

CHAPTER I

SECTION 'A' AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

Consequent to the 73rd Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish a three tier Panchayat Raj Institutions (PRIs) 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.

The PRIs aim to promote participation of people and effective implementation of rural development programmes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

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 in the last decade was 15.67 *per cent* and was less than the national average of 17.64 *per cent*.

The decadal growth rates of urban and rural population were 7.63 *per cent* and 31.27 *per cent* respectively. As per census 2011, the population of the State was 6.11 crore, of which women comprise 49 *per cent*. The State has 114 backward taluks out of which 39 taluks spread over 14 districts are the most backward.

Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	61,131	12,10,193	9
Population density	Persons per sq km	319	382	13
Urban population	Percentage	38	31	4
Number of PRIs	Numbers	5,833	2,40,540 (approx)	14
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (approx)	8
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (approx)	13
Number of Gram Panchayats (GPs)	Numbers	5,627	2,34,000 (approx)	16
Gender ratio (females per 1000 males)	Numbers	968	940	11
Literacy	Percentage	76	74	16

Source: Economic Survey Report 2012-13, Census 2011 and Annual Progress Report (2012-13) of Rural Development and Panchayat Raj Department

1.3 Organisational structure of PRIs

The Rural Development and Panchayat Raj Department (RDPR) is the nodal department for PRIs at the State level headed by Additional Chief Secretary and Development Commissioner, Government of Karnataka. The

organisational structure with respect to functioning of PRIs in the State is given in **Appendix 1.1**.

1.3.1 Standing Committees

The 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

Level of PRIs	Chief political executive	Standing Committees	Political executives of Standing Committees
GP	Adhyaksha	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected among the elected members of GPs, TPs and ZPs)
TP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	
ZP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee (d) Education and Health Committee (e) Agricultural and Industries Committee	

Source: KPR Act, 1993

1.4 Financial profile

1.4.1 Resources of the 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 their custody for each tier are given in **Table 1.3** and fund flow arrangement of flagship schemes is given in **Appendix 1.2**. 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: Source and custody of funds in PRIs

Nature of Fund	ZPs		TPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	-	-	Rent and other income	Bank	Assessees and users	Bank
Assigned revenues	State Government	Treasury	State Government	Treasury	State Government	Bank
SFC						
State Plan						
CFC/CSS grants	GOI	Bank	GOI	Bank	GOI	Bank

Source: As furnished by the RDPR Department/PRIs

CSS - Centrally Sponsored Scheme; GOI - Government of India

1.4.2 Trends and Composition

The trends of resources of PRIs for the period 2008-09 to 2012-13 are shown in **Table 1.4** below.

Table 1.4: Trends and Composition of resources of PRIs

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12 ¹	2012-13
Own revenue ² ~	205.59	221.19	256.95	312.08	269.09
CFC transfers (Twelfth/Thirteenth)~	177.60	177.60	419.38	769.58	801.85
Grants from State Government and assigned revenues	9,841.85	11,216.04	11,789.48	13,340.83	13,197.36 [^]
GOI grants for CSS and State Schemes*	3,285.09	2,871.95	3,575.74	2,764.62	2,888.73
Other receipts#	82.29	13.28	257.91	192.66	248.30
Total	13,592.42	14,500.06	16,299.46	17,379.77	17,405.33

Source: ~ as furnished by RDPR

[^] Figures as furnished by Treasury for 2012-13 in respect of TPs and uncertified figures in respect of ZPs

* GOI grants released to TPs through ZP accounts are excluded

Interest and miscellaneous receipts from scheme accounts

Increase in resources of PRIs during 2011-13 was mainly due to increase in release of GOI grants under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Thirteenth Finance Commission (TFC).

1.4.3 Application of Resources

The trends of sector-wise application of resources of ZPs and TPs for the period 2008-09 to 2012-13 are given in **Table 1.5**.

