



CHAPTER-I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF ZILLA PANCHAYATS

Chapter summary

- ◆ **Delays in preparation and forwarding of annual accounts to Audit persisted**
- ◆ **During 2002-05, Non-Plan expenditure was more than the Plan expenditure**
- ◆ **There were instances of non-transfer of funds to Grama Panchayats and non-remittance of statutory recoveries to Government account**
- ◆ **Internal audit to be conducted by Chief Accounts Officers was in arrears**
- ◆ **Detailed accounts for amounts drawn on Abstract Contingent bills not submitted**
- ◆ **Large number of cases of misappropriations/defalcations pending settlement in ZPs**

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF ZILLA PANCHAYATS

1.1 Introduction

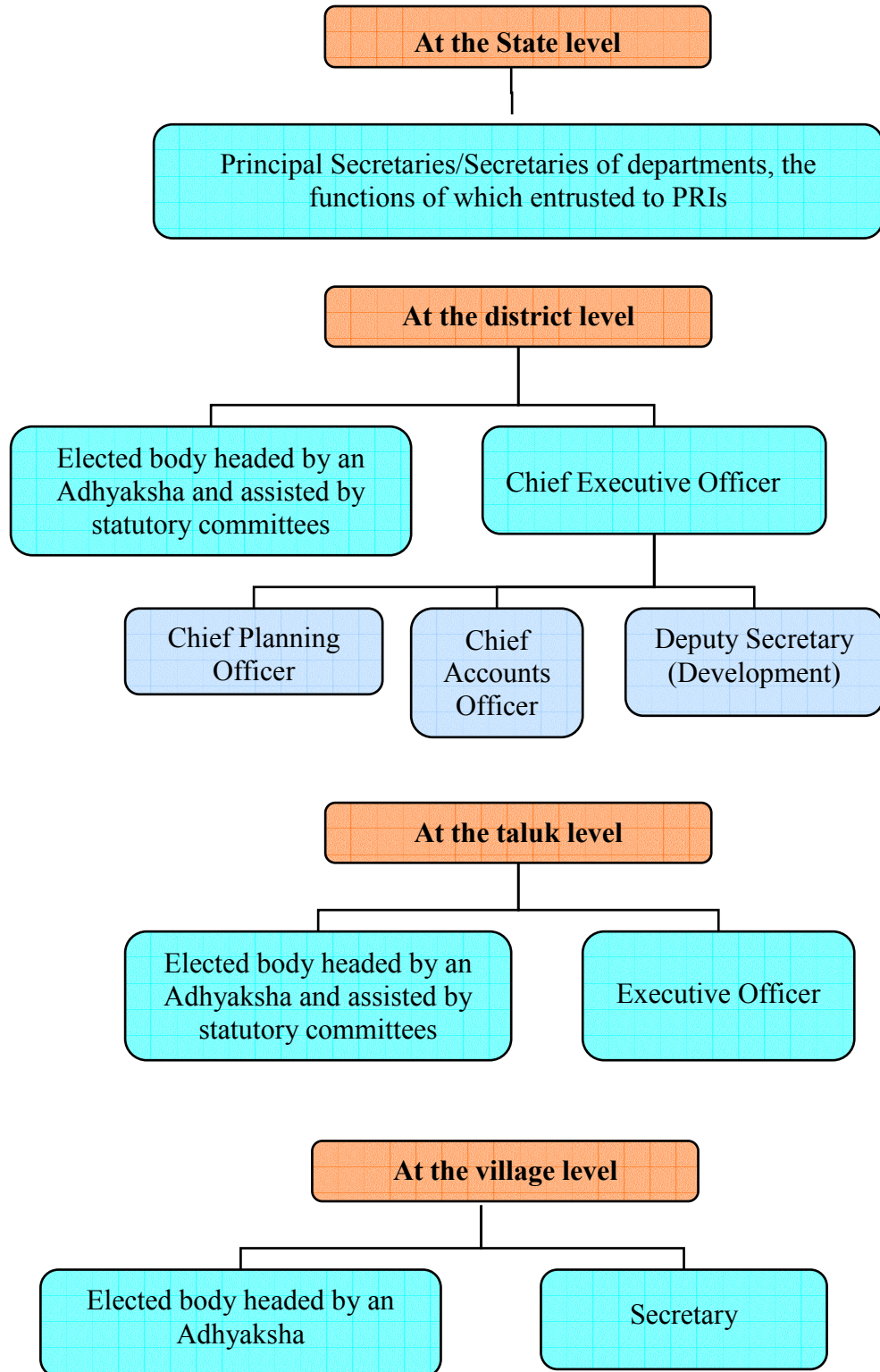
1.1.1 The Karnataka Panchayat Raj (KPR) Act, in keeping with the 73rd Constitutional amendment, was enacted in 1993 to establish a three-tier Panchayat Raj Institution (PRI) system, at the village, taluk and district levels in the State. The PRI system comprises elected bodies – Grama Panchayats (GPs) at the village level, Taluk Panchayats (TPs) at the taluk level and Zilla Panchayats (ZPs) at the district level. As per the 2001 census, the total population of the State was 5.29 crore, of which the rural population constituted 3.48 crore. As of March 2006, there were 27 ZPs, 176 TPs and 5,659 GPs in the state.

1.1.2 Besides functioning as units of local self Government, the PRIs also aim to promote participation of people and effective implementation of rural development programmes. The overall supervision, coordination and implementation of development schemes at taluk and district levels and preparation of the plan for the development of the district is vested with the ZPs.

1.1.3 The Comptroller and Auditor General of India (CAG) has been auditing and certifying the accounts of the ZPs and TPs as entrusted under Section 19(3) of CAG's (DPC) Act, 1971. The Controller of State Accounts has been auditing the accounts of GPs under the KPR Act.

1.2 Organisational structure and functions

1.2.1 The organisational structure is indicated below:



1.2.2 The broad details of responsibility within the ZPs are as under:

Authority	Functions
District level officers and departments of Zilla Panchayat	Preparation of budget and Annual Action Plan
Zilla Panchayat	Approval of budget and Annual Action Plan and review of implementation of schemes
Chief Executive Officer (CEO)	Allocation of funds to implementing agencies and overall control and supervision of all functions/schemes
Chief Accounts Officer (CAO)	Preparation of monthly and annual accounts and their submission to Government
Finance, Audit and Planning Committee (FAPC)	Review of accounts, framing of budget, general supervision of Receipts and Expenditure and monitoring of programme implementation

1.3 Funding of Panchayat Raj Institutions

1.3.1 The State and Central Governments funded the PRIs through grants-in-aid for general administration and for development activities. The funding by the State Government was on the lines of accepted recommendations of the State Finance Commission and took into account factors like population, literacy, health, irrigation, medical facilities, etc. The State Government released block grants every quarter and every month in the last quarter. The Central Government also released funds direct to ZPs for development activities. Allocation to PRIs during 2002-05 formed 13 to 14 *per cent* of the total budget of the State as shown below:

Year	Total budget provision of the State	Allocation to PRIs	Percentage
	(Rupees in crore)		
2002-03	32684.76	4527.68	14
2003-04	37105.48	4733.72	13
2004-05	37380.05	5180.62	14

The Second State Finance Commission (SSFC) had recommended (December 2002) that from the financial year 2003-04 onwards, 32 percent of NLGRR[∞] of the State was to be allocated to PRIs. The State Government,

[∞] Non Loan Gross Own Revenue Receipts

however, did not accept this recommendation and released only 29 and 24 per cent of NLGRR to PRIs during the years 2003-04 and 2004-05 respectively as shown below:

Year	NLGRR of the State	Released to PRIs	Percentage
	(Rupees in crore)		
2003-04	15528.00	4578.76	29
2004-05	20545.00	4906.08	24

1.3.2 The ZPs deposited grants-in-aid and receipts from other sources[^], in ZP Funds maintained in treasuries. Such ZP Funds were outside the Consolidated Fund of the State but formed part of its Public Account. The ZPs also deposited in bank accounts funds received from the Government of India/externally aided projects and State share of Central Sector/Centrally sponsored schemes, as stipulated in scheme guidelines.

1.3.3 The TPs conducted their financial transactions through TP Funds held in the treasury and the scheme funds held in banks. The GPs carried out their financial operations through GP Funds maintained in the treasury/any approved cooperative/scheduled bank.

1.4 Financial position of Zilla Panchayats

The financial position of the ZPs, as aggregated from their certified annual accounts for the years 2002-03 to 2004-05[¥] was as exhibited in the table and in Chart I.

[^] Includes miscellaneous receipts like recoveries of overpayment, sale of tender forms/ unserviceable items, etc.

[¥] Comments restricted to the year up to which Audit had scrutinised the accounts of ZPs

(Rupees in crore)

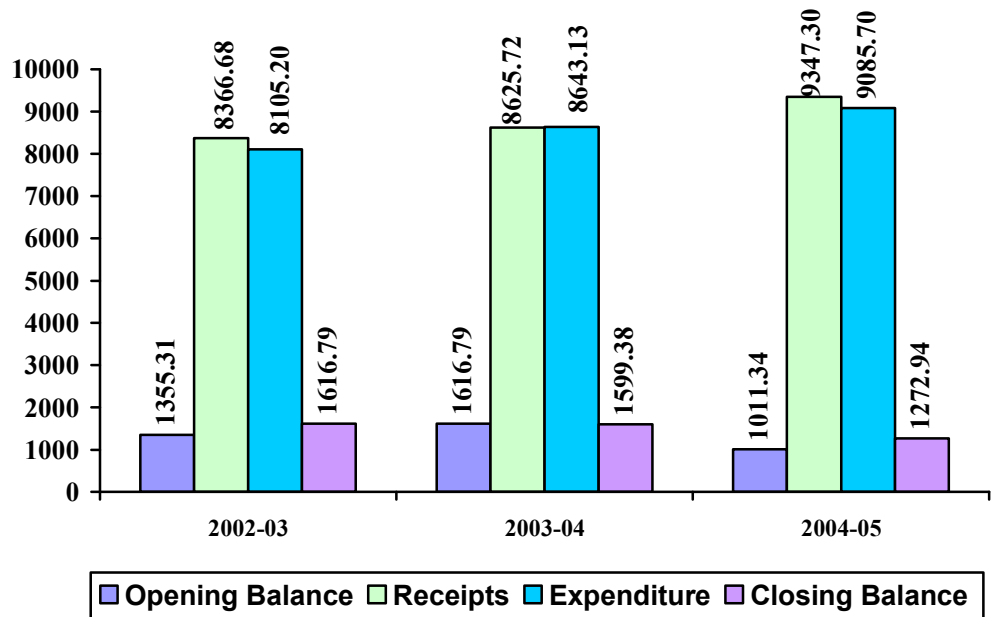
2002-03	Receipts	8366.68	Expenditure	8105.20
	Revenue	5363.87	Revenue	5087.49
	DDR ^{^^} heads	3002.81	Capital	57.94
	Opening balance	1355.31	DDR heads	2959.77
	Total	9721.99	Closing balance	1616.79
2003-04	Receipts	8625.72	Expenditure	8643.13
	Revenue	5395.38	Revenue	5288.77
	DDR heads	3230.34	Capital	102.84
	Opening balance	1616.79	DDR heads	3251.52
	Total	10242.51	Closing balance	1599.38[♥]
2004-05	Receipts	9347.30	Expenditure	9085.70
	Revenue	6035.78	Revenue	5485.99
	DDR heads	3311.52	Capital	312.71 [¥]
	Opening balance	1011.34[♥]	DDR heads	3287.00
	Total	10358.64	Closing balance	1272.94

^{^^} Debt, Deposit and Remittance

[¥] The increase in capital expenditure over previous years was due to higher release and expenditure for water supply and sanitation programmes

[♥] The difference of Rs.588.04 crore between closing balance of 2003-04 and opening balance of 2004-05 was on account of transfer of unspent balances of ZPs in treasuries from Public Account to Consolidated Fund of State.

