

Chapter-I

Rural Development and Panchayat Raj Department

Accountability framework and financial reporting in Panchayat Raj Institutions

1.1 Introduction

Consequent to the 73rd Constitutional Amendment, the State Government enacted the Karnataka Gram Swaraj and Panchayat Raj Act, 1993 (henceforth referred to as KPR Act, 1993), to establish three tier Panchayat Raj Institutions (PRIs) at the village, taluk and district levels and framed rules to enable PRIs to function as institutions of local self-government. The amendment enumerated functions to be transferred to PRIs in the Eleventh Schedule of the Constitution.

PRIs aim to promote participation of people and effective implementation of rural development programmes for economic development and social justice.

1.1.1 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1**. 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	National
Population	1,000s	61,095	12,10,855
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	6,024	2,34,000 (approx)
Gender ratio (females per 1,000 males)	Numbers	973	943
Literacy Rate	Percentage	75.40	73.00

Source: Economic Survey Report 2016-17 and Census 2011

1.2 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**.

1.2.1 Standing Committees

Standing Committees are constituted to perform the assigned functions of PRIs. The constitution of the Committees is given in **Table 1.2:**

Table 1.2: Constitution of the Standing Committees

Level of PRIs	Chief Executive	Standing Committees	Executive of Standing Committees
Gram Panchayat	<i>Adhyaksha</i>	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	a) <i>Upadhyaksha</i> b) <i>Adhyaksha</i> c) Chairman (Elected from amongst Scheduled Caste/Scheduled Tribe members)
Taluk Panchayat	<i>Adhyaksha</i>	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	a) <i>Upadhyaksha</i> b) <i>Adhyaksha</i> c) Chairman (Elected from amongst members of other Standing Committee)
Zilla Panchayat	<i>Adhyaksha</i>	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee (d) Education and Health Committee (e) Agricultural and Industries Committee	a) <i>Upadhyaksha</i> b) <i>Adhyaksha</i> c) Chairman (Elected from amongst members of other Standing Committee) d) -do- e) -do-

Source: KPR Act, 1993

1.3 Accountability framework

1.3.1 Ombudsman

As per the recommendations of the Thirteenth Finance Commission (TFC), the State Government was required to put in place a system of independent local body Ombudsman to investigate complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials.

The State Government appointed (March 2014) different Government Officers as Ombudsmen through a notification, for different tiers of PRIs. This negated the spirit of appointing an independent authority for investigating complaints of corruption and maladministration.

1.3.2 Audit mandate

1.3.2.1 The Karnataka State Audit and Accounts Department (KSAD) is the statutory external auditor for GPs. Its duty, *inter alia*, is to certify correctness of accounts, assess internal control systems and report cases of loss, theft and fraud to audited entities and to the State Government.

The status of audit conducted by KSAD, as of December 2018, in respect of GPs in the State is shown in **Table 1.3:**

Table 1.3: Status of audit of GPs by KSAD, as of December 2018

Year	Number of GPs	Number of GPs audited
2013-14	5,629	5,105
2014-15	5,629	5,064
2015-16	6,022	5,267
2016-17	6,022	5,091
2017-18	6,022	3,965

Source: Information furnished by KSAD

1.3.2.2 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 92¹ units under PRIs up to the year 2017-18 had been completed as of March 2018.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) module to CAG by amending the KPR Act, 1993. At the end of March 2018, 50 GPs were audited under TGS module for the year 2017-18.

1.3.2.3 Response to Inspection Reports

The Karnataka Zilla Panchayat (Finance & Accounting) Rules, 1996 [KZP (F&A) Rules, 1996], stipulate that the heads of the Departments/Drawing and Disbursing Officers of ZPs shall attend to the objections issued by the Accountant General promptly. It further stipulates that the ultimate responsibility for expeditious settlement of audit objections rests with the Chief Executive Officers (CEOs) of ZPs. As of March 2018, 3,542 Inspection Reports (IRs) consisting of 16,078 paragraphs were outstanding in various PRIs as detailed in **Table 1.4**.

