

**Report of the  
Comptroller and Auditor General of India  
on  
Local Bodies**

**For the year ended March 2016**

**Government of Karnataka  
Report No. 5 of the year 2017**



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## **Preface**

This Report for the year ended March 2016 has been prepared for submission to the Governor of Karnataka under CAG's DPC Act, 1971.

The Report contains significant results of the audit of the Panchayat Raj Institutions and Urban Local Bodies in the State including the departments concerned.

The issues noticed in the course of test audit for the period 2015-16 as well as those which came to notice in earlier years, but could not be dealt with in the previous Reports, have also been included, wherever necessary.

The audit has been conducted in conformity with auditing standards issued by the Comptroller and Auditor General of India.



# Overview



## Overview

*This Report contains six chapters. The first and the second chapters contain an overview of finances and observations on financial reporting in Panchayat Raj Institutions. The third chapter contains observations arising out of performance and compliance audits of the Panchayat Raj Institutions. The fourth and the fifth chapters contain an overview of finances and observations on financial reporting in Urban Local Bodies. The sixth chapter contains observations arising out of compliance audit of the Urban Local Bodies. A synopsis of the findings is presented in this overview.*

### 1. An overview of Panchayat Raj Institutions

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

*(Chapter I)*

### 2. Financial reporting in Panchayat Raj Institutions

*The annual accounts of Zilla Panchayats and Taluk Panchayats were submitted after due dates. The balances under suspense heads of accounts were not reconciled. The Gram Panchayats had irregularly retained the Cess amount collected without remitting it to authorities concerned. There were irregularities in utilisation of Thirteenth Finance Commission grants. The interest paid to Gram Panchayats for the delay in release of Fourteenth Finance Commission grants was short by ₹5.15 crore. The State Government had not written back unspent balances under Zilla Panchayat and Taluk Panchayat funds. Unspent amounts of scheme funds were locked up in non-operative bank accounts.*

*(Chapter II)*

### 3. Implementation of National Rural Drinking Water Programme

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

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

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

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

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

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

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

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

**(Paragraph 3.1)**

#### 4. Compliance Audit - Panchayat Raj Institutions

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

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

*(Paragraph 3.2)*

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

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

*(Paragraph 3.3)*

- *Short recovery of liquidated damages*

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

*(Paragraph 3.4)*

#### 5. An overview of Urban Local Bodies

*There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent from commercial properties. Out of 18 functions to be devolved to the Urban Local Bodies, the State Government had devolved 17 functions. There was a shortfall in remittance of Health Cess, Library Cess, Beggary Cess and Urban Transport Cess by the Urban Local Bodies to the authorities concerned. Bruhat Bengaluru Mahanagara Palike had not remitted the Health Cess and short remitted the Beggary Cess collected on behalf of the State Government. There was poor response to audit (Karnataka State Audit and Accounts Department) observations by Urban Local Bodies.*

*(Chapter IV)*

#### 6. Financial reporting in Urban Local Bodies

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

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

**(Chapter V)**

## **7. Compliance Audit - Urban Local Bodies**

### **➤ Collection of property tax in Urban Local Bodies**

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

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

**(Paragraph 6.1)**

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

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

**(Paragraph 6.2)**

➤ **Short payment of property tax**

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

**(Paragraph 6.3)**

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

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

**(Paragraph 6.4)**

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

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

**(Paragraph 6.5)**

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

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

**(Paragraph 6.6)**

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

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

**(Paragraph 6.7)**

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

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

**(Paragraph 6.8)**



# **Chapter-I**

## **An overview of Panchayat Raj Institutions**



## Chapter-I

### Department of Rural Development and Panchayat Raj

#### An overview of Panchayat Raj Institutions

##### 1.1 Background

Consequent to the 73<sup>rd</sup> Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish the three tier Panchayat Raj Institutions (PRIs) at the village, taluk and district levels in the State and framed rules to enable the 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 15.60 *per cent* which was less than the national average of 17.70 *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 comprised 49.20 *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
Population	1,000s	61,095	12,10,570
Population density	Persons per sq km	319	382
Urban population	Percentage	38.70	31.20
Number of PRIs	Numbers	6,228	2,40,540 (approx)
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (approx)
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (approx)
Number of Gram Panchayats (GPs)	Numbers	6,022	2,34,000 (approx)
Gender ratio (females per 1,000 males)	Numbers	973	943
Literacy	Percentage	75.40	73

Source: Economic Survey Report 2015-16 and Census 2011

##### 1.3 Organisational structure of Panchayat Raj Institutions

The Rural Development and Panchayat Raj Department (RDPR) is the nodal department for PRIs at the State level, headed by the 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 Standing Committees are constituted to perform the assigned functions of the PRIs. The constitution of the Committees is given in **Table 1.2** below:

**Table 1.2: Constitution of the Standing Committees**

Level of PRIs	Chief Executive	Standing Committees	Executive of Standing Committees
Gram Panchayat	Adhyaksha	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected from amongst elected members of GPs, TPs and ZPs)
Taluk Panchayat	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	
Zilla Panchayat	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 Panchayat Raj Institutions

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Government of India (GoI) grants for maintenance and development purposes. The fund details of flagship schemes are given in **Appendix 1.2**.

The trends of resources of PRIs for the period 2011-12 to 2015-16 are shown in **Table 1.3** below:

**Table 1.3: Trends and composition of resources of PRIs**

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Own revenue~	312.08	269.09	176.93	228.84	NF
CFC transfers (Thirteenth/Fourteenth)~	769.58	1,036.49	1,350.87	977.82	NF
Grants from State Government and assigned revenues^	13,340.83	16,622.14	19,669.19	21,004.52	21,385.43
GoI grants for CSS and State Schemes*	2,764.62	2,837.00	4,243.92	3,426.05	1,573.58
Other receipts#	192.66	153.00	224.12	179.20	146.94
<b>Total</b>	<b>17,379.77</b>	<b>20,917.72</b>	<b>25,665.03</b>	<b>25,816.43</b>	<b>23,105.95</b>

Source: ~ as furnished by RDPR

NF: Not furnished by RDPR

^ Figures as furnished by Treasury for 2015-16 in respect of ZPs and TPs

\* GoI grants released for Centrally Sponsored Schemes (CSS) and State Schemes to TPs through ZP accounts are excluded

# Interest and miscellaneous receipts from scheme accounts

### 1.4.2 Application of Resources

The trends of sector-wise application of resources of ZPs and TPs for the period 2011-12 to 2015-16 are given in **Table 1.4**:

**Table 1.4: Sector-wise application of resources**

(₹ in crore)

Year	2011-12	2012-13	2013-14	2014-15	2015-16
<b>ZILLA PANCHAYATS</b>					
<b>State Grants and assigned revenues</b>					
<b>Capital Expenditure</b>	<b>5.32</b>	<b>4.19</b>	<b>4.86</b>	<b>0</b>	<b>0</b>
Social Services	2.89	2.40	3.02	0	0
Economic Services	2.43	1.79	1.84	0	0
<b>Revenue Expenditure</b>	<b>4,998.21</b>	<b>5,456.62</b>	<b>6,218.79</b>	<b>6,839.96</b>	<b>5,387.50</b>
General Services	137.17	152.50	162.02	167.98	172.50
Social Services	3,517.17	4,033.85	4,857.56	5,377.66	3,997.18
Economic Services	1,343.87	1,270.27	1,199.21	1,294.32	1,217.82
<b>Centrally Sponsored Schemes and State Schemes</b>					
<b>Capital Expenditure</b>	<b>103.28</b>	<b>94.88</b>	<b>0</b>	<b>11.11</b>	<b>2.00</b>
Social Services	103.28	94.88	0	0.17	0.87
Economic Services	0	0	0	10.94	1.13
<b>Revenue Expenditure</b>	<b>2,743.62</b>	<b>2,717.25</b>	<b>3,626.32</b>	<b>3,652.51</b>	<b>1,945.25</b>
General Services	0	0	0	0	0
Social Services	406.64	827.51	881.57	1,172.96	445.41
Economic Services	2,336.98	1,889.74	2,744.75	2,479.55	1,499.84
<b>Total</b>	<b>7,850.43</b>	<b>8,272.94</b>	<b>9,849.97</b>	<b>10,503.58</b>	<b>7,334.75</b>
<b>TALUK PANCHAYATS</b>					
<b>Capital Expenditure</b>	<b>0</b>	<b>0</b>	<b>0.41</b>	<b>0.13</b>	<b>0</b>
General Services	0	0	0	0	0
Social Services	0	0	0.41	0.01	0
Economic Services	0	0	0	0.12	0
<b>Revenue Expenditure</b>	<b>7,084.87</b>	<b>9,344.03</b>	<b>10,223.40</b>	<b>11,164.17#</b>	<b>12,575.57</b>
General Services	0	0	0.05	0	0
Social Services	6,387.46	8,498.31	9,322.97	10,212.76	11,442.88
Economic Services	697.41	845.72	900.38	951.41	1,132.69
<b>Total</b>	<b>7,084.87</b>	<b>9,344.03</b>	<b>10,223.81</b>	<b>11,164.30</b>	<b>12,575.57</b>
<b>Grand Total</b>	<b>14,935.30</b>	<b>17,616.97</b>	<b>20,073.78</b>	<b>21,667.88</b>	<b>19,910.32</b>

# The revenue expenditure of ₹11,164.17 crore under TPs includes ₹76.69 crore of write back amount exhibited as expenditure in accounts.

Source: Separate Audit Reports (SARs) of ZPs and consolidated SAR for TPs up to the year 2013-14. The figures of 2014-15 adopted are from the annual accounts of ZPs. The figures for 2015-16 are as furnished by Treasury and Centrally Sponsored Schemes/State Schemes figures are as per the annual accounts of 26 ZPs.

As can be seen from **Table 1.3** and **Table 1.4**, the total receipts and expenditure of PRIs increased by 33 *per cent* during 2011-12 to 2015-16. There was 26 *per cent* and 54 *per cent* growth of revenue expenditure under General and Social Services sector respectively during the period 2011-12 to 2015-16, while the revenue expenditure under Economic Services declined by 12 *per cent* during the same period. The share of capital expenditure to total expenditure during 2015-16 was less than one *per cent*.

### 1.5 Release of additional stamp duty

As per Section 205 of the KPR Act, 1993, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of three *per cent* of the duty imposed by the Karnataka Stamp Act, 1957 on instruments of sale, gift, mortgage, exchange and lease in perpetuity, of immovable property situated within the limits of the area of a TP. The entire amount collected in respect of the lands and other properties situated in the taluk shall be passed on to the TPs in the State, in proportion to the population of the taluk, by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 *per cent* towards collection charges. However, the IGR had not transferred the additional stamp duty to the TPs for the year 2015-16 (December 2016). The IGR stated (October 2016) that additional stamp duty

would be transferred after receipt of complete information from all the District Registrars and necessary reconciliation.

Further, the IGR had ordered (September and November 2016) transfer of ₹39.67 crore (the additional stamp duty for 2014-15 to all the TPs of the State) and ₹0.41 crore (the revalidated additional stamp duty grants of 2012-13 to TPs, Raibag and Malavalli). However, the Treasury Network Management Centre (TNMC) was requested only on 2 December 2016 for uploading the same. We observed that the amounts were uploaded on 20 January 2017 after a delay of 49 days.

## **1.6 Devolution of Functions**

The 73<sup>rd</sup> amendment to the Constitution envisaged transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government transferred all the 29 functions to PRIs. As on 31<sup>st</sup> March 2016, the State Government had devised an activity map for distribution of activities for 26 functions amongst the 3 tiers of PRIs. However, no activity map had been devised for the three functions of 'Welfare of weaker sections', 'Public Distribution System' and 'Maintenance of community assets'.

The State Government replied (December 2016) that activity map for distribution of all the functions amongst PRIs has been devised and the same has been intimated to the PRIs in November 2016.

## **1.7 Accountability framework**

### **1.7.1 Audit mandate**

**1.7.1.1** The Karnataka State Audit and Accounts Department<sup>1</sup> (KSAD) 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 audited entities and to the State Government.

The KSAD had conducted (December 2016) audit of accounts of 2,099 GPs (35 per cent) as against 6,022 GPs planned for the period up to 2015-16.

**1.7.1.2** 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. The audit of accounts of 190 units under PRIs had been completed as of March 2016.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) module to the CAG by amending the KPR Act, 1993. As at the end of March 2016, 26 GPs had been audited under TGS module.

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<sup>1</sup> erstwhile Karnataka State Accounts Department

## 1.8 Response to Inspection Reports

The Karnataka Zilla Panchayat (Finance & Accounting) Rules, 1996, stipulate that the heads of the Departments/Drawing and Disbursing Officers of the ZPs shall attend to the objections issued by the Accountant General promptly. It has been further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the Chief Executive Officers (CEOs) of ZPs. As of March 2016, 3,583 Inspection Reports (IRs) consisting of 14,519 paragraphs were outstanding in various ZPs. Out of 3,583 IRs outstanding, 1,563 IRs (44 *per cent*) containing 3,613 paragraphs (25 *per cent*) were pending for more than 10 years, which was indicative of inadequate action on the part of CEOs. The details about IRs and paragraphs outstanding have been given in **Appendix 1.3**.

## 1.9 Conclusion

The total receipts and expenditure of PRIs increased by 33 *per cent* during 2011-12 to 2015-16. The IGR had not transferred the required additional stamp duty for the year 2015-16 to TPs. The additional stamp duty of ₹40.08 crore for the year 2014-15 (including the revalidated additional stamp duty of ₹0.41 crore for the year 2012-13 to TPs, Raibag and Malavalli) was uploaded on 20 January 2017 with a delay of 49 days. Only 35 *per cent* of the units planned were audited by KSAD as of December 2016.



## **Chapter-II**

# **Financial reporting in Panchayat Raj Institutions**



## Chapter-II

### Department of Rural Development and Panchayat Raj

#### Financial reporting in Panchayat Raj Institutions

##### 2.1 Framework

**2.1.1** Financial reporting in the Panchayat Raj Institutions (PRIs) is a key element of accountability. The matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the Zilla Panchayats (ZPs) and the Taluk Panchayats (TPs) are governed by the provisions of the Karnataka Panchayat Raj (KPR) Act, 1993, Karnataka ZP (Finance & Accounts) [KZP (F&A)] Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

**2.1.2** Annual accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance (DDR) heads as prescribed in Rule 37(4) and 30(4) of KZP (F&A) Rules, 1996 and KPR TP (F&A) Rules, 1996. The Gram Panchayat (GP) accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under the KPR GPs (Budgeting and Accounting) Rules, 2006. As per the recommendations of the Thirteenth Finance Commission (TFC), the PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by Government of India (GoI). The ZPs and TPs prepared the accounts in MPAS formats from 2011-12 onwards but the GPs were yet to adopt MPAS formats.

##### 2.2 Financial reporting issues

###### *2.2.1 Maintenance of accounts in Zilla Panchayats and Taluk Panchayats*

The KPR Act, 1993 stipulates that the annual accounts were to be prepared and got approved by the General Body of the PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General/Principal Director of State Audit and Accounts Department for audit.

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

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

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

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

The deficiencies noticed in the accounts of ZPs and TPs during 2015-16 have been detailed below:

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREs). Consequently, both the divisions had stopped issuing cheques. However, the annual accounts of 17 ZPs for the year 2015-16 reflected huge balances relating to earlier period as detailed in **Appendix 2.1**. This indicated that the ZPs had not reconciled the encashed cheques with treasuries, resulting in incorrect reporting of expenditure.
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by the ZPs. However, 13 ZPs had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2016 have been detailed in **Appendix 2.2**.
- The treasuries had written back in 2015-16 the unspent balances of ZPs pertaining to the years 2013-14 and 2014-15 and TPs for the year 2013-14 amounting to ₹408.96 crore and ₹10.15 crore respectively under Fund-II<sup>4</sup> account of ZP to the Government account. However, 19 ZPs had not adjusted the written back amount of ₹326.79 crore in their annual accounts of 2015-16 resulting in overstatement of balances.
- The State Government had withdrawn an amount of ₹797.52 crore from the TP Fund account out of the grants released to the TPs during the year 2014-15. In respect of 169 TPs which have forwarded the accounts, the withdrawal amounted to ₹770.23 crore. We noticed that 10 TPs have not reduced the withdrawn amount of ₹48.14 crore from their annual accounts, resulting in overstatement of receipts and also the closing balances to that extent.
- In respect of 21 TPs, the receipt and expenditure in the annual accounts has been exhibited in accordance with the Fund Account transactions at the Treasury which included the withdrawn and the surrendered Fund amount. This resulted in overstating of transactions by ₹104.93 crore in respect of these TPs.

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

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

### 2.3 Non-remittance of cess amount

The GPs were required to collect various Cesses such as Health, Education, Library and Beggary at 15 per cent, 10 per cent, 6 per cent and 3 per cent respectively, on the amount of tax collected on land and buildings. They were to remit them to the authorities<sup>5</sup> concerned within the time frame prescribed by the State Government after retaining 10 per cent of the Cess amount collected as collection charges.

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

### 2.4 Thirteenth Finance Commission grants

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

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

#### 2.4.2 Irregularities in utilisation of grants

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

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

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

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

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

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

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

## **2.5 Fourteenth Finance Commission Grants**

The Fourteenth Finance Commission (FFC) allocated grants of ₹8,359.79 crore towards basic grants for GPs of the State for the period 2015-16 to 2019-20 and ₹928.87 crore towards performance grants for the period 2016-17 to 2019-20. The grants for each year were to be released by GoI in two instalments (June and October) every fiscal year. The release of second instalment was subject to receipt of Utilisation Certificate (UC) for the first instalment.

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

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

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

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

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

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

(₹ in crore)

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

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

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

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

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

### 2.5.2.2 Transfer of grants to Zilla Panchayats

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

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

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

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

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

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

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

The State Government was operating a bank account at State Bank of Mysore, G-Seva Branch, for receipt and transfer of grants received under the TFC. The account had substantial balances that included grants remaining not transferred to PRIs as well as interest earned. We observed that the funds pertaining to State Finance Commission (SFC) and the grants received under the FFC were also operated through this account. Consequently, the department was required to ensure proper reconciliation of receipt and expenditure of funds received from these different sources. However, the same had not been done. In the absence of reconciliation, we could not ensure the correctness of transfers of funds under FFC and the actual quantum of funds pertaining to FFC remaining in the account. The absence of reconciliation would also impact proper accounting/reporting of 'interest earned' on TFC, FFC and SFC grants.

## **2.6 Other issues**

### **2.6.1 Non-withdrawal of unspent amount**

The State Government *vide* Order dated 8 September 2004 had split the ZP and TP funds into three categories *viz.*, Fund-I (Funds related to Centrally Sponsored Schemes (CSS) and State share of CSS), Fund-II (State grants) and Fund-III (Own funds), and directed treasuries to write back the unspent amount available at the end of the financial year in Fund-II account to Government account after reconciliation. The treasuries, however, did not write back the unspent balance of ₹1,312.74 crore outstanding under Fund-II accounts of ZP (₹523.70 crore) and TP (₹789.04 crore) for the year 2015-16.

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

- a) An amount of ₹243.93 crore pertaining to various closed/inactive schemes for the last one to five years was lying unspent in non-operative bank accounts of 24 ZPs as on 31 March 2016. The ZPs had, however, not taken any action to refund such unspent amounts to the

Government, resulting in locking up of Government funds to the extent of ₹243.93 crore.

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

## 2.7 Conclusion

The annual accounts of ZPs and TPs were submitted after due dates. The balances under suspense heads of accounts were not reconciled. The GPs had irregularly retained the Cess amount collected without remitting it to authorities concerned. There were irregularities in utilisation of TFC grants. The interest paid to GPs for the delay in release of FFC grants was short by ₹5.15 crore. The State Government had not written back unspent balances under ZP and TP funds. Unspent amounts of scheme funds were locked up in non-operative bank accounts.



## **Chapter-III**

# **Results of audit of Panchayat Raj Institutions**



## Chapter III - Results of audit

### Section 'A' – Performance Audit

#### Department of Rural Development and Panchayat Raj

### 3.1 Implementation of National Rural Drinking Water Programme

#### Executive Summary

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

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

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

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

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

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

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

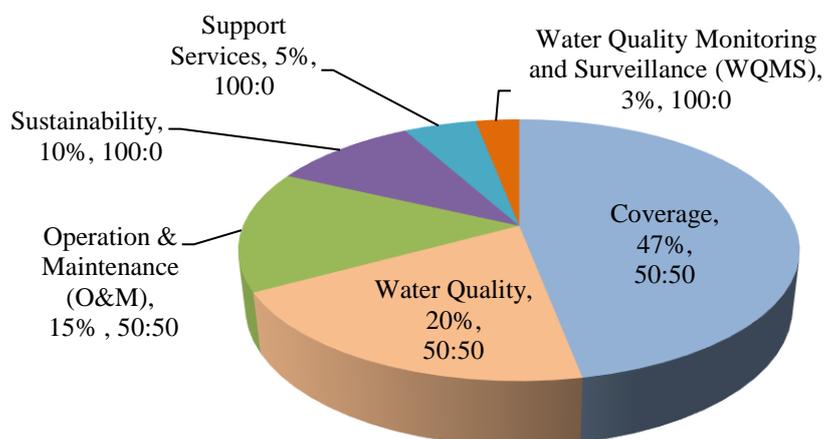
Monitoring and evaluation were not adequate as the Monitoring Cell and Investigation Unit was yet to be set up. None of the six monthly social audits had been done. The evaluation of the implementation of the programme through external agencies, which would enable remedial action on its shortcomings,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

### 3.1.1 Introduction

The Government of India (GoI) launched the Accelerated Rural Water Supply Programme (ARWSP) in the year 1972-73 and renamed it as the National Rural Drinking Water Programme (NRDWP) in 2009. NRDWP visualised safe and adequate water for drinking, cooking and other domestic needs, for all and at all times, in rural India. NRDWP lays major emphasis on ensuring sustainability of water availability in terms of potability, adequacy, and equity while also adopting a decentralised approach involving Panchayat Raj Institutions (PRIs) and community organisations. Adequate flexibility is afforded to the States/Union Territories (UTs) to incorporate the principles of decentralised, demand driven, area specific strategy taking into account all aspects of the sustainability of the source, system, finance and management of the drinking water.

**Components of NRDWP:** There are six components under NRDWP. The extent of allocation of the total funds to each component and the sharing pattern of funds between GoI and Government of Karnataka (GoK) is indicated in **Chart 3.1** below:

**Chart 3.1: Component-wise allocation and sharing pattern (GoI:GoK) under NRDWP**



### 3.1.2 Organisational set up

The Rural Drinking Water and Sanitation (RDWS)<sup>6</sup> Department (department) at the State level is the nodal department from 2014-15 for implementation of NRDWP. The Karnataka Rural Water Supply and Sanitation Agency (KRWSSA) established during August 2001 was identified (September 2009) as the State Water and Sanitation Mission (SWSM) in the State. The SWSM is headed by the Additional Chief Secretary (ACS), Rural Development and Panchayat Raj (RDPR) who is responsible for providing policy guidance and overall implementation of the programme in coordination with other departments. At the district level, the District Water and Sanitation Mission (DWSM) headed by the Chairman of the Zilla Panchayat (ZP) is responsible for formulation, management and monitoring of projects and progress on drinking water security in rural areas. Block Resource Centre (BRC) and Village Water and Sanitation Committee (VWSC) are responsible for providing support in terms of awareness generation, motivation, mobilisation, implementation and supervision of the programme.

### 3.1.3 Audit objectives

The objective of the performance audit was to ascertain whether the rural population has access to safe and adequate drinking water. In this regard we sought to assess whether:

- (i) the institutional mechanism and planning for implementation of the programme were adequate, comprehensive and effective.
- (ii) the programme was implemented on the lines of its stated objectives.
- (iii) the funds provided under the programme were utilised properly.
- (iv) there was an effective inbuilt mechanism in place for monitoring and evaluation of the programme.

### 3.1.4 Audit criteria

The performance audit findings were benchmarked against the following:

- Guidelines for NRDWP – 2013.
- Karnataka Public Works Accounts (KPWA) Code, Karnataka Public Works Departmental (KPWD) Code, Karnataka Financial Code (KFC) and Karnataka Transparency in Public Procurements (KTPP) Act/Rules.
- State Government orders, notifications, circulars and instructions issued from time to time.
- Integrated Management Information System of Ministry of Drinking Water and Sanitation (MDWS) (referred to as IMIS henceforth) hosted on the website ([www.indiawater.gov.in](http://www.indiawater.gov.in)).

<sup>6</sup> Till 2013-14, Department of Rural Development and Panchayat Raj (RDPR) was the nodal department. A separate department was created during March 2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by RDPR.

### 3.1.5 Audit scope and methodology

The performance audit on implementation of NRDWP was conducted during April to September 2016 covering the period from 2012-13 to 2015-16 (in tune with the Twelfth Five Year Plan) through a test-check of records of the Commissioner, RDWS department and RDWS divisions in eight districts<sup>7</sup>. Probability proportional to size without replacement method was adopted for selection of the sample with total expenditure (2012-13 to 2015-16) as size measure. Joint physical verifications were carried out along with the department's officials. An entry conference was held on 1 April 2016 in which the audit objectives, scope and methodology were discussed. An exit conference was held on 10 February 2017 in which the audit findings were discussed.

### Audit findings

### 3.1.6 Institutional mechanism

The NRDWP guidelines required establishment of institutions at State, ZP (district), Block and Village level for overseeing the implementation of the programme. The functioning of the institutional mechanisms in the State was deficient as detailed below:

- SWSM was to consist of 10 members including the Secretaries of the Departments of Education and Women and Child Development. The KRWSSA, the designated SWSM, did not include them as its members. This resulted in lack of convergence with other schemes/programmes. Further, the guidelines stipulated that the Secretary in-charge of Rural Water Supply (RWS) will be the nodal Secretary for all SWSM activities and be responsible for convening the meetings. We observed that the SWSM did not conduct any meetings during 2012-13 to 2015-16.
- Source Finding Committee (SFC) responsible for clearing the works/projects before approval by the State Level Scheme Sanctioning Committee (SLSSC) was not constituted in the State.
- Water and Sanitation Support Organisation (WSSO) established in November 2013 headed by a Director was responsible for Information, Education and Communication (IEC), Human Resources Development (HRD) and other support to SWSM besides assisting in preparation of water security plans at all levels. However, the WSSO had not taken up any evaluation studies, development of IEC and HRD modules, Geographical Information System (GIS) mapping, etc.
- DWSSMs were constituted only in two<sup>8</sup> of the eight test-checked districts up to the end of 2015-16 but were not involved in formulation and approval of the activities under the programme.

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<sup>7</sup> Dakshina Kannada, Haveri, Kalaburagi, Kolar, Mysuru, Raichur, Shivamogga and Vijayapura

<sup>8</sup> Dakshina Kannada (2013-14) and Vijayapura (2014-15)

- BRC which was to serve as an extended arm of DWSM and act as a link between DWSM and VWSCs was not constituted in any of the taluks in the eight test-checked districts, up to the end of 2015-16.
- VWSCs which were responsible for planning, designing and implementing all village drinking water and sanitation activities *etc.*, though formed in the many of the GPs of test-checked districts were not involved in the process of formulation of activities under the programme. Also, the village level workers of VWSC had not conducted the household survey and sanitary inspections of drinking water sources as required under the guidelines.

The State Government replied (February 2017) that action would be taken to conduct SWSM meetings regularly, constitute SFC, conduct all activities by WSSO as per guidelines and that directions have been issued to all district authorities for constituting DWSM.

**Recommendation-1:** *The State Government should ensure that the required Committees are established and the existing institutions strengthened as envisaged, for effective implementation of the programme.*

### 3.1.7 Planning

#### 3.1.7.1 Absence of State Sector Policy Framework

The State had not prepared a State Sector Policy Framework on the lines of National Policy Framework, as required under the guidelines, and the programme was implemented in the absence of the policy framework.

The State Government stated (February 2017) that action would be taken to prepare the State Sector Policy Framework.

#### 3.1.7.2 Absence of Water Security Plans at all levels of implementation

The NRDWP guidelines stipulate preparation of the Village Water Security Plan (VWSP) by the village community with the help of Non-Government Organisations (NGOs). These VWSPs had to be analysed and consolidated by the DWSM and District Water Security Plans (DWSPs) prepared for implementation. The VWSPs were not prepared by any of the Gram Panchayats (GPs) in the test-checked districts except Mulbagal<sup>9</sup> Taluk of Kolar district. In the absence of VWSPs, the DWSPs were not prepared in any of the test-checked districts.

Further, as per the guidelines, the State was also required to prepare a five year Comprehensive Water Security Action plan (CWSAP) which would form the basis for creation of Annual Action Plans (AAPs). It was observed that CWSAP was not prepared by the State.

<sup>9</sup> VWSP was prepared (2014-15) for GPs in Mulbagal Taluk as a pilot project by GoI.

The State Government stated (February 2017) that action would be taken to prepare VWSPs in all the GPs. The reply was, however, silent on the preparation of the CWSAP.

### 3.1.7.3 Annual Action Plans

The main objective of the AAP is to provide a definite direction to the programme, and ensure regular monitoring of the progress made towards the goal of achieving drinking water security to every rural household. The AAPs prepared in the absence of CWSAP were deficient and lacked an integrated approach in addressing the rural water security issues as detailed below:

- (i) The IMIS provided for updation of data regarding population, Water Supply Scheme (WSS) provided and per capita supply, groundwater level, quality of water, *etc.*, for each habitation<sup>10</sup>, in the Yearly Data Updation (YDU) module. The YDU was the basis for sanction/selection of works under NRDWP to any habitation.

During verification of records at field level, it was stated (May-June 2016) by the Executive Engineers (EEs) that action plans were prepared based on the basic information entered by the field engineers of the department in the YDU. However, we observed that such basic information was not documented in any of the test-checked divisions. Hence, we could not ensure the correctness and authenticity of the details/data uploaded on to IMIS in relation to water supply status/facilities at the grass root level.

- (ii) While preparing AAPs, completion of incomplete works had to be given priority over new works and it had to be ensured that the works taken up were completed as per schedule to prevent cost escalation, non-utilisation of assets created, *etc.* The status of ongoing, new and completed projects in the State as per the IMIS reports during the period 2012-13 to 2015-16 is indicated in **Table 3.1**.