Chart I
Financial position of Zilla Panchayats
(Rupees in crore)



1.5 Preparation of accounts of Zilla Panchayats

Delays persisted in forwarding of annual accounts for audit

The KPR Act stipulated that the annual accounts were to be passed by the ZPs within three months from the close of the financial year and forwarded to the Principal Accountant General for audit. The ZPs forwarded the annual accounts for 2003-04 and 2004-05 for audit after delays ranging from two to more than twelve months as shown below:

Year	2003-04			2004-05	
	2 to 6 months	7 to 12 months	More than 12 months	2 to 6 months	7 to 12 months
Number of Zilla Panchayats	17 [®]	8 [°]	1 ^º	16 [€]	4 [£]

1.6 Sectoral Finances of Zilla Panchayats

1.6.1 Sector-wise data on the finances of the ZPs for the past three years is given below:

(Rupees in crore)

	2002-03			2003-04			2004-05		
	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL	PLAN	NON-PLAN	TOTAL
RECEIPTS									
Total Receipts[†]	2112.25	3251.62	5363.87	2131.13	3264.25	5395.38	2576.14	3459.64	6035.78
EXPENDITURE									
Revenue Expenditure	2072.62	3014.87	5087.49	1944.91	3343.86	5288.77	2063.60	3422.39	5485.99
General Services									
Public works	-	90.69	90.69	(-0.11)	90.93	90.82	-	84.16	84.16
Social Services	843.48	2044.96	2888.44	892.42	2089.43	2981.85	842.62	2383.61	3226.23
Education, Sports, Art and Culture	172.59	1589.56	1762.15	140.61	1624.15	1764.76	221.01	1840.40	2061.41
Health and Family Welfare	102.12	250.06	352.18	107.24	261.28	368.52	114.39	271.21	385.60
Water supply and Housing	378.99	3.89	382.88	478.44	5.56	484.00	294.41	1.64	296.05
Welfare of SC/ST/OBC	96.78	162.69	259.47	62.74	159.27	222.01	81.78	216.26	298.04

[®] Bangalore (Rural), Bellary, Bijapur, Chamarajanagar, Chitradurga, Chikmagalur, Dakshina Kannada, Davanagere, Gadag, Gulbarga, Haveri, Hassan, Kolar, Koppal, Shimoga, Uttara Kannada, and Udupi

[°] Bangalore (Urban), Bidar, Belgaum, Kodagu, Mandya, Mysore, Raichur and Tumkur

^º Dharwad

[€] Bangalore (Rural), Bangalore (Urban), Bidar, Bijapur, Chamarajanagar, Chitradurga, Chikmagalur, Davanagere, Dharwad, Gadag, Hassan, Kolar, Mandya, Raichur, Tumkur and Udupi

[£] Belgaum, Gulbarga, Kodagu, and Uttara Kannada

[†] The ZPs exhibited in their annual accounts, receipts distinctly under 'Plan' and 'Non-Plan', as allocated by Government and as stipulated in the ZP Rules. Such depiction, however, is not required either according to normal Government accounting practice or in the accounts formats suggested by the CAG, for PRIs.

