating to finance, *etc*. as mentioned in Chapter II of this Report.

1.7.3 Powers for removal of Adhyaksha and Upadhyaksha of PRIs

The State Government has powers to remove Adhyaksha and Upadhyaksha of ZP/TP/GP after following the procedure prescribed in KPR Act as mentioned below:

Every Adhyaksha and Upadhyaksha shall, after an opportunity is afforded for hearing him, (and if necessary after obtaining a report from the TP/ZP/State Government and considering the same) be removed from his office as Adhyaksha or Upadhyaksha by the State Government for being persistently remiss (or guilty of misconduct) in the discharge of his duties. An Adhyaksha or Upadhyaksha so removed who does not cease to be a member shall not be eligible for re-election as Adhyaksha or Upadhyaksha during the remaining term of office as member of such GP, TP and ZP.

1.7.4 Social Audit

The State Government introduced KPR (Conduct of Panchayat Jamabandi) Rules, 2001, a social audit exercise, through which people have a chance to assess the works of their GP. Panchayat Jamabandis are being held in all GPs in the State.

1.7.5 Audit Mandate

1.7.5.1 State Accounts Department (SAD) is the statutory external auditor for GPs. Its duty *inter-alia* is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to auditees and to the State Government.

1.7.5.2 The Comptroller and Auditor General of India (CAG) audits and certifies the accounts of ZPs and TPs as entrusted under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971. The Controller of State Accounts, audits the financial statements and transaction accounts of GPs under KPR Act. The State Government entrusted audit of GPs under Technical Guidance and Supervision Model (Section 20(1) of DPC Act) to the CAG by way of passing an ordinance in October 2010. The period of entrustment of audit of ZPs and TPs to CAG was extended up to the year 2011-12.

1.7.6 Vigilance mechanism

1.7.6.1 Role of Lokayukta/Panchayat Ombudsman in PRIs

(a) The Administrative Reforms Commission had recommended the setting up of the institution of Lokayukta to improve the standards of public administration by looking into complaints against the administrative actions, including cases of corruption, favouritism and official indiscipline in the administrative machinery of the State Government and PRIs.

The Karnataka Lokayukta Act was enacted in 1984 empowering Lokayukta to investigate any action which is taken by or with the general or specific approval of the Chief Minister; a Minister or a Secretary; a member of the State Legislature; or any other public servant being a public servant of a class notified by the State Government in consultation with the Lokayukta in this behalf.

(b) Karnataka Panchayat Raj (Amendment) Ordinance 2010, empowered the State Government to appoint a Panchayat Ombudsman for each ZP, TP, GP or for one or more of such Panchayats, such number of officers of the State Government to be the Panchayat Ombudsman.

The Panchayat Ombudsman appointed shall be the competent authority to pass verdict after hearing the grievances and complaints received against any elected members, officers and officials of the PRIs within their respective jurisdictions.

The Panchayat Ombudsman shall have power to investigate any allegation or action taken by Panchayats and the Panchayat institutions and the institutions funded by Panchayat elected members, the officers and officials of the Panchayat institutions which are substantially controlled or funded by the Panchayats. The Panchayat Ombudsman shall submit a report to the Government on all the matters including allegations against elected members, officers or officials of such Panchayats or institutions or functionaries on the reference made to him.

1.8 Conclusion

The DPCs did not visualise a comprehensive plan for district development. A significant portion of the expenditure escaped the ZPs' control due to direct transfer of GOI funds to implementing agencies without routing through ZPs and TPs funds.

SECTION 'B' – FINANCIAL REPORTING

1.9 Framework

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

1.9.2 Annual Accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and DDR heads as prescribed in Rule 33 and 30(4) of KZP (F&A) and KPR TP (F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006.

1.10 Fiscal reforms path in PRIs

Karnataka was the first State to enact (September 2003), The Karnataka Local Fund Authorities Fiscal Responsibility Act (Act), 2003 to provide Local Fund Authorities the responsibility to ensure best practice of financial management of local funds. According to the Act, a Medium Term Fiscal Plan (MTFP) shall be prepared in each financial year along with the annual budget in respect of every local fund authority and shall be submitted for approval of the concerned authority. This would enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus and also ensure prudent management of public fiscal operations of the local funds. The Act also prescribed measures to enforce compliance through the SAD. The State Government was to frame rules by issue of notification for carrying out all or any of the purposes of the Act.

Audit observed that the State Government is yet (March 2011) to frame rules for implementation of the Act. As a result, MTFP had not been prepared by any of the PRIs, defeating the purpose of the Act of ensuring fiscal stability and sustainability and greater transparency in fiscal operations.

1.11 Accounting system in Grama Panchayats

The State Government enacted the KPR GPs (Budgeting and Accounting) Rules, 2006 which provided for mandatory preparation of accounts based on the DEAS in GPs on accrual basis with effect from April 2007. The State Government engaged Chartered Accountant (CA) firms to introduce DEAS in GPs and they were to train the GP staff in the software developed and ensure preparation of accounts in DEAS from 2009-10 onwards. Audit test-checked (April-August 2009) 64 GPs to ascertain the capacity built up by the GP staff in preparation of accounts and observed the following:

- Only six GP Secretaries were able to draw trial balance. While 30 GP Secretaries could write cash book, only 25 GP Secretaries were able to post journal entries in DEAS.
- Forty three GPs did not maintain the subsidiary registers prescribed in the Rules, thereby the accuracy of accounting could not be ensured by Audit.
- None of the GPs had formed committees to arrive at the value of assets held by the GPs as required under the Rules.
- Audit of 3,555 accounts[2] of GPs were in arrears for the period 2007-08 to 2009-10.

1.12 Financial Reporting issues

1.12.1 Arrears in Accounts

The KPR Act stipulated that annual accounts were to be passed by general body of PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General for Audit. The general body meetings were not convened by PRIs in time due to administrative constraints. Non-preparation of annual accounts and non-conduct of audit of CSS by Chartered Accountants within the stipulated date also attributed to delay in passing the annual accounts. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Three ZPs[3] and 60 TPs did not forward 2009-10 annual accounts on time, with delays ranging from 43 to 120 days and 30 to 210 days respectively.

1.12.2 Placement of Separate Audit Reports before the State Legislature

The SARs of four ZPs for the year 2007-08, 29 ZPs for the year 2008-09 and consolidated SARs of TPs for the year 2008-09 are yet to be placed in the State Legislature.

1.12.3 Budget

Budget is the most important tool for financial planning, accountability and control. As per KPR Act, the budget proposals containing detailed estimates of income and expenditure expected during the ensuing year were to be prepared by the respective standing committees of PRIs after considering the estimates and proposals submitted by the executive authorities of PRIs every year. After considering the proposals, the Finance, Audit and Planning Committee was to prepare the budget showing the income and expenditure of the respective PRIs for the ensuing year and to place it before the governing body not later than the tenth day of March every year. The approved budget of PRIs had to be consolidated by the respective ZPs for submission to the State Government for consideration in the State budget. Further, supplementary budget was to be prepared and submitted to the State Government for approval in case of requirement exceeding sanctions and limitations. Fourteen ZPs did not furnish details of supplementary grants received duly approved by the State Government. Budget of 29 ZPs for the year 2009-10 depicted huge excess and savings in expenditure over budget provision ranging from 15 to 100 *per cen*t

[2] Administrative report of SAD.
[3] Chikmagalur, Hassan and Tumkur.

(excess) and 13 to 99 *per cent* (savings). It was also observed that an expenditure of ₹15.97 crore was incurred by six ZPs without budget provision as detailed in **Appendix 1.6,** reflecting ineffective budgetary control by the CAOs of ZPs. There was no mechanism at the State level to watch excess/savings in expenditure over budget provision in respect of ZPs (March 2011).