Table 1.4: Statement showing the details of outstanding IRs and paragraphs up to the audit period 2016-17

Unit	More than 10 years (till 2007-08)		5 to 10 years (2008-09 to 2012-13)		3 to 5 years (2013-14 to 2014-15)		2015-16		2016-17		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
ZPs including TPs and line departments	1,820	4,739	1,004	5,073	302	2,149	170	1,422	97	1,344	3,393	14,727
GPs	0	0	92	712	32	337	02	27	23	275	149	1,351
Total	1,820	4,739	1,096	5,785	334	2,486	172	1,449	120	1,619	3,542	16,078

Source: Inspection Reports

Out of 3,542 IRs outstanding, 1,820 IRs (51 *per cent*) containing 4,739 paragraphs (29 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs. The details of IRs and paragraphs outstanding are in **Appendix 1.2**.

¹ All 92 units are under RDPR.

1.3.2.4 Social Audit

The Government of Karnataka notified (January 2012) the Scheme Implementation of Social Audit Rules 2011 in Karnataka. In accordance with these rules, the Social Audit Directorate headed by the Director was formed and registered (May 2012) under the Societies Registration Act, 1960. The details of Social Audit taken up during the year 2017-18 are given in **Table 1.5**.

Table 1.5: Details of Social Audit conducted during 2017-18

Sl. No.	Name of the Scheme	Number of GPs
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	1 st round – 5,899 2 nd round – 5,879
2	National Rural Drinking Water Programme (NRDWP)	176 blocks
3	Swachh Bharat Mission (SBM)	2,902
4	14 th Finance Commission	9 blocks

Source: Information furnished by Social Audit Directorate

1.4 Financial profile and reporting framework

1.4.1 Financial Profile

1.4.1.1 Resources of the Panchayat Raj Institutions

The resource base of PRIs consists of their own revenue, 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 1.3**.

The trends of resources of PRIs for the period 2015-16 to 2017-18 are shown in **Table 1.6**:

Table 1.6: Trends and composition of resources of PRIs

Source	2015-16	2016-17	2017-18
(₹ in crore)			
Zilla Panchayats			
State Grants/Assigned Revenue	7,586.51	9,912.95	9,811.41
Grants from GoI for Centrally Sponsored Scheme (CSS)	1,866.65	474.35	
Central Finance Commission	22.60	-	-
Other Receipts	255.24 ^B	70.96 ^Y	183.44 ^A
Total	9,731.00	10,458.26	9,994.85
Taluk Panchayats			
State Grants/Assigned Revenue	11,868.60	14,950.80	15,704.88
Grants from GoI for CSS	1,682.62	80.89	
Central Finance Commission	45.23	-	-
Other Receipt	20.61 ^B	11.61 ^Y	9.62 ^A
Total	13,617.06	15,043.30	15,714.50

Source	2015-16	2016-17	2017-18
Gram Panchayats			
Own Revenue ^Σ	330.53	331.67	322.76
State Grants/Assigned Revenue	2,486.16	2,900.40	3,977.52
Grants from GoI for CSS	4.19	0.00	0.00
Central Finance Commission	1,130.07	1,373.59	1,555.60
Total	3,950.95	4,605.66	5,855.88

Source: Finance Accounts

β Figures in respect of 29 ZPs and 164 TPs

¥ Figures in respect of 13 ZPs and 143 TPs

^ Figures in respect of 15 ZPs and 124 TPs

Σ www.panchatantra.kar.nic.in, a website of RDPR department

1.4.1.2 Application of Resources

The trends of application of resources of ZPs and TPs for the period 2015-16 to 2017-18 are given in **Table 1.7**:

Table 1.7: Application of resources

(₹ in crore)

Source	2015-16	2016-17	2017-18
Zilla Panchayats			
State Grants/Assigned Revenue	7,709.76	7,340.98	6,244.27
Grants from GoI for CSS [¥]	3,331.18	1,829.46	2,350.21
Central Finance Commission	102.28	6.98	6.60
Total	11,143.22	9,177.42	8,601.08
Taluk Panchayats			
State Grants/Assigned Revenue	11,605.30	13,616.67	10,868.42
Central Finance Commission	195.65	41.48	20.43
Total	11,800.95	13,658.15	10,888.85

¥ Grants from GoI for CSS includes the expenditure incurred by TPs also

Source: 2015-16 – Audited figures for 29 ZPs and 164 TPs

2016-17 – Figures as furnished by Treasury for State Grants/Assigned Revenue and annual accounts of 15 ZPs and 140 TPs for CSS/CFC

2017-18 – Figures as furnished by Treasury for State Grants/Assigned Revenue and annual accounts of 15 ZPs and 118 TPs for CSS/CFC

The consolidated details of application of resources in respect of GPs are not available as GPs are audited by CAG under TGS module and there were arrears in conduct of audit by the primary auditor (KSAD).