**Table 3.1: Status of ongoing, new and completed projects in the State**

Period	Ongoing (Spillover)	New works	Total	Number of completed works	Works that remained incomplete at the end of the year
1	2	3	4	5	6
2012-13	10,289	54,457	64,746	26,975	37,771
2013-14	19,560	59,051	78,611	38,627	39,984
2014-15	33,425	43,739	77,164	35,051	42,113
2015-16	42,144	21,933	64,077	41,165	22,912

Source: IMIS Reports

It can be seen from the above table that all the works which remained incomplete at the end of the year (column 6) were not carried forward (except 2015-16) as ongoing (spillover) works during the subsequent years (Column 2). On the department being asked to explain the discrepancies, the Chief Engineer, RDWS department (CE) attributed

<sup>10</sup> Habitation is a term used to define a group of families living in proximity to each other, within a village.

(April 2016) the mismatch in figures to lack of knowledge about the software during the early days of IMIS (between 2009 and 2011) and inclusion of the spillover works that had not commenced, as new works in the AAPs by the ground level staff. The reply of the department brings out the fact that data in the IMIS is incorrect/inaccurate. Since the department had already stated that IMIS data is relied upon for their planning and reporting *etc.*, it indicates that the AAPs based on above inaccurate data would be deficient to that extent.

- (iii) The AAPs were to be submitted by the State to MDWS by January every year. We observed that AAPs were submitted with delays ranging from six months to ten months during the review period.

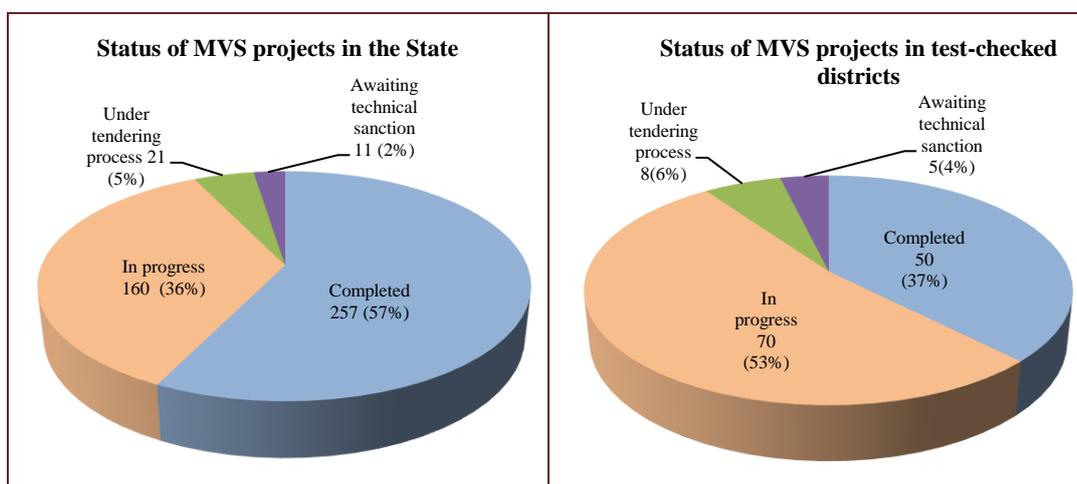
**Recommendation-2:** *The State Government may ensure that required policies and plans are in place and data used for planning and monitoring is accurate.*

### 3.1.8 Programme implementation

#### 3.1.8.1 Implementation of Multi Village Water Supply Scheme (MVS) projects

A total of 449 MVS<sup>11</sup> projects were administratively approved by SLSSC in the State as at the end of March 2016. These projects were aimed at covering a total of 8,131 habitations in the State, of which 3,849 were reportedly affected by water quality problems. The status of MVS projects in the State and in test-checked districts as at the end of March 2016 is given in **Chart 3.2**.

**Chart 3.2: Status of MVS projects in the State and in test-checked districts as of 31 March 2016**



Source: Progress reports furnished by the department

As can be seen from the chart, only 257 projects (57 per cent) were completed while 160 projects (36 per cent) were incomplete for various reasons. We observed that 69 projects approved and awarded prior to the commencement

<sup>11</sup> In addition, MVS are also implemented through funding under 13<sup>th</sup> Finance Commission Grants, *Jal Nirmal* Project (State Sector Scheme) *etc.*

(2012-13) of audit period, with stipulated time period of 11 months for completion, were still incomplete thereby depriving the intended benefits to the target groups.

Audit findings on the implementation of test-checked projects are brought out in the subsequent paragraphs:

### **3.1.8.2 Unfruitful expenditure on MVS to Kudla and four other villages**

The MVS for providing drinking water to Kudla and four other villages of Haveri district was sanctioned (2010-11) at an estimated cost of ₹4.50 crore. As the identified source, River Varada was not perennial, the project envisaged impounding water through an existing surface tank situated at Naregal village for supply during summer. The impounding reservoir (IR) was proposed to be constructed by separating out (bifurcating) the existing surface tank. The work<sup>12</sup> was entrusted (March 2011) to a contractor for ₹4.41 crore. The contractor completed (August 2015) all of the works except for the works relating to IR and an amount of ₹3.07 crore was paid.

We observed that the President of Naregal GP had addressed (April 2011) the Assistant Executive Engineer (AEE), Panchayat Raj Engineering Division (PRED) Hanagal regarding the flow of sewage/waste water from Naregal village into the proposed tank and had objected to the use of the tank for the WSS. Despite this, the project was taken up with a provision to delineate water for irrigation and water supply through an intermediary structure which was not executed till date (November 2016). Consequently, the project remained non-functional. The proposal submitted by the Superintending Engineer (December 2013) to the CE for construction of new IR was also not accepted and the CE instructed (December 2015) to treat the work as closed without the IR. He further instructed to include the construction of new IR in the subsequent years' action plan. The joint physical verification (June 2016) of the project showed that there was no further progress in the work, thus rendering the expenditure of ₹3.07 crore unfruitful.

The State Government stated (February 2017) that it has proposed to construct a separate tank for this WSS now.

### **3.1.8.3 Projects taken up without ensuring availability of resources**

#### **(a) Project taken up without definite water source**

**MVS for Sangabettu and 65 other villages in Bantwal taluk of Dakshina Kannada district** - The work estimated to cost ₹29.01 crore was taken up (January 2015) with River Phalguni as the source. The tapping point was a vented dam constructed earlier by Karnataka Urban Water Supply & Drainage Board (Board) at Pachemogaru for water supply to Moodabidri town. The department had not obtained the required permission from the Board for drawing water from their dam site. Further,

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<sup>12</sup> The work involved construction of jack well, intake well, intake pipe at source, raw water raising main, water treatment plant, construction of IR at Naregal tank, waste weir at IR, construction of jack well/pump house at IR etc.

there were private hydro-electricity generation plants both upstream and downstream of the proposed tapping point that was not considered in the Detailed Project Report (DPR). No agreement/written commitment for ensuring sufficiency of water to the WSS was entered into with the private power generation plants. Hence, the flow of water in the river in the concerned segment and the availability throughout the year was in control of these private agencies. The inspection note of Superintending Engineer, RDWS Circle, Mysuru (February 2015) also expressed concern over sufficiency of water. Also no alternate arrangement had been proposed for summer season when the river dries up. The work stipulated for completion by December 2015 was still in progress (May 2016).

**(b) Projects taken up without ensuring availability of land**

As per the provisions of KPWD Code, no work should be entrusted for execution without ensuring the availability of the entire land required for the work. However, we observed in respect of projects described below that (i) projects were taken up without ensuring the availability of land resulting in delay in completion of the projects and (ii) part of the projects were executed on private land, the possession of which was not taken over by the department and hence, was fraught with the risk of legal disputes.

- **WSS to Tamba and nine other villages in Indi taluk and WSS to Goranal and four other villages in Indi taluk** - Though DPRs clearly mentioned about the requirement of land, works were entrusted without transfer/acquisition of land for construction of IR. The work of IR was yet to be completed (Tamba) and IR was stated (June 2016) to be completed (Goranal). The Water Treatment Plant (WTP), in both the projects, was constructed on private lands, the formal possessions of which had not been taken over by the department (February 2017).
- **WSS to Peerapur and 16 other villages in Muddebihal taluk** - The work required acquisition of land for both IR and WTP. Despite awarding the work for execution in February 2009, the land for IR was obtained only during October 2013. We also observed that WTP was constructed on a private land without formal acquisition. The work of construction of IR was yet to be completed (February 2017).
- **WSS to Hampapura and 22 other villages in KR Nagar taluk** - The work was entrusted (November 2011) without acquiring the required land from Forest and Railway authorities for construction of WTP, jack well and laying of pipelines. The contractor stopped (July 2012) the work demanding cost escalation. The CE rescinded (March 2015) the work without risk and cost after being served with legal notices from the contractor. Permission from Forest Department was obtained only during November 2015. The balance work was retendered and entrusted for ₹9.07 crore during January 2017. The work is stated to be under progress (February 2017).
- **WSS to Kallur and 10 other villages in Manvi taluk** - While preparing the estimate/DPR, 15 acres 36 guntas of Government land was identified

for construction of IR. The work was entrusted (February 2009) to a contractor. The CE, during his visit (December 2009), proposed for change of location of IR from the Government land to a private land located downstream of the source stating that the site identified in DPR was not suitable for IR. The private land had not been formally acquired even as of May 2016, though compensation of ₹0.94 crore was deposited (August 2014) with the Deputy Commissioner towards land acquisition. However, the work of IR was commenced on the private land without formal acquisition and was yet to be completed (February 2017).

- **WSS to IK Babalad and four other villages in Kalaburagi taluk** – The work was entrusted to the contractor in November 2013. However, the land for WTP was acquired only during January 2016 and the work was yet to be completed (February 2017).
- **WSS to Kallur and seven other villages in Afzalpur taluk** - The DPR does not mention about the availability of land for the work. We observed that private land was obtained on consent basis for the construction of jack well and WTP without any formal acquisition of the same. The work of WTP could not be taken up as the required land was not made available and hence it was proposed (February 2016) to install Lamella Clarifier Platform<sup>13</sup> and chlorinator room. The work was yet to be completed (February 2017).

**Recommendation-3: The State Government should ensure availability and reliability of the water source and availability of land before according project approvals so as to prevent undue delay in completion of the projects.**

#### **3.1.8.4 Inordinate delay in completion of the projects**

##### **(i) MVS for Salikyapur and nine other villages in Devadurga Taluk of Raichur district**

The MVS for Salikyapur and nine other villages in Devadurga taluk of Raichur district estimated to cost ₹2.17 crore was entrusted (August 2002) by the EE, PRED, Raichur to Karnataka Rural Infrastructure Development Limited (KRIDL) with a stipulation to complete the work within 18 months and an amount of ₹1.92 crore was released till December 2007. The work was hampered and could not be completed due to land disputes. Scrutiny of the records showed that the estimate for the project was revised to ₹7.77 crore and approved (February 2013) by the State Government. Consequent on the revision of the estimate, an amount of ₹4.24 crore was released during March 2013. The ACS, RDPR directed (August 2014) the KRIDL to complete the work by December 2014. Despite the non-completion of the work, the balance of ₹1.61 crore was released during March 2015. KRIDL had incurred an amount of ₹4.89 crore on the work till May 2016 and the project was yet to be completed despite the upward revision of estimate by ₹5.60 crore, and delay of over 12 years.

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<sup>13</sup> Lamella Clarifier Platform is a type of settler designed to remove particulates from water.

The State Government stated (February 2017) that the matter will be taken up with KRIDL to complete the work within this year. The reply is, however, silent on the reasons for the delay in completion of the work.

**(ii) MVS for Kinnigoli and 17 other villages in Mangaluru taluk of Dakshina Kannada district**

The MVS for Kinnigoli and 17 other villages in Mangaluru taluk of Dakshina Kannada district estimated to cost ₹16.80 crore was entrusted (June 2010) by EE, PRED, Dakshina Kannada to a contractor with a stipulation to complete the work within 11 months. The progress of the project was behind the prescribed schedule. The EE issued (October 2012 to May 2014) notices to the contractor. As the contractor did not respond to any of the notices, the contract was rescinded (July 2014) by the CE at the risk and cost of the contractor by which time payment of ₹9.56 crore had been made to the contractor. Subsequently, based on the request of the contractor to reconsider rescinding of the contract, the CE cancelled (10 April 2015) his earlier order and extended the time limit up to April 2015 to complete the balance work. The project, however, remained incomplete.

The State Government stated (February 2017) that the contractor defaulted even after the extension of time and that action is being taken to blacklist the contractor. No reply was furnished regarding the action proposed to be taken for early completion of the project.

### **3.1.9 Status of rural water supply**

The Twelfth Five Year Plan envisaged a paradigm shift with emphasis on piped water supply with the goal of providing at least 50 *per cent* of the rural population with at least 55 litres per capita per day (lpcd) within the household premises or at a horizontal or vertical distance of not more than 100 metres from their household without barriers of social or financial discrimination by 2017.

We observed from the analysis of the information available on IMIS that while 96 *per cent* of the rural population in the State was provided with piped water as at the end of March 2016, the stipulated quantity of 55 lpcd of water could be provided to only 14 *per cent* of the rural population. The position in the test-checked districts was 96 *per cent* and 15 *per cent* respectively. However, in the absence of any physical records in the test-checked offices, we could not verify the stated achievement of the test-checked districts/State.

#### **3.1.9.1 Individual household connection**

The NRDWP guidelines envisaged providing piped water supply to at least 35 *per cent* of the households through individual connections by the year 2017.

We observed from the IMIS that the achievement of the State was 37 *per cent* as of February 2017 (30.41 lakh households against 82.09 lakh households). The status of achievement in the test-checked districts ranged between 23 *per cent* (Kalaburagi) and 50 *per cent* (Dakshina Kannada). However, there were

discrepancies in adoption of the total number of households provided with individual connection at the end of the year during the subsequent years as opening balance, thus rendering the accuracy of the information uploaded in the IMIS as doubtful. The status of households provided with individual connections is indicated in **Appendix 3.1**.

The State Government stated (February 2017) that steps would be taken to instruct the district authorities to verify and update actual data in IMIS and whenever, there is shortfall in progress, special drives will be taken up to provide individual household connections.

### 3.1.9.2 Prioritisation of habitations

As per the NRDWP guidelines, during planning, priority is to be accorded to habitations with lower coverage *i.e.* where the coverage of population with water supply within the habitations was only 0-25 *per cent* and 25-50 *per cent*, and quality affected habitations<sup>14</sup>.

The status of habitations in the State with drinking water supply during the period 2012-13 to 2015-16 is indicated in **Table 3.2**.

**Table 3.2: Status of rural habitations in the State with drinking water supply**

Total habitations	59,753	59,753	59,945	60,220
Status of habitations	Number of habitations as at the end of			
	2012-13	2013-14	2014-15	2015-16
0%	(Not exhibited distinctly)			
0-25%	5,223	6,791	5,673	6,166
25-50%	16,161	17,019	18,218	18,762
50-75%	19,469	15,993	15,507	12,778
75-100%	10,112	11,440	11,074	12,170
100%	5,581	6,137	7,108	8,198
Quality affected habitations	3,207	2,373	2,365	2,146
% of 0-25 and 25-50 to total habitations	36	40	40	41

Year	0-25%	25-50%	50-75%	75-100%	100%	QAH
2012-13	5,223	16,161	19,469	10,112	5,581	3,207
2013-14	6,791	17,019	15,993	11,440	6,137	2,373
2014-15	5,673	18,218	15,507	11,074	7,108	2,365
2015-16	6,166	18,762	12,778	12,170	8,198	2,146

Source: IMIS

As apparent from the above, the number of habitations with 0-25 and 25-50 *per cent* population coverage increased from 36 *per cent* to 41 *per cent* over a period of four years (2012-13 to 2015-16), indicating slow progress in supplying water to these habitations. The steep fall in 50-75 *per cent* category (6,691) is not explained fully by the rise in numbers in 75-100 *per cent* (2,058) and 100 *per cent* categories (2,617) indicating that the rest of the habitations (2,016) might have slipped back to the lower categories. We also observed 19 *per cent* increase in habitations with 0-25 and 25-50 *per cent* population coverage in four out of eight test-checked districts as indicated in **Appendix 3.2**.

<sup>14</sup> Habitations where water is chemically contaminated by fluoride, arsenic, iron, *etc.*, are called as quality affected habitations.

As regards quality affected habitations, the achievement of the State was appreciable as the number of quality affected habitations decreased from 3,207 to 2,146 during the review period. Except in Dakshina Kannada and Kolar districts, the number of quality affected habitations decreased in all other test-checked districts.

The State Government stated (February 2017) that due to shortage of rainfall and depleting water table, sufficient water could not be supplied to those habitations. The reply is not satisfactory as 0-25 and 25-50 *per cent* category habitations reflected underachievement whereas the achievement under 50-75, 75-100 and 100 *per cent* category habitations were far in excess of the targets as indicated in **Table 3.3** below.

**Table 3.3: Targets and achievement of prioritisation of habitations**

Category	Status of habitations	2013-14	2014-15	2015-16
0-25 <i>per cent</i>	Number of habitations at the beginning of the year	5,223	6,791	5,673
	Target	4,865	3,162	3,131
	Achievement	2,942	1,854	1,749
25-50 <i>per cent</i>	Number of habitations at the beginning of the year	16,161	17,019	18,218
	Target	6,080	4,993	5,252
	Achievement	5,506	4,409	5,435
50-75 <i>per cent</i>	Number of habitations at the beginning of the year	19,469	15,993	15,507
	Target	1,445	134	488
	Achievement	4,715	4,097	5,380
75-100 <i>per cent</i>	Number of habitations at the beginning of the year	10,112	11,440	11,074
	Target	452	165	429
	Achievement	1,921	2,953	4,055
100 <i>per cent</i>	Number of habitations at the beginning of the year	5,581	6,137	7,108
	Target	65	0	131
	Achievement	490	1,023	2,008
Number of quality affected habitations	Number of habitations at the beginning of the year	3,207	2,373	2,365
	Target	2,568	1,927	1,944
	Achievement	1,948	1,062	1,164

Source: IMIS (Format C-1)

### 3.1.10 Sustainability works

#### 3.1.10.1 Status of works

Sustainable drinking water sources provide safe drinking water in adequate quantity, even during distress periods, through conjunctive use of groundwater, surface water and roof-water harvesting. The main aim of sustainability of drinking water schemes is to ensure that the existing schemes continue to provide for universal access of safe drinking water to the community, throughout the design period of the schemes.

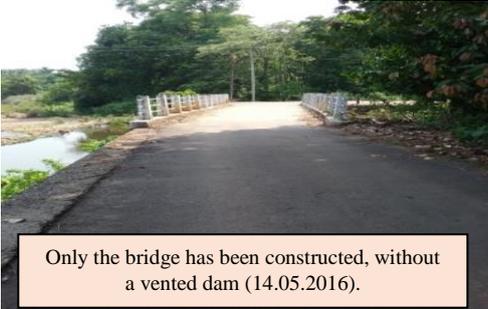
We observed that out of 5,040 (including 916 spillover works at the beginning of 2012-13) works, only 2,934 works (58 per cent) were completed. Further, as per the guidelines, the incomplete works were to be given priority over new works. However, no such prioritisation had been carried out by the department and there existed discrepancies in adopting the closing balances of the previous years during the subsequent years' opening balance, thus rendering the accuracy of the information uploaded in the IMIS as doubtful. The status of sustainability works during the period 2012-13 to 2015-16 is indicated in **Appendix 3.3**.

The State Government stated (February 2017) that all the divisions will be instructed to speed up the works and complete all works on time under sustainability and duly enter correct data in IMIS.

### 3.1.10.2 Ineligible works under sustainability

Any sustainability structure needs water to be impounded and allows for percolation into aquifers recharging the groundwater. Verification of records in test-checked districts disclosed execution of ineligible works under sustainability works as detailed in **Table 3.4**.

**Table 3.4: Execution of ineligible works under sustainability works**

Name of the work	Audit observations	Photograph of the works with brief explanation
Construction of a bridge-cum-vented dam at Shishila under Shishila GP in Belthangadi taluk of Dakshina Kannada district across River Kapila during 2013-14 at an expenditure of ₹44.40 lakh	<ul style="list-style-type: none"> <li>♦ The structure was being used only as a bridge without storing water.</li> <li>♦ No provision was made in the work to store water.</li> <li>♦ A huge vented dam exists in the vicinity for the purpose of storage and recharge of groundwater.</li> <li>♦ Expenditure was incurred on construction of approach road on both sides of the bridge.</li> </ul>	 <p data-bbox="975 1294 1431 1346">Only the bridge has been constructed, without a vented dam (14.05.2016).</p>
Improvements to vented dam at Nekkere in Manjanadi GP of Mangaluru taluk completed during 2014-15 at a cost of ₹46.69 lakh	<ul style="list-style-type: none"> <li>♦ The vented dam was constructed across the stream earlier (year not on record).</li> <li>♦ Water is not being stored in the structure.</li> <li>♦ The “improvement works” to the vented dam, instead of aiding percolation which enhances sustainability, resulted in reducing percolation due to the construction of concrete retention walls.</li> <li>♦ The works were therefore unnecessary as they did not serve the purpose of enhancing sustainability.</li> </ul>	 <p data-bbox="975 1771 1431 1823">The “improvement work” was only concrete retention walls on the sides (16.05.2016).</p>

Source: Records furnished by department and joint physical verification

As these works did not serve the purpose of sustainability, the expenditure of ₹91.09 lakh incurred on these ineligible works was unwarranted. The State Government stated (February 2017) that the details would be obtained from the divisions and reply would be submitted thereafter.

### 3.1.10.3 Defective construction/non-maintenance of structures

We conducted joint physical verification (May-June 2016) of 58 sustainability works executed during 2012-13 to 2015-16 and observed defects, either due to improper planning, sub-standard quality of work or non-maintenance in respect of 10 structures constructed at a total cost of ₹87.53 lakh (detailed in **Appendix 3.4**). The department did not adequately monitor and maintain the structures which may render the expenditure incurred wasteful.

The State Government stated (February 2017) that suitable instructions will be issued to all the districts to hand over all the structures to the concerned GPs with documentation and proper maintenance.

### 3.1.10.4 Construction of Injection wells - violation of KTPP norms

The EE, RDWS division, Mysuru entrusted (January 2015) 60 works of ‘Construction of injection well to recharge drinking water bore well through V-Wire Technology<sup>15</sup>’ at a total cost of ₹1.20 crore (each work costing ₹2.00 lakh) to an agency. Though it was proposed to construct injection wells in large numbers with substantial expenditure of more than ₹1.00 crore, tenders were not invited and all the 60 works were entrusted to a single agency as piece-meal contracts. This violated the provisions of KTPP Act. A total payment of ₹1.09 crore was made to the agency as of March 2016.

Scrutiny of the records and joint physical verification (May 2016) of 10 structures revealed that feasibility of the structures was not evaluated prior to taking up the work. The division also did not monitor/maintain the structures and out of 10 structures inspected, we observed that the inlet for water was blocked with silt/vegetation in five of the structures. The data on groundwater table was also not recorded to ensure optimum utility of the structures.

Thus, in the absence of water table data either prior to commencement of the work or after execution of work and non-maintenance of structures, the entire expenditure of ₹1.09 crore was likely to be wasted.

The EE replied (May 2016) that tenders were not invited as each work was considered as individual work. The reply is not tenable as the action of the EE was in violation of the provisions of KTPP Act and work costing ₹1.20 crore was awarded to a single agency without calling for tenders.

### 3.1.10.5 Execution of rainwater harvesting projects

Rainwater harvesting is an important method of ensuring sustainability of water. We noticed that this work was included/executed in only five districts<sup>16</sup> in the State. Out of the targeted 99 rainwater harvesting works, only 10 works (10 per cent) were executed during 2012-13 to 2015-16. The department did

<sup>15</sup> The methodology involved construction of pits fitted with concrete rings as percolation tank and injection tube well through which flowing rainwater slowly percolates into the ground and reaches the dry joints, cracks and aquifer and recharges the groundwater source.

<sup>16</sup> Chikkaballapura, Dakshina Kannada, Dharwad, Koppal and Mandya

not spell out the reasons for setting such a low target and the negligible achievement thereon indicated the lack of prioritisation of water harvesting by the department.

Scrutiny of IMIS data showed that one work of rainwater harvesting was executed in Dakshina Kannada district. We sought the details of the work such as estimate, work order, expenditure incurred and photographic evidence but the same was not made available by the EE, RDWS division, Dakshina Kannada. Consequently, in the absence of these details, the genuineness of execution of the work was doubtful.

The State Government stated (February 2017) that more thrust will be given to include and execute rainwater harvesting structures under sustainability component in the subsequent years. The reply was, however, silent on the single work that was indicated in the IMIS.

### **3.1.11 Water Quality Monitoring & Surveillance Programme**

The National Rural Drinking Water Quality Monitoring & Surveillance Programme (WQMSP) was launched (February 2006) with the prime objective of institutionalisation of community participation and involvement of PRIs for water quality monitoring & surveillance of all drinking water sources. The programme fully funded by GoI provided for all allied activities like IEC, HRD, outsourcing of services, strengthening of district level laboratories, procurement of field test kits, *etc.*

Though the WSSO was to prepare a Master Plan for the WQMSP activities, no such Master Plan had been prepared for the State indicating lack of defined vision towards water quality issues.

#### **3.1.11.1 Establishment of laboratories**

The NRDWP guidelines stipulated establishment/strengthening of water testing laboratory at State, district and sub-division level duly equipped for conducting tests on water samples for physical, chemical and bacteriological parameters utilising the funds provided under WQMSP component. The status of laboratories in the State is as below:

- The State level laboratory which was required for the purpose of testing water samples was not established. The State level laboratory was responsible for cross verification of samples found contaminated at lower level laboratories, testing concentrations of rare elements and providing water quality testing reports to the State Government.
- The State Government established laboratories in all the districts of the State. While laboratories in 20 districts were being managed departmentally, the laboratories in 10 districts were outsourced to a private agency for maintenance. The reason quoted for outsourcing the district laboratories was shortage of staff.

- Taluk level laboratories were established in 100 out of 176 taluks in the State.

The Director, WSSO replied (September 2016) that a Memorandum of Understanding (MOU) for establishing the State level laboratory was signed (June 2016) with the Karnataka Pollution Control Board to utilise the services of Central Environmental Laboratory.

### **3.1.11.2 Functioning of laboratories**

As per guidelines, 100 *per cent* of the sources at sub-divisional laboratories are to be tested both for bacteriological and chemical/physical parameters and 10 *per cent* of samples (which include positively tested samples) are to be tested by the district laboratories apart from routine cross verification by the State laboratory. While water samples were to be examined for chemical/physical parameters once a year, tests were to be conducted for bacteriological parameter like Most Probable Number (MPN) counts, E-Coli and Faecal Coliform twice a year (pre-monsoon and post-monsoon).

During joint physical verification of eight district laboratories and 18 taluk level laboratories under the test-checked districts, we observed (May-October 2016) that the laboratories were deficient in their functioning. They were not adequately staffed and the existing staff were not trained and hence could not conduct tests for all the envisaged parameters particularly for bacteriological contamination. Record maintenance was poor, all the equipment were not put to use and the laboratories did not submit the test-results and monthly progress reports to the EE/AEE concerned who were responsible for ensuring testing of water samples from all the sources and entering data in IMIS *etc.* The details of deficiencies are exhibited in the **Appendix 3.5**.

Further, during verification of records in Haveri district, we noticed that the taluk laboratory, Ranebennur resorted to making fraudulent claims regarding water sample testing and reporting as illustrated below:

#### ***Illustration***

*A total of 30 bore wells were stated (July 2015) to have been drilled in Ukkunda village of Ranebennur taluk under Haveri district, of which 23 failed due to non-availability of yield and only seven were functioning. However, the taluk laboratory reported (December 2014 to May 2015) having tested the water samples from all the 30 bore wells. Though the AEE reported (July 2015) to the EE on the issue of fraudulent reporting, no action was taken against the taluk laboratory.*

Thus, the establishment of laboratories at district/taluk level did not adequately serve the intended purpose of testing water quality for all the envisaged parameters.

The State Government stated (February 2017) that the performance of taluk and district level laboratories is being assessed by the department and bills are being held up till the evaluation is complete. Reply was, however, silent on fixing of responsibility for fraudulent reporting.

**Recommendation-4: The State Government should ensure that the Water Quality Testing Laboratories are functioning effectively at both the District and Taluk levels, and that periodic testing of samples from all the required sources are conducted so that preventive action can be taken with regard to availability of safe drinking water.**

### **3.1.11.3 Contract management in establishment of laboratories**

The CE invited tenders and entered into agreement with private agencies for (i) supply, delivery and installation of bacteriological testing equipment including training to end users at the district level laboratories, and (ii) establishment and maintenance of sub-divisional water quality testing laboratories including supply, installation of equipment, maintenance of laboratory, collection and analysis of samples, and supply of consumables. Irregularities observed in tendering and management of these two contracts are detailed below:

#### ***i. Supply, delivery and installation of bacteriological testing equipment including training to end users at the district level laboratories***

In order to strengthen the district level laboratories, the CE proposed (February 2012) procurement of required equipment which was approved (March 2012) by the State Government for an estimated cost of ₹88 lakh. Tenders were invited (May 2012) and work order was issued (June 2013) to the firm M/s Global Technologies, Bengaluru at the negotiated cost of ₹84 lakh and equipment were supplied and installed (August-October 2013). Scrutiny of the documents revealed the following:

- The clause that ‘bidder must have been a manufacturer or an authorised representative’ was not complied with.
- Tender conditions were flouted during pre-qualification, as the successful bidder had not fulfilled the requirement of having satisfactorily completed (at least 90 *per cent* of the contract value), as prime contractor, at least one similar work with value not less than ₹81 lakh.
- Though the tender notification was for supply, installation and maintenance for three years, the work order was issued only for supply and installation and excluded the maintenance clause. This violated the spirit of tendering besides defeating the purpose of approval by SLSSC and Government. It also resulted in undue advantage to the firm and consequent absence of periodic maintenance of equipment.
- Though the nomenclature of the contract, *inter alia*, included ‘training to end users’, the work order did not include the schedule, total sessions of training, venue, total proposed participants, *etc.*, and hence, no training was imparted to any user.

ii. ***Establishment and maintenance of sub-divisional water quality testing laboratories including supply, installation of equipment, maintenance of lab, collection and analysis of samples, and supply of consumables***

The State Government proposed (June 2013) for establishment of laboratories at taluks for which tenders were invited by CE in December 2013. Of the two bidders, the negotiated offer of M/s Prasad Raypati of Ray Environ, Bengaluru for ₹68.40 crore was accepted. Work order for establishment of 80 laboratories (one in each taluk) was issued on 4 March 2014. Major lacunae observed in tendering and management of sub-divisional water testing laboratories, *inter alia*, included:

- The Transaction of Business Rules 1977, requires that works estimated to cost ₹5.00 crore and above were to be got approved by the Cabinet. However, this tender was approved (February 2014) by State Level Empowered Committee (SLEC) which had been constituted (March 2013) to approve only the multi village water supply projects. In the instant case, the tender had to be approved by the Cabinet and SLEC was not competent to approve the tender.
- No documentary evidence was forthcoming on record against the clause ‘bidder must have been a manufacturer or an authorised representative’.
- Solvency certificate from bankers, as required under tender conditions, was not furnished.
- The registration certificate to the claim that the bidder was ‘Class-I contractor for establishment of water quality testing laboratories’ was not forthcoming from the records.
- As per clause, the bidder was required to have an average annual turnover of not less than ₹57 crore. The selected bidder obtained a ‘Power of Attorney’ from a civil contractor and submitted the financial statements pertaining to the civil contractor. On comparison of the financial statements and corresponding income tax returns filed by the selected bidder and the civil contractor, we noticed that the financial statements furnished along with the tender varied with the financial statements furnished to income tax authorities.
- The bidder was required to furnish certificates for having supplied, installed and commissioned water quality testing laboratory equipment similar to the type specified in the schedule of requirements in any State/Central Government departments in India. We observed that the certificates furnished by the bidder were certificates of other firms which had made such supplies. Since the supplies were not made by him, these certificates were not valid. Moreover, there was no evidence on record to show that the bidder had executed such works earlier.