1.12.4 Deficiencies in ZP and TP accounts

The deficiencies noticed in accounts of ZPs and TPs during 2008-09 are detailed below:

- Government directed (September 2004) ZPs to maintain their accounts fund-wise[4] as Fund-I, Fund-II and Fund-III and reconcile with fund-wise Plus and Minus Memoranda[5] of the respective district treasuries. Ten [6] ZPs did not prepare the accounts fund-wise. Further, the unspent balances (as of March 2008) under ZP Fund II which were to be written back to the Consolidated Fund of the State were not adjusted during 2008-09.
- Eighteen ZPs did not furnish to Audit a certificate declaring the total number of bank accounts maintained. In the absence of this, Audit could not ascertain the correctness of the bank transactions included in the annual accounts.
- As per State Government instructions (May 2000), only one bank account should be opened for each scheme. But, eight[7] ZPs have operated multiple bank accounts as detailed in **Appendix 1.7.**
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZP. However, balances of ₹126.90 crore and ₹18.25 crore were outstanding under TP and GP suspense accounts in the annual accounts of 17 ZPs as detailed in **Appendix 1.8**.
- The year-wise balances in Suspense Accounts, Deposits and Advances, balances under Loans and Advances and adverse balances have not been reconciled and adjusted to correct Heads of Account which is a pointer to the possibilities of incorrect adjustments and is fraught with the risk of concealment of frauds.
- Amounts booked by treasury in 'Plus & Minus Memorandum' and those booked in Annual Accounts continued to reflect differences which are yet to be reconciled. The expenditure at treasury was not reconciled to the extent of ₹4.78 crore by 25 controlling officers of ZP, Ramanagara with CAO, ZP. Hence, the correctness of closing balances shown in Annual Accounts could not be vouchsafed in Audit.

---

[4] Fund I comprises of receipts and expenditure of CSS/Central Plan Schemes;
Fund II comprises of State plan schemes which would lapse to the Consolidated Fund of the State on the close of the financial year; and
Fund III comprises of own revenue, refundable deposits, *etc*.

[5] Schedule explaining the receipts and expenditure of ZP at Treasury

[6] Belgaum, Chamarajanagar, Chikmagalur, Dakshina Kannada, Hassan, Koppal, Madikeri, Raichur, Tumkur and Udupi

[7] Bangalore (Rural), Belgaum, Bijapur, Chitradurga, Hassan, Kolar, Mysore and Shimoga

- No ZP maintained register of loans and advances, register of permanent advances, register of AC bills, register of deposits and asset register as prescribed in KZP (F & A) Rules, 1996.

1.12.5 Maintenance of community assets and Asset register

Eleventh Schedule read with KPR Act devolves the responsibility of maintenance of community assets to PRIs. All PRIs should maintain an asset register in prescribed form containing particulars of assets owned by them. The particulars should include description of asset, year of acquisition and amount of acquisition. The scheme guidelines in respect of SSA, MDM, MGNREGA, *etc*. also stipulate recording of assets created under such schemes. Further, rules also stipulate annual physical verification of assets.

Asset registers were not maintained by any of the PRIs during the last 23 years and hence the sufficiency of funds for maintenance of community assets could not be ensured by Audit. The State Government also did not call for any return on the nature of the asset, year of creation and monetary value of the asset.

1.12.6 Non-submission of Non-payable Detailed Contingent (NDC) bills

In five ZPs, detailed accounts for ₹3.23 crore drawn on AC bills were not submitted

While codal provisions permit Drawing and Disbursing Officers (DDOs) to draw funds on Abstract Contingent (AC) bills towards contingent charges required for immediate disbursement, DDOs are required to submit the NDC bills to the CAOs before the 15th of the following month. The CAO, ZP is to exercise watch over pendency of NDC bills and under the orders of the CEO, ZP concerned, issue advice to Treasury Officer not to honour further bills and withhold the salary of the defaulting DDOs. It was noticed that 27 departmental officers under the jurisdiction of five ZPs did not submit the NDC bills (January 2010) for amounts aggregating ₹3.23 crore drawn on 101 AC bills, some of which were drawn as early as in the year 1986-87 as detailed in **Appendix 1.9.**

Despite this irregularity being pointed out in previous Audit Reports, the CAOs did not initiate action against officers who had failed to render detailed accounts.

1.12.7 Furnishing of Utilisation Certificates

Scheme guidelines of CSS and CFC grants stipulates that UCs should be obtained by departmental officers from the grantees and after verification, these should be forwarded to GOI/RDPR Department within six months from the date of their sanction unless specified otherwise. However, UCs for an aggregate amount of ₹1,106.28 crore (27 *per cent*) were due out of grants of ₹4,161.47 crore released up to the year 2009-10. This was not watched by the CAOs of ZPs at district level and the Secretary, RDPR Department at State level.