It can be seen from **Tables 1.6** and **1.7** that the receipts of ZPs and TPs increased (10 *per cent*) from ₹23,348.06 crore in 2015-16 to ₹25,709.35 crore in 2017-18. The expenditure relating to State Grants and assigned revenue decreased (11 *per cent*) from ₹19,315.06 crore in 2015-16 to ₹17,112.69 crore in 2017-18.

1.4.1.3 Short receipt of Fourteenth Finance Commission basic grants

The Fourteenth Finance Commission (FFC) allocated grants of ₹8,359.79 crore towards basic grants for GPs² 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. GoI was to release the grants for each year 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.

The allocation of basic grant to GPs in the State for the year 2017-18 was ₹1,604.42 crore. As against this, the State received ₹1,580.18 crore in two instalments with a shortfall of ₹24.24 crore as detailed in **Table 1.8** below:

Table 1.8: Short receipt of Fourteenth Finance Commission grants

(₹ in crore)

Releases	To be released	Actually released	Shortfall	Remarks
1st instalment	802.21	790.22	11.99	Duly elected bodies existed only in 5,932 GPs as per UC dated 16.01.2017.
2 nd instalment	802.21	789.96	12.25	Duly elected bodies existed only in 5,932 GPs as per UC dated 28.8.2017.
Total	1,604.42	1,580.18	24.24	

Source: Information furnished by RDPR

The shortfall was on account of the fact that duly elected bodies existed only in 5,932 GPs, against the existing 6,024 GPs.

1.4.1.4 Non-receipt of performance grants for 2017-18

The State Government had not received the performance grants under FFC for the year 2017-18 as of March 2018. The State Government stated (November 2018) that GoI communicated (September 2017) the revised scheme for disbursement of performance grants under FFC prescribing additional conditions and parameters for eligibility and the compliance to the same was submitted to GoI during January/February 2018. It further stated that the performance grants for the year 2017-18 were received during June 2018.

Audit, however, observed that there was delay on part of the State Government in notifying the revised scheme. As per GoI instructions, the State Government was to furnish the required information latest by 31 October 2017 but the State Government circulated the revised scheme to GPs only on 20 December 2017.

² ZPs and TPs were not entitled for grants under FFC.

1.4.1.5 Non-release of Fourteenth Finance Commission grants to Gram Panchayats

The FFC guidelines stipulated that the funds received from GoI were to be released to GPs within 15 days of receipt. However, an amount of ₹64.63 lakh was irregularly invested by the State Government in four Sweep-in deposit accounts in State Bank of India, Vidhana Soudha Branch as at the end of March 2018. This resulted in irregular retention of funds besides violation of guidelines.

1.4.1.6 Irregular release of basic grants to ineligible Gram Panchayats

The FFC guidelines stipulated release of grants to duly constituted Panchayats³. As per UCs submitted (August 2017 and January 2018) to GoI by the State Government, the elected bodies were in place only in 5,932 and 5,977 respectively out of 6,024 GPs.

However, the basic grants were invariably released to all GPs irrespective of the duly elected body being in place and thus, violated the stipulations of FFC guidelines.

1.4.1.7 Non-transfer of Central/State Finance Commission grants and pooling of funds

The RDPR was operating a bank account⁴ at State Bank of India, Vidhana Soudha Branch, for receipt and transfer of grants received under TFC. The grants received under FFC were operated through this account till November 2016. The RDPR was also operating the funds pertaining to SFC (statutory grants to be released to GPs) through this account.

The account had a balance of ₹5.01 crore in savings account and ₹83.16 crore in five sweep-in deposit accounts as of 31 March 2018. The retention of CFC and SFC funds in the bank accounts without transferring them to the PRIs was in violation of the guidelines of the CFC and SFC.

We further observed that there were delays of 5 to 26 days in transfer of statutory grants to the PRIs by the banks.

Consequent on pooling of funds from various sources in the same bank account, the department should ensure proper reconciliation of receipt and expenditure of funds received from these different sources. However, this had not been done. In the absence of reconciliation, we could not ensure the correctness of transfers of funds under CFC/SFC and the actual quantum of funds pertaining to CFC/SFC remaining in the account. The absence of reconciliation would also impact proper accounting/reporting of 'interest earned' on TFC, FFC and SFC grants.

³ A duly constituted Panchayat means a Panchayat where elections have been held and an elected body is in place as provided in Part IX and IX A of the Constitution.