We, further, observed that the State Government extended (March 2015) the scope of the work for an additional 20 laboratories at a total cost of ₹23.70 crore without ensuring proper functioning of the laboratories established earlier, which was not prudent.

The State Government stated (February 2017) that action will be taken as per tender conditions after obtaining legal opinion for breach of contract.

#### ***3.1.11.4 Establishment of Water Purification units***

The State Government planned to establish water purification (WP) units in a phased manner from 2011-12 to combat the water quality problem faced by the rural population and to provide safe drinking water. The status of units sanctioned, installed and commissioned out of NRDWP funds as of November 2016 is indicated in **Appendix 3.6**.

We observed that as against the total 9,519 units sanctioned (2012-13 to 2015-16) for the State, 6,907 units (72 *per cent*) were installed and 5,941 units (62 *per cent*) commissioned. In test-checked districts, out of 2,437 units sanctioned, 66 *per cent* of the units were installed and 57 *per cent* were commissioned. However, the details of units actually working in the State/districts were not furnished to audit. The delay in commissioning of units resulted in depriving safe drinking water to the needy population besides rendering the expenditure on installed units unfruitful.

The State Government replied (February 2017) that action will be initiated to speed up installation and commissioning of RO units and information of the units actually working will be obtained from divisions and furnished to audit.

#### ***3.1.11.5 Improper agreements with agencies***

The department empanelled certain firms in the State for installation of WP units. Apart from placing orders directly with the empanelled firms, the district offices were also allowed to invite tenders locally for installation of WP units. In both the circumstances, agreements were required to be entered into with the firms. The CE communicated the model agreement format to the districts but at the same time allowed the district authorities to draft their own agreement formats, which were approved by the CE. This facilitated arbitrary insertion/modification of certain contract clauses which resulted in undue benefits to firms. Illustrative instances are listed below.

The clause for collection of 'Contract Performance Security' by selected firms was not uniformly incorporated in all the agreements. In Shivamogga district, though the agreement provided for collection of performance security, the rate at which the same was to be collected was not indicated. This resulted in awarding of contract without obtaining performance security.

In Raichur and Vijayapura districts, the agreement with the firm M/s SMAAT India Private Limited, Hyderabad included a clause that allowed the firm to obtain loan from financial institutions by mortgaging the land/buildings of WP

units. When the firm defaulted, the bank served (May 2016) notices to the EEs for seizure of the government property.

The State Government stated (February 2017) that instructions will be issued to divisions and ZPs to follow model agreement without any modifications.

#### **3.1.11.6 Short collection of performance security**

As per the contract agreement entered into with the firms by the EEs, 20 per cent of the capital cost was to be obtained from the firms in the form of bank guarantee towards 'contract performance security' before entrustment of work. We noticed short-collection of performance security to the tune of ₹0.33 crore in two districts (Kalaburagi and Mysuru). The State Government stated (February 2017) that recovery particulars will be called from concerned divisions and intimated to audit.

#### **3.1.11.7 Blocking of funds**

- (i) The WP units were to be installed through cooperative societies wherein a sum of ₹5.00 lakh was paid from NRDWP funds and the balance was to be met out from the cooperative society concerned. We observed in two test-checked districts (Mysuru and Shivamogga) that though an amount of ₹2.37 crore was released (January 2016) for installation of 95 units, there was no progress in the works as of June 2016, resulting in blocking of NRDWP funds.
- (ii) In Kalaburagi district, the work of providing basic infrastructure civil works for 41 WP units was entrusted (November 2014) to KRIDL at a unit cost of ₹5.33 lakh and the EE, RDWS division, Kalaburagi released an amount of ₹164 lakh to KRIDL as advance (@ ₹4.00 lakh each for 41 units). KRIDL, as against the allotted 41 WP units could only complete the work in respect of 38 units, as sites were not identified by the EE for the other three WP units. We also noticed that the EE released balance amount of ₹53.20 lakh as against ₹50.54 lakh (@ ₹1.33 lakh each for 38 units), resulting in excess release of ₹2.66 lakh. This resulted in blocking up of a total amount of ₹14.66 lakh (₹2.66 lakh + ₹4 lakh\*3) with KRIDL.

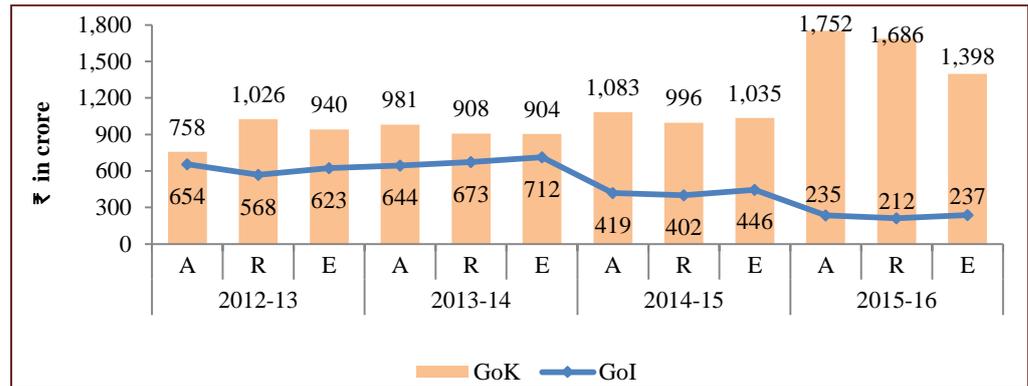
Further, the EEs did not comply with many of the conditions laid down by the Government such as inspection of WP units, testing of raw water samples before designing the treatment system, establishment of WP units only in quality affected habitations *etc.* The details of conditions and their compliance are indicated in **Appendix 3.7**.

### **3.1.12 Financial Management**

#### **3.1.12.1 Financial position**

The component-wise allocation, releases and expenditure during the period 2012-13 to 2015-16 under NRDWP is detailed in **Appendix 3.8**. Total allocation, releases and expenditure by GoI and GoK are exhibited in **Chart 3.3**:

**Chart 3.3: Allocation, releases and expenditure by GoI and GoK under NRDWP**



Source: IMIS (D-13)

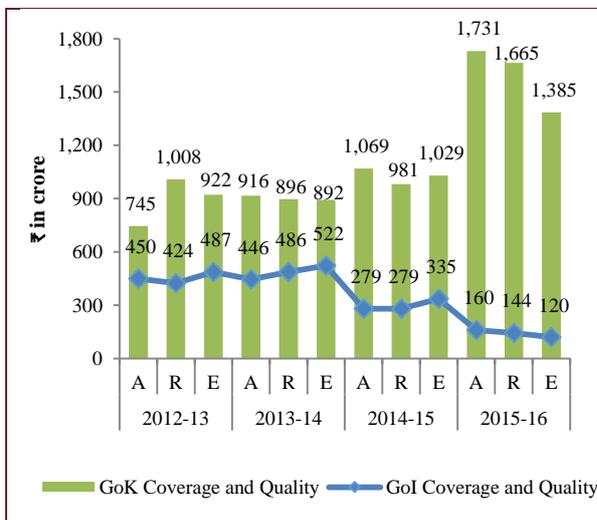
A-Allocation R-Release E-Expenditure

As can be seen from the above chart, there was shortfall in release of funds against the allocation by GoI during the audit period except during 2013-14 where there was excess release. The shortfall in release was due to non-fulfilment of the prescribed conditions such as excess opening balance, excess expenditure on O&M, etc. We observed that GoI reduced an amount of ₹65.68 crore while releasing the grants during the period 2012-13 to 2015-16. The department did not explain the reasons for not adhering to the guidelines and conditions for release of funds.

**3.1.12.2 Release of funds in excess of matching grants**

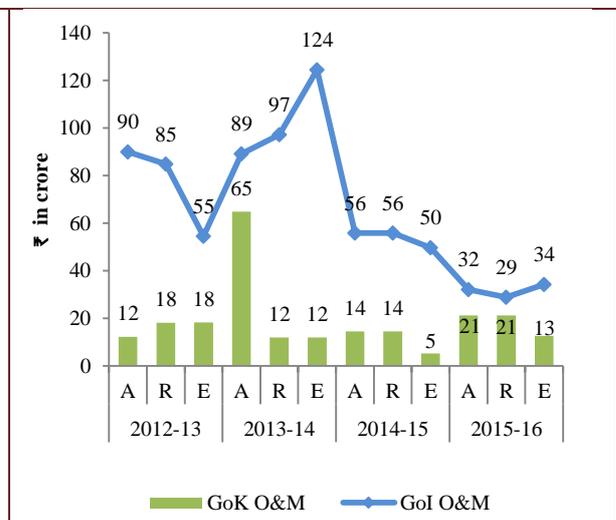
The State Government had to provide matching grants under Coverage, Quality and O&M components. We observed that the State Government provided excess allocation under Coverage and Quality (**Chart 3.4**) and less than the required allocation for O&M (**Chart 3.5**). Correspondingly, the funds released by the State Government were in excess of its share by ₹3,217 crore during the period from 2012-13 to 2015-16 under Coverage and Quality. The excess release of funds was injudicious in view of the huge outstanding balances in bank accounts as described in *Paragraphs 3.1.12.3 and 3.1.12.6*.

**Chart 3.4 – Coverage and Quality**



Source: IMIS (D-13)

**Chart 3.5 – Operation & Maintenance**



A-Allocation R-Release E-Expenditure

### 3.1.12.3 Operation of unauthorised bank accounts

As per the NRDWP guidelines, the SWSM is to operate two accounts in a branch of any public sector bank for maintaining the Programme account<sup>17</sup> and Support Activity account<sup>18</sup>. These accounts were to be savings accounts and once selected, these accounts were not to be changed without the concurrence of MDWS. Accordingly, two savings accounts, one each in Syndicate Bank, BWSSB Branch (Programme Fund account - 04462010091577) and Corporation Bank, Malleswaram Branch (Support Activity account – SB01038111) were opened and communicated (August 2009) to MDWS.

We observed that the department was operating as many as 106 accounts in different banks<sup>19</sup> apart from the two main accounts. The department neither furnished the reasons for opening these accounts with different banks nor provided the necessary documents in this regard. The permission of GoI for opening and operating these accounts was not made available to audit, due to which audit had to conclude that these accounts were unauthorised. The Assistant General Manager, Syndicate Bank, BWSSB Branch (AGM) stated (January 2017) that the accounts were opened on the oral instructions of the department.

Out of these 106 accounts, six accounts were opened (August 2010) in Syndicate Bank, BWSSB Branch on the request of Director, RWS, GoK. Two<sup>20</sup> of these six accounts were not operated since the beginning for reasons not forthcoming from the records. Funds were transferred to the other four accounts<sup>21</sup> from the Programme Fund account periodically for further release to ZPs, making payments to contractors, *etc.* One more account (04462010009305) was opened (January 2011) in the same branch. However, the same was also not operated since the beginning.

Further, 97 accounts were opened (31 March 2011) in Syndicate Bank, BWSSB Branch, of which 96 accounts had only one credit transaction each (totalling ₹525 crore), by way of transfer from the four accounts stated above. The entire amount along with interest was re-credited back to the four accounts on 11 April 2011. Thereafter, no transactions took place in these accounts except for one account-“Tumakuru Sustainability account”. This account had a credit of ₹60.04 crore on 3 December 2014, of which ₹48.46 crore was transferred from KRWSSA 2010-2011 account. The source from which the balance of ₹11.58 crore was transferred could not be traced to the other existing accounts. However, the same was debited on the same day

<sup>17</sup> Programme Fund account comprises funds received for Coverage and Quality, O&M and Sustainability components.

<sup>18</sup> Support Activity account comprises funds received for Support Activity and WQMSP.

<sup>19</sup> Syndicate Bank, BWSSB Branch – 104 accounts; Andhra Bank – one account and Dena Bank – one account.

<sup>20</sup> Calamity account (04462010094553) and Normal Programme-Submission Programme account (04462010094607).

<sup>21</sup> Desert Development Programme (DDP) Areas account (04462010094568), Normal Programme account (04462010094572), O & M account (04462010094591) and Sustainability account (04462010094587)

indicating possibility of existence of more unauthorised accounts linked to this account. The balance in the account as at the end of March 2016 was ₹35.03 crore.

The other account (KRWSSA 2010-2011 account) was the main parking account and was credited with ₹73 crore on 31 March 2011 by way of transfer from the Programme Fund account. The details of transactions in this account are indicated in **Appendix 3.9**. Analysis of the transactions revealed a pattern of transfer of funds from the four accounts stated above to this account during the end of March 2011, March 2012 and March 2013 followed by re-credit of the funds back to the four accounts during April 2011, between April and November 2012 and April and June 2013 respectively. These inter account transfers were not supported by any authorisations from the competent authority and cannot be classified as direct transactions under the programme. The AGM admitted (January 2017) that the transfers were effected on the oral instructions of the RDPR department. The specific reasons for operation of this account needs to be investigated.

These apart, the department operated another account with Andhra Bank which was opened on 26 March 2011 without any recorded authorisation. An amount of ₹90.42 crore drawn on treasury (cheque number 724463) under the head of account 4215-01-102-9-04-132 (Capital Expenses) was deposited to this account as per the orders (26 March 2011) of the Government. This amount related to the unutilised funds under NRDWP and earlier Jalmani scheme released to various ZPs. The same was renewed and funds provided (February 2011) by the Finance Department through Supplementary Estimate-III for the year 2010-11. The amount was required to be released in turn to the ZPs for utilisation under the respective components based on the approved action plans.

Scrutiny of the bank pass sheets revealed that the amount of ₹90.42 crore was not released to the ZPs but continued to remain in the bank account. However, the entire amount was booked as expenditure in the books of accounts of the State Government (Detailed Estimates of Expenditure for the year 2012-13 (Volume V)). This was irregular and defeated the very purpose for which the funds were drawn from treasury. Further, the pass sheets indicated mostly credits since the opening of the account indicating that this account is also a parking account. The details are exhibited in **Appendix 3.10**. The amount that was withdrawn from the account during the period of three years from November 2011 to April 2014 was ₹5.73 crore of which only ₹0.73 crore pertains to payments made to contractors and releases to ZPs.

The balance ₹5.00 crore was transferred to another account in Dena Bank on 30 March 2013 with the approval of the RDPR department. The Chief Manager, Dena Bank stated (November 2015) that account opening form for this account was not found in their records. The sole transaction in the account was the credit of ₹5.00 crore from Andhra Bank. No other transactions took place in this account other than credit of interest half yearly raising serious concerns over the purpose behind opening this account. The balance accumulated as at the end of March 2016 inclusive of interest was ₹5.61 crore.

Thus, opening of the 106 accounts after 2010 was against the guidelines and most of them were not authorised by the appropriate authority. Moreover, the complicated inter-bank account transactions between these accounts around the end of each of the financial years in 2011, 2012 and 2013 point towards serious lapses of financial prudence, violation of the instructions of the Government and a possible attempt to conceal several irregularities. In the absence of a valid justification for opening of these accounts, the possibility of existence of more such accounts cannot be ruled out. Hence reconciliation of these accounts and a thorough investigation needs to be carried out.

The State Government stated (February 2017) that a Committee formed by the Government to look into the opening and operation of all these accounts has submitted a report and action is being initiated by the department for detailed reconciliation. It further stated that the balances amounting to ₹612 crore in these accounts (except the two main accounts) as of May 2016 were remitted back to Government but the accounts were not closed as enquiry was still continuing.

#### ***3.1.12.4 Short credit of interest***

As per the guidelines, a tripartite MOU had to be entered into between the bank, SWSM and MDWS. Accordingly, an MOU was entered into between Syndicate Bank, SWSM and MDWS on 14 October 2010.

As per the MOU, Syndicate Bank is required to automatically invest funds in excess of ₹500 lakh in the Programme Fund in its Fixed Deposits of maturity of one year in units of ₹25 lakh and the rate of interest on fixed deposits would be the rate of interest last notified by the Headquarters of the bank. It would pay interest on the balances in the Savings Bank account of NRDWP fund at the prevailing savings bank interest rate. The bank had to submit a certificate each year that the investments were made.

We observed that the bank had not invested the amounts in excess of ₹500 lakh under any of the accounts including the programme fund account, in contravention of the MOU resulting in short credit of interest to the NRDWP programme. Consequently, it had not furnished the required certificate about making the investments, to the department, during any of the years. The department also failed to monitor the investment of funds as per MOU. Thus, the failure of the bank to comply and the department to monitor adherence to the MOU resulted in a financial loss of ₹237 crore<sup>22</sup> approximately to the exchequer. The department stated (September 2016) that despite repeated letters, the bank had not adhered to the provisions of the MOU and that legal action was being initiated against the bank, the details of which were not furnished.

The State Government while reiterating the reply of the department stated (February 2017) that from the year 2016-17 onwards, the bank is following the provisions of the MOU.

<sup>22</sup> As per the claim (September 2016) of the department up to end of July 2015.

### **3.1.12.5 Loss of interest**

#### **(a) Andhra Bank and Dena Bank**

The Savings Bank accounts in Andhra Bank and Dena Bank were unauthorised accounts as detailed in *Paragraph 3.1.12.3*. Funds that were in normal course required to be credited to the Programme Fund account in Syndicate Bank, with which an MOU was in place, were diverted to these accounts. As these accounts were savings accounts fetching interest at the rate of four *per cent*, the parking of funds in these accounts resulted in approximate loss of interest revenue of ₹25.49 crore<sup>23</sup> to the department.

The State Government stated (February 2017) that action is being initiated regarding these deposits.

#### **(b) Corporation Bank**

The “Support Activity Fund” was being operated through a Savings Bank account in Corporation Bank and was an authorised one as per records. We observed that no MOU for keeping the amount in fixed deposits had been entered into with Corporation Bank with respect to this account. In the absence of the MOU, we could not quantify the loss of interest revenue due to the department. The balance in this account was in excess of ₹500 lakh during the period January 2011 to November 2012, August 2013 to December 2014, February 2015 to May 2015 *etc.*

**Recommendation-5 (a):** *The State Government should devise adequate controls in consultation with the concerned department, Finance Department and the banks involved to ensure that no unauthorised bank accounts can be opened and operated.*

**Recommendation-5 (b):** *The enquiry under process may be expedited and responsibility fixed on those persons who have caused loss to Government.*

### **3.1.12.6 Submission of Utilisation Certificates and incorrect adoption of closing balances**

The State Government (SWSM) had to furnish the Utilisation Certificate (UC) in the format as prescribed under the NRDWP guidelines. We observed from scrutiny of the UCs that the information regarding the coverage of quality affected habitations had not been furnished by the State Government. The opening balance, expenditure and closing balance figures indicated in the UCs varied with the figures uploaded in the IMIS and the financial statements of the Chartered Accountants (CAs) as detailed in **Appendix 3.11**. The records based on which the UCs were stated to have been prepared were not made available to audit for verification and scrutiny. Therefore, since the figures were not reconciled, the figures reported to GoI cannot be relied upon.

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<sup>23</sup> ₹50.98 crore (worked out at fixed deposit interest rate of eight *per cent* per annum) *minus* ₹25.49 crore earned at savings bank rate of four *per cent*

Further, we also observed from the financial statements prepared by the CAs that the closing balances of cash at bank adopted in the financial statements were incorrect and did not tally with the closing balances as per the bank pass sheets made available to audit. The variations between the two are indicated in **Table 3.5**.

**Table 3.5: Status of closing balance at banks**

(₹ in crore)

Balance held as at 31 <sup>st</sup> March of	In 108 bank accounts	As per CA report	Difference
2012	1,497.64	524.27	973.37
2013	1,385.34	385.03	1,000.31
2014	1,140.95	283.96	856.99
2015	760.96	236.42	524.54
2016	1,073.54	232.63	840.91

Source: Bank accounts pass sheets and Financial Statements

The above variations could be on account of not including the closing balances of the unauthorised accounts amongst other reasons, since the details of the unauthorised accounts were not accounted for by the CAs.

Reasons for non-furnishing of full information need to be investigated especially in view of the fact that several bank accounts were operated and huge closing balances were retained in these accounts, besides incorrect reporting of the financial status of the programme to GoI.

The State Government stated (February 2017) that the CA reports were prepared based on balances in the main component accounts. It further stated that action is being initiated for detailed reconciliation on the difference between the UCs and the actual figures. It also stated that the accounting procedure is being streamlined as per the guidelines from the year 2016-17.

### **3.1.12.7 Inadmissible expenditure under Support Activity**

As per NRDWP guidelines, the expenditure towards Support Activity was to be met entirely out of the Central share. The Support Activity Fund was to be used for different support activities such as establishment of WSSO, administrative expenditure and salary to staff provided on outsourcing to DWSSMs/BRCs (which is at district/taluk level), creation of Computing Environment and Management Information System, Research and Development, establishment of Monitoring Cell and Investigation Unit, Quality Control Unit, IEC, capacity building and HRD, Monitoring and Evaluation, etc.

We observed that the department had incurred an expenditure of ₹3.02 crore during the period 2012-13 to 2015-16 on ineligible items such as rent, hiring/repairs to vehicle, fuel expenses and salaries to outsourced employees at the State level, etc., as detailed in **Appendix 3.12**. Further, two test-checked districts (Kolar and Shivamogga) did not furnish the cashbook of transactions under Support Activity Fund for the years 2012-13 and 2013-14 and in Mysuru district, the information furnished was partial. In the absence of records, audit could not obtain assurance about the correctness of expenditure shown in IMIS.

The State Government stated (February 2017) that the expenditure was met out of Support Activity as sufficient funds for revenue expenditure were not provided to the department consequent on its creation. The reply is not tenable as the Support Activity was fully funded by GoI and expenditure was to be incurred only on such activities as stipulated in NRDWP guidelines. Thus, utilisation of central funds for meeting revenue expenditure was irregular.

### **3.1.12.8 Funds lying in bank accounts of ZPs**

GoK issued (March 2011 and May 2011) instructions to all the Chief Executive Officers/Chief Accounts Officers of ZPs to remit the unutilised amounts under Sustainability component to Sustainability account (04462010094587) and under other components/various other WSS to Andhra Bank account. Prior to implementation of NRDWP, the State Government was releasing funds to ZPs for implementing RWS programmes like Swajaldhara, Jalmani *etc.* These funds were maintained in the bank accounts at district level by ZPs. Under NRDWP also, funds were released to the ZPs for implementation of projects under various components.

We noticed that 30 ZPs had incurred an expenditure of ₹131.10 crore during the period 2012-13 to 2014-15 from these funds despite instructions to transfer the unutilised funds to the above accounts and an amount of ₹41.63 crore was lying with the ZPs. We also observed that two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities. Thus the failure of the RDPR department to monitor the bank accounts held with ZPs resulted in non-remittance of unutilised amounts in violation of Government instructions and non-accounting of transactions/funds in IMIS.

The State Government stated (February 2017) that despite issuing instructions regularly, few of the ZPs are continuing operating these bank accounts. It further stated that instructions will be issued once again to such ZPs.

**Recommendation-6: The State Government should ensure that all unutilised funds are transferred from the ZPs to the NRDWP account and action taken against defaulting officials.**

## **3.1.13 Monitoring and evaluation**

### **3.1.13.1 Evaluation of implementation of the programme**

The NRDWP guidelines prescribed the following for monitoring and evaluation of implementation of the programme.

- **Field inspections and Review by SWSM** - The monitoring of the programme was to be done through regular field inspections by State/district level officers. The SWSM was required to conduct review of the programme in the districts once in six months. SWSM had not

conducted any review of the programme, nor were field inspections done, but CE conducted meetings with district level authorities. The programme was being monitored by the Superintending Engineers of the respective circles and EEs of divisions. However, no records of the meetings were furnished to audit. The State Government stated (February 2017) that action will be taken to document the proceedings of the meetings conducted.

- **Constitution of team of experts** - A team of experts was to be constituted in the district by the DWSM to review the proper implementation of the NRDWP in different blocks, at least once in a quarter. However, such team of experts was not constituted in any of the test-checked districts.
- **Vigilance and Monitoring Committees** - A Vigilance and Monitoring Committee (VMC) was to be constituted at State, district and village level to regularly meet and monitor the progress of implementation and exercise vigilance in respect of NRDWP. We observed that VMCs were constituted at the district level in four of eight test-checked districts and no VMC was constituted in any of the GPs in the test-checked districts. No information was furnished to audit about the constitution of the VMC at the State level.
- **Nomination of Jal Surakshak** - For data collection at the household level and at the habitation level one person, preferably a woman member of VWSC was to be nominated and designated as “Jal Surakshak”. However, the envisaged *Jal Surakshak* was not nominated under any of the VWSCs. The Director, WSSO replied (April 2016) that action would be initiated to nominate the *Jal Surakshaks*.
- **Evaluation of the programme** - The State Government was required to arrange for evaluation of implementation of the RWS programmes, with the approval of SLSSC. The evaluation reports were to be used for initiating immediate remedial action as a follow-up to improve the quality of programme implementation. We observed that no evaluation study of the implementation of NRDWP was taken up though the programme was in operation for over seven years.

The State Government stated (February 2017) that evaluation study will be taken up on NRDWP through Karnataka Evaluation Authority during the current year. Thus it is observed that there has been no overall evaluation of implementation of the programme due to non-constitution of monitoring institutions at the State, district and GP levels.

### 3.1.13.2 Community monitoring and Social Audit of NRDWP

As per NRDWP guidelines, the community organisations were to provide regular and systematic information about the community needs as inputs for planning, to provide feedback for monitoring as well as for measuring the consumer’s satisfaction. Effective community monitoring especially by the VWSC members was envisaged for changing the status of community members from being passive to active partners in the planning, implementation and management of RWS services.

The community organisations were also required to conduct social audit of NRDWP once in every six months at each GP/village to ensure that the works undertaken by the PRED/related department and PRIs were as per the specifications and funds utilised were appropriate to the works undertaken. We, however, observed that social audit was not conducted at GP/village level in any of the test-checked districts. The department had released in December 2014 a sum of ₹76 lakh to the Director of Social Audit but had not ensured conducting of Social Audit on the implementation of NRDWP in the GPs/villages of the State.

### **3.1.13.3 Monitoring of water quality**

- **Lack of monitoring of functioning of laboratories** – The EEs/AEEs at the district and taluk level failed to monitor the functioning of the laboratories with regard to the testing of samples for all parameters and from all sources. Failure of the laboratories to conduct essential tests for bacteriological and chemical contaminants reflected poor monitoring of quality of water supplied.
- **Monitoring Cell and Investigation Unit with Quality Control Unit** - The NRDWP guidelines stipulated setting up of a special Monitoring Cell and Investigation Unit (MIU) at the State level headed by a senior officer. Apart from supporting staff, the MIU consisted of technical posts of hydrologists, geophysicist, computer specialists, *etc.* The expenditure towards MIU had to be shared in the ratio of 50:50 between GoI and the State Government. Further, it was stipulated to have a Quality Control Unit (QCU), as an integral part of the MIU.

The Director, WSSO replied (April 2016) that MIU and QCU were not established in the State as the department was newly formed and these would be formed in due course at the State level. The State Government replied that MIU and QCU will be formed in the State in the current year.

- **Surveillance Coordinators** - It was required under WQMSP to engage the surveillance coordinators at the district/GP level on honorarium basis. The Director, WSSO confirmed (April 2016) that no instruction had been issued to districts/divisions for engaging surveillance coordinators.

### **3.1.13.4 Grievance redressal mechanism**

To ensure transparency and effective delivery of services, it is imperative to put in place a suitable and effective grievance redressal mechanism at all levels of implementation of the programme, which provides for recording and acknowledging all the grievances/complaints for investigation and their timely disposal.

We observed that such a mechanism was not in place in any of the test-checked districts. At the State level, it was stated (April 2016) that the grievance redressal mechanism was being maintained through online ‘call centres’ and physical records were not maintained for the purpose. The call centre was, however, established only during March 2014 through outsourcing

and mechanism to record and acknowledge the written grievances/complaints was still absent.

Scrutiny of the agreement with the outsourced firm and the statement of complaints received online revealed that the nodal department had not adhered to the contract clauses with reference to number of persons to be hired for the call centre based on the calls received/attended. As per the agreement, an amount of ₹15,954 was to be paid per person per month (25 days) for 100 calls attended per day. We observed that a total of 7,383 calls were received during the period March 2014 to March 2016 and four persons were placed for the purpose as against the requirement of one person<sup>24</sup>. Consequently, the department incurred an avoidable extra expenditure of ₹11.97 lakh<sup>25</sup>.

The above shortcomings reveal weaknesses in establishing robust institutions for monitoring and evaluating the programme as well as to ensure community participation which goes against the spirit of 'demand driven' service delivery strongly advocated in the NRDWP guidelines.

**Recommendation-7:** *The State Government may ensure constitution of the Team of Experts and the Vigilance and Monitoring Committees and also establish the Monitoring Cell and Investigation Unit for enabling effective monitoring of the programme. It should also conduct social audit and ensure evaluation of the implementation of the programme so that remedial action can be taken wherever necessary.*

### 3.1.14 Conclusion

The State was deprived of the envisaged institutional support at various levels. Planning was deficient in the absence of water security plans. Projects taken up without ensuring the sustainability of the source, availability of land, etc., remained incomplete resulting in unfruitful expenditure on these projects. The State Government achieved providing 55 lpcd of water to only 14 per cent as against the envisaged 50 per cent of the rural population. Though the achievement of the State in respect of quality affected habitations was appreciable, the number of habitations that slipped back increased. Ineligible works under sustainability component were taken up and the maintenance of the sustainability structures was also deficient.