Table 1.5: Sector-wise application of resources

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12 ³	2012-13
ZILLA PANCHAYATS					
State Grants and assigned revenues					
Capital Expenditure	17.92	0	0.46	5.32	4.19
Social Services	17.61	0	0.46	2.89	2.46
Economic Services	0.31	0	0	2.43	1.73
Revenue Expenditure	3,558.22	3,420.21	4,220.94	4,998.21	5,491.66
General Services	123.22	115.56	121.93	137.17	152.51
Social Services	2,574.15	2,467.20	3,234.42	3,517.17	4,053.60
Economic Services	860.85	837.45	864.59	1,343.87	1,285.55
CSS and State Schemes					
Capital Expenditure	64.08	8.58	153.46	103.28	105.27
Social Services	64.08	8.58	145.15	103.28	105.27
Economic Services	-	0	8.31	0	0
Revenue Expenditure	1,455.20	1,605.88	3,308.29	2,743.62	2,516.63
General Services	0	0.72	0	0	0
Social Services	548.18	374.36	453.09	406.64	783.91
Economic Services	907.02	1,230.80	2,855.20	2,336.98	1,732.72
Total	5,095.42	5,034.67	7,683.15	7,850.43	8,117.75

¹ Figures as per certified accounts of ZPs and TPs

² The reason for the variation in the "own revenue" between 2010-11 and 2011-12 was the variation in the number of GPs as given by RDPR

³ Figures as per certified accounts of ZPs and TPs

	2008-09	2009-10	2010-11	2011-12	2012-13
TALUK PANCHAYATS					
Capital Expenditure	0	0.16	0.19	0	0.21
General Services	0	0	0	0	0
Social Services	0	0.15	0.03	0	0
Economic Services	0	0.01	0.16	0	0.21
Revenue Expenditure	4,537.89	4,971.83	6,333.23	7,084.87	9,340.48
General Services	0	0	0	0	0
Social Services	4,194.75	4,560.82	5,841.25	6,387.46	8,498.31
Economic Services	334.84	408.75	491.98	697.41	842.17
Suspense	8.30	2.26	0	0	0
Grand Total	9,633.31	10,006.66	14,016.57	14,935.30	17,458.44

Source: Separate Audit Reports (SARs) of ZPs and consolidated SAR for TPs up to the year 2011-12, and figures as furnished by Treasury for 2012-13 for ZPs and TPs. CSS/State Schemes figures are provisional.

The revenue expenditure increased from ₹9,551.31 crore in 2008-09 to ₹17,348.77 crore in 2012-13. There was 82 per cent and 84 per cent growth under Social and Economic Services sector respectively of revenue expenditure during the period 2008-13, while the growth in General Services was 24 per cent. The share of capital expenditure to total expenditure during the current year was less than one per cent.

1.4.4 Quality of expenditure of centrally sponsored schemes

In view of the importance of public expenditure under development heads of account for social sector and rural development, it is important for the PRIs 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. The expenditure in social sector and rural development through major CSS during 2012-13 is given in **Table 1.6** below.

Table 1.6: Statement showing investment through major CSS

Scheme	2012-13				Percentage of utilisation with respect to Total Fund available
	Opening balance	Release	Total Fund available	Expenditure	
MGNREGS	314.68	1,474.06	1,788.74	1,443.19	81
National Rural Drinking Water Programme (NRDWP)	524.27	1,626.88	2,151.15	1,814.95	84
Pradhana Mantri Gram Sadak Yojana (PMGSY)	169.65	128.37	298.02	128.37	43
Nirmal Bharath Abhiyan (NBA)	51.77	191.93	243.70	96.18	39

Source: Annual Report (2012-13) of RDPR

It could be seen from the above table that available funds under PMGSY and NBA schemes were not utilised optimally during the year 2012-13.

1.4.5 Rural Development Programmes

The Rural Development Programmes aim 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 1.3**. Audit observed that the expenditure incurred towards Gram Swaraj Project, Suvarna Gramodaya Yojane and Mukhya Mantri Grameena Raste Abhivrudhi Yojane (CMGSY) during 2012-13 varied from 60 *per cent* to 81 *per cent* of the total available funds.

1.5 State Finance Commission

The State Government constituted three State Finance Commissions (SFCs) to determine the principles on the basis of which adequate financial resources would be ensured for PRIs.

The details of finances of the State, share of PRIs as decided (October 2012) by the State Government based on the Third SFC recommendations and funds actually released to PRIs for the year 2012-13 are as in **Table 1.7** below.