1.12.8 Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. Secretaries of RDPR and other administrative departments should watch receipt of UCs furnished by CAOs of

ZPs to ensure utilisation of funds. Scrutiny of records in six ZPs revealed that as of March 2010, ₹13.10 crore as detailed in **Appendix 1.10** remained unspent in bank accounts pertaining to closed schemes since two years. No action was initiated by the executives to transfer the amount to Government account.

1.12.9 Lapsed Deposits

Codal provisions stipulate that at the end of every financial year, any deposit remaining unclaimed for a period of three years from the date on which the deposit became repayable, shall be lapsed and credited to the Government account. Scrutiny revealed that Executive Engineers of four[8] PREDs did not credit the lapsed deposit of ₹1.56 crore pertaining to security deposit recovered from the bills of contractors/suppliers for the year 2006-07 and earlier years to Government account till 2009-10.

183 cases of mis-appropriation/ defalcation involving ₹14.28 crore were pending

1.12.10 Cases of misappropriation/defalcation

The State Government instructions stipulate that each PRI should report any case of loss, theft, embezzlement or fraud to the executive authority of the concerned ZPs. These cases will then be investigated by designated enquiry officer so that losses could be recovered, responsibility fixed and systemic deficiency, if any, could be removed.

As of March 2010, 14 ZPs reported 183 cases of misappropriation, defalcation, loss of material, *etc*. involving Government money amounting to ₹14.28 crore on which final action was yet to be communicated as detailed in **Appendix 1.11**. These cases were to be reviewed once in three months by CEO, ZP at district level and by the Secretary to Government, RDPR at state level. Audit observed that review/monitoring was not adequate as cases reported 15 to 20 years ago were still pending. Position and age-wise pendency of cases are shown in **Table 1.10** below.

Table 1.10: Age profile of misappropriations, losses, defalcations, *etc*.

(₹ in crore)

<table>
<tr><th colspan="3">Age-profile of the pending cases</th><th colspan="3">Position of the pending cases</th></tr>
<tr><th>Range in years</th><th>Number of cases</th><th>Amount involved</th><th>Nature of cases</th><th>Number of cases</th><th>Amount involved</th></tr>
<tr><td>0-5</td><td>146</td><td>12.47</td><td rowspan="2">Under investigation</td><td rowspan="2">152</td><td rowspan="2">12.29</td></tr>
<tr><td>5-10</td><td>32</td><td>1.72</td></tr>
<tr><td>10-15</td><td>4</td><td>0.08</td><td rowspan="2">Pending in Courts</td><td rowspan="2">12</td><td rowspan="2">1.32</td></tr>
<tr><td rowspan="2">15-20</td><td rowspan="2">1</td><td rowspan="2">0.01</td></tr>
<tr><td>Others</td><td>19</td><td>0.67</td></tr>
<tr><th>Total</th><th>183</th><th>14.28</th><th>Total</th><th>183</th><th>14.28</th></tr>
</table>

Delays in settlement of these cases may result in postponement of recoveries/non-recovery and officers/officials responsible for irregularities going unpunished.

[8] Chikkaballapur (₹0.27 crore), Dakshina Kannada (₹ 0.18 crore), Ramanagara (₹0.38 crore) Sagar (₹0.73 crore),

1.13 Investment without returns

In nine ZPs, investment of ₹76 crore on 75 incomplete works remained idle

As of March 2010, 75 works taken up for execution prior to 2006-07, on which nine ZPs made an aggregate investment of ₹76 crore, remained incomplete even though these works were to be completed in two years as detailed in **Appendix 1.12**. The Secretaries of the line departments and CEOs of ZPs failed to monitor and ensure timely completion of works even though they were regularly receiving feedbacks on the status of works through various Monitoring Information System/Progress Reports.

Many such instances have been highlighted under Chapter II of this Report and in earlier Audit Reports.

1.14 Conclusion

The State Government is yet to frame rules for implementation of the Karnataka Local Fund Authorities Fiscal Responsibility Act which was meant to ensure fiscal stability and sustainability. Financial Reporting in PRIs was inadequate as evidenced by non-maintenance of community assets, non-furnishing of UCs, non-submission of NDC bills, *etc*.