Social Welfare and Nutrition	93.00	38.76	131.76	103.39	39.17	142.56	131.03	54.10	185.13
Economic Services	752.76	448.10	1200.86	722.69	420.52	1143.21	785.99	462.98	1248.97
Agriculture and allied activities	57.01	172.14	229.15	84.31	170.91	255.22	128.04	176.44	304.48
Rural Development	571.72	155.36	727.08	544.79	159.28	704.07	512.51	211.46	723.97
Special Areas Programmes	13.89	0.01	13.90	13.56	3.51	17.07	27.02	-	27.02
Irrigation and Flood Control	2.03	13.03	15.06	0.82	9.24	10.06	3.28	24.09	27.37
Energy	4.67	0.05	4.72	8.04	0.07	8.11	3.03	-	3.03
Industry and Minerals	3.25	33.36	36.61	3.02	35.07	38.09	4.58	35.00	39.58
Science, Technology and Environment	0.06	-	0.06	0.25	-	0.25	0.30	-	0.30
Transport	99.90	70.34	170.24	67.64	38.28	105.92	106.84	11.43	118.27
General Economic Services	0.23	3.81	4.04	0.26	4.16	4.42	0.39	4.56	4.95
TP/GP expenditure[#]	241.52	431.12	672.64	192.05	742.98	935.03	182.44	468.04	650.48
Bank[@]	234.86	-	234.86	137.86	-	137.86	252.55	23.60	276.15
Capital Expenditure	57.94	-	57.94	102.84	-	102.84	312.71	-	312.71
General Services									
Public works	-	-	-	-	-	-	-	-	-
Social Services	35.22	-	35.22	78.33	-	78.33	280.35	-	280.35
Education, Sports, Art and Culture	5.17	-	5.17	4.24	-	4.24	2.93	-	2.93
Health and Family Welfare	4.72	-	4.72	4.36	-	4.36	3.63	-	3.63
Water Supply and Housing	19.46	-	19.46	59.93	-	59.93	265.14	-	265.14
Welfare of SC/ST/OBC	1.88	-	1.88	1.09	-	1.09	1.99	-	1.99
Social welfare and Nutrition	3.99	-	3.99	8.71	-	8.71	6.66	-	6.66
Economic Services	22.72	-	22.72	24.51	-	24.51	32.35	-	32.35
Agriculture and allied activities	0.25	-	0.25	0.14	-	0.14	0.17	-	0.17
Irrigation and Flood Control	5.70	-	5.70	4.32	-	4.32	5.26	-	5.26
Industry and Minerals	0.13	-	0.13	0.11	-	0.11	0.13	-	0.13
Transport	16.63	-	16.63	19.64	-	19.64	26.78	-	26.78
Others	0.01	-	0.01	0.30	-	0.30	0.01	-	0.01
TP expenditure	-	-	-	-	-	-	0.01	-	0.01
Total Expenditure	2130.56	3014.87	5145.43	2047.75	3343.86	5391.61	2376.31	3422.39	5798.70

Note: Figures as rounded off
[#] As eleven^Σ and eight^Ω ZPs did not indicate sector-wise expenditure of TPs/GPs for the years 2003-04 and 2004-05 respectively, lump sum amount has been exhibited
[@] Five[▲] and nine[◌] ZPs did not indicate sector-wise expenditure for bank transactions for the years 2003-04 and 2004-05 respectively

1.6.2 The 'Non-Plan' expenditure generally pertains to salary, rent and maintenance while 'Plan' expenditure is on development activities. As the primary objectives of the PRIs include provision of safe drinking water and

^Σ Bagalkot, Bellary, Chamarajanagar, Chikmagalur, Davanagere, Gadag, Haveri, Kolar, Koppal, Mysore and Raichur

^Ω Bagalkot, Chamarajanagar, Chikmagalur, Gadag, Haveri, Koppal, Mysore and Raichur

[▲] Gadag, Raichur, Shimoga, Tumkur and Uttara Kannada

[◌] Dakshina Kannada, Davanagere, Dharwad, Gadag, Hassan, Raichur, Shimoga, Tumkur and Uttara Kannada

sanitation, improving employment opportunities and health indicators, etc., ideally the 'Plan' expenditure is expected to be more than the 'Non-Plan' expenditure.

**Non-Plan
expenditure
exceeded the
Plan
expenditure**

1.6.3 It would be observed from the data given that both receipts and expenditure of ZPs increased steadily during 2002-05. The percentage of 'Plan' receipts to total receipts which was 39 during 2002-03 and 2003-04 increased to 43 in 2004-05. The percentage of 'Non-Plan' receipts to total receipts which was 61 during 2002-03 and 2003-04 decreased to 57 in 2004-05. Similarly, the percentage of 'Plan' expenditure (Capital and Revenue) to total expenditure (Capital and Revenue) which was 41 in 2002-03 decreased to 38 in 2003-04 but increased to 41 in 2004-05 and the percentage of 'Non-Plan' expenditure to total expenditure (Capital and Revenue) which was 59 in 2002-03 increased to 62 in 2003-04 but declined to 59 in 2004-05. Thus, the 'Non-Plan' expenditure exceeded the 'Plan' expenditure during all the three years in 2002-05.

1.6.4 The trends relating to 'Plan' receipt and expenditure are exhibited in Charts II and III below:

Chart II
'Plan' receipts in total receipts during 2002-03 to 2004-05
(Rupees in crore)

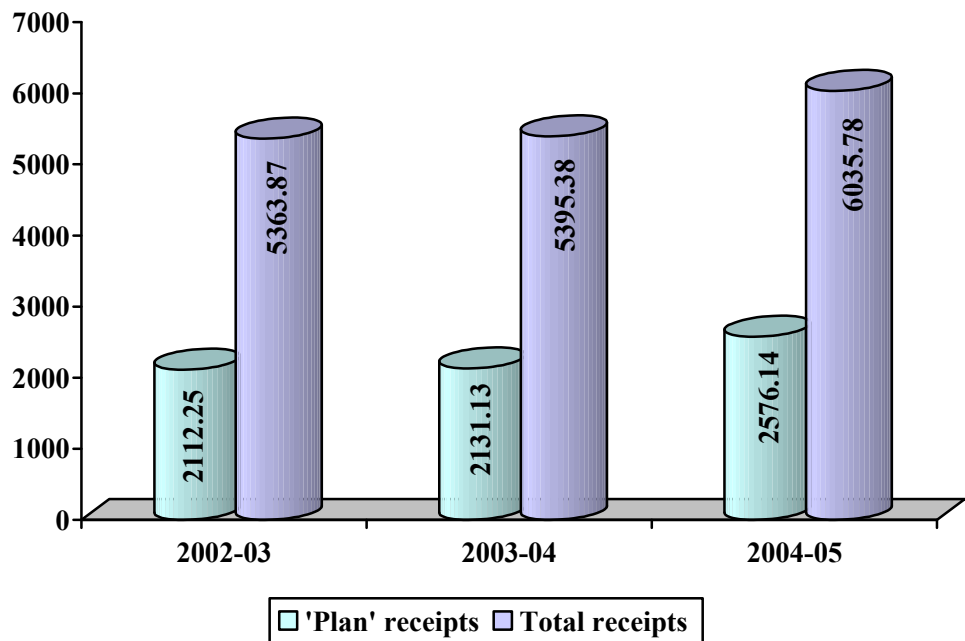
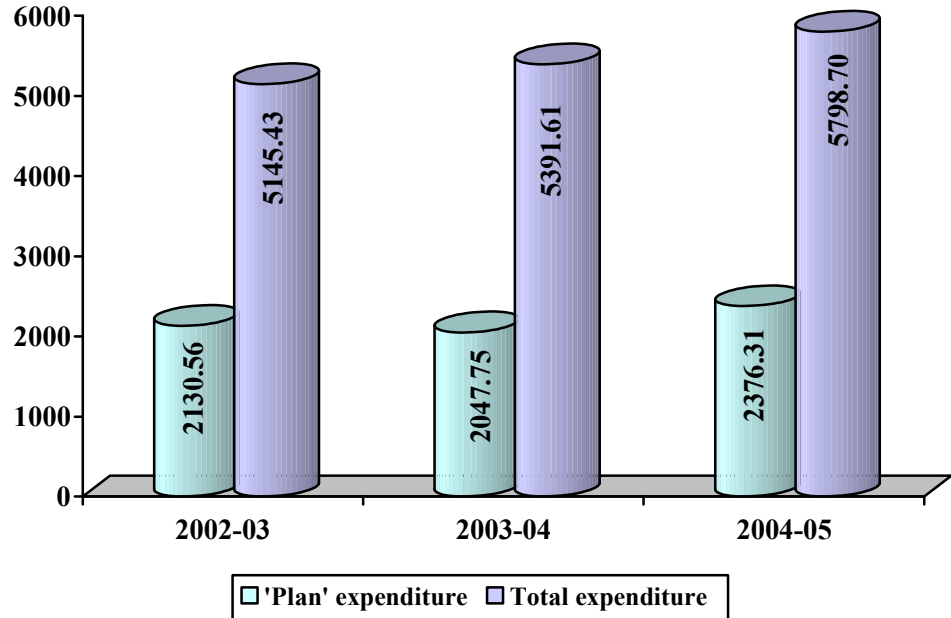


Chart III
‘Plan’ expenditure in total expenditure during 2002-03 to 2004-05
(Rupees in crore)



1.7 Creation of a database on finances of Panchayat Raj Institutions

Eleventh Finance Commission provided (2000-01) grants for maintenance of accounts, preparation and compilation of a database on finances of PRIs in the standard formats as prescribed by the CAG. The prescribed formats for maintenance of a database on finances of PRIs were communicated to the State Government (August 2003) for consideration and adoption. The Government entrusted the responsibility of preparation of a database of receipts and expenditure of PRIs to the Institute of Social and Economic Changes (ISEC). The Government intimated (December 2004) that the formats prescribed by the CAG had been adopted. However, a status report on the extent to which data has been collected and compiled was awaited (December 2006).

1.8 Laxity of internal controls

Internal controls were inadequate

1.8.1 The KPR Act and codal provisions, inter alia, prescribed the following internal control mechanism for PRIs and the CAOs of ZPs:

- ❖ to draw Government grants to GPs and credit them to ZP Funds under a suspense account. They should distribute the grants in full either by issue of transfer advice to the treasury or by allowing GPs to draw from ZP Funds
- ❖ to ensure remittance of statutory deductions to Government account
- ❖ to conduct the internal audit of all the offices under the jurisdiction of ZPs and to audit all the transactions, both centrally* in his/her office and locally♥ in respective offices
- ❖ to watch submission of non-payable detailed contingent (NDC) bills for amounts drawn on abstract contingent (AC) bills
- ❖ to ensure reconciliation of expenditure figures by the Controlling Officers/heads of departments of ZPs

1.8.2 It was noticed that the CAOs of 13 ZPs did not release Rs.20.63 crore to GPs during 2003-04. Similarly, 2 ZPs did not release Rs.7.67 crore to GPs during 2004-05. The ZP-wise details were as shown below:

Zilla Panchayat	Amount relating to Grama Panchayats retained by Zilla Panchayat (Rupees in lakh)	
	2003-04	2004-05
Bangalore (Rural)	99.32	-
Bangalore (Urban)	27.43	-
Belgaum	148.30	-
Bellary	81.00	-
Chamarajanagar	51.86	-
Chikmagalur	309.14	299.16
Chitradurga	79.29	-
Haveri	236.33	467.78
Kolar	482.43	-
Koppal	13.29	-
Mandya	295.25	-
Mysore	177.00	-
Udupi	62.57	-
Total	2063.21	766.94

* To audit sanction orders and other communications received from Government/ZP and schedules, challans/vouchers received from treasury, etc.

♥ To audit all the transactions, with reference to basic records maintained in the subordinate offices

Though the grants released to ZPs were charged as revenue expenditure under Government accounts, they were not actually utilised within the year for the purpose for which they were voted by the Legislatures thereby depriving the GPs, to whom grants had to be released by the ZPs, of financial assistance meant for implementation of the schemes.

1.8.3 At the end of March 2005, recoveries aggregating Rs.1.14 crore made by 12 ZPs towards income tax, sales tax and royalty had not been remitted to Government account as detailed below:

Sl.No.	Zilla Panchayat	Recoveries not remitted (Rupees in lakh)		
		Income tax	Sales tax	Royalty
1	Bangalore (Rural)	-	8.63	0.64
2	Belgaum	0.77	-	2.16
3	Bellary	14.16	18.62	-
4	Bidar	1.95	7.28	6.00
5	Bijapur	11.19	17.62	5.83
6	Dakshina Kannada	-	0.25	1.06
7	Hassan	1.52	1.69	0.97
8	Haveri	0.23	0.65	0.11
9	Kolar	0.02	-	-
10	Kodagu	-	1.15	-
11	Udupi	-	0.06	-
12	Gulbarga	5.36	6.08	-
Total		35.20	62.03	16.77
Grand total		114.00		

1.8.4 The Controlling Officers/heads of departments of ZPs were responsible for reconciliation of their expenditure figures with those booked by CAOs. However, 58 Controlling Officers of 7 ZPs had not reconciled (March 2006) expenditure of Rs.446.87 crore incurred during 2005-06 (Appendix 1.1).

1.8.5 Audit noticed that in three^o test-checked districts, the CAOs did not conduct the internal audit centrally while there were arrears to the extent of 11 to 95 *per cent* in internal audit to be conducted locally in respective offices.

1.8.6 In fourst test-checked ZPs a sum of Rs.48.86 crore was released to agencies such as Nirmithi Kendra, Karnataka Land Army Corporation, Jala Nirmala Kendra, etc., for implementation of various programmes during the years 2000-06. In the absence of accounts rendered by these agencies to the ZPs, utilization of amounts could not be vouchsafed in audit. This also indicated lack of monitoring by the ZPs.

^o Bangalore (Urban), Haveri and Raichur

st Bangalore (Urban), Mandya, Haveri and Raichur

1.9 Non-submission of accounts for amounts drawn on Abstract Contingent bills

In 15 ZPs, detailed accounts for Rs.5.56 crore drawn on AC bills were not submitted

While codal provisions permit Drawing and Disbursing Officers (DDOs) to draw funds on AC bills towards contingent charges required for immediate disbursement, it is prescribed that the DDOs are required to submit the NDC bills to the CAOs before the fifteenth of the following month. It was, however, noticed in 15 ZPs that NDC bills were not submitted by more than 129 drawing officers for amounts aggregating Rs.5.56 crore drawn on more than 1124 AC bills, some of which drawn as early as 1986-87 (Appendix 1.2).

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

1.10 Investment without returns

In 18 ZPs, investment of Rs.24.64 crore on 223 incomplete works remained idle

As of March 2006, 223 works, on which 18 ZPs made an aggregate investment of Rs.24.64 crore, remained incomplete even though these works were to be completed in two years and the Government had issued instructions to accord priority to incomplete works in allocation of funds over the new works (Appendix 1.3).

1.11 Cases of misappropriations/defalcations

451 cases of misappropriations/defalcations involving Rs.30.40 crore were pending

As of March 2006, 451 cases of misappropriations/defalcations involving Rs.30.40 crore were pending at various stages in 23 ZPs (Appendix 1.4). The pendency, as furnished by the ZPs, was as under:

(Amount: Rupees in crore)

Under investigation		Pending in Court		Others		Total	
Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
335	24.18	53	4.20	63	2.02	451	30.40

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