Water testing laboratories were not established in all the taluks of the State. The taluk and district laboratories were deficient in functioning as the tests for all envisaged parameters were not conducted. There were irregularities in the tender process for selection of firms for establishing of laboratories. Only 62 per cent of the water purification units were commissioned in the State.

Weak financial management resulted in the operation of many unauthorised accounts. Funds were parked in various bank accounts and transactions made without proper authorisation. Retention of huge balances and incurring of excess expenditure under O&M resulted in shortfall in release of central share.

<sup>24</sup> 7,383 calls/25 months\*25 days\*4 persons = 2.95 calls per day.

<sup>25</sup> ₹15,954 \*3\*25 months = ₹11,96,550 or ₹11.97 lakh.

Absence of proper reconciliation led to (i) variation between the figures uploaded in the IMIS, financial statements prepared by CAs and UCs submitted to GoI and consequent incorrect reporting to GoI and (ii) unnecessary transfer of funds within the various accounts maintained under the programme. Failure of the department to monitor the transfer of unutilised funds by the ZPs resulted in retention of huge funds by them. Two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities.

Monitoring of the programme was inadequate as SWSM had not conducted any review of the programme. The Vigilance and Monitoring Committees were not constituted in all the districts or in the GPs in the test- checked districts. Social audit was yet to be taken up and Monitoring Cell and Investigative Unit and Quality Control Units were not yet established. The evaluation of the programme through external agencies had also not been carried out.

## Section 'B'- Compliance Audit

### Department of Rural Development and Panchayat Raj

#### 3.2 Non-utilisation of funds meant for emergency works in rehabilitated villages

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

In order to provide emergency basic infrastructure facilities such as roads, drains and concrete drain works to 18 villages<sup>26</sup> in Ballari district which were rehabilitated due to floods during 2009, the State Government released ₹4.12 crore (September 2010) and ₹9.89 crore (February 2011) as first and second instalments respectively to Zilla Panchayat, Ballari (ZP) with instructions that the works to be taken up were compulsorily integrated with Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and funds were to be utilised only for material component.

Scrutiny of the records (March 2016) and additional information sought for during August 2016 showed that the first instalment was released (November 2010) by the Chief Executive Officer, ZP, Ballari (CEO) to Panchayat Raj Engineering Divisions (PREDS), Ballari (₹3.72 crore) and Hadagali (₹0.40 crore). The PRED, Ballari utilised an amount of ₹2.14 crore for the work of construction of culverts (towards material component) and remitted the balance of ₹1.58 crore to ZP in September 2016. The PRED, Hadagali had utilised ₹0.40 crore on rehabilitation works.

Consequent on release of second instalment to ZP, the CEO addressed (23 March 2011) the PREDS, Ballari and Hadagali, asking them to confirm that the funds would be utilised, if released, before 31 March 2011. As the action plans for these works were pending approval in respect of PRED, Ballari and due to paucity of time, the PREDS, Ballari and Hadagali expressed (24 March 2011) their inability to utilise the funds within the stipulated date. Notwithstanding this, the CEO ordered (29 March 2011) the transfer of ₹9.89 crore to Nirmithi Kendra, Ballari (NK) for execution of the above works. Accordingly, the funds were transferred (31 March 2011) to the Project Director, NK. We observed that the CEO had not issued any directions/action plans to the NK about the nature of works to be taken up and their period of completion.

In the absence of specific instructions, the NK did not utilise the funds except for an amount of ₹0.26 crore spent on drain works in T.S. Kudlur village of Siruguppa taluk. The CEO instructed (August/November 2012 and January 2013) the NK to either give details of the progress of work or return the balance amount to the ZP. The NK returned (March 2013) the funds amounting to ₹10.66 crore (along with interest of ₹1.03 crore and after deducting ₹0.26 crore ) to the ZP.

<sup>26</sup> sixteen villages of Siruguppa taluk and two villages of Hadagali taluk

CEO *vide* his letters addressed (June/August 2013) to the Secretary, Rural Development and Panchayat Raj Department (RDPR) requested for modification of the earlier instructions and permission to include labour component also. The RDPR permitted (January 2014) the CEO to complete the emergency rehabilitation works by utilising the funds even for the labour component. We observed that the revised action plan was approved (October 2016) after a delay of more than two years from the date of obtaining RDPR's permission (January 2014) and funds of ₹13.83 crore<sup>27</sup> continued to remain in the bank accounts of ZP even as of date (October 2016).

Thus, the action of the CEO to release funds at the fag end of the financial year to NK without specific directions as to how it was to be utilised and delay in approval of the action plan resulted in an amount of ₹13.83 crore lying unutilised and parked outside the State Government account for more than five years. The objective of providing emergency basic infrastructure facilities to the rehabilitated 16 villages remained unfulfilled.

The State Government stated (February 2017) that the works are being taken up as per the revised action plan and the funds will be utilised as per the norms. The reply is not satisfactory as it does not address the audit observation regarding release of funds at the fag end of the financial year to NK without specific directions and delay in approval of the action plan. The fact remains that despite the availability of funds, 16 flood-affected villages have been deprived of the emergency basic infrastructure facilities for more than five years.

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

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

As per the Government of India notifications<sup>28</sup>, pipes of any diameter needed for delivery of water from its source to the plant (including the clear treated water reservoir, if any, thereof) and from there to the first storage point and pipes of outer diameter exceeding 200 millimetre (mm) (100 mm with effect from December 2009), being integral part of the water supply projects, were exempted from payment of central excise duty (CED). In order that a contractor may avail of the benefit of CED exemption, a certificate was to be issued by the jurisdictional Deputy Commissioner (DC). The contract prices should, therefore, exclude the CED element. In cases where the prices were inclusive of CED, a clause should have been included in the agreements, making it mandatory for the contractor to pass on the benefit of CED exemption to the department.

<sup>27</sup> ₹1.58 crore of first instalment + ( ₹10.66 crore returned by NK + ₹1.59 crore as interest earned at ZP up to October 2016)

<sup>28</sup> Notification No. 47/2002-Central Excise dated 6.9.2002; No. 6/2006 dated 1.3.2006; No. 6/2007 dated 1.3.2007; No. 26/2009 dated 4.12.2009 and No. 12/2012 dated 17.3.2012

Test-check of records (December 2014 and May 2015) of six water supply works (estimated cost-₹59.54 crore) in Mandya and Dakshina Kannada Rural Drinking Water and Sanitation Divisions<sup>29</sup> (RDW&SD) revealed that the Executive Engineers (EEs), while preparing (2005-06 to 2010-11) the estimates, did not consider the CED exemption available on the pipes to be utilised in these water supply works. The rates adopted were as per the prevalent Schedule of Rates (SRs) which were inclusive of taxes and duties leviable, including the CED. The bid documents also did not specify that the tender (item-rate) prices should be exclusive of CED for pipes used for conveyance of water and the employer would arrange for the issue of requisite exemption certificate. The works were technically sanctioned during August 2007 to December 2010 and the Chief Engineer, Panchayat Raj Engineering Department had approved (June 2008 to August 2011) the tenders without considering this aspect.

It was seen that the EEs had arranged (February 2009 to November 2011) the CED exemption certificates for 56,893 running metres (rmt) of pipes of various sizes (100 mm to 700 mm), enabling the contractors to procure the pipes free of CED. As the rates quoted by the contractors were inclusive of CED, the EEs should have recovered the CED exemption availed of by the contractors by adjusting the same in their work bills. It was, however, seen that the EEs had failed to include appropriate clause in the contract documents that would bind the contractors to pass on the CED exemption to the department. The CED recoverable from the contractors worked out<sup>30</sup> to ₹1.34 crore (detailed in the **Appendix 3.13**).

Similarly, in Chamarajanagar district, two<sup>31</sup> water supply works (estimated cost-₹261.05 crore) were awarded (March 2014) to a contractor on Design, Build, Operate and Transfer (DBOT) basis. As per the information furnished (February 2017) by the EE, RDW&SD, Chamarajanagar, 5,90,480 rmt of pipes (excluding pipes less than 100 mm) were required, out of which 5,31,828.74 rmt of pipes were supplied up to December 2016 and the CED payable was ₹9.76 crore. Against this, a sum of ₹2.19 crore was recovered (June and July 2015) from the running account (eighth and part) bills (detailed in the **Appendix 3.14**) and balance of ₹7.57 crore was yet to be recovered (December 2016).

Thus, the failure of the EEs to avail the benefit of CED exemption and non-insertion of specific clause in the contract documents regarding refund of the same resulted in loss of ₹8.91 crore to the Government.

The State Government accepted the audit observation and stated (February 2017) that action would be taken to recover the CED amounts from the running account bills/bank guarantee. The status of recovery was awaited (March 2017).

<sup>29</sup> A separate Rural Drinking Water and Sanitation Department was created *vide* Government Order dated 4.3.2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by Panchayat Raj Engineering Department

<sup>30</sup> In the absence of purchase invoices, the rates of pipes have been adopted as per the SR (2008-09) of Karnataka Urban Water Supply and Drainage Board. The EEs need to work out the exact amount after obtaining the purchase invoices.

<sup>31</sup> Water supply scheme to 131 villages in Gundlupet Taluk and Water supply scheme to 166 villages in Chamarajanagar Taluk

### 3.4 Short recovery of liquidated damages

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

The provisions<sup>32</sup> of contract for procurement of works provide for levy of liquidated damages (LD) for delays attributable to the contractors. The LD was to be recovered at the rate of 0.1 *per cent* of the contract price per day, subject to a maximum of 10 *per cent* of the contract price. The amount had to be specified as a round figure nearest to the hundred.

During audit scrutiny (April 2016) of records in Panchayat Raj Engineering Division (PRED), Hassan for the period 2013-14 to 2015-16, pertaining to the works of rejuvenation of tanks in Hassan district, it was noticed that there were delays ranging from 28 to 532 days in completion of 14 test-checked works. These works were taken up between December 2011 and May 2012 with stipulated time of completion being 45 days from the date of commencement as per the agreements. Further, the State Government directed (September 2012) all the Deputy Commissioners and Chief Executive Officers of Zilla Panchayats not to take up, until further orders, such rejuvenation works for which work orders were yet to be issued. Despite the above Government instruction we observed that PRED, Hassan entrusted two works (tendered cost-₹33.87 lakh) during December 2012 and October 2013. The delays in completion of these two works were 654 and 351 days respectively.

The delays in completion of these 16 test-checked works were attributable to the contractors and according to the terms of the contract, LD amounting to ₹27.70 lakh was to be levied and recovered. However, as seen from the final running account bills, the LD levied and recovered on these 16 works was ₹0.56 lakh (at the rates of ₹12/₹15 for each day of delay). This resulted in short recovery of LD of ₹27.14 lakh as detailed in the **Appendix 3.15**.

The Executive Engineer, PRED, Hassan replied (July 2016) that the tank rejuvenation works were stopped as per the directives issued (January 2014) by the Principal Secretary, Rural Development and Panchayat Raj Department (RDPR) to the Deputy Commissioner, Hassan.

The State Government stated (January 2017) that work orders for these works were issued during the months of June and July 2011, which was almost the monsoon season. The contractors found it difficult to start the work in monsoon season. After the monsoon season, there were further delays due to standing water in tanks, standing crops in the surrounding lands of the tanks which hindered the vehicle movements around the tank and as flow of the funds was not commensurate, a nominal fine was imposed.

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<sup>32</sup> Clause 36 of the Conditions of Contract read with Section 5: Contract data of the Panchayat Raj Engineering Department (K/W-1 and K/W-2) as per GO dated 06.08.2005.

The replies are not satisfactory for the following reasons:

- (1) The work orders were not issued during June and July 2011. As per the departmental records, the work orders were issued during December 2011 (one case), February 2012 (one case), March 2012 (six cases), April 2012 (four cases), May 2012 (two cases), December 2012 (one case) and October 2013 (one case).
- (2) The directives issued by the RDPR in January 2014 were not applicable to these works since the work orders for these works were issued between December 2011 and October 2013.
- (3) As per the departmental records, the delays in all these cases were solely attributable to the contractors.
- (4) In the absence of extension of time for completion of these works, the imposition of nominal fine instead of the prescribed rates of the LD was contrary to the provisions of the contract.

Thus incorrect adoption of rates resulted in short recovery of LD of ₹27.14 lakh on these works.



## **Chapter-IV**

### **An overview of Urban Local Bodies**



## Chapter-IV

### Department of Urban Development

#### An overview of Urban Local Bodies

#### 4.1 Introduction

**4.1.1** The 74<sup>th</sup> Constitutional amendment enacted in 1992 had envisaged creation of local self-governments for the urban population and the municipalities had been accorded constitutional status for governance. The amendment had empowered Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the Twelfth Schedule of the Constitution.

The category-wise ULBs in the State have been shown in **Table 4.1**.

**Table 4.1: Category-wise ULBs in Karnataka State**

Urban Local Bodies	Number of ULBs <sup>33</sup>
City Corporations (CCs)	11
City Municipal Councils (CMCs)	57
Town Municipal Councils (TMCs)	114
Town Panchayats (TPs)	89
Notified Area Committees (NACs)	4

Source: Information furnished (March 2017) by the Department

The CCs are governed by the Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by the Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area has been divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

#### 4.2 Organisational Structure

**4.2.1** The Urban Development Department (UDD) is headed by the Additional Chief Secretary to Government and is the nodal department. The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, development and financial activities of the ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under the UDD.

#### 4.2.2 Composition of Urban Local Bodies

All the ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council and is

<sup>33</sup> Number of ULBs changed from 219 in 2014-15 to 275 (as on date) due to upgradation (2015-16) of 57 Gram Panchayats (GPs) as ULBs and merging of one NAC (Gokak Falls) with Konnuru TMC.

responsible for governance of the body. While the ULBs other than BBMP have four Standing Committees, BBMP has 12 Standing Committees to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. The Municipal Administration, Town Planning and Urban Land Transport are the subordinate wings of UDD.

We test-checked the records of BBMP and 20 other ULBs<sup>34</sup> to review the financial reporting system in ULBs.

### 4.3 Financial profile

#### 4.3.1 Resources of Urban Local Bodies

The finances of ULBs include receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans from financial institutions or nationalised banks as the State Government may approve. The ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. While the authority to collect certain taxes is vested with the ULBs, authority pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, etc., is vested with the State Government. The own non-tax revenue of ULBs comprises of fee for sanction of plans/mutations, water charges, etc.

#### 4.3.2 Release of grants to Urban Local Bodies

The details of grants released by the State Government to ULBs during the period 2011-12 to 2015-16 have been shown in **Table 4.2**.

**Table 4.2: Statement showing release of grants**

(₹ in crore)

ULBs	2011-12		2012-13		2013-14		2014-15		2015-16	
	Budget	Grant released	Budget	Grants released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	2,800	2,864	3,544	2,669	4,348	3,632	4,956	4,372	4,435	4,307
CMCs/ TMCs	1,252	1,126	1,513	1,126	1,629	1,139	1,589	1,365	1,644	1,555
TPs/NACs	285	258	290	214	344	248	312	273	233	214
<b>Total</b>	<b>4,337</b>	<b>4,248</b>	<b>5,347</b>	<b>4,009</b>	<b>6,321</b>	<b>5,019</b>	<b>6,857</b>	<b>6,010</b>	<b>6,312</b>	<b>6,076</b>

Source: State Budget Estimates and Finance Accounts

It can be observed from the table above that the grants released by the State Government to CMCs/TMCs increased by 14 per cent while the grants released to TPs/NACs decreased by 22 per cent in 2015-16 when compared to the releases of the year 2014-15.

<sup>34</sup> CCs - Davanagere, Hubballi-Dharwad Municipal Corporation (HDMC) and Shivamogga; CMCs - Chintamani, Kanakapura, Kolar, Nanjangud, Sindhanur and Siruguppa; TMCs - Athani, Bailahongal, Mahalingapura, Malur, Savadatti and Vijayapura; and TPs - Hosadurga, Mudigere, Sullia, Yelandur and Yellapura

### 4.3.2.1 Short release of funds to the Urban Local Bodies

As per recommendations (December 2008) of the Third State Finance Commission and decision of the State Government (October 2011), 10 per cent (₹8,090 crore) of Non-Loan Net Own Revenue Receipts (NLNORR) was to be released to ULBs during 2015-16. As against this, the State Government had released 7.51 per cent (₹6,076 crore) of NLNORR (₹80,905 crore), resulting in short release of ₹2,014 crore to ULBs during 2015-16.

### 4.3.3 Property Tax

The State Government had introduced the Self-assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2016 in respect of all ULBs (except BBMP) has been shown in **Table 4.3**.

**Table 4.3: Position of demand, collection and balance of Property Tax in ULBs**  
(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2011-12	65.31	290.97	356.28	288.72	67.56	81
2012-13	67.56	342.20	409.76	295.30	114.46	72
2013-14	114.46	384.03	498.49	362.26	136.23	73
2014-15	136.23	446.56	582.79	416.32	166.47	71
2015-16	166.47	499.94	666.41	430.83	235.58	65

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹67.56 crore in 2011-12 to ₹235.58 crore in 2015-16. The ULBs need to make efforts to collect remaining amounts without further delay.

The targets fixed and collections against targets in respect of BBMP have been shown in **Table 4.4**.

**Table 4.4: Position of target and collection of Property Tax in BBMP**  
(₹ in crore)

Year	Target	Collection	Percentage of collection to total target
2011-12	1,600.00	1,210.00	76
2012-13	2,000.00	1,358.00	68
2013-14	2,500.00	1,323.18	53
2014-15	2,900.00	1,810.13	62
2015-16	2,900.00	1,960.19	68

Source: Furnished by BBMP and UDD Report

The BBMP had not achieved the targets during the period 2011-12 to 2015-16 and the collection ranged from 53 to 76 per cent of the target.

### 4.3.4 Realisation of water charges

It is the duty of every municipality to supply wholesome water for domestic use. The supply of water for domestic and non-domestic users is charged at the prescribed rates.

The details of demand, collection and arrears for the year ended 31<sup>st</sup> March 2016 in respect of 11 test-checked ULBs have been shown in **Table 4.5**.

**Table 4.5: Details of collection of water charges in test-checked ULBs during the year 2015-16**

(₹ in crore)

Name of ULB	Opening balance as on 1.4.2015	Demand during 2015-16	Total demand	Collection	Outstanding balance as on 31.3.2016	Percentage of collection to total demand
CC, Davanagere	7.53	6.73	14.26	6.44	7.82	45
HDMC	65.33	39.57	104.90	28.42	76.48	27
CMC, Nanjangud	1.23	0.61	1.84	0.50	1.34	27
CMC, Sindhanur	0.36	1.05	1.41	0.62	0.79	44
TMC, Athani	0.43	0.62	1.05	0.48	0.57	46
TMC, Bailahongal	0.23	0.56	0.79	0.51	0.28	65
TMC, Malur	1.11	0.49	1.60	0.31	1.29	19
TP, Hosadurga	0.19	0.22	0.41	0.17	0.24	41
TP, Mudigere	0.26	0.18	0.44	0.14	0.30	32
TP, Sullia	0.79	1.12	1.91	1.09	0.82	57
TP, Yelandur	0.19	0.14	0.33	0.08	0.25	24
<b>Total</b>	<b>77.65</b>	<b>51.29</b>	<b>128.94</b>	<b>38.76</b>	<b>90.18</b>	<b>30</b>

Source: Information furnished by ULBs

It can be seen from the above table that in these test-checked ULBs, a sum of ₹38.76 crore (30 per cent) was collected during the year 2015-16 towards water charges against a total demand of ₹128.94 crore, leaving a balance of ₹90.18 crore uncollected.

#### 4.3.5 Realisation of rent from commercial properties

The details of demand, collection and arrears for the year ended 31 March 2016 in respect of the 11 test-checked ULBs (except BBMP) have been shown in **Table 4.6**.

**Table 4.6: Position of demand, collection and balance of rent in test-checked ULBs during the year 2015-16**

(₹ in crore)

Name of ULB	Opening Balance	Demand during 2015-16	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CC, Davanagere	1.94	1.02	2.96	1.29	1.67	44
HDMC	6.58	3.69	10.27	3.11	7.16	30
CMC, Kolar	0.28	0.48	0.76	0.20	0.56	26
CMC, Nanjangud	0.09	0.04	0.13	0.04	0.09	31
CMC, Sindhanur	0.01	0.06	0.07	0.06	0.01	86
TMC, Athani	0.04	0.07	0.11	0.07	0.04	64
TMC, Bailahongal	0.04	0.08	0.12	0.07	0.05	58
TMC, Vijayapura	0.46	0.18	0.64	0.12	0.52	19
TP, Hosadurga	0.07	0.15	0.22	0.15	0.07	68
TP, Mudigere	0.04	0.10	0.14	0	0.14	0
TP, Sullia	0.13	0.27	0.40	0.26	0.14	65
<b>Total</b>	<b>9.68</b>	<b>6.14</b>	<b>15.82</b>	<b>5.37</b>	<b>10.45</b>	<b>34</b>

Source: Information furnished by ULBs

It is seen from the above table that in test-checked ULBs, a sum of ₹5.37 crore (34 per cent) was collected during the year 2015-16 towards rent against a

total demand of ₹15.82 crore, leaving a balance of ₹10.45 crore. The realisation of rent was zero in TP, Mudigere and less than 50 *per cent* in five ULBs.

#### **4.3.6 Remittance of Cess amount**

The ULBs were required to collect various Cesses such as Health, Library, Beggary and Urban Transport Cess (UTC) at 15 *per cent*, 6 *per cent*, 3 *per cent* and 2 *per cent* respectively, on the amount of tax collected on land and buildings. They were to remit the same to the authorities<sup>35</sup> concerned within the time frame prescribed by the State Government after retaining 10 *per cent* of the Cess collected (except UTC) as collection charges.

##### **4.3.6.1 Non-remittance of Cess amount**

As at the end of March 2016, 18 test-checked ULBs had not remitted Cess amount of ₹84.85 crore to the authorities concerned as detailed in **Appendix 4.1**.

##### **4.3.6.2 Non-remittance of Cess amount by Bruhat Bengaluru Mahanagara Palike**

BBMP had collected ₹154.20 crore towards Beggary Cess during the period 2011-12 to 2015-16, out of which an amount of ₹70.88 crore only was remitted (2011-12 to 2015-16) to Central Relief Committee, Social Welfare Department, Bengaluru.

BBMP had collected ₹770.95 crore towards Health Cess and ₹308.38 crore towards Library Cess during the period 2011-12 to 2015-16 but it had not remitted the entire Health Cess amount to the Government. The details of remittance of Library Cess to the Government account were not made available to audit (January 2017).

BBMP replied (February 2017) that Health Cess collected was being utilised for its own expenses with respect to Health Wing of BBMP. The reply was not acceptable as the Karnataka Health Cess Act, 1962 does not provide for utilisation of Cess by the ULBs.

##### **4.3.6.3 Non-remittance of Urban Transport Cess amount**

As per the Government Order (August 2013), all the ULBs have to collect UTC @ two *per cent* on property tax from 1 October 2013 and remit it to the authority concerned within the time frame prescribed by the State Government. As at the end of March 2016, 10 test-checked ULBs<sup>36</sup> had not remitted the UTC amount of ₹1.17 crore to the authority concerned.

<sup>35</sup> Health Cess to Health Department, Beggary Cess to Directorate of Beggary, Library Cess to Department of Libraries and UTC to Urban Transport Fund being administered by Director of Urban Land Transport

<sup>36</sup> HDMC (₹0.90 crore), CMCs – Chintamani (₹0.08 crore), Kanakapura (₹0.01 crore), Kolar (₹0.06 crore) and Sindhanur (₹0.04 crore); TMCs – Hosadurga (₹0.02 crore), Mahalingapura (₹0.02 crore), Savadatti (₹0.02 crore) and Vijayapura (₹0.01 crore); TP Sullia (₹0.01 crore)

#### **4.4 Devolution of Functions**

The 74<sup>th</sup> Constitutional amendment had envisaged devolution of 18 functions listed in the Twelfth Schedule of the Constitution to ULBs. As of March 2016, the State Government had transferred 17 functions to ULBs. Fire Services function had not been transferred to the ULBs.

#### **4.5 Accountability framework**

##### **4.5.1 Powers of the State Government**

As per the Acts governing the ULBs, the State Government has the following powers for monitoring the proper functioning of the ULBs:

- to frame rules to carry out the purposes of KMC and KM Acts;
- to dissolve those ULBs which fail to perform or default in the performance of any of the duties imposed on them;
- to cancel a resolution or decision taken by the ULBs if the State Government is of the opinion that it has not been legally passed or is in excess of the powers conferred by provisions of the Acts;
- to regulate classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

##### **4.5.2 Vigilance mechanism**

The Lokayukta appointed by the State Government has the power to investigate and report on allegations or grievances relating to the work and conduct of officers and employees of ULBs.

##### **4.5.3 Audit mandate**

The Principal Director, Karnataka State Audit and Accounts Department<sup>37</sup> (KSAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs except NACs to the Comptroller and Auditor General of India (CAG) under Section 14 (2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with effect from 2008-09 and under Technical Guidance and Supervision with effect from 2011-12 onwards, by amending the statutes (October 2011).

##### **4.5.4 Arrears in Primary Audit**

As against 214 ULBs and five NACs under the purview of audit, the audit of accounts of 170 ULBs (including NACs) for the year 2014-15 was conducted by the KSAD and audit of rest of the 44 ULBs accounts is yet to be conducted. The accounts of 85 ULBs have been audited for the year 2015-16 (as of September 2016).

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<sup>37</sup> erstwhile Controller, Karnataka State Accounts Department

#### 4.5.5 Response to audit observations

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to KSAD to be submitted within three months from the date of issue of IRs. The amount kept under objection for want of details and the amount kept under objection involving recovery in respect of CCs and other ULBs as of 31 March 2016 has been detailed in **Table 4.7**.

**Table 4.7: Details of amounts kept under objection in ULBs**

(₹ in crore)

ULBs	Amount kept under objection for want of details	Amount kept under objection involving recovery
CCs	541.80	39.04
CMCs	940.80	169.80
TMCs	531.42	66.37
TPs	319.91	29.71
<b>Total</b>	<b>2,333.93</b>	<b>304.92</b>

Source: Information furnished by KSAD

The status of outstanding amount proposed for recovery and kept under objection by the KSAD in their reports in respect of the test-checked 15 ULBs as on 31 March 2016 is detailed in **Table 4.8**.

**Table 4.8: Outstanding amount kept under objection as on 31 March 2016 in respect of test-checked ULBs**

(₹ in crore)

Name of the ULBs	Amount kept under objection for want of details	Amount kept under objection involving recovery
CC, Davanagere	49.81	4.75
HDMC	320.34	197.91
CC, Shivamogga	CMC Shivamogga was converted as CC during December 2014 and the audit is pending for the years 2014-15 to 2015-16.	
CMC, Chintamani	22.04	6.99
CMC, Nanjangud	5.03	0.87
CMC, Sindhanur	14.32	0.88
CMC, Siruguppa	12.75	1.07
TMC, Athani	3.98	1.42
TMC, Bailahongal	1.66	0.28
TMC, Malur	5.80	0.77
TMC, Vijayapura	33.06	18.25
TP, Hosadurga	6.69	0.73
TP, Mudigere	0.50	0.01
TP, Sullia	5.62	0.26
TP, Yelandur	4.44	0.32
<b>Total</b>	<b>486.04</b>	<b>234.51</b>

Source: Local Audit (KSAD) Report

It is evident from **Table 4.7** and **Table 4.8** that neither the State Government nor the ULBs had taken adequate steps to clear the audit objections.

#### **4.6 Conclusion**

There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent from commercial properties. Out of 18 functions to be devolved to the ULBs, the State Government had devolved 17 functions. There was a shortfall in remittance of Health Cess, Library Cess, Beggary Cess and UTC by the ULBs to the authorities concerned. BBMP had not remitted the Health Cess and short remitted the Beggary Cess collected on behalf of the State Government. There was poor response to audit (KSAD) observations by ULBs.

## **Chapter-V**

### **Financial reporting in Urban Local Bodies**



## Chapter-V

### Department of Urban Development

#### Financial reporting in Urban Local Bodies

##### 5.1 Framework

**5.1.1** Financial reporting in the public sector is a key element of accountability. According to the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the Urban Local Bodies (ULBs) shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet and Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the auditor appointed by the State Government, within two months from the end of the financial year.

##### 5.1.2 *Municipal reforms*

The initiative of municipal reforms was started during 2006 through the ‘*Nirmala Nagara*’ programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance redressal system, *etc.* These reforms have since been adopted by all the ULBs of the State under Karnataka Municipal Reforms Project (KMRP).

The Municipal Reforms Cell (MRC) working under the Directorate of Municipal Administration (DMA) is responsible for computerisation and maintaining accounts on Fund Based Accounting System (FBAS) in ULBs except in Bruhat Bengaluru Mahanagara Palike (BBMP). To ensure better governance and efficient service delivery through the use of technology and process re-engineering, the State Government had initiated (2005) the process of computerisation of municipal functions in all the ULBs of the State in a phased manner.

##### 5.1.3 *Accounting reforms*

On the recommendations of Eleventh Finance Commission, Government of India (GoI) had entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the Comptroller and Auditor General of India (CAG).

The Ministry of Urban Development, GoI has developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG’s Task Force. The State Government had brought out the KMABR based on the NMAM with effect from 1 April 2006. The KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2016, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001.

#### 5.1.4 Preparation and certification of accounts of Urban Local Bodies

According to KMABR, the financial statements of ULBs are to be audited by the Chartered Accountants (CAs) appointed by the DMA. The Commissioner/Chief Officer of ULBs concerned should submit the Annual Financial Statements for each year within two months from the end of the financial year to the financial auditor and the auditor should complete the audit within four months (July) from the date of closure of financial year (31<sup>st</sup> March). The CA, after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. The audited accounts should be adopted by the Council within five months from the end of the financial year. **Table 5.1** below indicates the status of accounts prepared by ULBs and certified by the CAs during the period 2011-12 to 2015-16.

**Table 5.1: Status of preparation and certification of accounts as of March 2016**

Year	Total number of ULBs required to prepare accounts	Number of ULBs which prepared the accounts	Number of ULBs accounts certified	Number of ULBs accounts yet to be certified
2011-12	213	213	213	0
2012-13	213	213	213	0
2013-14	213	213	213	0
2014-15	213	213	213	0
2015-16	270	209	138	132
<b>Total</b>	<b>1,122</b>	<b>1,061</b>	<b>990</b>	<b>132</b>

Source: As furnished by DMA

#### 5.1.5 Preparation and certification of accounts of Bruhat Bengaluru Mahanagara Palike

In terms of Provision 9(2) of part II of Schedule IX to the Karnataka Municipal Corporations Act, 1976 (KMC Act), the Commissioner, BBMP is required to prepare annual accounts every year and produce the same along with relevant records to the Chief Auditor for scrutiny not later than the first day of October every year. However, the accounts of BBMP for the years 2014-15 and 2015-16 had not been audited by the Principal Director, Karnataka State Audit and Accounts Department<sup>38</sup> (KSAD) who is the Statutory Auditor for BBMP.

## 5.2 Comments on Accounts

### 5.2.1 Statement of expenditure for advances/deposits with external agencies

As per Rule 73 of KMABR, the amount paid to Public Works Department/other external agencies should be treated as advance and a statement showing the outlay incurred each month with up-to-date figures should be obtained and adjusted against the advances paid. Two test-checked ULBs and two test-checked divisions of BBMP had paid advances/deposits to

<sup>38</sup> erstwhile Controller, Karnataka State Accounts Department

external agencies, of which ₹21.51 crore<sup>39</sup> and ₹3.20 crore<sup>40</sup> respectively were outstanding as at the end of March 2016. However, no action was taken by these ULBs/divisions to obtain statement of expenditure along with unspent amount, if any, and adjust it against the advances/deposits.

### 5.2.2 Fixed Assets

None of the test-checked ULBs had maintained the records showing full particulars including quantitative details and location of fixed assets and conducted physical verification of fixed assets during the five years ended 31 March 2016. In the absence of this, the correctness of valuation of fixed assets and impact of depreciation exhibited in the Annual Financial Statements of test-checked ULBs could not be assessed.

## 5.3 Thirteenth Finance Commission grants

Out of ₹120.78 crore received by the test-checked 11 ULBs during the period 2011-12 to 2014-15, only ₹83.19 crore (ranging from 36 to 93 per cent) was utilised, as detailed in Table 5.2.

**Table 5.2: Details of Thirteenth Finance Commission (TFC) grants in test-checked ULBs**

Name of the ULBs	Grants received					Amount utilised	Balance	Percentage of utilisation
	2011-12	2012-13	2013-14	2014-15	Total			
CC, Davanagere	8.36	17.67	17.35	9.13	52.51	42.11	10.40	80
CMC, Kanakapura	1.33	2.04	2.35	0.93	6.65	5.69	0.96	86
CMC, Kolar	1.95	2.16	2.02	2.83	8.96	7.98	0.98	89
CMC, Nanjangud	1.38	2.02	2.90	0.00	6.30	2.94	3.36	47
CMC, Siruguppa	1.67	1.64	2.07	1.82	7.20	3.43	3.77	48
TMC, Athani	0.82	0.94	2.58	1.95	6.29	2.24	4.05	36
TMC, Bailahongal	1.25	2.09	2.65	8.70	14.69	5.27	9.42	36
TMC, Malur	0.91	1.23	2.24	0.93	5.31	4.92	0.39	93
TP, Hosadurga	0.94	1.60	2.11	0.61	5.26	3.51	1.75	67
TP, Mudigere	0.54	0.88	1.09	0.17	2.68	1.34	1.34	50
TP, Yellapura	0.99	1.24	1.27	1.43	4.93	3.76	1.17	76
<b>Total</b>	<b>20.14</b>	<b>33.51</b>	<b>38.63</b>	<b>28.50</b>	<b>120.78</b>	<b>83.19</b>	<b>37.59</b>	

CC: City Corporation; CMC: City Municipal Council; TMC: Town Municipal Council; TP: Town Panchayat  
Source: As furnished by ULBs

## 5.4 Fourteenth Finance Commission grants

The Fourteenth Finance Commission (FFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission had 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 grants were envisaged to be released under two component, viz. general basic grant and performance grant in two instalments, for five years, with effect from the year 2015-16 onwards.

The GoI released basic grants of ₹562.08 crore in two equal instalments for the year 2015-16 to ULBs.

<sup>39</sup> City Corporation, Shivamogga (₹19.58 crore) and Town Municipal Council, Sullia (₹1.93 crore)

<sup>40</sup> Mahadevapura (₹1.34 crore) and Sarvagnanagara (₹1.86 crore)

#### **5.4.1 Delayed release of funds**

The FFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within 15 days from the date of receipt of grant from GoI, failing which the State Government would be liable to release the instalment with interest at the Reserve Bank of India (RBI) rate for the delayed period. The GoI released the instalments during July 2015 and February 2016. We observed that there were delays ranging from four to nine days in transfer of funds to ULBs. The interest payable of ₹0.57 crore for the delay in transferring of funds was not released to ULBs by State Government.

### **5.5 Internal control**

The State Government did not have an Internal Audit Wing to oversee the functions of ULBs. It was also observed that ULBs were not adhering to financial rules as they had not obtained statement of expenditure from external agencies for the advances paid to them and annual accounts were not prepared and certified within the stipulated dates. Further, there was no system of conducting physical verification of stores in the test-checked ULBs.

The annual accounts of BBMP were not prepared and certified within the stipulated dates. The ledger accounts prepared under FBAS were not balanced at the end of each financial year. The bank accounts were not reconciled periodically. The grant registers and records envisaged in fund based accounting manual for recording the transactions out of borrowings were not maintained. Internal audit system was not in existence in BBMP. The deficiencies in maintenance of books of accounts and absence of internal audit system indicated that the internal control was not effective in BBMP.

### **5.6 Conclusion**

In spite of preparation of accounts by ULBs, there was a shortfall in certification of accounts by the CAs during the year 2015-16. The annual accounts of BBMP for the years 2014-15 and 2015-16 were yet to be audited by KSAD. Statement of expenditure had not been obtained from external agencies to which ULBs had paid advances. The ULBs had not utilised the entire TFC grants during the period 2011-12 to 2015-16. The State Government had not released the interest payable of ₹0.57 crore to ULBs for delayed transfer of FFC grants. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of deficiencies in maintenance of books of accounts.

## **Chapter-VI**

### **Results of audit of Urban Local Bodies**



## Chapter VI - Compliance Audit

### Department of Urban Development

#### 6.1 Collection of property tax in Urban Local Bodies

##### 6.1.1 Introduction

Urban Local Bodies (ULBs) or Municipalities are the institutions of self-governance, constituted under Article 234Q of the Constitution of India. The State Government enacted (March 1965 and June 1977) the Karnataka Municipalities Act, 1964 (KM Act) to consolidate and amend the law relating to the management of municipal affairs in towns and cities and Karnataka Municipal Corporations Act, 1976 (KMC Act) to consolidate and amend the laws relating to the establishment of Municipal Corporations in the State of Karnataka. There are 10 City Corporations<sup>41</sup> (CCs) other than Bruhat Bengaluru Mahanagara Palike (BBMP), 57 City Municipal Councils<sup>42</sup> (CMCs), 114 Town Municipal Councils<sup>43</sup> (TMCs), 89 Town Panchayats<sup>44</sup> (TPs) and 4 Notified Area Committees (NACs) in the State.

##### *6.1.1.1 Source of revenue of ULBs*

The finances of the ULBs comprise receipts from own resources, grants, assistance from Government of India and State Government and loans from financial institutions and nationalised banks. Own resources comprise tax and non-tax revenues realised by the ULBs. Property tax is one of the most important sources of tax revenue for ULBs. The authority for levying property tax is Section 103(b)(i) of the KMC Act for the CCs and Section 94(b)(i) of the KM Act for the CMC/TMC/TP.

##### *6.1.1.2 Self-assessment of property tax*

The State Government, through amendments to the KM and KMC Acts, introduced (November 2001) the 'Self-assessment System (SAS)' in assessment of property tax in the municipalities, which was given effect from 1 April 2002. This provided for simplification of property tax collection, besides discouraging and preventing corruption and misappropriation. The SAS aimed to ease the procedure for assessment of tax by taxpayers. As per this system, the tax payers had to assess the tax themselves, based on the guidelines for calculation of market value published by the Department of Stamps and Registrations from time to time.

#### 6.1.2 Organisational set-up

The Additional Chief Secretary to Government, Urban Development Department (UDD), Government of Karnataka (ACS) at the Government level

<sup>41</sup> ULBs with a population of more than 3,00,000

<sup>42</sup> ULBs with a population of more than 50,000 but less than 3,00,000

<sup>43</sup> ULBs with a population of more than 20,000 but less than 50,000

<sup>44</sup> ULBs with a population of more than 10,000 but less than 20,000

is responsible for overall supervision of the activities including enforcement of the rules framed for administering the Acts and is assisted by the Director of Municipal Administration (DMA). The ULBs are headed by the Commissioner/Municipal Commissioner/Chief Officer and assisted by the Revenue Officer, Revenue Inspector and Bill Collectors.

### **6.1.3 Audit mandate**

The Principal Director, Karnataka State Audit and Accounts Department<sup>45</sup> (KSAD) is the primary Auditor of ULBs under the Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs except NACs to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with effect from the financial year 2008-09, and under Technical Guidance and Supervision (TGS) with effect from 2011-12 onwards, by amending the statutes (October 2011).

### **6.1.4 Audit objectives**

The compliance audit was conducted to ascertain whether:

- the ULBs have a reliable database of all the properties,
- the existing mechanism is adequate to ensure that the entire property tax realisable has been demanded, collected and accounted for, and
- control mechanism was in place and necessary efforts were made to minimise tax evasion and revenue leakage.

### **6.1.5 Audit criteria**

The compliance audit was conducted with reference to the following criteria:

- KM and KMC Acts;
- Self-Assessment of Property Tax Scheme Guidelines;
- Karnataka Municipal Corporations Taxation (Amendment) Rules, 2002;
- Karnataka Municipal Accounting and Budgeting Rules, 2006 (KMABR);
- Karnataka Municipal Accounting Manual Volume 1;
- Government orders and departmental circulars issued from time to time; and
- Resolutions passed by the Councils of the respective ULBs.

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<sup>45</sup> erstwhile Controller, Karnataka State Accounts Department

### 6.1.6 Audit scope and methodology

The audit on collection of property tax was conducted from April to August 2016 covering the period from 2013-14 to 2015-16, through test-check of records of DMA, three CCs, six CMCs, ten TMCs and five TPs. The test-checked municipalities were selected through statistical sampling method of “probability proportional to size without replacement” with the collection of property tax for the year 2014-15 as size measure. BBMP was excluded<sup>46</sup> from this. The list of selected ULBs is given in **Appendix 6.1**. Joint physical verifications (JPVs) were also carried out wherever necessary along with the officials of ULBs.

An entry meeting was held (26.04.2016) with DMA to discuss the audit objectives, scope and methodology. The exit meeting was held (24.01.2017) with the ACS to share and discuss the audit findings.

### Acknowledgement

We acknowledge the cooperation extended by the officers and staff of DMA and ULBs in conducting the audit.

### Audit findings

The audit findings noticed during the audit are discussed in the succeeding paragraphs.

### 6.1.7 Survey of properties

The provisions<sup>47</sup> of the KM and KMC Acts stipulate that the Commissioner shall, subject to general or special orders of the Government, direct a survey of buildings or lands or both within the municipal area/city with a view to assess the property for tax and may for this purpose obtain the services of any qualified person or agency for conducting such survey and preparation of the property register.

We observed that none of the test-checked ULBs had conducted such a survey. The DMA, however, had conducted the survey through Geographical Information System (GIS) initially for 49 ULBs starting from 2004-05 and later for 164 ULBs starting from 2009-10 that was completed by 2012-13. The period of the survey conducted in respect of the test-checked ULBs is indicated in **Appendix 6.2**. The GIS was aimed at creation of property database with standard set of details so as to bring all the properties under the tax net besides ensuring transparency and accountability in collection of property tax. The Municipal Reforms Cell (MRC) specifically created in 2005 for implementation of computerisation and other reforms in all the ULBs in the State was responsible for maintenance of the GIS database. An online

<sup>46</sup> A performance appraisal on the implementation of SAS of property tax in BBMP was conducted during 2010-11, which appeared as Paragraph 4.1 of Audit Report on Local Bodies for the year ended March 2010.

<sup>47</sup> Section 107A of KM Act and Section 112D of KMC Act

database was created for all the 213 ULBs on completion of the survey with the intention to bring all the properties under the tax net. The Department claimed that 12.08 lakh properties were brought into the tax net as a result of this survey and the DMA issued periodic instructions to all the ULBs to update and use the database for assessment, demand and collection of property tax. However, we observed that the survey data had not been put to use by any of the test-checked ULBs for the period test-checked.

The reasons stated by ULBs for not utilising the database are as follows:

- Hubballi-Dharwad Municipal Corporation (HDMC) and CC, Kalaburagi stated (May and August 2016) that they were using their own software;
- CC, Mysuru and CMC, Ullal stated (May and June 2016) that there was no provision for additions and alterations (edit option);
- CMC, Ramanagara and TMC, Mahalingapura stated (May and July 2016) that there was a mismatch between property details of GIS database *vis-à-vis* their own database;
- CMC, Bidar stated (July 2016) that there was problem with internet connectivity in the CMC;
- Thirteen ULBs<sup>48</sup> stated (May-September 2016) that they were using the database from 2016-17 onwards.

No reasons were furnished by the remaining four ULBs<sup>49</sup>. In response to the Audit observation as to why there was no edit option, the DMA stated (September 2016) that the edit and append option was provided during May 2016.

We noticed that there were differences between the number of properties listed in the records of the test-checked ULBs and those in the MRC database as detailed in the **Appendix 6.2**. A comparison of the two showed that in eight ULBs, the number of properties as per the ULB's records for the year 2015-16 was less than that in the MRC database (GIS for these ULBs was conducted during the period 2004-05 to 2012-13). It was also seen that none of the ULBs reconciled the number of properties in their database with the GIS database. Consequently, the correctness of the number of properties assessed to tax could not be ascertained in audit.

The State Government stated (March 2017) that the MRC through its GIS had updated property numbers in almost all the ULBs.

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<sup>48</sup> CMCs-Bhadravathi and Hassan; TMCs-Anekal, Devanahalli, Indi, Kumta, Kushtagi, Pavagada and Wadi; TPs-Gubbi, Honnavara, Khanapura and Kushalnagara

<sup>49</sup> CMC, Chikkamagaluru; TMCs-Belur and Bhalki; TP, Sullia

### 6.1.8 Property tax registers and Demand Collection and Balance register

The provisions<sup>50</sup> of the KM and KMC Acts state that a property tax register in respect of building or lands or both in the municipal area/city shall be maintained in such form and in such manner as may be prescribed. The property tax register had to contain all details such as the name and address of the owner/occupier, area of land, type and age of building, nature of use, tax paid, *etc.*

Further, Rule 53(1)(a) of the KMABR states that a Demand Collection and Balance (DCB) register shall be maintained where any tax is due to be paid by the assesseees. The DCB register shall be maintained in such manner that amounts due, collection made and balances due are ascertained for all such persons or things and should contain details such as ownership, use of property, occupancy type, dimensions of land and building, date of construction of building, *etc.*

We observed that no separate property tax registers and DCB registers were being maintained in any of the test-checked ULBs and only a single register (in form KMF 24) was maintained. In 10 ULBs, the register so maintained was incomplete as it did not contain the vital details such as year/date of completion and dimension of the buildings. The register also did not contain the details of exempted properties. Consequently, the correctness of demand reflected by the ULBs could not be assessed.

The details of demand raised in the test-checked ULBs during the period 2013-16 are given in **Appendix 6.3**. Our scrutiny revealed that the demand was not commensurate with the number of the properties in the following instances:

- In two ULBs (TMC, Mahalingapura and TP, Khanapura), the demand raised for the year 2015-16 was the same as the previous year in spite of increase in the number of properties.
- In two ULBs (CMC, Bidar and TP, Honnavara), the demand raised for the year 2015-16 was less than the previous year, though the number of properties remained the same.
- In CC, Kalaburagi the demand raised during 2014-15 and in CMC, Chikkamagaluru and TP, Kushalnagara, the demand raised during 2015-16 was less than the demand raised during the previous years in spite of increase in the number of properties.
- In TMC, Devanahalli, though the number of properties increased by 804 during 2014-15, the demand raised increased by only ₹50,000.

The JPV (May-August 2016) of 96 properties in 19 ULBs showed that in respect of 45 properties, the property owners had short-declared the actual

<sup>50</sup> Section 106 of KM Act and Section 112B and Rule 11 under Schedule III of KMC Act

built-up area at the time of paying property tax. The short-payment of tax as worked out by us in respect of 42 properties amounts to ₹20.26 lakh in 13 test-checked ULBs<sup>51</sup>. In respect of three properties of TMC, Belur, the tax paid was more due to incorrect calculation.

The necessity for maintaining property registers and DCB registers separately may be ascertained and demand raised may be periodically reconciled between the two registers which would eliminate mismatches, if any.

The State Government stated (March 2017) that circular/guidelines were issued (January 2017), in response to the audit observations, for assessment, collection and maintenance of registers of self-assessment of property tax. The instructions reiterate the maintenance of separate property tax register and DCB register.

### 6.1.9 Collection of property tax

We observed from the records that the collection of property tax in TMC, Mahalingapura was less than 35 *per cent* of the demand raised during the audit period. The performance of the other 23 test-checked ULBs with regard to collection of property tax against the demand is indicated in the **Table 6.1** below:

**Table 6.1: Collection of property tax by ULBs**

Percentage of collection	Number of ULBs		
	2013-14	2014-15	2015-16
> 50 and ≤ 75	3	3	3
> 75 and ≤ 90	10	13	13
> 90	10	7	7

Source: Information furnished by ULBs

As against the total demand of ₹521.53 crore in the 24 ULBs, the collection during the years of test-check was ₹488.19 crore, leaving an amount of ₹33.34 crore which was yet to be collected. Additional efforts may be made by the ULBs to ensure collection of all dues.

The State Government stated (March 2017) that circular/guidelines were issued (January 2017) for assessment, collection and maintenance of registers of self-assessment of property tax. We feel that there is need of close monitoring by the State Government.

<sup>51</sup> CC, Kalaburagi (three properties-₹1.51 lakh), CC, Mysuru (one property-₹0.53 lakh), CMC, Bidar (nine properties-₹4.91 lakh), CMC, Chikkamagaluru (three properties-₹1.85 lakh), CMC, Hassan (one property-₹0.15 lakh), CMC, Ramanagara (one property-₹0.06 lakh), CMC, Ullal (five properties-₹2.27 lakh), TMC, Anekal (five properties-₹3.40 lakh), TMC, Devanahalli (four properties-₹0.36 lakh), TMC, Kumta (five properties-₹1.07 lakh), TMC, Kushtagi (three properties-₹3.01 lakh), TMC, Mahalingapura (one property-₹0.47 lakh) and TMC, Wadi (one property-₹0.67 lakh)

### 6.1.10 Escape from assessment

The provisions<sup>52</sup> of the KM and KMC Acts state that if for any reason, any person liable to pay any of the taxes or fees leviable, has escaped assessment in any half year/year, the Commissioner or the Chief Officer or the authorised officer may at any time within six years from the date on which such person should have been assessed, serve on such person a notice assessing him to tax or fee due and demanding payment thereof within fifteen days from the date of service of such notice.

We observed that 1,47,211 (16 *per cent*) properties in 14 test-checked ULBs, as per their records, remained unassessed for the year 2015-16. The ULB-wise details of properties that escaped assessment are indicated in **Appendix 6.2**. However, the number of properties which remained unassessed for the year 2015-16 stood at 3,90,651 (38 *per cent*) in 23 of the ULBs test-checked as per MRC database. There were no unassessed properties in CMC, Ramanagara as per the MRC database whereas the ULB's records showed that 256 properties were unassessed.

A few of the ULBs accepted that some properties were unassessed and stated (February 2017) that notices are now served to the property owners for compulsory assessment and a plan of action to complete the process is drawn for six months. The State Government stated (March 2017) that guidelines were issued (January 2017) to the ULBs and Project Directors of all the districts to monitor the SAS system of ULBs under their jurisdiction and ensure that all properties are brought into the tax net.

### 6.1.11 Evasion of tax

We observed from the records of TMC, Anekal that owners of 700 properties<sup>53</sup> located under the jurisdiction of the TMC got their properties irregularly assessed at four Gram Panchayats<sup>54</sup> (GPs) located near the TMC by availing *khatas* from the GPs and paying property tax to the respective GPs. The TMC should have surveyed these properties since it was within its jurisdiction and ensured that the property tax was paid to it. Since the properties escaped payment of tax to TMC, the TMC was put to loss of revenue.

During the JPV (August 2016) of randomly selected five properties, we observed that these properties were irregularly assessed at GP, Vanakanahalli and the loss of revenue from these properties amounted to ₹6.80 lakh for the period 2013-14 to 2015-16, excluding penalty. We also observed that the rates of property tax in GPs are less than that in the TMC. For instance, in respect of one assessee (Shri Muniraju), the tax as per the GP rates was ₹7,236.00 whereas as per the TMC rates, the tax would be ₹27,111.00.

<sup>52</sup> Section 115 of KM Act and Section 143 of KMC Act

<sup>53</sup> as per information furnished (25.11.2016) by TMC, Anekal

<sup>54</sup> GPs – Gowrenahalli, Karpuru, Samanthuru and Vanakanahalli

The TMC stated (September 2016) that action would be initiated to issue notices to the property owners and collect tax. However, the reply was silent regarding the action that would be taken regarding the other properties which were assessed at GPs though the properties were under the jurisdiction of the TMC.

While no specific reply was furnished, the State Government stated (March 2017) that guidelines were issued (January 2017) to the ULBs and Project Directors of the State to adopt and monitor the SAS system properly.

#### **6.1.12 Property tax on telecommunication towers**

As per the Karnataka Municipalities and Certain Other Law (Amendment) Act, 2014, the definition of building was amended (January 2015) to incorporate the telecommunication towers also. Hence, the ULBs were required to collect property tax on these towers.

We observed that out of the 24 test-checked ULBs, only HDMC had raised (2015-16) the demand for collection of property tax in respect of 16 out of 304 telecommunication towers at ₹12,000 per year and had collected ₹1,92,000 up to the end of 2015-16. The other ULBs had not taken any action for collection of property tax from the telecommunication towers. The loss of revenue in respect of 1,195 towers in 18 test-checked ULBs was ₹1.43 crore per year (@ ₹12,000 per tower approximately). Information on the number of towers was not made available by six ULBs<sup>55</sup>.

The ULBs replied (May-August 2016) that in the absence of clear instructions from the DMA, they were not in a position to collect tax on these towers. The State Government stated (March 2017) that the rates on telecommunication towers were under examination. The reply is not acceptable as non-finalisation of the rates of tax to be collected on towers despite amending the KM and KMC Acts in January 2015 has resulted in revenue foregone.

#### **6.1.13 Revision of rates of tax**

As per the provisions<sup>56</sup> of the KM and KMC Acts, the property tax once assessed, shall not be assessed each year thereafter but shall stand enhanced by 15 per cent once in every three years commencing from the financial year 2005-06. Accordingly, the ULBs had to revise the rates of property tax during 2008-09, 2011-12 and 2014-15.

We found that all the ULBs had revised the rates at required periods except the following:

- CC, Mysuru revised the rates during 2006-07, 2010-11 and 2014-15 (*i.e.*, once in four years).
- TMC, Kushtagi revised the rates only during 2011-12 and 2014-15.

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<sup>55</sup> TMCs-Anekal and Pavagada; TPs-Gubbi, Honnavara, Khanapura and Sullia

<sup>56</sup> Section 102A of KM Act and Section 109A of KMC Act

- TMC, Devanahalli revised the rates during 2013-14 and 2014-15. The rates revised during 2013-14 were with retrospective effect from 2008-09. Scrutiny of the SAS returns showed that the TMC had not collected the property tax at revised rates from the owners of properties who had already paid the tax for the period 2008-09 to 2012-13.

Consequently, the above ULBs suffered loss of revenue due to non-enhancement of rates of the property taxes as per the Acts.

The State Government stated (March 2017) that circulars were issued (January 2017) to the ULBs and Project Directors of the State to adopt and monitor the SAS system properly and action to amend the Act would be taken.

#### **6.1.14 Calculation of taxable capital value of land and buildings**

The provisions<sup>57</sup> of the KM and KMC Acts stipulate that the taxable capital value of the building shall be assessed together with the land occupied by it having regard to the market value guidelines of properties published under Section 45B of the Karnataka Stamp Act, 1957 minus depreciation at the time of assessment as may be notified by the Government from time to time.

We observed that the DMA had instructed (April 2011) the ULBs to adopt the guidance value of 2005-06 instead of the prevailing guidance value. As a result, 22 test-checked ULBs adopted the guidance value of 2005-06, while HDMC and TMC, Kushtagi adopted the guidance value of 2009-10 and 2011-12 respectively. The ULBs were thus put to a loss of revenue. The loss, as worked out by Audit, in respect of 10 properties under TMC, Devanahalli considering the guidance value of 2014-15, amounted to ₹5.00 lakh for the year 2015-16.

The State Government stated (March 2017) that action would be taken to amend the relevant Act and Rules for adopting the prevailing guidance value.

#### **6.1.15 Depreciation**

We observed that five of the test-checked ULBs<sup>58</sup> were not allowing depreciation on the actual age of the building in accordance with Section 102 of KM Act and Section 109 of KMC Act.

The ULBs replied (May-August 2016) that DMA had issued instructions not to allow further depreciation after the year 2006-07. The online tax calculator made available to ULBs by the DMA provided for calculation of depreciation up to the year 2006-07 only. This was contrary to the provisions of the KM and KMC Acts.

The State Government stated (March 2017) that action would be taken to issue revised date.

<sup>57</sup> Section 102 of KM Act and Section 109 of KMC Act

<sup>58</sup> CCs – HDMC and Mysuru; CMCs – Hassan and Ullal; TMC - Devanahalli

#### **6.1.16 Excess collection of tax on vacant land**

Section 101 of KM Act and Section 108 of KMC Act prescribe the rates of property tax for vacant land as under:

- (i) Land measuring not above one thousand square meters, at not less than 0.1 *per cent* and not more than 0.5 *per cent* of taxable capital value of land,
- (ii) Land measuring above one thousand square meters but not above four thousand square meters, at not less than 0.025 *per cent* and not more than 0.1 *per cent* of taxable capital value of land,
- (iii) Land measuring above four thousand square meters, at not less than 0.01 *per cent* and not more than 0.1 *per cent* of taxable capital value of land.

We observed that HDMC calculated the tax on vacant land by adopting incorrect slab rates, resulting in excess collection of tax in 172 cases of vacant lands measuring more than 4,000 square meters. Similarly, TMC, Devanahalli calculated the tax on vacant land at a uniform rate of 0.35 *per cent* instead of the above rates thereby resulting in excess collection of tax in 5,912 cases.

The State Government stated (March 2017) that circulars were issued (January 2017) to the ULBs and Project Directors of the State to adopt and monitor the SAS system properly.

#### **6.1.17 Rebate for timely payment**

As per the provisions<sup>59</sup> of the KM and KMC Acts, the owner or occupier who pays property tax within one month from the date of commencement of the financial year shall be allowed a rebate of five *per cent* on the tax payable.

We noticed that in TMCs, Bhalki and Wadi, the benefit of rebate was not extended to those property owners who had paid the tax within one month.

The State Government stated (March 2017) that circulars were issued (January 2017) to the ULBs and Project Directors of the State to adopt and monitor the SAS system properly. The reply was, however, silent on the refund of rebate to the property owners.

#### **6.1.18 Remittance of cess**

The ULBs were required to collect various cesses such as Health, Library, Beggary and Urban Transport Cess at 15 *per cent*, 6 *per cent*, 3 *per cent* and 2 *per cent* respectively, on the amount of tax collected on land and buildings.

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<sup>59</sup> Section 105 of KM Act and Section 112A of KMC Act

Section 56 of the KMABR states that the ULBs are required to remit the same to the authorities<sup>60</sup> concerned within 10<sup>th</sup> of the following month.

We observed that cess amount of ₹109.64 crore pertaining to the period 2013-14 to 2015-16 including opening balance was pending remittance by the 23 test-checked ULBs at the end of March 2016 as detailed in **Appendix 6.4**. The information was not furnished by TMC, Pavagada.

The State Government stated (March 2017) that the Project Directors of the State have been directed (January 2017) to take care of the remittance of the Cess of the ULBs coming under their jurisdiction and ULBs have been directed to clear all the dues pending towards Cess payment.

### **6.1.19 Non-collection of tax from industrial properties developed by Urban Development Authorities**

As per Section 101(1) of the KM Act and Section 108 of KMC Act, unless exempted under the Acts or any other law, property tax shall be levied every year on all buildings or vacant land or both situated within the municipal area/city. Further as per Section 94(1A)(k) of KM Act and Section 110(1)(k) of KMC Act, buildings or lands belonging to any Urban Development Authority constituted under the Karnataka Urban Development Authorities Act, 1987, the Karnataka Housing Board (KHB) or any local authority, the possession of which has not been delivered to any person, in pursuance of any grant, allotment or lease are exempt from payment of property tax.

Further, as per paragraph 5.1.7.4 of Karnataka Industrial Policy 2014-19, till the townships are declared, KIADB/KSSIDC shall collect property tax, cess *etc.*, from all industries and pay it to the concerned local authorities with nominal service charge.

We observed that:

- (a) HDMC, CMC, Hassan and TMC, Kushtagi did not collect property tax from industrial units functioning in industrial areas of Karnataka Industrial Areas Development Board (KIADB) and Karnataka Small Scale Industries Development Corporation (KSSIDC) resulting in loss of revenue to the ULBs. The loss to HDMC as per the CC's records is given in the **Table 6.2:**

<sup>60</sup> Health Cess to Health Department, Beggary Cess to Directorate of Beggary, Library Cess to Department of Libraries and Urban Transport Cess to Urban Transport Fund being administered by Director of Urban Land Transport

**Table 6.2: Loss due to non-collection of property tax from industrial units in HDMC**

(₹ in lakh)

Sl. No.	Zone	Year of assessment	Name of the Industrial Area	Ward number	Total number of units/properties	Uncollected tax	Uncollected penalty	Total uncollected dues
<b>KIADB</b>								
1	7	1996-97	Tarihal Industrial Estate	36T	224	382.30	755.33	1,137.63
2	12	1991-92	Lakkamanahalli Industrial Estate	19A	39	106.38	161.52	267.90
3	12	1991-92	Lakkamanahalli Industrial Estate	19	5	10.07	17.68	27.75
4	12	1991-92	Sattur Industrial Estate	21	3	5.37	9.20	14.57
5	12	1991-92	Sattur Industrial Estate	21A	3	1.38	3.73	5.11
<b>Total</b>						<b>505.50</b>	<b>947.46</b>	<b>1,452.96</b>
<b>KSSIDC</b>								
6	5	1991-92	Gokul Road Industrial Estate	34B	207	196.18	269.69	465.87

Source: Information furnished by HDMC

The number of industrial units functioning in industrial areas of KIADB under CMC, Hassan and TMC, Kushtagi was 25 and 35 respectively. We could not assess the loss of revenue in the absence of complete details of such properties.

- (b) CC, Mysuru had not raised the demand for property tax from properties developed by Mysuru Urban Development Authority and taken over by it. In respect of CMC, Hassan, the properties developed by KHB had to be handed over to the CMC subsequently. Though KHB requested that the CMC may formally take over these properties, the same had not been done so far. Consequently the ULBs lost revenue.

### 6.1.20 Property tax on Government buildings

The provisions<sup>61</sup> of the KM and KMC Acts provide exemption from paying property tax for buildings or vacant lands belonging to the Central Government or any State Government used for the purposes of Government and not used or intended to be used for residential or commercial purposes.

We observed that there was no uniformity in the test-checked ULBs regarding collection of property tax from buildings belonging to Bharat Sanchar Nigam Limited (BSNL), Karnataka State Road Transport Corporation (KSRTC) and Karnataka Power Transmission Corporation Limited (KPTCL), which were used for commercial and residential purposes, as detailed in **Table 6.3**:

<sup>61</sup> Section 94(1A)(j) of KM Act and Section 110(1)(j) of KMC Act

**Table 6.3: Status in test-checked ULBs regarding categorisation of properties of Government organisations**

Government organisations (Residential/Commercially used properties)	Number of ULBs			
	Exempted	Assessed	Not assessed	Information not furnished
BSNL	10	6	5	3
KSRTC	1 <sup>¥</sup>	17	2	4
KPTCL	1	17	2	4

<sup>¥</sup> KSRTC office in TMC, Devanahalli is functioning in property belonging to the TMC.

Source: Information furnished by the ULBs

Further, the property tax due as assessed by eight test-checked ULBs was ₹221.91 lakh in respect of 37 Government properties as of March 2016. In respect of other test-checked ULBs, we could not assess the loss of revenue in the absence of complete details of such properties.

The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net.

#### 6.1.21 Collection of service charges on exempted properties

As per Rule 7A of Schedule III of KMC Act, service charges for providing civic amenities shall be levied in respect of buildings exempted from property tax under Section 110 of KMC Act, excluding places of public worship at the rate of 25 *per cent* of the property tax leviable for such lands and buildings. However, as per Section 94(2) of the KM Act, it shall be open to the Municipal Council to collect service charges for providing civic amenities and for general or special services rendered at such rates as may be prescribed.

We noticed that while all the three test-checked CCs were collecting service charges from exempted properties, none of the other 21 test-checked ULBs took any action for collecting service charges even though they were providing civic amenities to the exempted properties. The lack of uniformity regarding collection of service charges from exempted properties in the KM and KMC Acts resulted in many of the exempted properties remaining out of the tax net, resulting in loss of revenue to the ULBs.

The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net.

#### 6.1.22 Persistent defaulters

The provisions<sup>62</sup> of the KM and KMC Acts stipulate collection of property tax dues in respect of defaulters by distress sale of the movable property. Such action is permissible only after the defaulters have been issued show cause notice.

<sup>62</sup> Section 143(1) of KM Act and Rule 27 to 31 under Schedule III of KMC Act

We noticed that none of the test-checked ULBs had taken action to recover the dues of property tax from persistent defaulters except for issuing notices repeatedly. An amount of ₹63.10 crore was due from 57,912 defaulters as at the end of March 2016 in 14 test-checked ULBs as detailed in **Appendix 6.5**. TMC, Devanahalli reflected an amount of ₹7.56 lakh as the balance due under property tax for the year 2015-16, but had not maintained the list of defaulters. The remaining nine ULBs had either not prepared the list of defaulters or failed to produce the same to Audit. A few of the major defaulters in two test-checked ULBs are indicated in the **Table 6.4** below:

**Table 6.4: List of major defaulters in two test-checked ULBs**

(Amount in ₹)

Sl. No.	ULB	Details of the property	Property tax due
1	Hassan	Malnad Engineering College	9,65,61,961
2		Hotel Sumukha	30,73,015
3		Adichunchanagiri <i>Kalyana Mantapa</i>	27,28,917
4	Kalaburagi	Methodist Church College, Kalaburagi	2,53,71,897
5		Central Warehouse-1	1,22,67,544
6		N.V. High School	61,42,381
7		Farhan Education Society, Mominapur	37,91,389
8		Railway Quarters	36,38,375
9		GESCOM (Electrical O&M Division), Kalaburagi	32,41,702
10		<i>Yatri Nivas</i>	23,76,537

Source: Information furnished by ULBs

The ULBs stated (February 2017) that action had been initiated to prepare the list of defaulters, notices had been issued and plan of action drawn to collect all dues from defaulters. The State Government stated (March 2017) that directions would be issued to maintain a defaulters list and to concentrate on major defaulters in order to improve property tax collection.

### 6.1.23 Short/non-collection of penalty

Section 105(8) of KM Act and Sections 112(3) and 112(4) of KMC Act prescribe the time limit for payment of property tax. The property tax shall be paid within ninety days after commencement of every year. If there is default in making payment, the person liable to pay tax shall pay a penalty at the rate of two *per cent* per month of the amount of property tax remaining unpaid after the expiry of the period.

We observed that TMC, Wadi had not collected the penalty in respect of payments made after the period of ninety days while nine ULBs short-collected penalty amounting to ₹13.72 lakh as detailed in **Table 6.5**:

**Table 6.5: Short/non-collection of penalty**

(Amount in ₹)

Sl. No.	Name of the ULB	Number of cases	Penalty due	Penalty collected	Short collection
1	CC, Mysuru	15	12,07,883	6,11,299	5,96,584
2	CMC, Hassan	22	3,81,576	1,21,325	2,60,251
3	CMC, Ramanagara	6	1,43,818	33,766	1,10,052
4	TMC, Anekal	17	1,90,513	21,521	1,68,992
5	TMC, Belur	12	23,810	11,308	12,502
6	TMC, Bhalki	5	2,065	1,233	832
7	TMC, Indi	3	11,766	900	10,866
8	TMC, Kushtagi	14	1,70,121	29,089	1,41,032
9	TMC, Mahalingapura	13	77,221	6,821	70,400
<b>Total</b>		<b>107</b>	<b>22,08,773</b>	<b>8,37,262</b>	<b>13,71,511</b>

Source: Information furnished by ULBs

CMC, Ramanagara, TMCs, Belur and Kushtagi stated (February 2017) that action had been initiated to recover the short collection pointed out by audit. The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net.

#### **6.1.24 Levy of penalty on unlawful buildings**

As per the provisions<sup>63</sup> of the KM and KMC Acts, whoever unlawfully constructs or reconstructs any building or part of a building

- (i) on his land without obtaining permission under the Acts or in contravention of any condition attached to such permission; or
- (ii) on a site belonging to him which is formed without approval under the relevant law relating to town and country planning; or
- (iii) on his land in breach of any provision of the Acts or any rule or bye-law made thereunder or any direction or requisition lawfully given or made under the Acts or such rules or bye-law,

shall be liable to pay every year a penalty, which shall be equal to twice the property tax leviable on such building so long as it remains an unlawful construction, without prejudice to any proceedings which may be instituted against him/her in respect of such unlawful construction.

We observed during JPV (May-August 2016) that penalty was not collected on unlawful buildings in 11 cases in four ULBs. In 4 of these 11 cases, ULBs had collected a sum of ₹17.35 lakh which was treated as tax (instead of penalty) considering the buildings as lawful. The details are given in **Appendix 6.6**. Further, in 15 test-checked ULBs, the building violations were not monitored as completion certificates and occupancy certificates were not yet issued by the respective ULBs.

<sup>63</sup> Section 107 of KM Act and Section 112C of KMC Act

The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net.

### **6.1.25 Reassessment**

The instructions issued (October 2004) by the DMA stipulate that the Revenue Inspector and Revenue Officer should carry out reassessment of 25 per cent and 10 per cent of the SAS returns respectively.

We observed that the reassessment of property tax was not done in 12 test-checked ULBs<sup>64</sup>. Out of remaining ULBs, the prescribed percentage of reassessment was achieved only in six ULBs<sup>65</sup> during the period 2013-14 to 2015-16. Test-check of cases revealed short-collection of tax as already pointed out in *Paragraph 6.1.8*.

The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net.

### **6.1.26 Karnataka Property Tax Board**

Sections 102A to 102Y under Chapter IX-A of the KMC Act provides for establishment of the Karnataka Property Tax Board (Board) by the State Government. The functions of the Board, as defined under the Act are to:

- enumerate, or cause to enumerate, all class of properties and rates prevailing in zones or areas in the municipality in the state and develop a database;
- review the property tax system and suggest suitable basis for capital valuation of properties or the annual taxable value;
- recommend tax rate for different classes of building or area or zones of the municipalities;
- recommend modalities or basis for periodic revision;
- assist municipalities in determining the rates of any zone, area or any class of building; and
- make recommendations for determining the market value guidelines for the purpose of levying and collecting the property tax.

Accordingly, the State Government notified (March 2013) the Karnataka Municipal Corporations and Municipalities (Property Tax Board) Rules, 2012. As per the said rules, the ACS to Government or Principal Secretary to Government in-charge of UDD shall be the Chairperson of the Board. The

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<sup>64</sup> CCs-HDMC and Kalaburagi; CMCs-Bhadravathi, Bidar and Ullal; TMCs-Bhalki, Indi, Kumta, Mahalingapura, Pavagada and Wadi; TP, Sullia

<sup>65</sup> CMC, Ramanagara; TMC, Anekal; TPs-Gubbi, Honnavara, Khanapura and Kushalnagara

DMA and Inspector General of Registration and Stamps shall be the ex-officio members of the Board along with two expert members who are not in employment of the State/Central/Public Sector undertakings of whom; one member shall be a person who is having knowledge and experience in urban governance and law and one member shall be an expert in accountancy and valuation of properties. The Board shall also consist of expert non-official members selected by the State Government from out of a panel of three persons proposed by a search committee consisting of Secretary to Government, UDD, Secretary to Government, Finance Department and Secretary to Government, Revenue Department. The Government instructed (October 2013) the DMA to suggest the names of non-official members.

We observed that so far no action was taken by the DMA in this regard. The State Government stated (March 2017) that the process of establishing the Karnataka Property Tax Board had been taken up.

### 6.1.27 Special Drives and Special Meetings

The instructions (February 2003) of DMA stipulate periodical conduct of special meetings (*Baithaks*) in every ward to create awareness on SAS tax collection. Twelve of the test-checked ULBs did not conduct such meetings.

The instructions (August 2003) of DMA stipulate undertaking special drives for collection of tax from all the properties. We observed that 14 of the test-checked ULBs did not conduct special drives to collect the arrears of property tax of ₹286.50 lakh.

The State Government stated (March 2017) that nodal officers from DMA are appointed for the district to monitor, control and maintain the working system of all ULBs of the State *vide* notification of October 2016.

### 6.1.28 Non-submission of SAS returns

The provisions<sup>66</sup> of the KM and KMC Acts state that every owner or occupier who is liable to pay property tax shall every year submit to the Commissioner or authorised officer a return in such form within such period and in such manner as prescribed. Further, the owner or occupier shall pay in advance full amount of property tax payable by him on the basis of such return and shall furnish along with the return satisfactory proof of payment of such tax. Failure to submit the return attracts a penalty of ₹100.

We observed collection of tax without the returns as under:

- 10 out of 24 test-checked ULBs collected the property tax by generating challans based on previous years' receipts instead of SAS returns.
- In HDMC, property owners submitted the returns only in case of any change in property details.

<sup>66</sup> Section 105 of KM Act and Section 112A of KMC Act

- In CMC, Hassan, only the new assesseees were submitting the SAS returns and in respect of other property tax payers, property tax was collected through challans generated based on previous years' receipts.
- Penalty for non-submission of returns was not collected by any of the test-checked ULBs.

The State Government stated (March 2017) that the Project Directors of the State had been directed to check some of the ULBs regarding the adoption of all the rules and procedures of SAS system invariably.

#### **6.1.29 Short-remittance of property tax**

The property owners were to make payments of property tax in designated banks through challans to be prepared in quadruplicate. Two copies of the challans were to be retained by the bank and the other two with the property owners. The property owners were to enclose one copy of the challan along with the SAS returns. The banks were also required to forward one copy of the challan to the ULBs. The Revenue wing of the ULBs had to cross verify both the challans before recording the same in the DCB register.

We noticed short-remittance of property tax of ₹1,32,686 in 61 cases in TMC, Indi. The amounts deposited in the banks towards property tax were less than the corresponding amounts recorded in the challans furnished by the property owners and entries made in the DCB register. Scrutiny of the challans submitted by property owners indicated that in all these 61 cases the amount of tax paid was not recorded in words. This omission provided scope for tampering the figures in the challans. It was also noticed that in many cases, the copies of challans that were supposed to have been forwarded by the bank, were not available with the TMC.

The TMC replied (August 2016) that the matter will be examined and action will be taken against the persons responsible for the same.

The State Government stated (March 2017) that the ULBs and Project Directors of the State had been directed, by issue of circular instructions, to bring all the buildings and land in the ambit of tax net and action would be taken against the concerned officials of TMC, Indi.

#### **6.1.30 Monitoring**

The UDD instructed (October 2003) that District Urban Development Cell (DUDC) will supervise and monitor the implementation of SAS in respective ULB. It was, however, seen that DUDC had not monitored the implementation of SAS in any of the test-checked ULBs.

Section 388 of KM Act provides for establishment of the Directorate of Municipal Administration headed by the DMA. As per Section 388A(2), the DMA may depute any of its officers to inspect or examine any department, office, service, work or property of the CMC, TMC, TP or as the case may be the Municipal Corporation and to report thereon and such officer may, for the

purpose of such inspection or examination, exercise all the powers of the State Government or the DMA. Further as per Section 388A(1), the DMA shall call for any record, correspondence or other documents, any return, plan, estimate, accounts or statistics and obtain any report from all the CMCs, TMCs, TPs and the Municipal Corporations other than BBMP.

We observed that though the DMA had issued instructions to the ULBs in its role as a supervisory body, periodic inspections were not carried out to ascertain the functioning of the ULBs and also to ensure the monitoring by DUDCs. Consequently, the maintenance of proper records in the ULBs were deficient thereby impacting the data relating to the actual number of properties, their assessment for property tax and its realisation.

The State Government stated (March 2017) that periodical guidelines were issued (October 2016 and January 2017) to the Project Directors and Officers of the DMA to monitor the functioning of the ULBs.

### **6.1.31 Conclusion**

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

Therefore, all the ULBs should conduct an exhaustive survey of properties to ensure that all the properties are brought to the tax net, as GIS is also not comprehensive. A full-fledged Property Tax Board may be established immediately to ensure periodic revision of tax rates, revision of guidance value, classification of properties, *etc.*, thereby broadening the tax base and strengthening the process of property tax collection. Also, the monitoring of the functioning of the ULBs by DMA needs to be strengthened for effective assessment and realisation of revenue.

## 6.2 Loss of revenue due to non-collection of urban transport cess

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

The State Government constituted<sup>67</sup> (August 2012) an Urban Transport Fund to finance initiatives and build capacity for urban transport, with budgetary support and amount to be raised through cess on property tax. For this purpose, the State Government notified<sup>68</sup> (August 2013) the Karnataka Municipalities (Urban Transport Fund) Rules, 2013 (UTF Rules, 2013) which provided for levy of urban transport cess on property tax. These rules stipulated that all demands raised from the date of these rules coming into effect shall include two *per cent* cess on the property tax so levied. It also stipulated that in case the property tax on any property had already been collected for the year 2013-14, a supplementary demand of two *per cent* towards urban transport cess was to be raised and collected.

Audit scrutiny of records (April 2016) in the office of the Municipal Commissioner, City Municipal Council (CMC), Udupi showed that the CMC, Udupi had collected property tax of ₹9.75 crore for the years 2013-14 and 2014-15. However, the urban transport cess for the years 2013-14 and 2014-15 was not collected. We observed that the CMC, Udupi had taken the decision (February/August 2014) not to levy the cess. Subsequently, based on the directives (November 2014) of the Director of Municipal Administration, Government of Karnataka (DMA), the Municipal Commissioner, CMC, Udupi issued orders (December 2014) to collect urban transport cess but still the urban transport cess for the years 2013-14 and 2014-15 had not been collected. This was in contravention to the provision of UTF Rules, 2013 which mandated levy of urban transport cess from the year 2013-14 onwards.

Thus, failure of the CMC, Udupi to collect urban transport cess for the years 2013-14 and 2014-15, though mandated by the UTF Rules, 2013, resulted in revenue loss of ₹19.51 lakh (@ two *per cent*) in respect of property tax of ₹9.75 crore collected during the years 2013-15 as of 31 March 2016.

The State Government stated (November 2016) that the CMC, Udupi had taken action to collect the urban transport cess from 2015-16 with retrospective effect from 2013-14. The status of recovery was awaited (February 2017).

Similarly, during the audit scrutiny (January 2016) of records in the office of the Commissioner, City Corporation (CC), Mangaluru, it was observed that the urban transport cess (@ two *per cent*) to the extent of ₹1.65 crore (in respect of the property tax of ₹82.40 crore collected for the years 2013-14 to

<sup>67</sup> Rule 149A of the Karnataka Municipal Corporations and Certain Other Law (second amendment) Act, 2012 dated 27 August 2012

<sup>68</sup> No. UDD 99 PRJ2013 (II) dated 20 August 2013

2015-16) had not been collected. The Council of the CC, Mangaluru had taken a decision (October 2014) not to collect the same and had referred (December 2014) the matter to the Regional Commissioner, Mysuru division, Mysuru (RC). Based on the clarification received (April 2016) from the RC, a public notice was issued (May 2016) by the CC, Mangaluru to collect the urban transport cess from April 2013 onwards.

The State Government stated (March 2017) that the CC had taken action to collect the urban transport cess from July 2016 with retrospective effect and that an amount of ₹0.17 crore had been collected up to January 2017. The status of recovery of the remaining amount was awaited.

### 6.3 Short payment of property tax

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

The provisions<sup>69</sup> of Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) provide for levy and collection of property tax on all buildings and vacant land coming under the jurisdiction of Bruhat Bengaluru Mahanagara Palike (BBMP). The State Government notified (January 2009) BBMP Property Tax Rules, 2009 to introduce self-assessment of property tax under Unit Area Value system. In case of short payment of property tax, the assessee was liable to pay twice the difference of tax as penalty along with interest at two *per cent* per month on the tax evaded.

Test-check of records (February 2014, March 2014 and January 2015) in offices of three Assistant Revenue Officers<sup>70</sup> (AROs) and further records collected during June and July 2016 showed the following cases of short payment of property tax:

- 1) Different rates were determined for different areas or streets by classifying them into zones, nature of use to which the vacant land or building is being put and for different classes of buildings and vacant lands. For this purpose, the jurisdictional area of BBMP was classified into six value zones (A, B, C, D, E and F) and properties were grouped into 18 categories (five residential and 13 non-residential). The depreciation was allowed on the basis of the age of a building.

It was observed that Shri V. Anantha Raju (Reliance Mart, Arakere) had paid (2008-16) property tax @ ₹8 per square feet (sq ft) by classifying the property (tenanted area-54,000 sq ft and car parking area-3,500 sq ft) under 'D' Zone / Category VI and adopting a depreciation rate of nine *per cent*. Scrutiny of the property tax returns and joint physical inspection (17 March 2016) of the premises revealed that the building was constructed in the year 2003 and located in 'C' Zone and was equipped with central air

<sup>69</sup> Section 108-A of the KMC Act, 1976

<sup>70</sup> Arakere, Bytarayanpura (Yelahanka) and Nagapura

conditioning facility (Category VIII). Accordingly, the applicable rate was ₹12 per sq ft with the applicable rate of depreciation being six *per cent*. It was also seen that the assessee had declared less built-up area to the extent of 22,646 sq ft (tenanted–16,484 sq ft and car parking–6,162 sq ft). The incorrect declarations resulted in short payment of property tax of ₹107.21 lakh during 2008-16.

The ARO, Arakere stated (4 July 2016) that the demand notice had been issued (4 July 2016) to the assessee to pay ₹107.21 lakh along with penalty and interest. The status of payment of the differential amount was awaited (February 2017).

- 2) As per the extant provisions (Handbook on Property Tax Self-Assessment Scheme), if a building is completed after 1<sup>st</sup> October of any year, property tax on constructed building is payable for the second half of the year. In respect of a building completed prior to 1<sup>st</sup> October, property tax is to be paid for the full year. Till completion of the building, the property tax is payable at the rate applicable for vacant site.

Scrutiny of property tax returns (March 2014) in the office of the ARO, Bytarayanpura (Yelahanka) showed that a building (Sobha Chrysanthemum) had been completed during December 2010 and hence, the property tax on the constructed building (tenanted–9,08,893 sq ft and car parking–85,350 sq ft) was payable (₹13.73 lakh @ ₹1.20 per sq ft) for the second half of the year 2010-11. It was, however, seen that the property tax of ₹1.45 lakh was paid (April 2010) for the land component only for the full year 2010-11. This resulted in non-payment of property tax of ₹13.00 lakh<sup>71</sup> on the constructed building which was completed during December 2010.

The State Government accepted the audit observation and stated (January 2016) that the demand notices had been issued (August 2014, November 2015 and December 2015) and a sum of ₹2.54 lakh had been collected. The status of recovery of the remaining amount was awaited (February 2017).

- 3) Buildings or lands which were exempted<sup>72</sup> from property tax were grouped under Category XVI and were required to pay service charges at 25 *per cent* of the prescribed rates. The owners of the properties seeking exemption were required to apply to the Commissioner, BBMP in the prescribed application form along with the payment of service charges prescribed under Category XVI. If the exemption was refused then the applicant was liable to pay tax at the regular rates.

We observed that the President, International Society for Krishna Consciousness (ISKCON) had classified the ISKCON Guest House (Property Identification Number: 14-1-6/5 and built-up area–43,300 sq ft) under exempted category (Category XVI) and paid the service charges of ₹3.02 lakh (@ ₹37,799 per annum) during the period 2008-09 to 2015-16.

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<sup>71</sup> ₹13.73 lakh - ₹0.73 lakh (for the second half)

<sup>72</sup> As per Section 110 of KMC Act, 1976

It was, however, seen that the Commissioner, BBMP had not granted any exemption to the Guest House (June 2016). Thus, the property was liable for assessment at the applicable rates (Category IX @ ₹8 per sq ft) and the property tax payable for the period 2008-09 to 2015-16 was ₹66.15 lakh<sup>73</sup> (@ ₹8,26,857 per annum). Thus, availing of ineligible exemption resulted in short payment of property tax to the extent of ₹63.13 lakh.

The ARO, Nagapura accepted the audit observation and stated (26 April 2016) that demand notice was issued (21 April 2016) for payment of the differential amount of ₹21.17 lakh and penalty thereon, and that action would be taken to recover the amount. The reply is not satisfactory as the demand notice was issued after classifying the property under Category I (residential) whereas the applicable category for the Guest House was Category IX.

Thus, the incorrect declarations in the property tax returns and non-payment of property tax for the constructed building resulted in short payment of tax to the extent of ₹1.83 crore<sup>74</sup>.

These matters were referred to the State Government in March and April 2016; replies are awaited (February 2017).

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

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

Section 58 of Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) lists the obligatory functions of the Corporations. Of these, under the solid waste management (SWM) activity, the following are included among the obligatory functions of the Corporation: watering and cleansing of all public streets and public places in the city and the removal of all sweepings therefrom; collection, removal, treatment and disposal of sewage, offensive matter and rubbish and the preparation of compost manure from these; and construction, maintenance and cleaning of drains and drainage works and of public privies<sup>75</sup>, water closets, urinals and similar conveniences. Further, as per the provisions of the Finance Act, 1994, the SWM activity is exempt<sup>76</sup> from the whole of the service tax leviable.

<sup>73</sup> In the absence of the details regarding average rate (room tariff) per day, the property tax payable has been worked out at the lowest rate applicable to Category IX (iii)-where the average rate (room tariff) per day is ₹999 and less.

<sup>74</sup> ₹107.21 lakh + ₹13.00 lakh + ₹63.13 lakh = ₹183.34 lakh (₹1.83 crore)

<sup>75</sup> Toilet located in a small shed outside a house or other building

<sup>76</sup> Prior to 1.7.2012, service tax was levied on specified services and SWM activity was not included in the list of taxable services as defined in Section 65 (105) of the Finance Act, 1994. With effect from 1.7.2012, service tax regime based on negative list was introduced and SWM activity (Serial number 25 of Section 66 B of the Finance Act, 1994) was exempted as per the Service Tax Mega Exemption Notification No.25/2012-Service Tax dated 20.6.2012.

Audit scrutiny (January-February 2016) of the SWM records in the City Corporation (CC), Ballari for the years 2013-14 and 2014-15 and further records collected during May 2016 showed that the CC, Ballari had prepared estimates for four packages (Packages I & III during 2010-11 and Packages II & IV during 2012-13) valuing ₹5.99 crore for the work of sweeping of roads, streets, footpath and pavements and open roadside drains/mouth of shoulder drains. The estimates included, *inter alia*, labour and other costs along with service tax @ 10.30 per cent (for Packages I & III) and 12.36 per cent (for Packages II & IV).

Tenders were invited during December 2012 and March 2013. As the SWM activity was exempt from the service tax, the estimated cost/tendered values had to be exclusive of service tax. Instead, the estimated cost/tendered values were inclusive of service tax and the contracts were awarded (November 2013) to three contractors after negotiations. The total annual contract value of the four SWM packages was ₹5.99 crore (inclusive of service tax).

The contracts were initially valid for a period of one year from the date of commencement of work (February 2014) and were renewable after each year of completion. Accordingly, the contracts were extended for all the four packages.

The CC, Ballari incurred an expenditure of ₹13.28 crore on the four packages from February 2014 to March 2016 (26 months) which included the exempted service tax of ₹1.38 crore on the four packages.

The CC, Ballari replied (July 2016) that since the minimum wages were increased, the difference in the minimum wages applicable was compensated by adjusting the service tax which was included in the package cost awarded to the contractors.

The reply of the CC, Ballari is not acceptable as SWM activity was exempt from service tax and payment of differential amount due to revision in minimum wages was provided for separately in the agreements. Further, the payments made to the contractors for the period from April 2015 onwards were on the basis of the revised minimum wages applicable and the difference of minimum wages for the period 1.4.2014 to 31.3.2015 amounting to ₹53.35 lakh was paid separately during October 2015. Consequently, the CC, Ballari was put to an avoidable loss of ₹1.38 crore.

The State Government stated (March 2017) that directions had been given to CC, Ballari and other ULBs not to pay service tax on exempted items of SWM packages.

## 6.5 Loss of revenue due to non-levy of penalty on cess component

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

The provisions<sup>77</sup> of Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) and Karnataka Municipalities Act, 1964 (KM Act, 1964) provided for levy and collection of property tax on all buildings and vacant land coming under the jurisdiction of a city corporation/municipal council. The property tax was payable within 90 days after commencement of every year. In case of delay, the assessee was liable to pay a penalty at the rate of two *per cent* per month on the tax remaining unpaid. Further, as per Cess Acts, the property tax was payable along with cess of 24 *per cent*<sup>78</sup> and the provisions for levy, assessment and recovery of property tax were applicable *mutatis mutandis* to the levy, assessment and recovery of these cesses. Hence, in case of delay, the penalty at the rate of two *per cent* per month was also leviable on the corresponding cess component of property tax being paid belatedly. The percentage of cess increased (with effect from 2013-14) to 26 *per cent* with the levy<sup>79</sup> of the urban transport cess (@ two *per cent*). The city corporation/municipal council was entitled to deduct 10 *per cent* of the cess recovered (excluding urban transport cess) as the cost of collection and the balance was to be remitted to the heads of account concerned.

Scrutiny of records (January and April 2016) in the offices of the Commissioner, City Corporation, Mangaluru (CC) and the Municipal Commissioner, City Municipal Council, Udupi (CMC) showed that the CC/CMC had collected (2010-11 to 2015-16) penalty of ₹502.05 lakh<sup>80</sup> (@ two *per cent* per month) for delayed payments of property tax. It was, however, seen that the penalties were levied only on the property tax amounts and not on the corresponding cess components. This was due to the fact that the property tax assessment forms devised by the CC/CMC did not provide for levy of penalty on the cess components. This contravened the provisions of Cess Acts which mandated levy of penalty on cess also. The proportionate penalty leviable and collectable on the cess components worked out to ₹91.46 lakh<sup>81</sup> in the CC and ₹29.40 lakh<sup>82</sup> in the CMC.

<sup>77</sup> Section 103 and Section 112 of KMC Act, 1976 and Section 94 and Section 105 of KM Act, 1964

<sup>78</sup> Health Cess @ 15 *per cent* (The Karnataka Health Cess Act, 1962); Library Cess @ 6 *per cent* (The Karnataka Public Libraries Act, 1965) and Beggary Cess @ 3 *per cent* (The Karnataka Prohibition of Beggary Act, 1975)

<sup>79</sup> As per Rule 3 of the Karnataka Municipalities (Urban Transport Fund) Rules, 2013 which came into force *vide* Notification dated 20.8.2013

<sup>80</sup> CC, Mangaluru-₹381.07 lakh (2012-15) and CMC, Udupi-₹120.98 lakh (2010-16)

<sup>81</sup> ₹381.07 lakh x 24% = ₹91.46 lakh

<sup>82</sup> @ 24 *per cent* on ₹102.57 lakh (2010-15) + @ 26 *per cent* on ₹18.41 lakh (2015-16), as the CMC had collected urban transport cess with effect from 2015-16

Thus, the failure of the CC/CMC in devising the property tax assessment forms appropriately and non-levy of penalty on the cess component resulted in loss of revenue of ₹1.21 crore. This included ₹9.15 lakh (@ 10 per cent) due to the CC and ₹2.90 lakh<sup>83</sup> due to the CMC as collection charges.

The State Government accepted the audit observation regarding non-levy of penalty on cess component and stated (March 2017) that measures were being taken to revise the property tax assessment forms.

## 6.6 Non-levy of property tax on advertisement structures

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

The provisions<sup>84</sup> of the Karnataka Municipal Corporations Act, 1976 (KMC Act) and the Karnataka Municipalities Act, 1964 (KM Act) stipulate that property tax shall be levied every year on all buildings or vacant land or both situated within the municipal area unless exempted. The definition<sup>85</sup> of building, as per these Acts, includes, *inter alia*, a house, out-house, fixed platform, plinth, door step and any other such structure, including telecommunication tower or advertisement structures by whatever name called, whether of masonry, bricks, wood, mud, metal or any material whatsoever. Accordingly, property tax was to be levied on advertisement structures erected or fixed on properties.

Test-check of records (March 2015, January 2016 and April 2016) in the offices of City Corporations (CCs), Davanagere and Mangaluru and City Municipal Council (CMC), Udupi and further information collected during January 2017 showed that these CCs/CMC had the details of advertisement hoardings erected/fixed on private lands/buildings. It was, however, seen that these CCs/CMC had not assessed property tax on these advertisement structures. This not only contravened the provisions of the Acts but also deprived these CCs/CMC of revenue.

As per the information furnished by these CCs/CMC, there were 1,016 advertisement hoardings during the year 2015-16, on which the loss of revenue worked out to ₹89.61 lakh, as detailed in **Table 6.6:**

<sup>83</sup> ₹120.98 lakh x 24% x 10% = ₹2.90 lakh (as retention of 10 per cent as collection charges was not applicable to urban transport cess)

<sup>84</sup> Sections 103(b)(i) and 108 of KMC Act, and Sections 94(b)(i) and 101 of KM Act

<sup>85</sup> As per Section 2(1A) of KMC Act and Section 2(3) of KM Act, amended vide Karnataka Act No. 6 of 2015 (January 2015)

**Table 6.6: Loss of revenue due to non-levy of property tax on advertisement structures in CCs, Davanagere and Mangaluru and CMC, Udupi during the year 2015-16**

(₹ in lakh)

Name of the ULB	Number of advertisement hoardings erected in 2015-16	Property tax leviable per annum @ ₹7,000 <sup>¥</sup>	Cess @ 26 per cent	Loss of revenue
CC, Davanagere	122	8.54	2.22	10.76
CC, Mangaluru	763	53.41	13.89	67.30
CMC, Udupi	131	9.17	2.38	11.55
<b>Total</b>	<b>1,016</b>	<b>71.12</b>	<b>18.49</b>	<b>89.61</b>

<sup>¥</sup> In the absence of rates fixed by these CCs/CMC, the minimum rate of ₹7,000 per annum being levied by Bruhat Bengaluru Mahanagara Palike (BBMP) has been adopted. This rate is subject to fixation of rates by these CCs/CMC.

Source: Information furnished by CCs, Davanagere and Mangaluru and CMC, Udupi

Thus, despite the availability of enabling provision for levying property tax on advertisement structures, these CCs/CMC failed to tap this source of revenue generation to augment their resources.

The Commissioner, CC, Mangaluru accepted the audit observation and stated (January 2017) that as per the resolution passed (December 2016) by the Standing Committee for Taxation, Finance and Appeals, the property tax on advertisement structure would be collected with effect from 1 April 2016. The Commissioner, CC, Davanagere and Municipal Commissioner, CMC, Udupi, also accepted (May 2016 and January 2017) the audit observations and stated that action would be taken to levy property tax on advertisement structures. Further progress in these cases was awaited (January 2017).

The State Government stated (March 2017) that appropriate action would be taken to levy property tax on advertisement structures as per the extant provisions.

## 6.7 Loss of revenue due to non-levy of health cess on advertisement tax

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

The provision<sup>86</sup> of the Karnataka Municipal Corporations Act, 1976 stipulates imposing of a tax on advertisement.

As per provision<sup>87</sup> of the Karnataka Health Cess Act, 1962, health cess may be levied and collected at the rate of 15 paise in the rupee on taxes on advertisements. Further, as per Section 4A of the Karnataka Health Cess Act, 1962 where the health cess is recovered by a local authority, such local

<sup>86</sup> Section 103 (vi) under Chapter X (Taxation)

<sup>87</sup> Item 3 of Schedule-B referred to in Section 3 (iii)

authority shall be entitled to deduct 10 *per cent* of the amount recovered as the cost of collection and the balance shall be paid to the State Government.

Audit scrutiny (January 2016) of the records of the City Corporation, Mangaluru (CC) and further records collected during September-October 2016 showed that an amount of ₹517.04 lakh was collected by the CC as advertisement tax during the period 2012-13 to 2015-16. However, the applicable health cess (@15 *per cent* of the advertisement tax collected) for the above period had not been levied and collected by the CC.

This resulted in loss of revenue to the extent of ₹77.56 lakh in the form of health cess. This included collection charges of ₹7.76 lakh due to the CC @ 10 *per cent* of the health cess, had it been collected.

The State Government stated (March 2017) that action had been taken by the CC to recover the dues with retrospective effect from April 2016. It also stated that an amount of ₹10.66 lakh had been collected till the end of January 2017 and notices issued to the defaulters to pay the health cess.

## **6.8 Denial of benefit of rebate on cess component of property tax**

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

The provisions<sup>88</sup> of Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) provided for levy and collection of property tax on all buildings and vacant land coming under the jurisdiction of a City Corporation. The property tax was payable within 90 days after commencement of every year. A rebate of five *per cent* was allowed<sup>89</sup> on the tax payable if the tax was paid within one month from the date of commencement of the year (*i.e.* within April). Further, as per Cess Acts<sup>90</sup>, the property tax was payable along with cess of 24 *per cent* and the provisions of the law and the rules, orders and notifications applicable to the levy, assessment and recovery of the property tax would apply to the levy, assessment and recovery of these cesses. Accordingly, the cess component would also be eligible for rebate of five *per cent* if the tax was paid within the month of April.

Audit scrutiny of records (January 2016) in the office of the Commissioner, City Corporation, Mangaluru (CC) showed that the property tax assessment form devised by the CC was not correct as the rebate for early payment (within April) was allowed only on the property tax and not on the corresponding cess component. This was in contravention of the provisions of

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<sup>88</sup> Section 103(b)(i) and Section 112(3) of KMC Act, 1976

<sup>89</sup> As per Section 112A(1) of KMC Act, 1976

<sup>90</sup> Health Cess @ 15 *per cent* (The Karnataka Health Cess Act, 1962);  
Library Cess @ 6 *per cent* (The Karnataka Public Libraries Act, 1965) and  
Beggary Cess @ 3 *per cent* (The Karnataka Prohibition of Beggary Act, 1975)

the Cess Acts which mandated that the cess component was also eligible for the rebate of five *per cent*. It was seen that a sum of ₹34.81 crore was collected as property tax during the months of April from 2012-13 to 2015-16, after allowing the rebate only on the property tax amount. This included cess amount of ₹7.02 crore which also qualified for the rebate of five *per cent*. After allowing the rebate on the property tax and the cess amount, the tax due from the assesseees would be ₹34.46 crore whereas the tax paid was ₹34.81 crore (detailed in **Appendix 6.7**).

Thus, as a result of an error in the property tax assessment form devised by the CC, the assesseees were denied the benefit of rebate on the cess component and tax was over-assessed to the extent of ₹35.09 lakh during 2012-16.

The State Government accepted (March 2017) the audit observation regarding non-allowance of rebate on the cess component and stated that all the ULBs had been instructed (December 2016) to consider cess component while allowing rebate on property tax.



**Bengaluru**  
**The 23 May 2017**

**(L Angam Chand Singh)**  
**Principal Accountant General**  
**(General and Social Sector Audit)**  
**Karnataka**

**Countersigned**



**New Delhi**  
**The 25 May 2017**

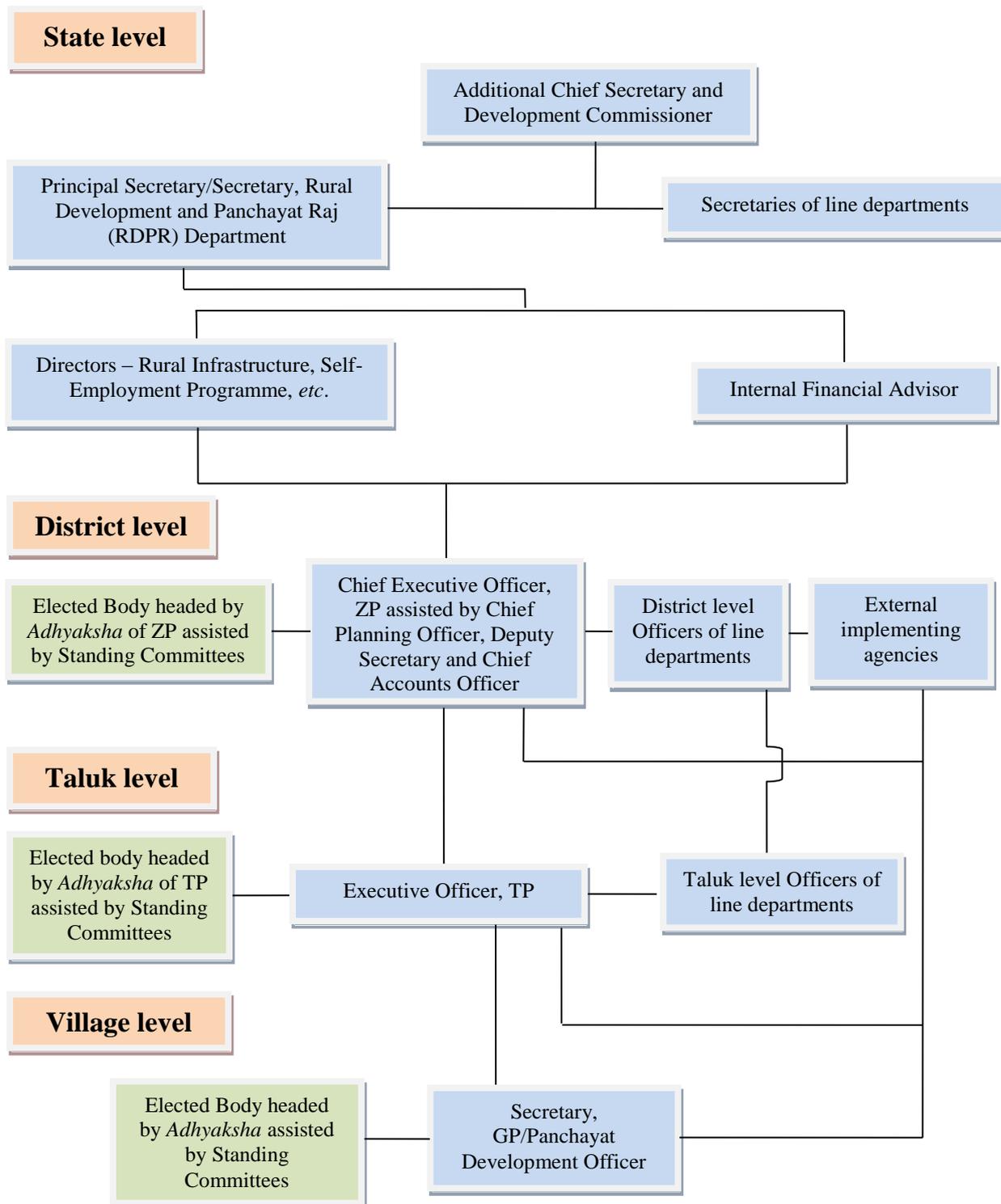
**(Shashi Kant Sharma)**  
**Comptroller and Auditor General of India**



# Appendices



**Appendix 1.1**  
**(Reference: Paragraph 1.3/Page 1)**  
**Organisational structure of Panchayat Raj Institutions**



**Appendix 1.2**

**(Reference: Paragraph 1.4.1/Page 2)**

**Statement showing fund details of flagship schemes**

(₹ in crore)

<b>Scheme</b>	<b>Opening balance</b>	<b>Releases</b>	<b>Total fund available</b>	<b>Expenditure with respect to total fund available (Percentage)</b>
Mahatma Gandhi National Rural Employment Guarantee Scheme	180.85	1,723.55	1,904.40	1,824.90 <b>(96)</b>
National Rural Drinking Water Programme	179.31	1,964.05	2,143.36	1,764.41 <b>(82)</b>
Pradhan Mantri Gram Sadak Yojana	49.51	230.73	280.24	277.84 <b>(99)</b>
Swachh Bharat Mission	191.74	548.77	740.51	576.17 <b>(78)</b>
Suvarna Gramodaya Yojana	36.66	438.40	475.06	460.02 <b>(97)</b>

Source: Annual Report of RDPR (2015-16)

## Appendix 1.3

(Reference: Paragraph 1.8/Page 5)

## Statement showing Inspection Reports and Paragraphs outstanding as at the end of March 2016

Zilla Panchayat	More than 10 years (till 2005-06)		5 to 10 years (2006- 07 to 2010-11)		3 to 5 years (2011- 12 & 2012-13)		2013-14		2014-15		2015-16		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Bagalkote	23	45	28	133	19	142	5	33	9	75	0	0	84	428
Ballari	81	206	34	229	10	101	7	51	7	72	0	0	139	659
Belagavi	145	340	42	190	11	36	8	53	8	71	0	0	214	690
Bengaluru Rural	15	21	39	128	10	59	0	0	4	25	0	0	68	233
Bengaluru Urban	101	132	184	616	16	89	5	34	5	39	0	0	311	910
Bidar	52	137	25	185	10	125	6	49	7	82	0	0	100	578
Chamarajanagar	6	20	27	87	14	68	0	0	8	43	0	0	55	218
Chikkaballapur	44	126	50	273	5	28	8	60	3	16	0	0	110	503
Chikkamagaluru	38	55	58	264	20	120	4	33	4	32	0	0	124	504
Chitradurga	13	35	41	259	18	104	1	12	4	29	0	0	77	439
Dakshina Kannada	23	35	23	72	18	92	5	39	6	56	0	0	75	294
Davanagere	27	35	19	41	21	78	4	16	5	25	0	0	76	195
Dharwar	89	178	78	227	7	47	7	80	3	18	0	0	184	550
Gadag	82	209	32	169	16	111	2	20	5	42	0	0	137	551
Hassan	32	46	36	149	17	94	8	105	4	36	0	0	97	430
Haveri	36	58	53	249	5	64	6	42	4	33	0	0	104	446
Kalaburagi	87	231	31	104	15	130	5	36	10	87	0	0	148	588
Kodagu	16	25	21	84	10	45	3	26	4	31	0	0	54	211
Kolar	96	267	59	282	18	113	6	41	0	0	0	0	179	703
Koppal	24	60	40	232	15	125	7	64	3	24	0	0	89	505
Mandya	81	171	39	166	15	90	2	17	10	62	0	0	147	506
Mysuru	5	21	64	253	19	96	7	19	3	13	0	0	98	402
Raichur	66	211	29	232	17	181	5	52	4	35	1	18	122	729
Ramanagara	53	124	41	133	6	52	5	48	8	76	0	0	113	433
Shivamogga	41	83	33	130	13	100	1	5	14	127	0	0	102	445
Tumakuru	43	72	72	378	5	36	5	45	6	49	0	0	131	580
Udupi	3	6	13	18	13	24	1	3	11	91	0	0	41	142
Uttar Kannada	99	262	48	214	26	151	14	117	1	5	0	0	188	749
Vijayapura	96	210	29	109	7	50	9	76	4	36	0	0	145	481
Yadgir	46	192	9	70	3	29	1	10	12	116	0	0	71	417
<b>Total</b>	<b>1,563</b>	<b>3,613</b>	<b>1,297</b>	<b>5,676</b>	<b>399</b>	<b>2,580</b>	<b>147</b>	<b>1,186</b>	<b>176</b>	<b>1,446</b>	<b>1</b>	<b>18</b>	<b>3,583</b>	<b>14,519</b>

Source: Inspection Reports

**Appendix 2.1**

(Reference: Paragraph 2.2.1.1/Page 8)

**Statement showing amount under 'II PWD cheques' and 'II Forest cheques' under Major Head 8782 for the year 2015-16**

(₹ in crore)

Sl. No.	Name of the District	PWD cheques	Forest cheques
1.	Bagalkote	12.02	0.05
2.	Ballari	9.81	(-) 0.66
3.	Belagavi	17.38	0.79
4.	Bengaluru Rural	(-) 7.05	(-) 0.42
5.	Bengaluru Urban	5.14	0.04
6.	Bidar	(-) 0.54	0.25
7.	Chamarajanagar	2.49	0.004
8.	Dharwar	36.26	2.77
9.	Gadag	3.68	(-) 0.05
10.	Haveri	0.02	0
11.	Kodagu	(-) 13.03	2.64
12.	Kolar	2.71	0.90
13.	Koppal	(-) 0.69	0.18
14.	Mandya	1.98	(-) 0.003
15.	Mysuru	21.67	3.30
16.	Raichur	(-) 27.32	0.20
17.	Uttara Kannada	(-) 10.15	(-) 2.55

Source: Annual Accounts of ZPs

## Appendix 2.2

(Reference: Paragraph 2.2.1.1/Page 8)

### Statement showing balances under Taluk Panchayat and Gram Panchayat suspense accounts for the year 2015-16

(₹ in crore)

Sl. No.	Name of the District	TP Suspense account	GP Suspense account
1.	Bengaluru Rural	19.50	(-) 7.05
2.	Bengaluru Urban	11.36	(-) 0.67
3.	Chamarajanagar	(-) 20.78	0.25
4.	Davanagere	(-) 0.84	0
5.	Dharwar	1.04	1.34
6.	Gadag	5.23	2.28
7.	Haveri	37.31	1.19
8.	Kodagu	0	0.33
9.	Kolar	(-) 0.22	0
10.	Koppal	59.83	0
11.	Mandya	1.99	(-) 7.22
12.	Mysuru	5.07	(-) 5.94
13.	Raichur	(-) 0.80	0.02

Source: Annual Accounts of ZPs

**Appendix 3.1**

(Reference: Paragraph 3.1.9.1/Page 26)

**Status of households provided with individual connections**

<b>Year</b>	<b>Total HHs in the State</b>	<b>HHs provided with individual connection as at the beginning of the year (OB)</b>	<b>HHs covered during the year</b>	<b>Total HHs provided with individual connection at the end of the year</b>
2012-13	Details not available			
2013-14				
2014-15	82,44,868	19,22,047	4,86,313	24,08,360
2015-16	81,81,636	23,95,478	6,28,203	30,23,681
2016-17	82,08,567	28,86,723	---	---

Source: IMIS (Format C-36)

HHs - Households

## Appendix 3.2

(Reference: Paragraph 3.1.9.2/Page 26)

## Statement showing slip back of habitations in four out of eight test-checked districts

District	Total number of habitations		Number of habitations with population coverage						Percentage of total habitations	
			2012-13			2015-16				
	2012-13	2015-16	0-25	25-50	Total	0-25	25-50	Total	2012-13	2015-16
Dakshina Kannada	3,582	3,583	73	436	509	81	1,565	1,646	14	46
Kalaburagi	1,269	1,288	52	184	236	269	548	817	19	63
Kolar	1,960	1,972	290	289	579	460	461	921	30	47
Shivamogga	4,801	4,880	267	1,478	1,745	163	1,782	1,945	36	40
<b>Total</b>	<b>11,612</b>	<b>11,723</b>	<b>682</b>	<b>2,387</b>	<b>3,069</b>	<b>973</b>	<b>4,356</b>	<b>5,329</b>	<b>26</b>	<b>45</b>

Source: IMIS

### Appendix 3.3

(Reference: Paragraph 3.1.10.1/Page 28)

#### Status of sustainability works during 2012-13 to 2015-16

Year	Spillover works (OB)	New works taken up	Total	Works completed	Closing Balance
2012-13	916	1,795	2,711	1,207	1,504
2013-14	727	909	1,636	731	905
2014-15	372	1,318	1,690	302	1,388
2015-16	1,124	102	1,226	694	532
<b>Total</b>		<b>4,124</b>		<b>2,934</b>	

Source: IMIS (Format C-20)

## Appendix 3.4

(Reference: Paragraph 3.1.10.3/Page 29)

## Statement showing defective sustainability works

(₹ in lakh)

District	Name of the work	Year of sanction	Expenditure	Observation
Haveri	Percolation Tank at Dumminahal, Byadgi Taluk	2013-14	18.96	Vegetation in large scale was found grown all over the pitching of the bund due to non-maintenance.
Kalaburagi	Check dam at Sonna, Gour B GP, Afzalpur Taluk	2013-14	4.87	Portion of the structure had been damaged on one side rendering the structure not usable.
	Construction of Percolation Tank at Kakkarsavalaga, Afzalpur Taluk	2013-14	NA	The structure was fully damaged.
Mysuru	Check dam near Koodlapura village, Nanjangud Taluk	2012-13	4.96	Pitching stones on the downstream side of the structure were missing for more than half the structure. Large scale vegetation was found grown on the slope side of the structure.
	Check dam to Kulumehosuru village, K.R. Nagar Taluk	2014-15	4.11	Cracks seen in the revetment wall on both sides of the structure due to inadequate compaction of soil embankment and consequent collapse of stone masonry work.
Raichur	Check dam at J. Venkatapur Panchayat village and habitation	2012-13	11.72	Part of the wall had collapsed.
	Check dam at Gabbur Village, Devadurga Taluk	2013-14	4.92	Portion of the structure had been damaged in the middle rendering the structure not usable.
Shivamogga	Pickup across Mandalamanehalli at Survey Number 46 of Ulavi Village, Soraba Taluk	2011-12	28.05	Downstream side of the main wall was damaged with falling out of concrete.
	Check dam across Gourihalla Ambaragoppa GP, Shikaripura Taluk	2014-15	4.97	Though the structure was constructed with six vents, provision to arrest water was made only for four vents and thus water was not stored.
	Check dam across Thippajivadduhalla near Chikkajamburu village, Shikaripura Taluk	2014-15	4.97	Pitching stone was found loose and vegetation had grown on the pitching. Also the structure at the bottom of downstream side was damaged.
<b>Total</b>			<b>87.53</b>	

Source: Records furnished by the department and joint physical verification

**Appendix 3.5****(Reference: Paragraph 3.1.11.2/Page 31)****Deficiencies in functioning of district/taluk laboratories noticed during joint physical verification**

<b>Parameter</b>	<b>District laboratories</b>	<b>Taluk laboratories</b>
Provided with adequate manpower	No	No
Attendance register since inception not maintained	2	None
Academic qualification of the staff deployed not on record	--	13
Details of training provided to staff for conducting tests for all parameters not on record	4	18
Laboratories not possessing detailed list of all the sources	4	17
Whether laboratories obtained the list of water sources to be tested from the EE/AEE concerned	No	No
Whether laboratories collecting samples from all the sources under their jurisdiction, on rotation	No	No
Whether water samples tested in the laboratory authenticated by GP authorities	No	No
Total parameters required to be tested for ensuring potability	16	16
Whether laboratories conducted test for complete set of parameters	No	No
Whether laboratories conducting tests for physical and chemical parameters	Yes	Yes
Whether laboratories conducting tests for bacteriological parameters like MPN counts, E-Coli and Faecal Coliform	No	No
Number of parameters actually being tested	6 to 14	10 to 14
Whether laboratories maintained comprehensive details of tests conducted	Partial	No
Whether laboratories were properly equipped	Yes	Yes
Whether all the equipment put to use	No	No
Whether all the required equipment in the laboratory in good working condition	No	No
Whether laboratories submitted the test results and monthly progress reports to EE/AEE concerned	No	5 out of 18
Whether laboratories maintained inventory of chemicals/reagents	No	No
Whether laboratories conducting tests for Arsenic	No	No
Whether test results exhibited for Arsenic, as tested	--	4 of 18
Whether laboratories provided with UPS and internet facility	No	No
Whether laboratories provided with fire extinguisher	No	No

Source: Joint physical verification

### Appendix 3.6

(Reference: Paragraph 3.1.11.4/Page 34)

#### Status of water purification units in test-checked districts and State

	Total units sanctioned	Entrustment through tendering	Direct entrustment to KRIDL	Direct entrustment to Co-operatives	Total installed	Total commissioned
<b>State</b>	<b>9,519</b>	<b>4,340</b>	<b>4,207</b>	<b>972</b>	<b>6,907 (73)</b>	<b>5,941 (62)</b>
Dakshina Kannada	147	70	77	0	24 (16)	16 (11)
Haveri	298	43	185	70	238 (80)	197 (66)
Kalaburagi	258	221	4	33	161(62)	127 (49)
Kolar	505	444	17	44	334 (66)	326 (65)
Mysuru	218	30	138	50	81 (37)	76 (35)
Raichur	405	366	9	30	275 (68)	235 (58)
Shivamogga	164	108	11	45	85 (52)	71 (43)
Vijayapura	442	74	348	20	420 (95)	339 (77)
<b>Total</b>	<b>2,437</b>	<b>1,356</b>	<b>789</b>	<b>292</b>	<b>1,618 (66)</b>	<b>1,387 (57)</b>

Figures in parentheses denote percentage of the total units sanctioned

Source: Progress report (as on 22.11.2016) furnished by the department

**Appendix 3.7**

**(Reference: Paragraph 3.1.11.7/Page 35)**

**Details of conditions and their compliance**

<b>Required conditions</b>	<b>Compliance status</b>
A committee had to be constituted at the district level to inspect the specifications and proper installation of WP units	Not constituted in any of the districts
All the equipment of WP units were to be subjected to inspection by department/Third Party	Not inspected
Collect water samples from the WP units and obtain test reports, once in every two months, from State level laboratory	Not complied with
The selected firm had to analyse the raw water samples from their own testing laboratory before designing the treatment system	Not complied with
Quality test results of the raw water had to be submitted to department/division for approval	Not complied with
Only the manufacturer of the plants or consortium of Manufacturer and Authorised Agent were eligible for participating in the tender	Tender awarded disregarding the condition
Unit had to be installed in only quality affected habitations and particularly where no other alternate source was available	Units installed invariably without regard to contamination

Source: Records/replies furnished by the divisions

## Appendix 3.8

(Reference: Paragraph 3.1.12.1/Page 35)

## Component-wise allocation, release and expenditure under NRDWP during the period 2012-13 to 2015-16

(₹ in crore)

Component	GoI/ GoK	2012-13			2013-14			2014-15			2015-16		
		A	R	E	A	R	E	A	R	E	A	R	E
Coverage and Quality	GoI	449.86	424.01	486.92	445.76	485.95	522.12	279.05	279.05	334.85	160.35	144.04	119.83
	GoK	745.45	1,007.68	921.91	916.08	896.04	892.23	1,069.02	981.34	1,029.37	1,731.27	1,664.77	1,385.34
<b>Excess release by GoK</b>		-	<b>583.67</b>	-	-	<b>410.09</b>	-	-	<b>702.29</b>	-	-	<b>1,520.73</b>	-
O&M	GoI	89.97	84.80	54.53	89.15	97.19	124.47	55.81	55.81	49.60	32.07	28.81	34.27
	GoK	12.19	18.13	18.25	64.83	11.91	11.91	14.43	14.43	5.16	21.20	21.20	12.63
<b>Sub Total (1)</b>		<b>1,297.47</b>	<b>1,534.62</b>	<b>1,481.61</b>	<b>1,515.82</b>	<b>1,491.09</b>	<b>1,550.73</b>	<b>1,418.31</b>	<b>1,330.63</b>	<b>1,418.98</b>	<b>1,944.89</b>	<b>1,858.82</b>	<b>1,552.07</b>
Sustainability	GoI	59.98	56.53	76.56	59.43	64.79	50.92	37.21	37.21	24.14	21.38	19.21	47.43
Support	GoI	34.08	-	3.87	31.32	15.66	5.58	29.17	13.19	15.88	13.47	12.46	30.77
WQMSP	GoI	20.45	2.72	1.22	18.79	9.40	9.40	17.50	16.31	21.64	8.08	7.47	4.94
<b>Sub Total (2)</b>		<b>114.51</b>	<b>59.25</b>	<b>81.65</b>	<b>109.54</b>	<b>89.85</b>	<b>65.90</b>	<b>83.88</b>	<b>66.71</b>	<b>61.66</b>	<b>42.93</b>	<b>39.14</b>	<b>83.14</b>
Total	GoI	654.34	568.06	623.10	644.45	672.99	712.49	418.74	401.57	446.11	235.35	211.99	237.24
	GoK	757.64	1,025.81	940.16	980.91	907.95	904.14	1,083.45	995.77	1,034.53	1,752.47	1,685.97	1,397.97
<b>Grand Total</b>		<b>1,411.98</b>	<b>1,593.87</b>	<b>1,563.26</b>	<b>1,625.36</b>	<b>1,580.94</b>	<b>1,616.63</b>	<b>1,502.19</b>	<b>1,397.34</b>	<b>1,480.64</b>	<b>1,987.82</b>	<b>1,897.96</b>	<b>1,635.21</b>

Note: Coverage and Quality are merged and reflected in the IMIS.

A - Allocation; R – Releases; E - Expenditure

Source: IMIS report (D-13)

### Appendix 3.9

(Reference: Paragraph 3.1.12.3/Page 38)

#### Transactions in KRWSSA 2010-2011 account since the beginning till end of March 2016

(₹ in crore)

Years	Input (Credit) Between 20th March to 31st March							Output (Debit)						
	MPA	NPA	SA	O&M A/c	DDP Area A/c	Interest	Total	MPA	NPA	SA	O&M A/c	DDP Area A/c	Tuma-kuru SA	Total
2010-11	73	0	0	0	0	0.01	<b>73.01</b>	0.00	0	0	0	0	0.00	<b>0.00</b>
2011-12	420	403	88	36	264	1.77	<b>1,212.77</b>	74.44	0	0	0	0	0.00	<b>74.44</b>
2012-13	0	953	88	86	324	20.10	<b>1,471.10</b>	0.00	1,103	198	96	334	0.00	<b>1,731.00</b>
2013-14	0	0	0	0	0	27.25	<b>27.25</b>	0.00	270	0	0	25	0.00	<b>295.00</b>
2014-15	0	0	0	0	0	20.90	<b>20.90</b>	159.00	0	10	0	0	49.45	<b>218.45</b>
2015-16	0	0	0	0	0	19.68	<b>19.68</b>	67.34	0	0	0	0	0.00	<b>67.34</b>
<b>Total</b>	<b>493</b>	<b>1,356</b>	<b>176</b>	<b>122</b>	<b>588</b>	<b>89.71</b>	<b>2,824.71</b>	<b>300.78</b>	<b>1,373</b>	<b>208</b>	<b>96</b>	<b>359</b>	<b>49.45</b>	<b>2,386.23</b>

MPA: Main Programme Fund account NPA: Normal Programme account SA: Sustainability account

Source: Bank pass sheets

### Appendix 3.10

(Reference: Paragraph 3.1.12.3/Page 38)

#### Details of transactions in Andhra Bank account since the beginning till end of March 2016

(₹ in crore)

Year	Credits					Debits		
	Treasury	ZPs*	Central Assistance^	Interest	Total	ZPs	Dena Bank	Total
2010-11	90.42	0.00	0.00	0.00	90.42	0.00	0.00	0.00
2011-12	0.00	24.33	3.58	1.87	29.78	0.56	0.00	0.56
2012-13	0.00	4.81	0.00	7.45	12.26	0.03	5.00	5.03
2013-14	0.00	0.10	0.00	4.70	4.80	0.10	0.00	0.10
2014-15	0.00	0.00	0.00	5.31	5.31	0.04	0.00	0.04
2015-16	0.00	0.01	0.00	5.54	5.55	0.00	0.00	0.00
<b>Total</b>	<b>90.42</b>	<b>29.25</b>	<b>3.58</b>	<b>24.87</b>	<b>148.12</b>	<b>0.73</b>	<b>5.00</b>	<b>5.73</b>

\* the unutilised balances lying with ZPs, under various components of NRDWP and also other WSS like Swajaldhara, etc., transferred to this account as per the instructions of the Government (May 2011)

^ the central assistance received under DDP

Source: Bank account pass sheets

## Appendix 3.11

(Reference: Paragraph 3.1.12.6/Page 40)

## Statement showing the variations between figures as per UCs, CA Reports and figures uploaded in IMIS

(₹ in crore)

Year	2012-13			2013-14			2014-15			2015-16		
Opening Balance	As per UC	As per CA report	As per IMIS	As per UC	As per CA report	As per IMIS	As per UC	As per CA report	As per IMIS	As per UC	As per CA report	As per IMIS
Central	216.04	-	213.14	299.26	299.26	256.64	237.76	-	237.76	87.64	179.31	179.31
State	268.29	-	268.29	85.77	85.77	-	3.81	-	-	**	57.11	-
Total	484.33	524.27	481.43	385.03	385.03	256.64	241.57	241.57	237.76	87.64	236.42	179.31
<b>Releases</b>												
Central	869.24	866.52	869.24	897.29	897.29	897.29	563.91	563.91	563.91	278.08	278.08	278.08
State	757.64	760.36	1,025.81	822.18	822.18	907.95	1,079.42	1,079.42	995.77	**	1,687.40	1,685.97
Interest+others	39.93	48.83		12.64	12.64		-	8.40		8.35	8.39	-
Total	1,666.81	1,675.71	1,895.05	1,732.11	1,732.11	1,805.24	1,643.33	1,651.73	1,559.68	286.43	1,973.87	1,964.05
<b>Expenditure</b>												
Central	874.78	-	874.78	929.04	-	929.04	622.37		622.37	291.97	374.53	366.68
State	940.16	-	940.16	904.14	-	904.14	1,034.52		1,034.52	**	1,484.60	1,397.97
Total	1,814.94	1,814.95	1,814.94	1,833.18	1,833.18	1,833.18	1,656.89	1,656.89	1,656.89	291.97	1,859.13	1,764.65
<b>Closing Balance</b>												
Central	250.43	-		280.15	-		179.30			82.10		
State	85.77	-	Not exhibited	3.81	-	Not exhibited	48.71			**		Not exhibited
Total	336.20	385.03		283.96	283.96		228.01	236.41			351.16*	

\*\* UC in respect of State share for the year 2015-16 not submitted (December 2016)

\* includes grant in transit of ₹68.53 crore

Source: Records furnished by the department

## Appendix 3.12

(Reference: Paragraph 3.1.12.7/Page 41)

## Statement of ineligible expenditure incurred out of Support Activity Fund during the period 2012-13 to 2015-16

At the State level

(₹ in lakh)

To whom paid	Period	Amount
Sri Dakshayani Security Services (R)	April 2012 to March 2016	126.31
Megha Services Bureau	April 2015 to March 2016	5.07
Mookambika Travels	April 2015 to March 2016	4.20
Seshadripuram Service Station	April 2015 to March 2016	13.73
Toyota Ravindu Motors Private Limited	April 2015 to March 2016	2.36
Mandovi Motors Private Limited	April 2015 to March 2016	2.22
Chrome Motors	April 2015 to March 2016	0.43
Rent paid to KHB	September 2015 to January 2016	38.88
<b>Total</b>		<b>193.20</b>

In the test-checked districts

(₹ in lakh)

District	Period	Amount	Payment made towards
Dakshina Kannada	2014-16	7.01	Hiring of vehicle
Kalaburagi	2012-16	71.87	Hiring of vehicle, purchase of reagents and consumables for FTKs, outsourcing of water sample testing
Kolar	2014-16	11.42	Hiring of vehicle, rent for building
Mysuru	2014-16	12.85	Hiring of vehicle, rent for building
Shivamogga	2012-16	6.10	Hiring of vehicle, rent for building
<b>Total</b>		<b>109.25</b>	

Source: Records furnished by the department and divisions

## Appendix 3.13

(Reference: Paragraph 3.3/Page 49)

## Statement showing loss to the Government due to non-availing of the benefit of CED exemption on the pipes supplied for six water supply schemes in Mandya and Dakshina Kannada districts

(Amount in ₹)

Sl. No.	Name of the Water Supply Scheme (WSS)	Month of issue of exemption certificate	Class and diameter of pipes	Quantity (in rmt)	Rate <sup>¥</sup> inclusive of CED	Rate of CED including cess (in per cent)	Amount of CED recoverable
1.	WSS to KR Sagara and 5 other villages in Srirangapatana Taluk, Mandya	August 2009	K-9 Class, 300 mm	30	3,493	8.24	7,977
			K-9 Class, 200 mm	2,815	2,054		4,40,168
			K-7 Class, 200 mm	36	1,787		4,897
			K-7 Class, 150 mm	12	1,415		1,293
			K-7 Class, 100 mm	8	965		588
2.	WSS to K. Belluru and 33 other villages in Maddur Taluk, Mandya	August 2009	K-9 Class, 250 mm	1,700	2,759	8.24	3,57,059
3.	WSS to Hosahalli and 4 other villages in Srirangapatana Taluk, Mandya	March 2009	K-9 Class, 100 mm	7,014	1,084	8.24	5,78,808
4.	WSS to Bookanakere and 21 other villages, K.R. Pet Taluk, Mandya	November 2011	K-9 Class, 200 mm	3,425	2,054	10.30	6,56,935
			K-7 Class, 250 mm	800	2,357		1,76,081
5.	WSS to B.G. Pura and 56 other villages in Malavalli Taluk, Mandya	February 2009	K-7 Class, 200 mm	7,538	1,787	10.30	12,57,889
			K-7 Class, 250 mm	4,187	2,357		9,21,561
			K-7 Class, 300 mm	113	2,988		31,530
			K-7 Class, 400 mm	9,007	4,456		37,47,892
			K-9 Class, 400 mm	1,466	5,189		7,10,361
			K-9 Class, 400 mm	750	5,189		3,63,418
6.	WSS to Kinnigoli and 17 other villages, Dakshina Kannada	August 2010	K-7 Class, 200 mm	6,807	1,787	10.30	11,35,905
			K-7 Class, 250 mm	6,170	2,357		13,58,021
			K-9 Class, 250 mm	100	2,759		25,764
			K-9 Class, 300 mm	4,830	3,493		15,75,460
<b>Total</b>				<b>56,893</b>			<b>1,34,47,420</b>

Source: CED exemption certificates issued by the jurisdictional DCs and SR (2008-09) of Karnataka Urban Water Supply and Drainage Board, Bengaluru

<sup>¥</sup> In the absence of purchase invoices, the rates of pipes have been adopted as per the SR (2008-09) of Karnataka Urban Water Supply and Drainage Board, Bengaluru, which are inclusive of CED.

## Appendix 3.14

(Reference: Paragraph 3.3/Page 49)

**Statement showing loss to the Government due to non-availing of the benefit of CED exemption on the pipes supplied (excluding pipes less than 100 mm) for two water supply schemes in Chamarajanagar district**

(₹ in lakh)

Sl. No.	Name of the Water Supply Scheme (WSS)	Month of issue of exemption certificate	Class of pipes	Approximate quantity required (in rmt)	Pipes supplied till December 2016			
					Quantity (in rmt)	Total CED payable	Amount of CED recovered from running account bills	CED recoverable
1.	WSS to 131 villages in Gundlupet Taluk, Chamarajanagar	September and October 2014	DI pipes	67,916	64,196.95	61.53	127.55	370.08
			HDPE pipes	89,360	87,126.56	93.03		
			MS pipes	98,526	96,702.23	343.07		
2.	WSS to 166 villages in Chamarajanagar Taluk, Chamarajanagar	September and October 2014	DI pipes	27,851	26,934.00	24.52	92.02	386.79
			HDPE pipes	1,86,470	1,51,610.00	139.79		
			MS pipes	1,20,357	1,05,259.00	314.50		
<b>Total</b>				<b>5,90,480</b>	<b>5,31,828.74</b>	<b>976.44</b>	<b>219.57</b>	<b>756.87</b>

DI: Ductile Iron; HDPE: High Density Polyethylene; MS: Mild Steel

Source: Information furnished (February 2017) by the EE, RDW&amp;SD, Chamarajanagar

## Appendix 3.15

(Reference: Paragraph 3.4/Page 50)

## Statement showing short recovery of liquidated damages for rejuvenation works of tanks executed during 2011-12 to 2014-15 in PRED, Hassan

(Amount in ₹)

Sl. No.	Name of the Tank	Work order date	Agreement cost	Delay in completion (in days)	LD recoverable	LD recovered	Short recovery of LD
1	Hanuganallu Kenkere and Ugane Thuruvekere	15.12.2011	32,46,466	532	3,24,600	6,384	3,18,216
2	Gullenahally Urumundinakere, Seege GP	29.02.2012	16,41,816	249	1,64,200	1,056	1,63,144
3	Haralahalli Kajjinakatte	15.03.2012	17,06,874	58	99,000	855	98,145
4	Guddenahally Urumundinakere, Manachanahally GP	15.03.2012	16,72,797	59	98,700	855	97,845
5	Kalludevarahalli Vadakekatte, Seege GP	15.03.2012	15,98,636	345	1,59,900	4,164	1,55,736
6	Handinakere/Devanakatte, Manchanhally GP	15.03.2012	17,37,375	58	1,00,800	855	99,945
7	Kallahally Doddakere and Chathuranahally Urumundinakere	15.03.2012	33,75,979	345	3,37,600	4,164	3,33,436
8	Bittegowdanahally Avalikere, Thattekere GP	22.03.2012	17,24,075	53	91,400	624	90,776
9	Kandali Doddakere, Kandali GP	02.04.2012	17,03,685	458	1,70,400	5,484	1,64,916
10	Balenahally Urumundinakere, Salagame GP	16.04.2012	14,84,181	28	41,600	336	41,264
11	Kadadaravally Kudurekatte Tank, Seege GP	18.04.2012	16,48,629	451	1,64,900	5,472	1,59,428
12	Haralahally Urumundinakere, Aralhally GP	18.04.2012	17,00,054	451	1,70,000	5,424	1,64,576
13	Lakshmisagar Urumundinakere and Gavenahally Tank	01.05.2012	33,66,925	273	3,36,700	4,020	3,32,680
14	Bidarekere Doddakere, Shankaranahally GP	02.05.2012	17,16,522	344	1,71,700	4,152	1,67,548
15	Kadaga Halasinahally Katte , Salagame GP	24.12.2012	15,88,518	654	1,58,900	7,884	1,51,016
16	Devarayapattana Urumundinakere, Kandali GP	11.10.2013	17,98,877	351	1,79,900	4,752	1,75,148
<b>Total</b>					<b>27,70,300</b>	<b>56,481</b>	<b>27,13,819</b>

Source: Records of PRED, Hassan

## Appendix 4.1

(Reference: Paragraph 4.3.6.1/Page 57)

Statement showing details of Cess collected and remitted to Government account in selected ULBs for the period 2011-12 to 2015-16

(₹ in crore)

Sl. No.	Name of ULBs	Opening balance				Collection				Remittance				Balance as on March 2016			
		Health	Library	Beggary	Total	Health	Library	Beggary	Total	Health	Library	Beggary	Total	Health	Library	Beggary	Total
1.	CC, Davanagere	8.01	-0.03	-0.01	7.97	1.57	0.63	0.31	2.51	0.04	0.70	0.30	1.04	9.54	-0.10	0	9.44
2.	HDMC	34.87	7.34	0.22	42.43	4.30	1.73	0.86	6.89	0	1.35	0.78	2.13	39.17	7.72	0.30	47.19
3.	CC, Shivamogga	11.10	1.01	0.49	12.60	1.37	0.55	0.27	2.19	0	0.45	0.25	0.70	12.47	1.11	0.51	14.09
4.	CMC, Chintamani	2.13	0.43	0.18	2.74	0.33	0.13	0.06	0.52	0	0.05	0	0.05	2.46	0.51	0.24	3.21
5.	CMC, Kanakapura	0.67	0.14	0.03	0.84	0.14	0.05	0.03	0.22	0	0.03	0.01	0.04	0.81	0.16	0.05	1.02
6.	CMC, Kolar	1.86	0.26	0.18	2.30	0.25	0.10	0.05	0.40	0	0	0	0	2.11	0.36	0.23	2.70
7.	CMC, Nanjangud	0.02	0.01	0	0.03	0.20	0.08	0.03	0.31	0.16	0.06	0.03	0.25	0.06	0.03	0	0.09
8.	CMC, Sindhanur	0.92	0.23	0.16	1.31	0.19	0.08	0.04	0.31	0.01	0.02	0.01	0.04	1.10	0.29	0.19	1.58
9.	CMC, Siruguppa	0.65	0.23	0.10	0.98	0.19	0.08	0.04	0.31	0	0	0.03	0.03	0.84	0.31	0.11	1.26
10.	TMC, Athani	0.14	0.02	0.01	0.17	0.10	0.04	0.02	0.16	0.12	0.05	0.01	0.18	0.12	0.01	0.02	0.15
11.	TMC, Bailahongal	0.40	0.15	0.08	0.63	0.09	0.04	0.02	0.15	0	0	0	0	0.49	0.19	0.10	0.78
12.	TMC, Mahalingapura	0.53	0.16	0.08	0.77	0.09	0.04	0.02	0.15	0	0.02	0.01	0.03	0.62	0.18	0.09	0.89
13.	TMC, Malur	0.83	0.20	0.14	1.17	0	0	0	0	0	0	0	0	0.83	0.20	0.14	1.17
14.	TMC, Savadatti	0.13	0.03	0.03	0.19	0.10	0.04	0.02	0.16	0.07	0.03	0.01	0.11	0.16	0.04	0.04	0.24
15.	TMC, Vijayapura	0	0	0	0	0.06	0.03	0.01	0.10	0	0	0	0	0.06	0.03	0.01	0.10
16.	TP, Hosadurga	0.37	0.16	0.01	0.54	0.10	0.04	0.02	0.16	0.02	0.04	0.02	0.08	0.45	0.16	0.01	0.62
17.	TP, Sullia	0.02	0.01	0	0.03	0.13	0.05	0.03	0.21	0.09	0.04	0.02	0.15	0.06	0.02	0.01	0.09
18.	TP, Yellapura	0.17	0.02	0.01	0.20	0.04	0.02	0.01	0.07	0.03	0.01	0	0.04	0.18	0.03	0.02	0.23
<b>Total</b>		<b>62.82</b>	<b>10.37</b>	<b>1.71</b>	<b>74.90</b>	<b>9.25</b>	<b>3.73</b>	<b>1.84</b>	<b>14.82</b>	<b>0.54</b>	<b>2.85</b>	<b>1.48</b>	<b>4.87</b>	<b>71.53</b>	<b>11.25</b>	<b>2.07</b>	<b>84.85</b>

Source: Records of ULBs

Details in respect of TP, Mudigere and TP, Yelandur were not available.

### Appendix 6.1

(Reference: Paragraph 6.1.6/Page 67)

#### List of test-checked Urban Local Bodies (ULBs)

Sl. No.	Name of the ULB
<b>City Corporations</b>	
1	Hubballi-Dharwad
2	Kalaburagi
3	Mysuru
<b>City Municipal Councils</b>	
4	Bhadravathi
5	Bidar
6	Chikkamagaluru
7	Hassan
8	Ramanagara
9	Ullal
<b>Town Municipal Councils</b>	
10	Anekal
11	Belur
12	Bhalki
13	Devanahalli
14	Indi
15	Kumta
16	Kushtagi
17	Mahalingapura
18	Pavagada
19	Wadi
<b>Town Panchayats</b>	
20	Gubbi
21	Honnagara
22	Khanapura
23	Kushalnagara
24	Sullia

## Appendix 6.2

(Reference: Paragraph 6.1.7/Pages 67, 68 and Paragraph 6.1.10/Page 71)

## Statement showing the details of assessed and unassessed properties in test-checked ULBs in comparison with MRC database

(Amount in ₹)

Sl. No.	ULB	No. of properties as per ULBs for the year 2015-16			No. of properties as per MRC database			Difference	Year of GIS
		Assessed	Un-assessed	Total	Assessed	Un-assessed	Total		
<b>City Corporations</b>									
1	Hubballi-Dharwad	2,42,623	1,534	2,44,157	3,00,128	1,19,310	4,19,438	(-)1,75,281	2005-06 and 2009-10
2	Kalaburagi	1,21,476	16,837	1,38,313	28,965	92,083	1,21,048	17,265	2005-06
3	Mysuru	1,68,643	77,294	2,45,937	1,33,609	39,124	1,72,733	73,204	2004-05
<b>City Municipal Councils</b>									
4	Bhadravathi	31,070	5,002	36,072	23,228	23,140	46,368	(-)10,296	2004-05
5	Bidar	56,379	33,915	90,294	17,243	33,915	51,158	39,136	2005-06
6	Chikkamagaluru	30,536	300	30,836	18,526	16,744	35,270	(-)4,434	2005-06
7	Hassan	28,196	10	28,206	12,312	12,623	24,935	3,271	2005-06
8	Ramanagara	27,678	256	27,934	21,524	-	21,524	6,410	2012-13
9	Ullal	12,547	-	12,547	20,704	9,550	30,254	(-)17,707	2004-05
<b>Town Municipal Councils</b>									
10	Anekal	8,980	-	8,980	9,781	3,316	13,097	(-)4,117	2012-13
11	Belur	7,054	55	7,109	5,426	1,619	7,045	64	2009-10
12	Bhalki	9,840	6,313	16,153	6,108	5,921	12,029	4,124	2005-06
13	Devanahalli	16,722	2,389	19,111	9,277	3,447	12,724	6,387	2009-10
14	Indi	12,938	-	12,938	4,483	6,983	11,466	1,472	2012-13
15	Kumta	10,195	-	10,195	5,915	1,911	7,826	2,369	2009-10
16	Kushtagi	14,993	379	15,372	6,670	4,310	10,980	4,392	2010-11
17	Mahalingapura	7,357	-	7,357	5,117	3,596	8,713	(-)1,356	2009-10
18	Pavagada	8,077	2,511	10,588	5,510	4,997	10,507	81	2012-13
19	Wadi	6,025	-	6,025	5,842	1,721	7,563	(-)1,538	2009-10
<b>Town Panchayats</b>									
20	Gubbi	6,351	-	6,351	5,028	1,861	6,889	(-)538	2008-09
21	Honnagara	5,823	-	5,823	4,107	1,292	5,399	424	2008-09
22	Khanapura	5,792	-	5,792	4,659	565	5,224	568	2009-10
23	Kushalnagara	3,398	416	3,814	1,761	1,966	3,727	87	2007-08
24	Sullia	5,204	-	5,204	4,183	657	4,840	364	2011-12
<b>Total</b>		<b>8,47,897</b>	<b>1,47,211</b>	<b>9,95,108</b>	<b>6,60,106</b>	<b>3,90,651</b>	<b>10,50,757</b>	<b>(-)55,649</b>	

Source: Records of ULBs and MRC database

## Appendix 6.3

(Reference: Paragraph 6.1.8/Page 69)

## Details of demand in test-checked ULBs during the period 2013-14 to 2015-16

(Amount in ₹)

Sl. No.	ULB	2013-14		2014-15		2015-16	
		No. of properties as per DCB register	Demand	No. of properties as per DCB register	Demand	No. of properties as per DCB register	Demand
<b>City Corporations</b>							
1.	Hubballi-Dharwad	2,30,414	31,40,93,000	2,37,273	31,72,34,000	2,42,623	38,65,40,000
2.	Kalaburagi	1,12,752	11,96,00,000	1,16,875	11,62,00,000	1,21,476	11,92,00,000
3.	Mysuru	1,60,681	69,84,81,277	1,63,302	71,34,24,675	1,68,643	93,47,15,884
<b>City Municipal Councils</b>							
4.	Bhadravathi	30,866	2,16,57,000	30,866	2,18,77,000	31,070	2,53,39,000
5.	Bidar	56,142	2,99,30,000	56,379	5,85,67,000	56,379	5,73,09,000
6.	Chikkamagaluru	28,111	4,48,60,000	29,668	7,70,50,000	30,536	6,01,42,000
7.	Hassan	27,821	6,32,69,123	28,040	9,07,16,789	28,196	12,50,37,087
8.	Ramanagara	22,252	1,70,00,000	25,658	1,85,00,000	27,678	1,97,00,000
9.	Ullal	11,792	97,34,174	12,242	1,05,13,177	12,547	1,43,64,540
<b>Town Municipal Councils</b>							
10.	Anekal	8,980	98,48,000	8,980	1,13,25,000	8,980	1,13,25,000
11.	Belur	6,776	79,36,000	6,847	80,41,000	7,054	82,35,000
12.	Bhalki	9,840	29,62,000	9,840	46,08,000	9,840	55,48,000
13.	Devanahalli	15,746	84,00,000	16,550	84,50,000	16,722	85,65,000
14.	Indi	11,679	36,11,217	12,416	41,27,140	12,938	46,43,712
15.	Kumta	7,746	61,18,000	9,945	70,34,000	10,195	75,24,000
16.	Kushtagi	12,542	35,00,000	13,306	40,46,000	14,993	65,05,000
17.	Mahalingapura	6,737	49,97,907	7,080	58,10,812	7,357	58,10,812
18.	Pavagada	7,169	40,80,000	7,691	65,87,000	8,077	81,25,000
19.	Wadi	6,025	92,62,000	6,025	1,13,84,000	6,025	1,28,48,000
<b>Town Panchayats</b>							
20.	Gubbi	5,908	45,23,000	6,155	55,87,600	6,351	56,37,600
21.	Honnavaara	5,823	52,18,000	5,823	64,72,000	5,823	62,11,000
22.	Khanapura	5,494	37,81,000	5,494	56,81,000	5,792	56,81,000
23.	Kushalnagara	3,209	60,96,000	3,372	77,67,000	3,398	75,65,000
24.	Sullia	4,983	63,01,072	5,101	74,60,077	5,204	93,62,927
<b>Total</b>		<b>7,99,488</b>	<b>1,40,52,58,770</b>	<b>8,24,928</b>	<b>1,52,84,63,270</b>	<b>8,47,897</b>	<b>1,85,59,34,562</b>

Source: Records of ULBs

## Appendix 6.4

(Reference: Paragraph 6.1.18/Page 75)

Statement showing the non-remittance of various cesses as of March 2016  
by test-checked ULBs

(Amount in ₹)

Sl. No.	ULB	Balance as on 31.03.2016				Total
		Health	Library	Beggary	Urban Transport	
<b>City Corporations</b>						
1	Hubballi-Dharwad	0	4,02,18,261	32,23,866	73,27,455	5,07,69,582
2	Kalaburagi	8,12,89,846	6,24,780	3,02,697	1,04,616	8,23,21,939
3	Mysuru	60,49,18,000	8,75,09,000	5,44,08,000	1,23,39,000	75,91,74,000
<b>City Municipal Councils</b>						
4	Bhadravathi	1,36,72,000	0	0	0	1,36,72,000
5	Bidar	1,20,91,000	0	22,00,000	11,31,000	1,54,22,000
6	Chikkamagaluru	2,64,49,499	30,19,316	13,92,471	8,05,735	3,16,67,021
7	Hassan	4,38,85,121	28,87,385	34,89,435	9,74,702	5,12,36,643
8	Ramanagara	1,30,33,000	38,41,000	13,59,000	4,49,000	1,86,82,000
9	Ullal	69,12,878	9,14,798	5,40,913	3,03,519	86,72,108
<b>Town Municipal Councils</b>						
10	Anekal	97,53,754	23,28,206	20,22,137	2,54,256	1,43,58,353
11	Belur	65,97,345	21,49,228	3,46,834	1,01,488	91,94,895
12	Bhalki	25,26,000	39,000	3,27,800	70,700	29,63,500
13	Devanahalli	66,82,024	3,70,298	7,452	1,29,405	71,89,179
14	Indi	32,31,300	3,51,900	3,32,100	81,900	39,97,200
15	Kumta	8,05,413	2,42,165	54,007	74,455	11,76,040
16	Kushtagi	17,82,186	7,56,718	3,74,086	39,543	29,52,533
17	Mahalangapura	59,80,969	18,30,626	9,07,526	2,09,486	89,28,607
18	Wadi	47,74,135	15,44,627	7,31,828	0	70,50,590
<b>Town Panchayats</b>						
19	Gubbi	20,65,046	12,549	0	91,015	21,68,610
20	Honnagara	8,95,233	38,093	19,047	12,646	9,65,019
21	Khanapura	12,21,000	-28,000	-14,000	-7,000	11,72,000
22	Kushalnagara	10,88,000	4,16,000	2,20,000	1,62,000	18,86,000
23	Sullia	4,94,412	1,83,077	91,415	59,003	8,27,907
<b>Total</b>		<b>85,01,48,161</b>	<b>14,92,49,027</b>	<b>7,23,36,614</b>	<b>2,47,13,924</b>	<b>1,09,64,47,726</b>

Source: Information furnished by ULBs

**Appendix 6.5**

(Reference: Paragraph 6.1.22/Page 78)

**Statement showing the details of persistent defaulters in test-checked ULBs**

(₹ in lakh)

Sl. No.	Name of the ULBs	No. of properties	Amount due	Period	
				From	To
<b>City Corporations</b>					
1	Hubballi-Dharwad	32,832	3,013.59	2002-03	2015-16
2	Kalaburagi	451	160.58	2002-03	2015-16
3	Mysuru	23,626	1,738.74	2002-03	2015-16
<b>City Municipal Councils</b>					
4	Bidar	236	174.91	1969-70	2015-16
5	Chikkamagaluru	142	45.92	Period not indicated	
6	Hassan	103	1,084.94	2010-11	2015-16
7	Ramanagara	277	38.75	2012-13	2015-16
8	Ullal	53	4.08	2002-03	2015-16
<b>Town Municipal Councils</b>					
9	Anekal	23	1.83	2013-14	2015-16
10	Belur	71	16.67	2002-03	2015-16
11	Bhalki	22	15.57	1990-91	2015-16
12	Kumta	54	2.99	2005-06	2015-16
13	Mahalingapura	15	3.05	2013-14	2015-16
14	Wadi	7	8.24	2001-02	2015-16
<b>Total</b>		<b>57,912</b>	<b>6,309.86</b>		

Source: Information furnished by ULBs

## Appendix 6.6

(Reference: Paragraph 6.1.24/Page 79)

## Statement showing details of unlawful buildings

(Amount in ₹)

Sl. No.	Details of the property	Name of the ULB	Year	Penalty due	Tax collected*	Difference	Remarks
1	Venkatesh Hospital	TMC, Mahalingapura	2015-16	11,87,784	5,93,892	5,93,892	Buildings not as per approved plan.
2	S. S. Bar (Vittal K. Hirekodi)	TMC, Mahalingapura	2014-15	37,806	18,903	18,903	
3	Abhi Hospital	CMC, Ramanagara	2014-15	64,194	61,461	2,733	
4	B M Habitat Mall	CC, Mysuru	2015-16	12,70,322	10,60,329	2,09,993	Building not as per completion certificate.
<b>Buildings in Agricultural land</b>							
1	Angel High School, Bijapur Road	TMC, Indi	Buildings exist on non-converted lands, the conversion of which is yet to be done (August 2016). The details of buildings are not available with the TMCs. Hence, property tax could not be assessed.				
2	ITI & School, Sindagi Road	TMC, Indi					
3	Hotel Amar International, Railway Station Road	TMC, Indi					
4	Kanni Complex, Railway Station Road	TMC, Indi					
5	Reliance Petrol Pump, Railway Station Road	TMC, Indi					
6	HP Petrol Pump, Railway Station Road	TMC, Indi					
7	KLE Polytechnic	TMC, Mahalingapura					

\* The ULBs have treated the collection as tax considering the buildings as lawful.

Source: Records of ULBs and JPVs

**Appendix 6.7**

(Reference: Paragraph 6.8/Page 93)

**Statement showing over-assessment of tax due to non-allowance of rebate on the cess component of property tax during the months of April from 2012-13 to 2015-16 (CC, Mangaluru)**

(₹ in lakh)

Year	Tax collected during the month of April (95% of PT+24% of cess on PT)	PT payable (100%) before allowing rebate (column 2*100/119)	Cess amount (24% of column 3)	Total tax (PT+Cess) payable without rebate (column 3+column 4)	Net tax payable with rebate (95% of column 5)	Over-assessment of tax (column 2-column 6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2012-13	759.35	638.11	153.15	791.26	751.70	7.65
2013-14	880.25	739.71	177.53	917.24	871.38	8.87
2014-15	867.33	728.85	174.92	903.77	858.58	8.75
2015-16	974.25	818.70	196.49	1,015.19	964.43	9.82
<b>Total</b>	<b>3,481.18</b>	<b>2,925.37</b>	<b>702.09</b>	<b>3,627.46</b>	<b>3,446.09</b>	<b>35.09</b>

Source: Information furnished by the CC, Mangaluru

PT: Property Tax