Table 1.7: Details of allocation by the State Government during 2012-13

Particulars	(₹ in crore)
	2012-13
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	57,720.00
Allocation as decided by the State Government (32 <i>per cent</i> of NLNORR)	18,470.40
Funds actually released to PRIs	17,730.74
Amount short released to PRIs	739.66

Source: State Finance Accounts 2012-13

It could be seen from the table above that the funds released by the State Government constituted 31 *per cent* of the NLNORR as against the decision for allocation of 32 *per cent*.

1.6 Devolution of Functions, Funds and Functionaries

1.6.1 Functions

The 73rd amendment to the Constitution envisages transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government through executive orders had to transfer all the 29 subjects to different tiers of PRIs. For effective functioning of the State Government and PRIs, Function Activity Map delineated the role and responsibilities of each tier of PRIs under each transferred subject.

The subject of 'Welfare of the weaker sections especially Scheduled Castes and Scheduled Tribes' and the activities of the 'Welfare of the disabled and Welfare of the aged' in the subject 'Social Welfare including the Welfare of handicapped and mentally retarded' were selected in audit to ascertain the

extent of transfer of funds, functions and functionaries in three⁴ selected districts. The subject of 'Welfare of the weaker sections especially Scheduled Castes and Scheduled Tribes' is carried out by the Social Welfare Department and the activities of 'Welfare of the disabled and Welfare of the aged' is carried out by the Department of Welfare of the Disabled and Senior Citizens.

Out of 10 functions under 'Welfare of the disabled' activity, only one function *i.e.* 'setting up of special schools for disabled' was transferred and other nine functions were not transferred to PRIs. Further, the activity of 'Welfare of the aged' was not transferred to PRIs. The State Government had not prepared the Activity Map for the Subject 'Welfare of the weaker sections' among PRIs.

1.6.2 Funds

The funds required for the implementation of activities were to be devolved along with the transfer of functions. The details of funds released to the offices of the test-checked three District Social Welfare Offices through district and State sector programmes for the period 2008-13 is shown in **Table 1.8** below.

Table 1.8: Releases and expenditure through the State sector and the district sector programmes during 2008-13 for the selected districts

(₹ in crore)

Name of the Department	Releases			Expenditure		
	State sector	District sector	Total	State sector	District sector	Total
Social Welfare	0.55	149.30	149.85	0.55	137.91	138.46

Source: As furnished by RDPR

It could be seen from the above table that most of the functions of social welfare activities were implemented under district sector.

1.6.3 Functionaries

The officers and staff required for performing various functions entrusted to PRIs are posted by the Government from amongst its own officers and staff. Though these Government servants are 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 (CEO) of ZP shall have the powers of the appointing authority in respect of Government servants of Group B, C and D 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.

The vacancy position of staff in the test-checked districts is detailed in **Table 1.9**.

⁴ Belgaum, Haveri and Tumkur

Table 1.9: Details of vacancy position of posts as of March 2013

District	Sanctioned	Working	Vacancy (Percentage)
Belgaum	521	384	137 (26)
Haveri	375	199	176 (47)
Tumkur	535	336	199 (37)
Total	1,431	919	512 (36)

Source: As furnished by the selected three ZPs

Vacancy percentage of essential posts in maintaining the social welfare hostels like wardens, cook and watchmen were 38 *per cent* of sanctioned posts in the selected three districts. The vacancy position was more in Haveri district when compared to the other two districts.

1.7 District Planning

Article 243 ZD of the Constitution of India provides for the District Planning Committee (DPC) in each district which is to be constituted by State Governments. The objective of DPC is to arrive at an integrated, participatory, coordinated idea for development of a district and it is responsible for consolidation and integration of all PRIs and Urban Local Bodies (ULBs) plans to articulate the development vision for the district. Audit observed the following deficiencies in district planning in the selected districts.

1.7.1 *Delay in the preparation of the Comprehensive District Development Plans of the period 2008-13*

GOI had issued (November 2007) guidelines for preparation of a Comprehensive District Development Plans (CDDP) for each district for the Eleventh Five Year Plan (EFYP) period (2007-12) facilitating the DPCs to prepare Annual District Development Plans (ADDPs) in tune with the CDDP. The Ministry of Panchayati Raj, GOI had also instructed for preparation of CDDP by March 2008.

Audit observed that in the three test-checked districts, the CDDPs were submitted by the respective consultants after a delay of more than three⁵ years after the commencement of the EFYP period, which had resulted in the non-usefulness of the CDDPs.

The ZPs stated (November 2013) that the delay in the preparation of the CDDPs was due to delay in conducting the necessary meetings, delay in getting information from institutions and delay on the part of the consultants.

1.7.2 *DPC meetings*

As per the State Government circular dated 12 April 2001, DPC was to meet once in three months to prepare development plans for the district, coordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. Audit observed that in all the three test-checked districts

⁵ ZP, Belgaum (October 2010); ZP, Haveri (June 2010) and ZP, Tumkur (October 2010)

only three to seven DPC meetings⁶ were held for the period 2008-09 to 2012-13, instead of the prescribed 20 meetings.

The ZP, Tumkur stated (August 2013) that the DPC meetings could not be conducted regularly because of non-availability of elected representatives. The reply of ZPs, Belgaum and Haveri had not been received (March 2014).

1.7.3 DPC funds

The DPC fund is constituted with contributions of the local bodies and grants-in-aid provided by Government. The DPC fund may be used for payment of sitting fee to the members, commissioning of studies, etc., and for meeting any other expenditure as approved by the DPC in connection with the performance of its functions.

The State Government prescribed the amounts of annual contributions to the DPC fund to be made by both the urban and rural local bodies in a district. Audit observed that the contributions were 0.88 per cent, 15.94 per cent and 5.14 per cent of the prescribed contributions in Belgaum, Haveri and Tumkur districts respectively for the period 2008-13.

1.8 Accountability framework

1.8.1 Audit mandate

1.8.1.1 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 audit entities and to the State Government.

Audit of accounts of 4,277 GPs as against 5,627 GPs planned, for the period up to 2012-13, was conducted by SAD as of March 2013.

1.8.1.2 The Comptroller and Auditor General of India (CAG) audits and certifies the accounts of ZPs and TPs under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971.

Audit of accounts of 350 PRIs as against 363 planned for the period up to 2012-13 was conducted as of March 2013.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) Module to the CAG up to the year 2014-15 by amending the KPR Act, 1993. As of March 2013, 29 GPs have been audited under TGS module.

1.9 Conclusion

There was no mechanism at the apex level to oversee the devolution of functions to PRIs. All the activities under 'Welfare of disabled' subject were

⁶ Belgaum (six), Haveri (seven) and Tumkur (three)

not transferred to PRIs. No action was taken to revise the Activity Map. There was shortage of staff in the selected PRIs. The DPC meetings were not held regularly.

1.10 Recommendations

- The working strength of the PRIs should be adequately strengthened particularly in the posts of wardens, cooks, *etc.*
- Activity map may be revisited.
- DPC meetings are to be conducted every quarter.

SECTION 'B' - FINANCIAL REPORTING

1.11 Framework

1.11.1 Financial reporting in the PRIs is a key element of accountability. The best practices in matters relating to drawal of funds, 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.

1.11.2 Annual accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance (DDR) heads as prescribed in Rule 37(4) and 30(4) of KZP (F&A) 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. As per the recommendations of the TFC, the PRIs have to prepare the accounts in the Model Panchayat Accounting System (MAS) from 2011-12 as prescribed by the GOI. The ZPs and TPs prepared the accounts in MAS formats from 2011-12 but the GPs were yet to adopt the MAS formats.

1.12 Financial Reporting issues

1.12.1 Budget formulation

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.

1.12.1.1 Limited role of TPs in the preparation of Budget

Three⁷ ZPs, six⁸ TPs under these ZPs and 18 GPs were test-checked to review the control and financial reporting systems in PRIs. It was observed that all

⁷ Belgaum, Haveri and Tumkur

⁸ Athani and Hukkeri (Belgaum ZP), Haveri and Savanuru (Haveri ZP), Chikkanayakanahalli and Pavagada (Tumkur ZP)

the test-checked TPs prepared budget for only salary and forwarded to ZP for incorporation in the ZP budget. No budget proposals were prepared for TP programmes by the TPs; instead it was the ZP which finalised the budget proposal for the district sector programmes which included TP programmes and forwarded to Government for allocation of funds. The State Government allocated lump sum grant to TPs under each ZP. The ZP allocated funds to each TP under the district. Thus, TPs did not have much role in the preparation of budget for TP schemes.

1.12.1.2 Budget provision and releases of funds in the selected three ZPs

Audit reviewed budget proposals and releases of funds to the three selected districts. The details of budget allocated, releases and expenditure there against are given in **Table 1.10**.

Table 1.10: Statement showing the details of budget proposal, allocation and expenditure in the selected ZPs

Year	Budget proposal	Budget allocation	Actual release (percentage with respect to budget allocation)	Expenditure (percentage to release)	(₹ in crore)
					Excess (+)/ Savings (-) of expenditure with respect to budget proposal (percentage)
2008-09	545.99	472.38	613.26 (130)	421.65 (69)	-124.34 (23)
2009-10	607.47	447.30	467.18 (104)	433.01 (93)	-174.46 (29)
2010-11	970.67	461.76	551.39 (119)	506.71 (92)	-463.96 (48)
2011-12	656.90	524.78	574.55 (109)	513.60 (89)	-143.30 (22)
2012-13	729.35	602.88	734.14 (122)	636.22 (87)	-93.13 (13)
Total	3,510.38	2,509.10	2,940.52 (117)	2,511.19 (85)	-999.19 (28)

Source: As furnished by the selected three ZPs

It could be seen from the above table that the State Government allocated less budget than proposed by the Department, but released more than the allocated budget during 2008-13. However, the ZPs had not fully utilised the amount released by the Government during the period 2008-13 and the expenditure ranged from 69 to 93 *per cent* of the releases of the period.

Further, there were savings in expenditure ranging from 13 to 48 *per cent* with respect to the budget proposed during 2008-13. Thus, the budget proposed by the ZPs seemed to be in a routine manner without considering the actual requirement resulting in unrealistic budget.

1.12.2 Rush of expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The rush of expenditure particularly at the fag end of the financial year is regarded as a breach of financial rules. Audit noticed in the selected districts that 43 *per cent* of the total annual expenditure was incurred

during the last quarter of the year 2012-13 against the release of 21 per cent during the last quarter of the year.

1.12.3 Delay in receipt of ZP/TP Accounts

The KPR Act, 1993 stipulated that annual accounts were to be passed by the General body of the PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General for audit. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Out of 30 ZPs, 14 ZPs forwarded the annual accounts for the year 2012-13 with delays of more than one month. Similarly, out of 176 TPs, 65 TPs submitted the accounts after delay of one month and 11 TPs were yet to forward the accounts of 2012-13 (March 2014). This was due to non-convening of the General body meetings by PRIs in time because of administrative reasons. Non-preparation of annual accounts and non-conduct of audit of CSS by Chartered Accountants (CAs) within the stipulated date were also attributed to delays in passing the annual accounts, etc.

1.12.4 Placement of SARs before the State Legislature

The SARs of 22 ZPs for the year 2011-12 are yet to be placed in the State Legislature (January 2014).

1.12.5 Deficiencies in ZP and TP accounts

The deficiencies noticed in accounts of ZPs and TPs during 2011-12 are detailed below.

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions. Consequently, both the divisions stopped issuing cheques. However, annual accounts of ZPs for the year 2011-12 reflected huge balances relating to earlier period as detailed in **Appendix 1.4**. This indicated that the ZPs had not reconciled the encashed cheques with treasuries.
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by the ZPs and funds were drawn directly from treasuries by the TPs. However, 16 ZPs had not taken any action to clear the suspense accounts. The balances outstanding in the annual accounts for the year 2011-12 relating to the period earlier to September 2004 are detailed in **Appendix 1.5**.

1.13 Resource utilisation

There are various schemes implemented by the PRIs. The Total Sanitation Campaign (TSC) scheme and TFC Grants were selected to ascertain the utilisation of fund by the PRIs.

1.13.1 Total Sanitation Campaign

1.13.1.1 The GOI started Central Rural Sanitation Programme (CRSP) in 1986 for improving the quality of rural life and also to provide privacy and dignity to women. The CRSP started the TSC in the year 1999 as demand-driven approach.

The main objectives of the TSC are to improve the general quality of life in the rural areas, accelerating sanitation coverage in rural areas and increasing access to toilets. The TSC was renamed as 'Nirmal Bharath Abhiyan (NBA)' in the year 2012. The financial position of the TSC/NBA in the selected three districts is given in **Table 1.11** below.

Table 1.11: Statement showing the financial position of the TSC/NBA in the selected districts

(₹ in crore)						
Year	Opening balance	Receipts	Interest & miscellaneous receipts	Total available funds	Utilisation (percentage)	Closing balance
2008-09	5.17	1.98	0.25	7.40	3.62 (49)	3.78
2009-10	3.78	14.80	0.26	18.84	9.31 (49)	9.53
2010-11	9.53	9.47	0.40	19.40	11.16 (58)	8.24
2011-12	8.24	14.11	0.65	23.00	13.05 (57)	9.95
2012-13	9.95	32.13	1.00	43.08	31.14 (72)	11.94
Total	36.67	72.49	2.56	111.72	68.28 (61)	43.44

Source: As furnished by the selected three ZPs

The fund utilisation of selected ZPs for the period 2008-09 to 2011-12 ranged from 49 to 58 *per cent* which was less than the prescribed 60 *per cent* of the total available funds.

1.13.1.2 Implementation Plans

A Block Resource Centre (BRC) is to be established at the block level to consolidate the action plans of GPs into Block Implementation Plan (BIP) and BIPs in a district shall be consolidated into District Implementation Plans (DIP). Audit observed that four⁹ of the selected TPs had not prepared the BIPs and also had not established BRCs. Further, 11¹⁰ of the selected GPs had not prepared the annual plans. Thus, the grass-roots level institutions had not participated in the planning process of the TSC.

1.13.1.3 Nirmal Gram Puraskar

The Nirmal Gram Pursakar (NGP) amount is given to the GPs which had achieved 100 *per cent* individual sanitation coverage (individual household latrines). The NGP amount is to be used for providing further sanitation facilities in the GPs.

⁹ Athani, Haveri, Savanuru and Pavagada

¹⁰ Adahalli and Parthanahalli (TP, Athani)
Basapura, Hosaritti and Kulenuru (TP, Haveri)
Bugatealur and Hitni (TP, Hukkeri)
BK Halli (TP, Pavagada)
Huralikuppi, Karadagi and Thevaramellihalli (TP, Savanuru)

The ZP, Tumkur released ₹97.13 lakh to 12 GPs of TP, Pavagada in March 2010. Audit observed that the NGP had been released to the GPs which had not achieved prescribed 100 *per cent* sanitation coverage and also not furnished the prescribed certificate. The amount was released to the GPs without any requisition to that extent from the GPs. This inadequacy in the planning and assessing the requirement on the part of the ZP resulted in non-utilisation of the NGP amount by the GPs, which further resulted in the refund of ₹66.40 lakh by the GPs.

1.13.2 Thirteenth Finance Commission Grants

1.13.2.1 Unutilised Grants

The TFC recommended grant-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes over and above the share of the states. The GOI released General basic grant of ₹597.20 crore and Performance grant of ₹204.64 crore for the year 2012-13 to PRIs in Karnataka in two instalments each. The State Government instructed PRIs to follow the guidelines prescribed for incurring expenditure on rural development. In the test-checked PRIs, it was observed that expenditure ranged from 31 to 74 *per cent* of total available funds for the period 2010-13 and ₹22.08 crore remained unutilised as at the end of 31 March 2013 as detailed in **Table 1.12**, thereby defeating the intention of providing timely service to the rural population.

Table 1.12: Statement showing the details of unspent balance of TFC grants

(₹ in crore)

Name of the PRI	Grants released during 2010-11	Grants released during 2011-12	Grants released during 2012-13	Total grants released	Amount utilised (percentage of utilisation with respect to total grants released)	Closing balance
ZP, Belgaum	2.30	3.38	5.27	10.95	3.43 (31)	7.52
ZP, Haveri	1.63	2.40	3.73	7.76	5.74 (74)	2.02
ZP, Tumkur	2.66	3.90	6.06	12.62	6.70 (53)	5.92
TP, Athani	0.50	0.73	1.13	2.36	1.22 (52)	1.14
TP, Chikkanayakanahalli	0.53	0.78	1.20	2.51	1.44 (57)	1.07
TP, Haveri	0.44	0.65	0.99	2.08	1.50 (72)	0.58
TP, Hukkeri	0.49	0.72	1.54	2.75	1.25 (45)	1.50
TP, Pavagada	0.61	0.89	1.38	2.88	1.36 (47)	1.52
TP, Savanuru	0.50	0.74	1.26	2.50	1.67 (67)	0.83
Total	9.66	14.19	22.56	46.41	24.31 (52)	22.10

Source: As furnished by the respective PRIs

1.13.2.2 Delayed release of funds

The TFC guidelines stipulated that the GOI was to release the funds to the State Government. The funds were to be transferred to PRIs within five/ten days of their receipt depending upon the availability/non-availability of banking facilities, failing which interest at Reserve Bank of India rate was to be paid for the delayed period. Audit observed that there were delays ranging from 1 to 19 days in crediting funds to individual bank accounts of PRIs. The

interest of ₹1.37 crore for the delay in release of funds was not paid to PRIs by the State Government.

1.14 Other issues

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

While codal provisions permit the 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 the pendency of NDC bills and under the orders of the CEO, ZP concerned, and issues advice to the Treasury Officer not to honour any bill presented by the defaulting DDOs and also withhold the salary of the DDOs.

In ZP, Haveri 33 DDOs had not submitted 117 NDC bills amounting to ₹21.08 lakh related to the period 2010-11 to 2011-12 as of March 2013.

1.14.2 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 ZP. These cases would then be investigated by the designated enquiry officer so that losses could be recovered, responsibility fixed and systemic deficiency, if any, removed.

As of November 2013, 27 cases of misappropriation were pending in ZP, Haveri and the amount involved was ₹1.05 crore. Out of these 27 cases, 10 cases were pending for more than five years.

1.14.3 Non-withdrawal of unspent amount

The State Government vide GO dated 8 September 2004 split the ZP and TP funds into three categories viz.; Fund I (Funds related to CSS and State share of CSS programmes), Fund II (State grant) and Fund III (Own Funds), and directed Treasuries to write back the unspent amount available at the end of the financial year in Fund II account to Government account after reconciliation. However, the treasuries did not write back the unspent balance of ₹1,468.54 crore outstanding under ZP and TP Fund II account for the year 2012-13.

1.14.4 Locking up of funds

An unspent amount aggregating to ₹14.37¹¹ crore was lying in inoperative bank accounts of selected three ZPs as on 31 March 2013 pertaining to various closed/inactive schemes¹² for the last one to five years and no action was

¹¹ Belgaum-₹9.17 crore, Haveri-₹0.02 crore and Tumkur-₹5.18 crore

¹² Ambedkar Bhavan, Jalmani, Mini Ambedkar Bhavan, Swachagrama, Swajaladhara, etc.

taken by the ZPs to refund the amount to Government. This resulted in locking up of Government funds to the extent of ₹14.37 crore.

1.14.5 Utilisation Certificates

The ZP, Tumkur released ₹41.14 crore to the Karnataka Rural Infrastructure Development Limited (KRIDL), Tumkur for implementing various works under different schemes during the period 2009-10 to 2012-13. The KRIDL furnished utilisation certificates (UCs) for ₹38.57 crore and returned ₹1.64 crore to ZP and the balance of ₹0.93 crore was still with the KRIDL. Similarly, out of ₹29.71 crore released to Nirmithi Kendra, Tumkur during the period 2008-09 to 2012-13, UCs were submitted for ₹26.92 crore and an unspent balance of ₹2.79 crore remained as at the end of March 2013. However, accounts were not obtained from KRIDL and Nirmithi Kendra by the ZP. Thus, the utilisation of ₹65.49 crore exhibited as expenditure in the annual accounts of the ZP was not ascertainable.

1.14.6 Arrears in audit

The CAO has to conduct internal audit of all the line departments of PRIs. It was noticed that in the test-checked ZPs of Belgaum, Haveri and Tumkur, the CAOs had conducted internal audit of only 97 units out of 385 units during 2012-13. The CAOs of the ZPs stated (December 2013) that audit could not be completed due to shortage of staff.

1.15 Double Entry Accounting System

The State Government enacted the Karnataka Panchayat Raj (KPR) (Gram Panchayats (GPs) Budgeting and Accounting) Rules, 2006 which provided for mandatory preparation of accounts based on DEAS in GPs on accrual basis with effect from April 2007. The State Government decided (July 2007) to avail of the services of CA firms to introduce DEAS in GPs.

1.15.1 Non-maintenance of the Books of Accounts

In DEAS, the GPs have to record both the cash and credit transactions in the books of accounts – Cash Book, Journal Book and General Ledger. Seventeen¹³ of the selected GPs had not maintained General Ledger and Journal Books. Thus, Audit could not ascertain the complete financial position of the GPs.

¹³ Adahalli, Kempwad and Parthanahalli (TP, Athani)
Baraguru and Kuppur (TP, Chikkanayakanahalli)
Basapura, Hosaritti and Kulenur (TP, Haveri)
Bugatelur, Hitni and Mavanur (TP, Hukkeri)
B.K Halli, Mangalawada and Rangasamudra (TP, Pavagada)
Huralikuppi, Karadagi and Tevaramellihalli (TP, Savanuru)

1.15.2 Non-placement of the annual accounts

Annual accounts of the GPs shall be placed before the elected bodies for consideration and approval before 30 June of every year but the 13¹⁴ selected GPs had not placed the annual accounts in DEAS before the elected bodies.

1.15.3 Training

The CAs were to train the GP staff in the software developed and ensure preparation of the accounts in DEAS for the year 2008-09 with the assistance of CAs and independently from 2009-10 onwards. However, staff of the 11¹⁵ selected GPs had not been trained and accounts were prepared with the assistance of CAs up to the year 2012-13.

1.16 Poor response to Inspection Reports

The KZP (F&A) Rules stipulate that the heads of the Departments/DDOs of the ZPs shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the CEOs of ZPs. As of March 2013, 3,393 Inspection Reports (IRs) consisting of 12,462 paragraphs were outstanding in various ZPs. Year-wise details of IRs and paragraphs outstanding in respect of all the ZPs are detailed in **Appendix 1.6**. Out of 3,393 IRs outstanding, 1,273 (38 *per cent*) IRs containing 2,811 (23 *per cent*) paragraphs were pending for more than ten years, which highlighted the inadequate action of the CEOs in settlement of the objections.

1.17 Conclusion

The annual accounts of ZPs and TPs were submitted after due dates. TSC and TFC grants were not utilised optimally. Unspent amount of scheme funds were locked up in inoperative bank accounts. Balances under suspense heads of accounts were not reconciled. UCs were not obtained from the implementing agencies. Unspent balances were not written back.

1.18 Recommendations

- The annual accounts should be submitted in time.

¹⁴ Adahalli, Kempwad and Parthanahalli (TP, Athani)

Basapura, Kulenur and Hosaritti (TP, Haveri)

Bugatealur, Hitni and Mavanur (TP, Hukkeri)

B. K Halli (TP, Pavagada)

Huralikuppi, Karadagi and Thevaramellihalli (TP, Savanuru)

¹⁵ Adahalli, Kempwad and Parthanahalli (TP, Athani)

Hosaritti and Kulenur (TP, Haveri)

Bugatelur and Hitni (TP, Hukkeri)

B.K Halli (TP, Pavagada)

Huralikuppi, Karadagi and Tevaramellihalli (TP, Savanuru)

- PRIs should ensure optimum utilisation of the available resources and the resources should be utilised in a time bound manner to derive the intended benefit.
- Concerted efforts are needed to adjust the old outstanding balances under DDR heads of account by the ZPs.
- The ZPs and DDOs should respond promptly to the IRs issued by the Auditors for speedy settlements of audit observations.
- The ZPs should obtain the UCs from the implementing agencies before incorporating the figures in the annual accounts.
- The State Government should write back the unspent balances in the Fund II account of ZPs and TPs.

The matter was referred to the State Government in November 2013; reply has not been received (April 2014).