⁴ Account No. 64062923099 with State Bank of India (erstwhile State Bank of Mysore), G-Seva Branch, for receipt and transfer of grants received under the TFC.

1.4.1.8 Release of duty on transfer of immovable properties

As per Section 205 of 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 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.

The IGR stated (October 2018) that an amount of ₹46.78 crore for the year 2015-16 was released to TPs during September 2017 and the amounts for the years 2016-17 and 2017-18 were not transferred (October 2018). However, as per the information furnished (December 2018) by Director of Treasuries, Bengaluru, only an amount of ₹37.92 crore was transferred to the TPs. This needs to be reconciled. IGR further stated that duty on transfer of immovable properties for 2016-17 and 2017-18 would be transferred after receipt of complete information from all the District Registrars and necessary reconciliation.

1.4.2 Reporting framework

1.4.2.1 Financial reporting in PRIs is a key element of accountability. Matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by ZPs and TPs are governed by the provisions of KPR Act, 1993, KZP (F&A) Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

1.4.2.2 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) of KZP (F&A) Rules, 1996 and Rule 30(4) KPR TP (F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006. As per the recommendations of TFC, PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by GoI.

The ZPs prepared the accounts in MPAS formats from 2011-12 onwards. However, many of TPs had not prepared the annual accounts in MPAS format and thus, defaulted in complying with the norms, as detailed in **Table 1.9**.

Table 1.9: Status of annual accounts of TPs in MPAS format

Year	Number of TPs which submitted annual accounts	Number of TPs not prepared accounts in MPAS format
2014-15	172	7
2015-16	164	20
2016-17	143	30
2017-18	125	16

Source: Annual accounts of TPs

GPs in the State were yet to adopt MPAS formats for their accounts.

1.4.2.3 Status of accounts in Zilla Panchayats and Taluk Panchayats

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

For the year 2017-18, while only 4 ZPs had submitted their annual accounts within the timeframe, 11 ZPs submitted the accounts with delays ranging from 1 day to 100 days. Fifteen ZPs had not submitted the accounts to the Accountant General, even at the end of October 2018. Similarly, 18 TPs had submitted their annual accounts for the year 2017-18 within the timeframe and the delays in submission of annual accounts by 107 TPs ranged from 1 days to 178 days. Fifty-one TPs had not submitted the annual accounts to the Accountant General, even at the end of October 2018.

The range of delay in submission of annual accounts by ZPs and TPs for the year 2017-18 is exhibited in **Table 1.10**.

Table 1.10: Delay in submission of annual accounts by ZPs and TPs (as of October 2018)

Delay	Number of ZPs	Number of TPs
No delay	4	18
1-30 days	8	55
31-60 days	2	26
61-100 days	1	16
More than 100 days	-	10
Total	15	125

Source: Compilation of receipt of annual accounts by this office

1.4.2.4 Deficiencies in accounts of Zilla Panchayat and Taluk Panchayat

Significant deficiencies noticed in the accounts of ZPs and TPs during 2017-18 are detailed below:

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREDS). Consequently, both the divisions had stopped issuing cheques. However, the annual accounts of 12 ZPs (out of 15 ZPs that submitted accounts) for the year 2017-18 continued to reflect huge balances relating to earlier period as detailed in **Appendix 1.4**. This indicated that 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 ZPs. However, 10 ZPs (out of 15 ZPs that submitted accounts) had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2018 are detailed in **Appendix 1.5**.

1.5 Conclusion

The receipts of ZPs and TPs increased by 10 *per cent* and the expenditure relating to State Grants and assigned revenue decreased by 11 *per cent* during 2017-18 as compared to 2015-16. There was short receipt of FFC grants of ₹24.24 crore by the State Government. The FFC grants of ₹64.63 lakh were not released to GPs but were invested in sweep-in deposit accounts. An amount of ₹5.01 crore and ₹83.06 crore pertaining to CFC/SFC grants was retained in savings account and sweep-in deposit accounts respectively by RDPR as of March 2018 without releasing it to PRIs. The IGR had not transferred the required duty on transfers for the year 2016-17 and 2017-18 to TPs as of October 2018. There was a delay in submission of annual accounts for the year 2017-18 to the Accountant General by 11 ZPs and 107 TPs (1 to 178 days). Fifteen ZPs and 51 TPs had not submitted the annual accounts for the year 2017-18 even at the end of October 2018. As of March 2018, 1,820 IRs (51.4 *per cent*) containing 4,739 paragraphs (29.5 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs.