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GOVERNMENT OF KARNATAKA

REPORT OF THE

COMPTROLLER

AND

AUDITOR GENERAL OF INDIA

NO. 5

LOCAL BODIES

FOR THE YEAR ENDED 31 MARCH 2010

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PREFACE

1. This Report has been prepared for submission to the Governor under Article 151(2) of the Constitution.
2. Chapters I and III of this Report contain an overview of the finances and financial reporting of Panchayat Raj Institutions and Urban Local Bodies respectively.
3. The other chapters deal with the findings of Audit on performance reviews and financial transactions of Panchayat Raj Institutions and Urban Local Bodies.
4. The Reports containing the observations arising out of audit of (i) State finance, (ii) Statutory Corporations, Boards and Government Companies, (iii) Revenue Receipts and (iv) Civil Departments are presented separately.
5. The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2009-10 as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports. Matters relating to the periods subsequent to 2009-10 have also been included, wherever necessary.





OVERVIEW

OVERVIEW

This Report contains four chapters. The first and the third chapter contain a summary of finances and financial reporting of Panchayat Raj Institutions and Urban Local Bodies respectively. The second chapter contains two performance audit reviews and nine paragraphs based on the audit of financial transactions of the Panchayat Raj Institutions. The fourth chapter contains a performance review and six paragraphs based on the audit of financial transactions of Urban Local Bodies. A synopsis of the findings contained in the performance reviews and paragraphs is presented in this overview.

1. An overview of Panchayat Raj Institutions

A review of finances of Panchayat Raj Institutions revealed that there was steady increase in the allocation of funds to Panchayat Raj Institutions by the State Government during the period 2005-10. Zilla Panchayats' control over expenditure was ineffective to the extent of direct transfer of Government of India funds to the implementing agencies. Medium Term Fiscal Plans were not prepared by any of the Panchayat Raj Institutions, defeating the purpose of enactment of the Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003. Financial reporting was deficient as evidenced from arrears in accounts, non-submission of Utilisation Certificates, non-submission of NDC bills, non-maintenance of subsidiary registers, etc.

(Paragraphs 1.1 to 1.14)

2. Grama Swaraj – Karnataka Panchayats Strengthening Project

In order to provide opportunities to the identified backward Grama Panchayats in the State towards improving their present conditions, particularly with respect to the management of public resources and the delivery of relevant services, the State Government introduced 'Grama Swaraj-the Karnataka Panchayats Strengthening Project' during 2006-07. Implementation of the Project was deficient. Grants were released to Grama Panchayats without ensuring achievement of the envisaged performance indicators. The objective of the Grama Swaraj Project to achieve online communication and face-to-face training suffered due to delay in establishment of Taluk Resource Centres/Satellite Communication Centres. There was no material improvement in collection of taxes and in the response of the rural population towards grama sabhas. Impact study on the effectiveness of service delivery in Gram Swaraj Project areas is yet to be conducted. Among other shortcomings, operation of Project funds through current accounts in banks resulted in loss of interest aggregating `1.06 crore. There were cases of misappropriation of funds because of which subsequent instalments were not released to the Grama Panchayats, depriving the rural poor of the intended benefits.

(Paragraph 2.1)

3. Implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga

The declared objectives in setting up Panchayat Raj Institutions are decentralisation of powers and functions to promote democratic institutions and secure greater participation by the people in local and Government affairs. With the formation of Panchayat Raj Institutions, substantial functions of the State Government have been transferred to them. Zilla Panchayat, Chitradurga was implementing various developmental activities through Taluk/Grama Panchayats, line departments and Engineering Division. A review on implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga during 2005-10 revealed that the Annual District Development Plans finalised by District Planning Committee were framed in a routine manner without visualising an overall plan for the district development. The lack of financial discipline and financial control resulted in irregular drawal of funds on self cheques, deposit of ₹8.70 crore outside Government account, besides lapse of grants of ₹88.92 lakh. Operational controls were inadequate as evidenced from denial of safe drinking water facility to rural habitations, non-distribution of school books and bags to Scheduled Caste/Scheduled Tribe children on time, incomplete stadia for more than a decade and non-functioning of trauma care centres. Critical health services were affected in the absence of essential staff in health centres. The monitoring and internal control mechanism was not effective due to inadequacy in coverage of internal audit as well as external audit and non-submission of periodical returns by lower tiers of Panchayat Raj Institutions

(Paragraph 2.2)

4. Major Audit paragraphs – Panchayat Raj Institutions

Improper action of the Director, Rural Development and Panchayat Raj Department in according administrative approval before ensuring availability of the land coupled with failure of the Executive Engineers, Panchayat Raj Engineering Divisions, Bagalkot, Belgaum, Chikkodi and Chikmagalur in acquiring land before commencement of water supply schemes resulted in unfruitful expenditure of ₹37.39 crore besides denial of safe drinking water to the rural population.

(Paragraph 2.3)

Failure of the Deputy Directors, Khadi and Village Industries Commission to obtain legally binding documents and to initiate follow-up action for recovery in co-ordination with the financial institutions/banks and guarantors resulted in irrecoverable loss of ₹4.80 crore to the State exchequer.

(Paragraph 2.4)

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Karwar to prepare a comprehensive estimate, non-posting of staff by the State Government coupled with improper monitoring at all levels led to idle investment of ₹69.45 lakh on two Primary Health Centres.

(Paragraph 2.5)

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Gulbarga to ensure existing connectivity, proper alignment, availability of

land and technical/practical feasibility prior to proposing the road work resulted in abandoning the work rendering the expenditure of ₹25.17 lakh wasteful.

(Paragraph 2.7)

Faulty action of Taluk Social Welfare Officer, Turuvekere to construct a residential school building for Hanumapura village Scheduled Tribe students on a site other than the one allotted coupled with non-monitoring of work by District Social Welfare Officer, Tumkur resulted in unfruitful expenditure of ₹19.81 lakh besides depriving the tribal students of better facilities.

(Paragraph 2.8)

Failure of Taluk Social Welfare Officer, Bangalore (East) to obtain utilisation certificate and monitor timely disbursement of scholarship amount to Scheduled Caste students of a college resulted in suspected misuse of ₹12.75 lakh by the college authorities besides denial of the intended benefits to the students.

(Paragraph 2.9)

5. An overview of Urban Local Bodies

The 74th Constitutional amendment envisioned creation of local self-governments for the urban areas and envisaged devolution of 18 functions to Urban Local Bodies. However, the State Government had transferred only 14 functions. The annual accounts prepared by Urban Local Bodies were not certified by the Chartered Accountants for the years 2008-10. Persistent savings were observed in both revenue and capital expenditure vis-à-vis budget provision over the last three years. The Urban Local Bodies utilised only 42 per cent of Twelfth Finance Commission grants on solid waste management during the period 2005-10 as against the prescribed 50 per cent. Diversion of Twelfth Finance Commission grant for other works in contravention of guidelines was also observed. Financial reporting was weak as evidenced from improper maintenance of investment register, non-accountal of transaction in the books of account, etc.

(Paragraphs 3.1 to 3.12)

6. Unit area value based self assessment scheme of property tax in Bruhat Bangalore Mahanagara Palike

The Bruhat Bangalore Mahanagara Palike provides civic services and infrastructure facilities to the citizens of Bangalore while discharging its functions as per the provisions of the Karnataka Municipal Corporation Act, 1976. The Bruhat Bangalore Mahanagara Palike is statutorily empowered to levy and collect tax and non-tax revenues. The property tax has traditionally been and continues to be the principal source of revenue to upkeep the basic services in the city. The implementation mechanism in property tax management suffered from several deficiencies. Among others, the abnormal delay in conducting the physical survey of properties by Bruhat Bangalore Mahanagara Palike based on the digital mappings of the area geographical information system resulted in absence of a comprehensive database of properties. Instances of incorrect declaration of properties and their usage pattern led to short payment of property tax of ₹207.35 crore during the years

2008-10. Control mechanism as regards revenue collection was ineffective as evidenced from non-maintenance of database, registers, non-verification of returns filed, unencashed cheques, etc.

(Paragraph 4.1)

7. Audit paragraphs - Urban Local Bodies

Cash management in Bruhat Bangalore Mahanagara Palike revealed that huge funds were retained in several bank accounts without transferring to nodal bank accounts and the balances were not reconciled. Bank accounts were operated in the name of individuals which is fraught with the risk of misappropriation of funds. Cash books in respect of bank accounts were either not maintained or were incomplete.

(Paragraph 4.2)

Unjustified action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in changing the scope of road drain work led to undue benefit of ₹87 lakh to a contractor.

(Paragraph 4.3)

Action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in not following the prescribed specifications led to avoidable extra payment of ₹39.49 lakh on a road widening and strengthening work.

(Paragraph 4.4)

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike to invoke the defect liability provisions in the agreement led to extra expenditure of ₹87 lakh on a road which had developed defects within four to seven months of construction.

(Paragraph 4.5)

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike in taking possession of the requisite land before commencement of work resulted in wasteful investment of ₹4.31 crore on partially constructed cable ducts.

(Paragraph 4.6)

Improper action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in irregularly adopting the specification applicable for excavation for foundation of culverts and inflating the estimated rate for two desilting works led to excess payment of ₹90.25 lakh to two chosen contractors.

(Paragraph 4.7)



CHAPTER-I

**An overview of Panchayat
Raj Institutions**

CHAPTER I

SECTION 'A' AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

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

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

1.2 State profile

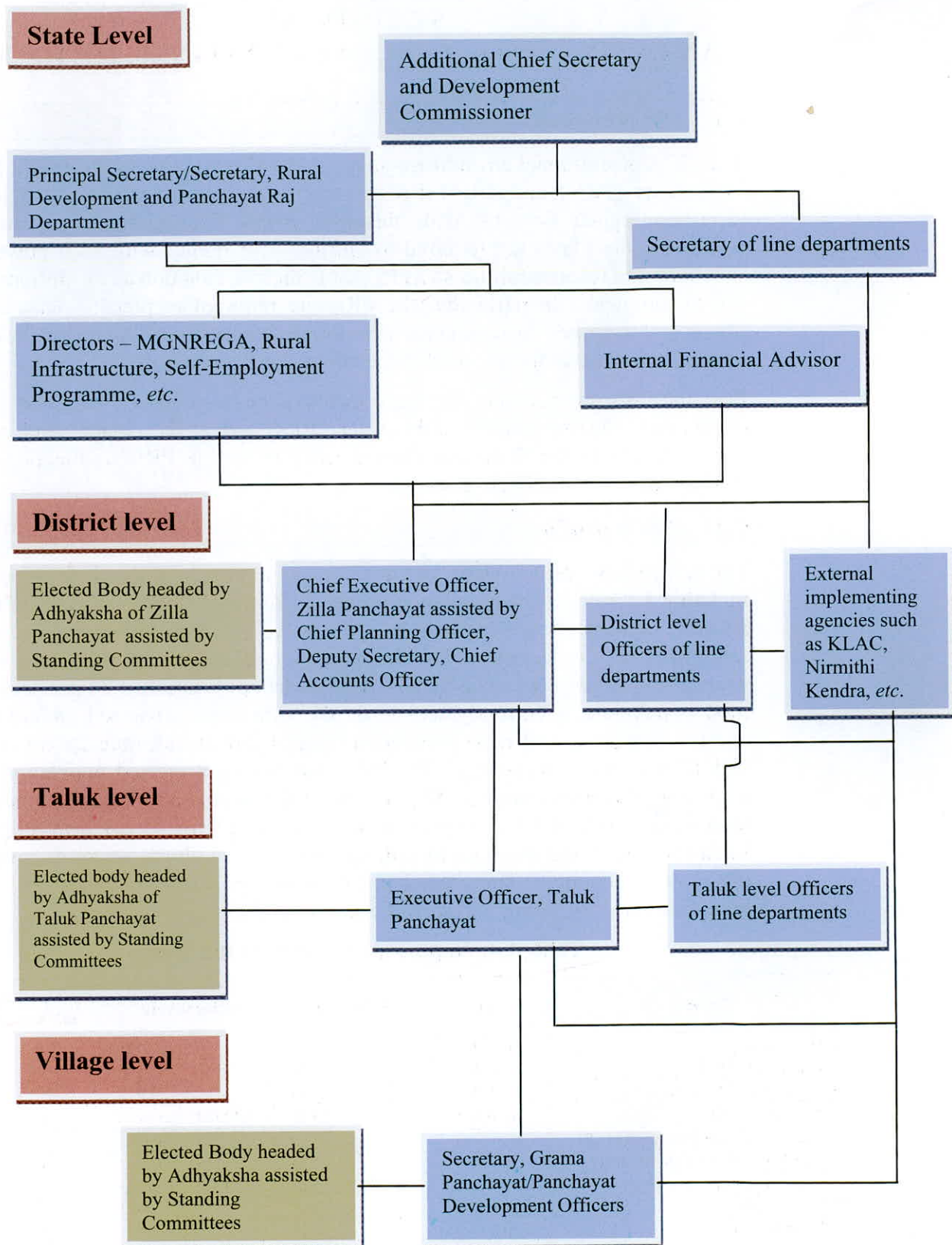
The comparative demographic and developmental picture of the State is given in **Table 1.1** below. The population growth in Karnataka has been close to the national average. However, there has been a decline in the population growth rate in the last two decades. The decennial population growth rate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

Table 1.1: Important statistics of the State

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

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

1.3 Organisational structure of PRIs



1.3.1 Standing Committees

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

Table 1.2: Political constitution of the Standing Committees

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

Source: KPR Act.

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

1.4 Decentralised planning

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

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

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

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

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

DPC did not visualise a comprehensive plan for the district development

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

1.5 Financial profile

1.5.1 Fund flow to PRIs

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

Table 1.3: Fund flow mechanism in PRIs

Nature of Fund	ZPs		TPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	-	-	Assesseees and users	Bank	Assesseees and users	Bank
Assigned revenues	State Government	Treasury	State Government	Treasury	State Government	Treasury/ Bank
SFC						
CFC/CSS	GOI	Bank	GOI	Bank	GOI	Bank
State plan	State Government	Treasury	State Government	Treasury	State Government	Treasury/ Bank

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

Table 1.4: Fund flow arrangements in flagship schemes

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

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

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

1.5.2 Resources: Trends and Composition

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

Table 1.5: Time series data on resources of PRIs

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

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

* excluding TPs

** increase in releases under MGNREGA

excludes GPs

NA: not available

1.5.3 Application of Resources: Trends and Composition

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

Table 1.6: Application of resources sector-wise

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

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

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

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

1.5.4 Quality of Expenditure

The Thirteenth Finance Commission has made recommendations on the need to improve the quality of expenditure to obtain better inputs and outcomes. The availability of better infrastructure in the social, educational and health sector in the country generally reflects the quality of its expenditure. In view of the importance of public expenditure on development heads for social and

economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 1.7** below shows the key parameters for evaluating the quality of expenditure of ZPs and TPs:

Table 1.7: Statement showing quality of expenditure

(₹ in crore)

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

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

Percentage of expenditure on social sector increased gradually

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

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

Table 1.8: Statement showing investment through major CSS

(₹ in crore)

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

Source: Annual Report of RDPR, Progress reports of Education Department, Watershed and Rajiv Gandhi Rural Housing Corporation Limited

Note: Release does not include additional grants provided. Expenditure more than release was due to provision of additional grants.

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

1.5.6 Rural Development programmes

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

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

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

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

Source: Annual Reports of RDPR Department

1.5.7 Recommendations on Expenditure Reforms Commission

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

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

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

1.6 Devolution of Functions, Funds and Functionaries

1.6.1 The 73rd Amendment to the Constitution envisaged transfer of the functions to PRIs listed in the Eleventh schedule. The KPR Act has only an enabling provision for transfer of subjects to different tiers of PRIs. Accordingly, the State Government through executive orders had to transfer all the subjects to different tiers of PRIs. According to a study conducted by Ministry of Panchayati Raj in 2010, Karnataka State ranks second in the

devolution index among the States. Subjects and functions transferred and yet to be transferred are detailed in **Appendix 1.3**.

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

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

- enhancing the minimum statutory developmental grant from ₹ five lakh to ₹ six lakh per GP. Taxation initiative of the GPs has been rationalised and specific guidelines and parameters have been ensured. This has resulted in a three-fold increase of the taxation demand. Karnataka has also been in the forefront in adopting the latest technology in transfer of funds to GPs through the process of internet banking;
- strengthening the GPs by creating one post of PDO in each of the 5,628 GPs and 2,500 Second Division Accounts Assistant posts in the larger GPs for effective implementation of programmes, effective utilisation of grants, *etc.*;
- enacting GPs (Budgeting and Accounting) Rules, 2006 to ensure transparency in the maintenance of accounts. Besides, Double Entry Accounting System has been introduced and is in progress in all GPs;
- developing a new interactive training programme to be transmitted through the satellite centre located at Abdul Nazir Sab State Institute for Rural Development, Mysore for training GP members. Establishment of Satellite Communication (SATCOM) centres for interactive training are in progress in five¹ other districts;
- initiating action for formulation of Comprehensive District Development Plan (CDDP) for the Eleventh Five Year Plan Period (2007-12). The ZPs have been advised to involve technical support institutions. Formulation of CDDP is under way in all ZPs.

1.7 Accountability framework

1.7.1 Authority and responsibility of State Government on PRIs

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

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

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

¹ Bangalore, Dakshina Kannada, Davanagere, Dharwad and Gulbarga

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

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

1.7.3 Powers for removal of Adhyaksha and Upadhyaksha of PRIs

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

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

1.7.4 Social Audit

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

1.7.5 Audit Mandate

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

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

1.7.6 Vigilance mechanism

1.7.6.1 Role of Lokayukta/Panchayat Ombudsman in PRIs

(a) The Administrative Reforms Commission had recommended the setting up of the institution of Lokayukta to improve the standards of public administration by looking into complaints against the administrative actions,

including cases of corruption, favouritism and official indiscipline in the administrative machinery of the State Government and PRIs.

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

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

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

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

1.8 Conclusion

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

SECTION 'B' – FINANCIAL REPORTING

1.9 Framework

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

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

1.10 Fiscal reforms path in PRIs

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

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

1.11 Accounting system in Grama Panchayats

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

- Only six GP Secretaries were able to draw trial balance. While 30 GP Secretaries could write cash book, only 25 GP Secretaries were able to post journal entries in DEAS.
- Forty three GPs did not maintain the subsidiary registers prescribed in the Rules, thereby the accuracy of accounting could not be ensured by Audit.
- None of the GPs had formed committees to arrive at the value of assets held by the GPs as required under the Rules.
- Audit of 3,555 accounts² of GPs were in arrears for the period 2007-08 to 2009-10.

1.12 Financial Reporting issues

1.12.1 Arrears in Accounts

The KPR Act stipulated that annual accounts were to be passed by general body of PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General for Audit. The general body meetings were not convened by PRIs in time due to administrative constraints. Non-preparation of annual accounts and non-conduct of audit of CSS by Chartered Accountants within the stipulated date also attributed to delay in passing the annual accounts. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Three ZPs³ and 60 TPs did not forward 2009-10 annual accounts on time, with delays ranging from 43 to 120 days and 30 to 210 days respectively.

1.12.2 Placement of Separate Audit Reports before the State Legislature

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

1.12.3 Budget

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

² Administrative report of SAD.

³ Chikmagalur, Hassan and Tumkur.

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

1.12.4 Deficiencies in ZP and TP accounts

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

- Government directed (September 2004) ZPs to maintain their accounts fund-wise⁴ as Fund-I, Fund-II and Fund-III and reconcile with fund-wise Plus and Minus Memoranda⁵ of the respective district treasuries. Ten⁶ ZPs did not prepare the accounts fund-wise. Further, the unspent balances (as of March 2008) under ZP Fund II which were to be written back to the Consolidated Fund of the State were not adjusted during 2008-09.
- Eighteen ZPs did not furnish to Audit a certificate declaring the total number of bank accounts maintained. In the absence of this, Audit could not ascertain the correctness of the bank transactions included in the annual accounts.
- As per State Government instructions (May 2000), only one bank account should be opened for each scheme. But, eight⁷ ZPs have operated multiple bank accounts as detailed in **Appendix 1.7**.
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZP. However, balances of ₹126.90 crore and ₹18.25 crore were outstanding under TP and GP suspense accounts in the annual accounts of 17 ZPs as detailed in **Appendix 1.8**.
- The year-wise balances in Suspense Accounts, Deposits and Advances, balances under Loans and Advances and adverse balances have not been reconciled and adjusted to correct Heads of Account which is a pointer to the possibilities of incorrect adjustments and is fraught with the risk of concealment of frauds.
- Amounts booked by treasury in 'Plus & Minus Memorandum' and those booked in Annual Accounts continued to reflect differences which are yet to be reconciled. The expenditure at treasury was not reconciled to the extent of ₹4.78 crore by 25 controlling officers of ZP, Ramanagara with CAO, ZP. Hence, the correctness of closing balances shown in Annual Accounts could not be vouchsafed in Audit.

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

⁵ Schedule explaining the receipts and expenditure of ZP at Treasury

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

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

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

1.12.5 Maintenance of community assets and Asset register

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

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

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

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

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

1.12.7 Furnishing of Utilisation Certificates

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

1.12.8 Unspent balances in bank accounts of closed schemes

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

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

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

1.12.9 Lapsed Deposits

Codal provisions stipulate that at the end of every financial year, any deposit remaining unclaimed for a period of three years from the date on which the deposit became repayable, shall be lapsed and credited to the Government account. Scrutiny revealed that Executive Engineers of four⁸ PREDs did not credit the lapsed deposit of ₹1.56 crore pertaining to security deposit recovered from the bills of contractors/suppliers for the year 2006-07 and earlier years to Government account till 2009-10.

1.12.10 Cases of misappropriation/defalcation

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

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

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

(₹ in crore)

Age-profile of the pending cases			Position of the pending cases		
Range in years	Number of cases	Amount involved	Nature of cases	Number of cases	Amount involved
0-5	146	12.47	Under investigation	152	12.29
5-10	32	1.72			
10-15	4	0.08	Pending in Courts	12	1.32
15-20	1	0.01			
			Others	19	0.67
Total	183	14.28	Total	183	14.28

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

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

1.13 Investment without returns

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

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

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

1.14 Conclusion

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



CHAPTER-II

Results of Audit of Panchayat Raj Institutions

CHAPTER II

RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE REVIEWS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.1 Grama Swaraj – Karnataka Panchayats Strengthening Project

Executive Summary

In order to provide opportunities to the identified backward Grama Panchayats in the State towards improving their present conditions, particularly with respect to the management of public resources and the delivery of relevant services, the State Government introduced 'Grama Swaraj - the Karnataka Panchayats Strengthening Project' during 2006-07. Implementation of the Project was deficient. Grants were released to Grama Panchayats without ensuring achievement of the envisaged performance indicators. The objective of the Grama Swaraj Project to achieve online communication and face-to-face training suffered due to delay in establishment of Taluk Resource Centres/Satellite Communication Centres. There was no material improvement in collection of taxes and in the response of the rural population towards grama sabhas. Impact study on the effectiveness of service delivery in Grama Swaraj Project areas is yet to be conducted. Among other shortcomings, operation of Project funds through current accounts in bank resulted in loss of interest aggregating ₹1.06 crore. There were cases of misappropriation of funds because of which subsequent instalments were not released to the Grama Panchayats, depriving the rural poor of the intended benefits.

2.1.1 Introduction

Considering the need to provide additional resources to Grama Panchayats (GPs) and to encourage them to raise resources commensurate with their needs and increase their capacity to utilise the resources, the State Government introduced 'Grama Swaraj (Project) - the Karnataka Panchayats Strengthening Project' during 2006-07 with a project period of five years. The Project was to be funded by the International Development Association (IDA)⁹ in the form of loan. The Project was implemented in 1,341 GPs in identified¹⁰ 39 'most backward taluks' in the State. The Project emphasised the need to improve the effectiveness of

⁹ a constituent of World Bank

¹⁰ by High Powered Committee for redressal of regional imbalances headed by Dr. Nanjundappa

service delivery by the GPs particularly with respect to the management of public resources and the delivery of services that the rural people prioritise.

The objective of the Project was to provide opportunities to GPs towards improving present conditions with respect to the management of public resources and the delivery of services through

- capacity building in Panchayat Raj Institutions (PRIs),
- improving framework and guidelines for own revenue collection and
- revamping financial management and procurement system.

2.1.2 Institutional arrangement

The institutional arrangement for the implementation of the Project was as under:

Department/Officer/ Agency/Organisation	Responsibility
Rural Development and Panchayat Raj (RDPR) and Finance Departments	<ul style="list-style-type: none"> • Primary agencies for implementation of the Project which were to work in conjunction with other line departments, as appropriate • manage Equalisation Formula for transferring funds to Panchayats, policy analysis of own resources and others through a Decentralisation Analysis Cell (DAC)
Chief, Grama Swaraj Project (C-GSP) at RDPR Department {also called Facilitation Cell (FC)}	<ul style="list-style-type: none"> • overall implementation, issuing project reports, preparation of financial management reports • provide technical guidance to district, taluk and village Panchayats • assist Taluk Panchayats (TPs) in assessing their human resource and to recruit staff through transfers and deputation or outsourcing
Zilla Panchayats (ZPs)	<ul style="list-style-type: none"> • monitor the planning process of Panchayats while ensuring compliance to guidelines • collate fiscal information from Panchayats and transfer the information to DAC • arrange for annual service delivery surveys in the GPs
Taluk Panchayats	<ul style="list-style-type: none"> • construction, operation and maintenance of Taluk Resource Centres (TRCs) meant for conducting training activities
Grama Panchayats	<ul style="list-style-type: none"> • make expenditure decisions co-relating the Activity Mapping and annual plans • implementation of the Project • maintenance of accounts and preparation of reports
State Institute for Rural Development	<ul style="list-style-type: none"> • capacity building activities through distance learning programmes, face-to-face training, equipping Satellite Communication (SATCOM) Centres, etc.

2.1.3 Scope of audit and methodology

The Project was implemented in 1,341 GPs of the State from October 2006 and is expected to close by March 2012. The performance appraisal of the implementation of the Project for the period up to March 2010 was conducted

during January-August 2010 by test-check of records of the C-GSP, eight ZPs¹¹, 12 TPs¹² and 45 GPs selected on the basis of simple random selection method. Out of the total expenditure of ₹295.32 crore incurred on the project in the State up to the end of March 2010, an amount of ₹117.92 crore (40 *per cent*) has been test-checked.

The audit objectives, based on the project objectives and criteria adopted and methodology for the performance appraisal, were discussed with the Principal Secretary, RDPR Department during an Entry Conference held in March 2010. The Exit Conference was held in August 2010 with the Secretary, RDPR Department and C-GSP to discuss the points noticed during the course of audit. The Department accepted the audit observations and replies are incorporated in the respective paragraphs.

2.1.4 Audit objectives

The objectives for the performance appraisal of the Project were as follows:

- to ascertain whether funds, obtained as loan from IDA, had reached the implementing agencies within the timeframe;
- to examine the effective implementation of the Project and ascertain achievement of project objectives; and
- to ascertain whether proper mechanism for monitoring was in place and was functioning as envisaged.

2.1.5 Audit criteria

The criteria adopted for the review were:

- Operations Manual and Procurement Manual framed by RDPR Department.
- Project Appraisal Document, Project Agreement and Development Credit Agreement for the Project.
- Government orders, circulars, *etc.* issued in this regard from time to time.

Audit findings

The points noticed during the performance appraisal are discussed in the succeeding paragraphs.

2.1.6 Financial management

The finance for the implementation of the Project was obtained as loan in the form of a Sector Investment Credit through IDA. The total outlay of the Project

¹¹ Bagalkot, Bellary, Bidar, Bijapur, Davanagere, Gulbarga, Ramanagara and Tumkur

¹² Aland, Aurad, Basavanabagewadi, Bilagi, Channagiri, Gubbi, Humnabad, Kanakapura, Sandur, Shorapur, Sira and Yadgir

was ₹600 crore, of which the loan component was ₹540 crore and the balance was to be funded by the State Government. The funds for the overall implementation of the Project were envisaged to be released under the following four components:

- (a) Block grants to GPs;
- (b) Information systems for constituents;
- (c) Human resource development and capacity building of the Panchayats; and
- (d) Building the capacity of the State.

While 100 per cent of the funds towards block grants (component (a) above) were to be released to GPs, the funds meant for other components were to be released to TPs, Abdul Nazir Sab State Institute for Rural Development (ANSSIRD) and other agencies, as appropriate.

C-GSP withdraws the allocated fund from the treasury and deposits in the scheduled banks. On receipt of Utilisation Certificates (UCs) from the GPs, the C-GSP directs the scheduled banks for on-line transfer of funds to the authorised banks of GPs. TPs/ANSSIRD draws funds directly from treasury on presentation of bills.

2.1.6.1 Financial position

As at the end of March 2010, the year-wise details of funds allocated, released and expenditure incurred on the Project (in respect of all the components) in the State during the period 2006-10 were as shown in **Table 2.1** below:

Table 2.1: Statement showing the year-wise allocation, withdrawal and utilisation of funds on the Project

(₹ in crore)				
Year	Allocation	Funds withdrawn from treasury	Expenditure	Balance held with bank/implementing agencies
2006-07	84.63	49.82	47.48	2.34
2007-08	160.03	153.04	144.67	8.37
2008-09	187.03	144.02	95.00	49.02
2009-10	115.00	68.70	8.17	60.53
Total	546.69	415.58	295.32	120.26

Source: As furnished by C-GSP

Note: Includes loan component as well as State Government releases

Available funds were not utilised in full

It could be observed from the table above that during 2006-10 only 71 per cent of the available funds were utilised on the Project. Delay in formation of FC/DAC under the Project during 2006-07 resulted in withdrawal of only ₹49.82 crore as against the allocation of ₹84.63 crore. Subsequent funds were released to GPs against the submission of UCs for instalments released earlier. The GPs, however, failed to utilise the funds released to them and to furnish UCs on time. The Panchayat Monitoring System at State level was to monitor utilisation of Project funds by GPs. In test-checked GPs, the percentage of utilisation of released funds varied between 53 and 81 indicating deficiency in monitoring.

The State Government replied (November 2010) that there was significant improvement in utilisation of funds by GPs during 2010-11.

The DAC study report revealed that the GPs secretaries felt release of funds in single instalment was better than release of funds in many instalments based on UCs. They opined that by adhering to single instalment release, the delay in utilisation of funds could be avoided.

2.1.6.2 Laxity in implementation leading to payment of commitment charges

Non-adherence to loan schedule resulted in avoidable payment of commitment charges

According to the Development Credit Agreement entered into between the State Government and the IDA, the borrower of the loan was to pay service charges (interest) at the rate of 0.75 per cent of the principal amount drawn and outstanding from time to time as stipulated. Further, the amount of loan was to be drawn from IDA as per agreed schedule, or else the borrower was to pay commitment charges on the principal amount not drawn from time to time at the rate fixed by the IDA as of 30 June each year (but not to exceed the rate of 0.5 per cent per annum). The Principal Secretary, RDPR Department was to monitor the drawal of funds on the agreed schedule to avoid payment of commitment charges.

Test-check of records showed that the PRIs/implementing agencies failed to utilise the amount, as per schedule, resulting in payment of commitment charges for the period between December 2006 and December 2008 amounting to ₹1.55 crore to IDA, as at the end of August 2010, which was avoidable. Failure to utilise the funds and implement the Project within the timeframe evidently enhanced the burden on the State Exchequer. The State Government stated (November 2010) that the drawal of fund has been streamlined and is as per the World Bank Schedule. The fact, however, remained that payment of commitment charges was avoidable.

2.1.6.3 Loss of interest

Operation of Project funds through current accounts resulted in loss of interest

The guidelines prescribed for opening of savings bank accounts for operation of Project funds. Contrarily, it was observed in Audit that the C-GSP opened current accounts (non-interest bearing) in three banks which resulted in loss of interest amounting to ₹1.06 crore¹³ in respect of funds parked in two¹⁴ bank accounts during the period 2007-10. The complete details of transactions in another bank (Corporation Bank) were not made available to audit. The State Government replied (November 2010) that these current accounts have been converted to savings account.

¹³ as worked out by audit @ 3.5 per cent

¹⁴ Account No.30251587973 at State Bank of India and Account No.20195111 at Syndicate Bank

2.1.6.4 Irregular parking of funds outside Government account

Funds were drawn from treasury and irregularly deposited in bank accounts

The provisions of Karnataka Financial Code stipulate that no funds can be withdrawn unless required for immediate disbursement/utilisation. It was, however, seen in Audit that during the years 2007-08 and 2008-09 the C-GSP drew funds allocated to the Project from treasury amounting to ₹270.16 crore¹⁵ and deposited the same in the bank accounts. Scrutiny of records in test-checked GPs showed that there were delays varying between 3 and 27 months in transferring these funds to GPs. This was due to delay in transferring funds by the nodal bank. The C-GSP also failed to ensure that funds were transferred by the bank in time to GPs. This had resulted in irregular parking of funds outside Government account, which was booked as expenditure against Consolidated Fund of the State. It was also seen that an amount of ₹7.76 crore, deposited during 2007-09, was still lying (August 2010) in bank accounts without being transferred to GPs.

2.1.6.5 Diversion of Project funds

Project funds aggregating ₹10.53 lakh were diverted for other purposes

An amount aggregating ₹7.89 lakh was irregularly paid by C-GSP during 2008-10 as salary and allowances to two officials who were not involved in the Project activities resulting in diversion of Project funds. Further, the Operation Manual for the Project strictly prohibited utilisation of block grants for any other purposes except the approved works. It was seen that an amount of ₹2.64 lakh was diverted out of block grants in three GPs¹⁶ test-checked towards payment of salary, electricity charges, works under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), etc. The C-GSP admitted (November 2010) diversion and the staff who were engaged in activities other than the Project works were recalled to work for the Project.

2.1.6.6 Misappropriation of funds

Cases of misappropriation ultimately resulted in deprivation of benefits to rural population

In order to prevent misuse of funds, the KPR Act stipulated issue of cheques under the joint signatures of the President and Secretary of GPs. Despite this, eleven cases of misappropriation of Project funds involving ₹42.62 lakh were noticed by the State Accounts Department (SAD) during 2006-09, of which ₹13.25 lakh was recovered in five cases (misappropriated amount – ₹19.53 lakh) and no recovery had been effected in six other cases (misappropriated amount – ₹23.09 lakh), as of February 2010. Subsequent instalments were not released to these 11 GPs, which hampered the implementation of the Project. Non-release of earmarked grants to GPs resulted in depriving the rural population of the intended benefits in these backward GPs.

In addition, test-check of records showed that another five cases of misappropriation by the Secretaries of the GPs involving an amount of ₹11.76 lakh, which had been noticed by the SAD authorities, were not reported to

¹⁵ during 2007-08 – ₹136.09 crore and during 2008-09 – ₹134.07 crore

¹⁶ GPs – Bemlkhada (Humnabad), Malhar (Yadgir) and Murkhi (Aurad)

C-GSP. Of this, funds amounting to ₹9.26 lakh were yet to be recovered (July 2010). The details of the cases are as shown in **Table 2.2** below.

Table 2.2: Cases of misappropriation

Taluk Panchayat	Grama Panchayat	Amount misappropriated (₹in lakh)	Nature of misappropriation	Status (as of July 2010)
Yadgir	Arakera (K)	1.56	Drawn on self cheques	Show-cause notices issued
	Chinnakar	0.55		
	Ramasamudra	2.15		Amount recovered without taking any legal action
	Malhar	2.50		
Surpur	Arakeri (K)	5.00	Issued cheques to unauthorised persons	Criminal case booked
Total		11.76		

Source: Inspection Reports of SAD

The State Government (November 2010) endorsed the reply of C-GSP who stated that disciplinary action and criminal cases have been initiated against the concerned officials.

2.1.6.7 Irregular payment of advances to contractors

Under the Project, the works were to be entrusted to contractors on tender basis. As per KPR Rules, though there was no provision for payment of advances to contractors entrusted with the works, verification of Project cash book in three GPs¹⁷ under TP, Aurad disclosed that an amount of ₹11.46 lakh was paid (2007-08) as advances to contractors. However, the GPs did not possess the details of work for which the advances were made and whether these works were completed and advance payments adjusted. Secretaries of GPs could have watched recovery of advances by maintaining an advance register. In the absence of relevant data, it could not be ascertained whether the persons to whom the advances were paid were actually contractors. Misappropriation of these funds could not be ruled out and the matter needs to be investigated.

2.1.6.8 Non-reconciliation of figures

Audit noticed difference in figures furnished by the C-GSP and 10 test-checked TPs varying from ₹1.81 lakh to ₹69.56 lakh in respect of grants released/credited to concerned account during the period 2006-10 as detailed in **Appendix 2.1**. There were differences in opening and closing balances for the years 2006-10 as per the records of EOs, TPs in respect of demand and collection of taxes as detailed in **Appendix 2.2**. This indicated that reconciliation of figures had not been attempted, as required. The C-GSP replied that reasons for differences would be obtained from EOs, TPs.

¹⁷ Jambagi, Mudhol (B) and Murki

2.1.7 Project implementation

The Project was implemented in 1,341 GPs under the 39 most backward taluks of the State. The envisaged formula for allocation of grants to GPs during the Project period is shown in the **Table 2.3** below:

Table 2.3: Formula for allocation of grants to GPs

Year	Formula
I	83.33 <i>per cent</i> of the allocated funds to be distributed equally among the GPs and the balance based on the population, area, literacy and SC/ST population
II	60 <i>per cent</i> of allocated funds by equal distribution to all the GPs and of the balance 40 <i>per cent</i> to be distributed, 50 <i>per cent</i> each based on the total population and SC/ST population in GPs
III year onwards	Based on the performance indicators derived by DAC <i>i.e.</i> , fiscal (25 <i>per cent</i>), institutional governance (49 <i>per cent</i>) and social indicators (26 <i>per cent</i>)

2.1.7.1 Routine release of grants

The envisaged parameters for these performance indicators, *inter alia*, included improvement in tax collection, progress in mobilisation of own resources, conduct of grama sabhas/Jamabandi (social audit), preparation of accounts, sanitation, reduction in drop-outs from schools, immunisation, *etc.* It was, however, observed in audit that these norms were not followed¹⁸ while releasing the grants (third year onwards) to GPs. Instead funds were allocated based only on the population (general and SC/ST).

2.1.7.2 Overall development of villages

The Operation Manual for implementation of the Project provided for preparation of perspective/development plans by GPs considering the available resources, analysis of sector-wise proposals in grama sabhas and finalisation of Annual Plans (APs) in consultation with the respective departments for the selected works. The guidelines also illustrated the department-wise list of works required to be implemented in GPs and also delineated the responsibility of ZP, TP and GPs in implementing these activities through 'Activity Mapping'. The C-GSP was to monitor that the works proposed in the perspective/development plans were also included in the APs of GPs. It was, however, observed in test-check that while the development plans included works that were required to be executed, the GPs included in their APs mainly works relating to roads and water supply during 2006-10. These two items comprised 82 *per cent* (1,002 works) of the 1,218 works taken up for execution. Many of the devolved functions were not attempted at all under the Project, indicating a lack of vision towards the overall development of the GP. The State Government replied (November 2010) that the GPs would be asked to take up other essential works also.

Only road and water supply works were executed, adversely affecting the overall development of the villages

¹⁸ reportedly in consultation with the World Bank authorities

DAC study report (May 2008) revealed that the decision to execute certain items of works was predetermined by the GP members and the grama sabhas were informed of their decision.

2.1.7.3 Resource mobilisation

Tax rates were not revised and there was no improvement in collection of taxes

The primary objective of the Project through additional funding was to encourage GPs to raise resources commensurate with their needs, and increase their capacity to utilise the resources. During 2006-10, percentage of tax collected to the demand in GPs test-checked varied between 19 and 22 as against the envisaged parameters (60, 65, 70, 70 and 75 per cent respectively) during the five year Project period. This indicated that unconditional release of funds in a routine manner negated the spirit of the Project. As of March 2010, while an amount of ₹157.02 crore¹⁹ was outstanding from these selected 39 TPs, amount aggregating ₹3.57 crore was outstanding in the 45 GPs test-checked.

Further, it was also prescribed that tax structure in the GPs should be revised at least once in three years. It was, however, noticed that the tax structure was not revised during the last six years in any of the GPs test-checked.

Evidently, departure from these parameters and release of grants only on the basis of population resulted in GPs not making any additional efforts in tax collection and mobilisation of resources.

DAC conducted a field study and suggested measures²⁰ (June 2009) to improve own revenue generation of GPs. Study also indicated that the Secretaries of GPs in Gulbarga district were not aware about how much tax was to be collected. There is a general mindset among the people that the State Government would waive the tax payable at a later date. C-GSP is yet to initiate action on the report (August 2010).

2.1.7.4 Poor response to grama sabhas

Despite implementation of the Project, the response to grama sabhas was very poor

The grama sabhas would be the instrument of accountability to the people. The guidelines also emphasised on increasing the participation of local people in grama sabhas to achieve greater satisfaction in service delivery that the local people prioritise and decide. Accordingly, the guidelines prescribed that the grama sabha in a GP would meet twice in a year. It was, however, seen in test-checked GPs that the implementation of the Project in GPs had not been able to involve the people as evidenced by the continued poor participation by them in the grama sabhas held during the period 2006-10 as detailed in **Table 2.4** below.

Table: 2.4: Statement showing the participation in grama sabhas

Year	Number of grama sabhas held	Population (in lakh)	Number of persons participated	Percentage of participation
2006-07	82	2.63	4,367	1.7
2007-08	63	2.63	4,226	1.6
2008-09	81	2.63	6,130	2.3
2009-10	65	2.63	4,413	1.7

¹⁹ details as furnished by the C-GSP

²⁰ insist defaulters of tax for payment before benefits such as issue of ration card, water supply connection, etc. are provided by GPs

It was proposed (December 2008) to conduct publicity campaigns (Kala Jathas) to create awareness regarding objectives, need for participation and benefits of the Project in these 39 backward taluks. Though the campaigns were to be conducted from January 2009, the funds (₹36.88²¹ lakh) for the purpose were released to TPs by C-GSP belatedly during May 2009 and November 2009. Out of this, as of March 2010, an amount of ₹5.11 lakh only was utilised in the State. In three test-checked TPs²², funds amounting to ₹2.97 lakh were drawn and kept in bank accounts without conducting any publicity campaign. The State Government replied (November 2010) that steps have been taken to intensify publicity campaign.

DAC study report (May 2008) revealed the following:

- the awareness on the Project objectives was very poor and the villagers were not interested in knowing the objectives as long as the works were undertaken; and
- only a few villagers gave inputs in grama sabhas about the needs of the GPs.

2.1.7.5 Capacity building through Taluk Resource Centres

Non-establishment of Taluk Resource Centres defeated the objective of capacity building

To impart training and upgrade skills of the elected representatives, members of self-help groups, NGOs and other stakeholders, it was proposed to construct 175 Taluk Resource Centres (TRC) (also called “Samarthya Soudhas”) under the Project (one in each taluk). Funds out of Project grants amounting to ₹16 lakh, later enhanced to ₹25 lakh, had been provided for each building.

As of March 2010, out of the proposed 175 centres, while the construction of the building was completed in respect of 43 taluks at an expenditure of ₹69.84 crore, the construction had not even commenced in 50 taluks, and the balance 82 buildings were in different stages of construction after incurring an investment of ₹66.58 crore. This was due to delay in tender process, identification of site, etc. In test-checked TPs, only one building was completed and training conducted.

The delay/non-commencement of construction of these buildings defeated the objective of enhancing capacity through training programmes under the Project. The C-GSP agreed (November 2010) that efforts are being made to sort out issues and take up construction work as early as possible.

The guidelines of the Project provided for appointment of following personnel for each TRC as shown in **Table 2.5** below:

Table 2.5: TRC personnel and their duties

Personnel	Duties
Computer Specialist	to assist GPs in computerisation
Accountant	<ul style="list-style-type: none"> ▪ to review the extent to which GPs are following the financial guidelines ▪ to provide assistance on the matters where needed, and ▪ to collate Panchayat accounts at the block level for transfer to the district
Social Specialist	to assist Panchayats in planning and mobilise the poorest and vulnerable groups to attend grama sabhas

²¹ @ ₹2,750/- for each GP

²² Aland, Gubbi and Sira

Services of TRC personnel were grossly under-utilised

These personnel were to cater to the needs of all the GPs under the jurisdiction of the TP concerned. Though these personnel were appointed during 2007-08, it was observed that they did not visit any of the GPs till 2009-10 and were placed only at taluk level. It was replied by EO, TPs that GPs were not visited by TRC personnel due to non-release of travelling allowance by C-GSP.

The under-performance of these personnel, the Social Specialist in particular who was to be instrumental in influencing the downtrodden people to attend grama sabhas, defeated the purpose of their recruitment.

2.1.7.6 Computerisation and accrual accounting

The objective of computerisation of GPs did not materialise due to non-utilisation of the computers provided

The Project envisaged computerisation of all PRIs to enable web-based data-entry, online communication of documents and data in the form of reports, computerised accounting system, etc. The computerisation of GPs under the Project was also to support the new accounting guidelines for roll over from cash to accrual accounting in GPs. It was observed in the 12 test-checked TPs that out of 441 GPs, the computers were being used in only four GPs. The computers were not used in other GPs due to repairs, non-availability of networks, etc. though computer operators were in place in 257 GPs. Thus, the objective of computerisation of GPs was defeated.

The progress report submitted by C-GSP (December 2010) on the Project implementation support mission stated that more than 300 GPs were not provided with on-line connection. In order to avoid disruption in data entry, an offline version was necessary. Even though all GPs have activated “Panchatantra software” for accounting, proposal to appoint qualified Accounts Assistants are still under consideration by the State Government. Training to Chartered Accountant (CA) firms in panchatantra software was scheduled only in the month of January 2011. In spite of assistance rendered by CAs for preparation of accounts in Double Entry Accounting System (DEAS) from 2007 onwards, the GPs staff have not adapted to maintenance of accounts in DEAS. Deficiencies noticed by Audit are brought out in paragraph 1.11 of Chapter-I Section ‘B’ of this Report.

2.1.7.7 Capacity building through SATCOM Centres

Inadequate release of funds for construction of SATCOM centres resulted in buildings remaining incomplete

Another component envisaged under capacity building was establishment of SATCOM Centres in the State, to facilitate distance learning programmes, face-to-face training, etc. in tune with ANSSIRD at Mysore. It was proposed (May 2007) to construct SATCOM centres in five cities in the State at an estimated cost of ₹50 lakh each (₹25 lakh each for building and equipment). Funds for the civil works were released to ZPs concerned and it was observed that the construction of these centres remained incomplete, even as of

March 2010, after incurring an expenditure of ₹62.90 lakh on them as detailed in the **Table 2.6** below:

Table 2.6: Details of establishment of SATCOM centres

Place	Estimated cost of the building	Total funds released	Expenditure	Status (as of March 2010)
	(₹ in lakh)			
Bangalore	25.00	25.00 (2009-10)	25.00	Certain additions/alterations being executed
Davanagere	25.00	14.60 (2007-08)	14.60	Buildings reportedly completed. Works of electrification, sound proofing, false ceiling, ducts, etc. to be completed.
Dharwad	25.00	13.30 (2008-09)	13.30	
Mangalore	25.00	10.00 (2009-10)	10.00	Work under progress
Gulbarga	25.00	10.00 (2009-10)	NIL ²³	Work completed up to lintel level
Total		72.90	62.90	

It was observed that delay in selection of site, delay in giving feasibility report by ANSSIRD experts resulted in all the buildings remaining incomplete even after three years. This rendered the expenditure of ₹62.90 lakh unfruitful besides impairing communication/training/capacity building.

As per the progress report (December 2010) of the Project training programmes furnished by ANNSIRD, Mysore, it was observed that Indian Space Research Organisation had withdrawn the bandwidth provided, due to expiration of life period of the satellite. It was stated that the bandwidth could be provided only after the launch of a new satellite, indicating further delay in operationalisation of these SATCOM centres.

2.1.7.8 Improper/defective estimates leading to wasteful expenditure

Non-provision of basic amenities rendered the expenditure wasteful

It was stipulated in the Project guidelines that Detailed Project Report (DPR) was to be prepared for each work taken up under the Project. As per the practice adopted under Prime Ministers' Grameena Sadak Yojana, the Project Implementing Unit had to conduct a survey and prepare a comprehensive estimate prior to preparation of DPR. It was generally observed under the project that DPRs were not prepared by the GPs for any of the works taken up/executed. An expenditure of ₹85.89 lakh was incurred during the period 2007-10 on construction of community/ladies toilets in the GPs coming under seven TPs²⁴. Scrutiny of estimates sanctioned by Assistant Executive Engineer, PRE Sub-Divisions for these works revealed that the estimates did not provide for the basic and essential component of water in these toilets, resulting in the toilets not being fit to use, and not being put to use, thus rendering the expenditure of ₹85.89 lakh wasteful. It was replied by EO/TPs that such works would be avoided in future. Thus, non-preparation of comprehensive estimates and DPRs resulted in execution of faulty works based on defective estimates.

²³ payments were due to contractors for works executed (March 2010)

²⁴ TPs-Aurad, B.Bagewadi, Humnabad, Kanakapura, Sandur, Shorapur and Yadgir

2.1.7.9 Execution of ineligible works

The guidelines/agreement stipulated that the expenditure incurred towards ineligible works under the Project would not be reimbursed by the IDA. It was noticed in test-checked GPs that ineligible works costing ₹1.41 crore had been executed as narrated below:

- The C-GSP clearly instructed (October 2006) the CEO, ZP, Bagalkot not to take up/execute works of capital nature in rehabilitated villages of Upper Krishna Project. In disregard of the instructions, 73 works of capital nature costing ₹1.12 crore were executed during 2007-10 in such villages coming under five GPs of the district. Audit noticed that C-GSP approved these works included in APs in a routine manner without scrutinising them.
- Works like construction of religious buildings, community centres, marriage halls, *etc.* and assistance to private institutions were not permitted under the Project. Contrarily, 23 GPs approved action plans which included ineligible works. Inclusion of ineligible works in the APs was also not scrutinised and objected to by C-GSP. It was noticed that 30 ineligible works costing ₹28.71 lakh were executed as detailed in the **Table 2.7** below :

Table 2.7: Details of execution of ineligible works

Taluk Panchayat	Number of works executed	Expenditure (₹in lakh)	Nature of works executed
Sandur	2	2.76	Construction of quarters for teachers (2007-08)
Aurad	11	11.55	Samudaya Bhavans and marriage halls (2007-08)
Yadgir	7	7.70	Construction of quarters for GP Secretaries, repairs to community centres, <i>etc.</i> (2006-08)
Aland	10	6.70	Samudaya Bhavans and marriage halls (2007-09)
Total	30	28.71	

Thus, execution of ineligible works by GPs resulted in disallowance of the expenditure incurred and consequent non-reimbursement of loan by IDA. C-GSP stated (November 2010) that construction of quarters for teachers and GP secretaries was not barred as per the operation manual. The reply was not tenable as execution of these works does not fulfill the Project objectives.

2.1.7.10 Absence of environmental framework

The GPs were required to assess the impact of all schemes/projects on the environment and were to take measures for mitigating any adverse impact on the environment through works taken up under Grama Swaraj Project. The State Government issued separate environmental guidelines for the PRIs (November 2006). The environmental guidelines provided for appointing an Environment

Project was implemented without assessing/considering the impact on environment

Coordinator at the GP level, who was to be specially trained for assessing environmental impact and for addressing any adverse impact. However, it was noticed that the environmental guidelines issued by State Government had not been received in 38 GPs out of 45 GPs test-checked and the Environment Coordinator was not appointed in these GPs. As such, the Project was implemented in the GPs without considering/assessing the impact on environment.

2.1.8 Monitoring and impact study

2.1.8.1 The implementation of the Project was required to be monitored by the ZPs through their planning unit to:

- ensure compliance to guidelines by the GPs in the planning process;
- administer an annual survey of service delivery standard at the GP level; and
- collate the fiscal information from Panchayat accounts.

The test-checked ZPs did not furnish details of monitoring but generally replied that the details of the Project were available at GP/TP level evidencing that they failed in complying with the above provisions which led to irregularities as explained in preceding paragraphs.

At the State level, a Steering Committee was to be constituted to review and oversee the implementation of the Project. Even though the committee was constituted in December 2006 details of meetings held were not made available. Thus, the monitoring mechanism for the Project could not be ensured by Audit.

2.1.8.2 Based on the proposal of the Director, ANSSIRD, Mysore for conducting an action research towards impact of trainings imparted, the C-GSP released (May 2009) ₹20.20 lakh to the Director. However, the Director entered into an agreement (March 2011) with an agency for impact study on the effectiveness of service delivery and functioning of PRIs in GSP areas, after more than two years of its release, indicating laxity in conducting impact assessment.

2.1.9 Conclusion

The performance review of the implementation of the Project during 2006-10 revealed that grants were released to GPs without ensuring achievement of the envisaged performance indicators. The objectives of the Project were not achieved, as evidenced from the poor response of the people towards grama sabhas, non-improvement in collection of taxes, non-preparation of DPRs for works executed, failure to computerise the GPs, non-establishment of TRCs/SATCOM centres, execution of ineligible works, *etc.* Funds drawn in advance of requirement were irregularly kept outside Government account. Financial discipline was inadequate as instances of loss of interest, diversion of funds, irregular payment of funds to contractors, *etc.* were noticed. Impact study on the effectiveness of service delivery in project areas is yet to be conducted.

2.1.10 Recommendations

- The State Government should conduct an evaluation study to assess the performance and impact of the Project.
- The State Government should devise a plan for effective capacity building of all PRI functionaries and officials.
- The State Government should take adequate steps for effective functioning of grama sabhas.

2.2 Implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga

Executive Summary

The declared objectives in setting up Panchayat Raj Institutions are decentralisation of powers and functions to promote democratic institutions and secure greater participation by the people in local and Government affairs. With the formation of Panchayat Raj Institutions, substantial functions of the State Government have been transferred to them. Zilla Panchayat, Chitradurga was implementing various developmental activities through Taluk/Grama Panchayats, line departments and Engineering Division. A review on implementation of developmental programmes in selected departments of Zilla Panchayat, Chitradurga during 2005-10 revealed that the Annual District Development Plans finalised by District Planning Committee were framed in a routine manner without visualising an overall plan for the district development. The lack of financial discipline and financial control resulted in irregular drawal of funds on self cheques, deposit of ₹8.70 crore outside Government account, besides lapse of grants of ₹88.92 lakh. Operational controls were inadequate as evidenced from denial of safe drinking water facility to rural habitations, non-distribution of school books and bags to Scheduled Caste/Scheduled Tribe children on time, incomplete stadia for more than a decade and non-functioning of trauma care centres. Critical health services were affected in the absence of essential staff in health centres. The monitoring and internal control mechanism was not effective due to inadequacy in coverage of internal audit as well as external audit and non-submission of periodical returns by lower tiers of Panchayat Raj Institutions.

2.2.1 Introduction

Chitradurga district is situated in the middle eastern part of the State of Karnataka having a geographical area of 8,440 square kilometers with a population of 15.18 lakh as per 2001 census, of which the rural population constituted 12.44 lakh (82 *per cent*). The population comprised of 3.36 lakh (22 *per cent*) belonging to Scheduled Castes (SC) and 2.66 lakh (18 *per cent*) belonging to Scheduled Tribes (ST). The district ranks number 16 in human development index and 14 in gender development index amongst 30 districts of Karnataka State. It has a literacy rate of 65 *per cent* as against the average rate of 67 *per cent* in the State.

2.2.2 Organisational set-up

Zilla Panchayat (ZP), Chitradurga consists of six Taluk Panchayats (TPs) and 185 Grama Panchayats (GPs) in the district. ZP is obligated to carry out measures to promote health, safety, education, comfort, social, economic and cultural well-being of the inhabitants of the district. ZP, Chitradurga, headed by Adyaksha and assisted by Upadyaksha and a team of 34 ZP elected members, MLAs, MLCs and MPs who are ex-officio members of ZP, take decisions regarding financial, social

and developmental matters of the district. Panchayat Raj Institutions (PRIs) perform their functions through their Standing Committees constituted for the purpose as detailed in **Appendix 1.1** to Chapter-I of the Report.

The Chief Executive Officer (CEO), ZP monitors the developmental activities and schemes implemented by PRIs and through line departments. The CEO, ZP is responsible for reporting the progress of activities of PRIs and line departments to the State level officers of the concerned departments. Organisational structure of state/district level officers under PRIs and line departments test-checked are indicated in **Table 2.8** below:

Table 2.8: Organisational chart of PRIs and selected line departments

PRIs/Department	State level	ZP level	TP level	GP Level
ZP/ TPs/GPs and Panchayat Raj Engineering Division (PRED)	Principal Secretary, Rural Development and Panchayat Raj (RDPR) Department, assisted by Directors-Panchayat Raj, Rural Infrastructure, Self Employment programme (SEP), etc.	CEO assisted by Deputy Secretary, Chief Planning Officer (CPO), Chief Accounts Officer (CAO) and Standing Committees. Executive Engineer (EE) assisted by Assistant Executive Engineer (AEE) in PRED	Executive Officer (EO) assisted by Standing Committees	GP Secretary/ Panchayat Development Officer assisted by Standing Committees
Health and Family Welfare	Commissioner, Health & Family Welfare Services (H&FWS)	District Health & Family Welfare Officer(DH&FWO)	Taluk Health Officer	-
Education	Commissioner for Public Instructions (CPI)	Deputy Director of Public Instructions (DDPI)	Block Education Officers (BEOs)	-
Social Welfare	Commissioner, Social Welfare	District Social Welfare Officer (DSWO)	Taluk Social Welfare Officer (TSWO)	-
Youth Services and Sports	Commissioner, Youth Services & Sports (YSS)	Assistant Director (AD), YSS	-	-
Commerce & Industries (Khadi & Village Industries)	Commissioner for Industrial Development and Director of Industries & Commerce	Deputy Director (DD), Rural Industries Division	Industrial Extension Officer	-

Note: The taluk/district level officers of line departments report to EO, TPs/CEO, ZP respectively. The district level officers also report to the Heads of Administrative Department directly.

2.2.3 Scope of audit and methodology

The performance appraisal on implementation of developmental programmes in selected departments of ZP, Chitradurga was conducted (February to August 2010) by test-check of records of ZP, two TPs²⁵, 15 GPs²⁶, PRED and five line departments²⁷. The methodology for selection of ZP was based on judgemental sampling. TPs and GPs were selected based on monetary unit and simple random sampling methods, respectively.

²⁵ Challakere and Hiriyur

²⁶ Doddauarthi, Dodderi, Hirehalli, Mylanahalli, Nagaramgere, Nannivala, Nayakanahatti, Pagadalabande, Renukapura and Thimmappainahalli in Challakere taluk; Adivala, Aimangla, Burujinaroppa, Eshwaragere and Maskal in Hiriyur taluk

²⁷ Education, Health and Family Welfare, Commerce and Industries (Khadi & Village Industries), Social Welfare and Youth Services and Sports Departments.

The Entry Conference of the performance review was held during March 2010 and the objectives of the review were discussed with the Principal Secretary, RDPR Department. The Exit Conference was held during August 2010 with the CEO, ZP who generally accepted the audit observations.

2.2.4 Audit objectives

The audit objectives of the review were to assess whether:

- the decentralised planning process was effective;
- financial discipline and financial control existed in PRIs and selected line departments;
- the operational controls exercised by PRED/line departments/external agencies in implementation of developmental activities were adequate;
- the human resources for prompt service delivery to the rural population were ensured and the material management was effective; and
- the monitoring mechanism and internal control were in place.

2.2.5 Audit criteria

The Audit criteria adopted for the review were:

- The Karnataka Panchayat Raj (KPR) Act, 1993 and instructions issued by State Government from time to time;
- Karnataka Transparency in Public Procurements (KTPP) Act and Rules, Karnataka Financial Code (KFC) and the Manual of Contingent Expenditure (MCE);
- Guidelines/orders issued by Government of India (GOI) and State Government for implementation of schemes; and
- Project proposals and Detailed Project Reports for developmental works.

Audit findings

The audit findings observed during the course of review are detailed below:

2.2.6 Decentralised planning and planning process

2.2.6.1 District Planning Committee

The KPR Act made it mandatory for the State to constitute a District Planning Committee (DPC) in each district with a responsibility to prepare draft development plans having regard to the matters of common interest between PRIs and Urban Local Bodies (ULBs) including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation, *etc.* The DPC shall consolidate the plans prepared by the PRIs, ULBs and prepare the draft development plans for the

district as a whole. DPC could recommend alterations in the draft plans prepared by the PRIs before finalising the development plan.

2.2.6.2 The State Government constituted (April 2001) the DPC in the district and the committee was to meet once in a quarter. As against 20 meetings to be held during the period 2005-10, the committee met only six times (once during 2007-08, twice in 2008-09 and thrice in 2009-10).

2.2.6.3 KPR Act envisaged forwardal of the plan proposals of GPs to TPs and after consolidation at TPs, the plan proposals were to be forwarded to ZP by 15 August every year for inclusion in their draft plan. It was, however, noticed that the GPs and TPs did not forward their plan proposals for consolidation. KPR Act and Rules did not specify any action to be taken on lower tiers of PRIs for non-forwardal of plan proposals. The CEO, ZP failed to monitor receipt of plan proposals from lower tiers of PRIs leading to non-preparation of draft plans comprehensively.

Audit examination of the district planning in general and Annual District Development Plan (ADDP) for the year 2009-10 in particular has revealed the following:

- the DPC did not forward the ADDPs to the State Government for integration with the State Plan.
- the DPC finalised the ADDP by merely consolidating the plan proposals received from the line departments without visualising a plan for district development.
- the ADDP was not comprehensive as it did not include the developmental activities/schemes of certain line departments²⁸. The Chief Planning Officer (CPO), while admitting (January 2011) the lapse, agreed to include these from the ensuing year.
- the ADDP did not contain the plan proposals of flagship programmes such as Sarva Shiksha Abhiyan, National Rural Health Mission, etc.
- the CPO did not consider the data base of all natural and human resources and facilities available in the district, for planning.
- the ADDP did not exhibit sector-wise targets. As a result, sector-wise development plans could not be ensured by Audit. CPO replied (January 2011) that this aspect would be considered during ensuing years.
- Under Rashtriya Sama Vikas Yojana (RSVY), the CEO, ZP was required to prepare a three year master plan nested with Annual Action Plans (AAPs) of PRIs/line departments. It was, however, noticed that no master plan was prepared and the micro action plans were prepared in a routine manner. CEO, ZP did not take up the works approved in the RSVY micro action plans during 2004-07, defeating the sanctity of AAPs. This

ADDP prepared was not holistic and contained deficiencies

²⁸ Housing (₹13.86 crore), Roads and Bridges (₹3.15 crore), Development grants of TPs/GPs (₹11.30 crore), Nutrition (₹4.25 crore), etc.

was also not monitored at the State level by the Chief Secretary to the State Government.

- DPC finalised the action plans for Backward Region Grant Fund (BRGF) during 2008-09 which provided for purchase of computers and peripherals worth ₹1.78 crore. CEO, ZP, however, did not apprise the DPC about the computers and peripherals already available in GPs, rendering the expenditure avoidable.

In the absence of the above requirements, the ADDP prepared was not holistic and contained deficiencies.

2.2.6.4 The State Government constituted the DPC Fund with contributions from PRIs and ULBs of the district. The Fund was to be utilised for payment of sitting fees to members, commissioning of studies, improvement in planning and to explore the planning avenues with the help of experts in different fields, *etc.* Audit observed that the DPC neither commissioned any studies nor engaged experts in improving the district planning. Instead, an expenditure of ₹4.06 lakh was incurred for activities²⁹ other than for DPC.

2.2.6.5 State Panchayat Council

KPR Act provided for the State Government to constitute a State Panchayat Council to discuss matters relating to functioning of the Panchayats and to act as a forum for elected representatives to voice their aspirations and offer their suggestions to improve the Panchayat Raj system and make it responsive to the peoples' needs. The Council was constituted under the Chairmanship of the Chief Minister and nominated ministers and all Adhyakshas of ZPs as members. The Council would meet at least twice a year. Though the Council was constituted during 1999, it met only once during October 2006 when it suggested the formation of a planning section in all taluks for effective planning to meet the grass root level needs. The suggestion was, however, not heeded to and no action has been taken to constitute such a planning cell by the State Government (January 2011).

2.2.7 Financial Management

Fund Position

The ZP receives funds by way of State grants and GOI grants based on the recommendations of Finance Commissions. State grants/GOI grants routed through treasury are drawn by the Drawing and Disbursing Officers (DDOs) by presenting bills to treasury and funds for Centrally Sponsored Schemes (CSS)/Central Plan Schemes (CPS) routed through banks are drawn by the implementing officers from the respective banks.

²⁹ purchase of library books to GPs, sports meets, donation to mutts, honouring eminent personalities, *etc.*

The details of receipts and application of funds sector-wise in the ZP during 2005-10 were as detailed in **Table 2.9** below:

Table 2.9: Statement showing receipts and expenditure of ZP during 2005-10
(₹ in crore)

Receipts and Expenditure for the years 2005-06 to 2009-10								
Receipts					Expenditure			
Year	State/GOI Grants routed through treasury	Schemes including CSS/CPS routed through banks	Other Receipts#	Total	General services	Social services	Economic services	Total
2005-06	129.45	77.91	0.68	208.04	3.39	94.12	84.73	182.24
2006-07	127.49	129.97	1.00	258.46	3.81	89.53	142.66	236.00
2007-08	128.78	109.04	2.23	240.05	3.81	102.33	108.47	214.61
2008-09	165.90	95.35	3.11	264.36	4.31	119.17	126.80	250.28
2009-10	159.72	148.79	2.76	311.27	3.58	145.59	155.71	304.88
Total	711.34	561.06	9.78	1,282.18	18.90	550.74	618.37	1,188.01

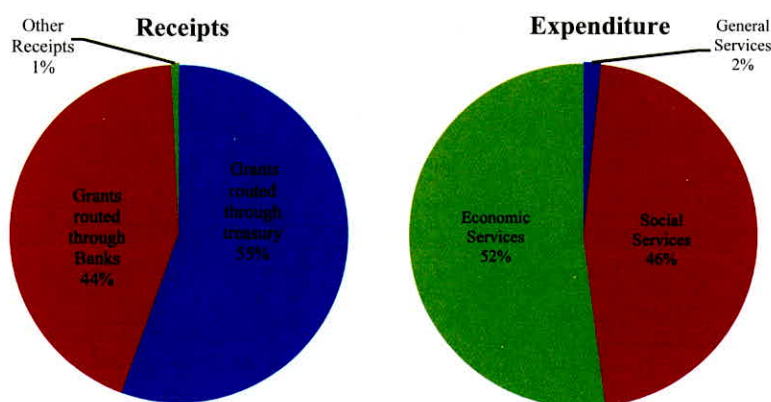
Source: Certified annual accounts of Chitradurga for 2005-06 to 2008-09 and un-audited annual accounts for 2009-10

Note: Receipts and expenditure include funds released to implementing agencies of PRIs except direct transfer of State/GOI funds

includes interest received from banks on schemes funds, etc.

There was steady increase in receipt and expenditure over the years 2005-06 to 2009-10. The sector-wise expenditure also showed an increasing trend especially under medical and public health and welfare of SC/ST/Other Backward Classes.

Pie Chart showing receipts and expenditure during 2005-10 of ZP, Chitradurga



Financial discipline and controls

Control over budget and expenditure is essential for optimum utilisation of available resources to achieve the objectives of the schemes/developmental works. Financial controls include control over cash flow and utilisation of funds released. Implementing agencies, having custody of funds, were to observe financial discipline as per the codal provisions. The CEO, ZP was to monitor the flow of funds. The State Government was to ensure overall financial control and availability of funds for sustainability of the schemes/projects. Financial

irregularities observed by Audit and laxity in financial control by monitoring authorities are detailed in subsequent paragraphs.

2.2.7.1 Panchayat Raj Institutions

- **Loss of Central Assistance**

The Principal Secretary/Director, SEP, RDPR Department was responsible for overall monitoring of the financial progress of Swarna Jayanthi Gram Swarozgar Yojana (SGSY) at the State level. Due to failure in utilising the available funds, non-submission of Utilisation Certificates (UCs) on time, non-monitoring of the financial progress by CEO, ZP and short release of state share by the State Government; the ZP, Chitradurga lost central assistance of ₹49.53 lakh under SGSY during 2006-09.

Loss of assistance due to non-monitoring of the financial progress by CEO, ZP and the Director, SEP led to denial of subsidy to the Self Help Groups to avail the benefits of SGSY.

- **Short recovery of general tax revenue and water charges**

Shortfall in recovery of tax revenue and water charges

The provisions of KPR Act empower the GP to levy and collect tax to augment their resources and to fix, revise and collect water charges to meet the operation and maintenance cost of the water supply schemes. In the event of default, the secretaries of GPs may recover the amount due along with a penalty of 10 *per cent* of the sum due, by distraint and sale of the moveable property of the defaulter. The CEO, ZP was to monitor the revenue collection of GPs and suggest corrective measures to improve collection. It was noticed in ZP, Chitradurga that as of March 2010, an amount of ₹16.19 crore (progressive balance) towards general tax revenue and ₹3.67 crore towards water charges were pending recovery.

The shortfall in recovery of dues showed an increasing trend during the period 2005-10 ranging from 72 to 85 *per cent* (general tax) and 47 to 85 *per cent* (water charges). Audit observed that no recovery proceedings were initiated by the GP Secretaries on the defaulters of tax revenue and water charges.

The CEO, ZP failed to initiate concrete measures to improve the collection despite submission of periodical returns on demand and collection by GPs. Thus, the failure of CEO, ZP to monitor the revenue collection and laxity of GP authorities in revenue collection led to inadequate generation of funds for developmental activities and maintenance of water supply system. The CEO, ZP replied (April 2010) that all the GPs would be directed to collect the balance tax and water supply charges.

- **Non-remittance of cess**

As per the instructions of State Government, a cess towards education, health and library aggregating 31 *per cent* of the total tax collection of the GPs had to be remitted to State Government. The secretaries of GPs were to comply with the instructions and the CEO, ZP was required to watch deductions of cess and consequent remittance to the State exchequer. It was observed that there is no

mechanism prevailing in the State to watch the remittance of the cess deducted. It was noticed that ₹4.60 crore out of ₹14.83 crore collected towards cess for the period from 2005-06 to 2009-10 was not remitted to the Government account.

Non-remittance of this amount to the State exchequer defeated the purpose³⁰ for which these collections were made.

- ***Non-preparation of Budget Estimates***

The exercise of budget preparation gives an opportunity to review the trend of expenditure and project the budget estimates realistically. The KPR Rules stipulate that GPs and TPs were to prepare their budget in three parts viz., Revenue, Capital and Debt & Deposit Account and forward it to ZP for approval before 25 March of every year. It was, however, noticed in the test-checked TPs and GPs that budget estimates were not prepared and submitted for approval during the period under review. CEO, ZP also failed to ensure receipt of budget estimates for approval from the lower tiers of PRIs. Instead, action plans were prepared in a routine manner based on allocation made to the TPs and GPs resulting in non-projection of actual requirements of the rural population.

- ***Drawal of funds on self cheques***

Codal provisions prohibit drawal of funds on self cheques. GP secretaries drew an amount of ₹15.51 lakh on self cheques as detailed in **Appendix 2.3** from various SB accounts during 2005-06 to 2009-10 towards purchase of electrical items, materials for water supply repair works and petty payments. In the absence of supporting vouchers/records, Audit could not vouchsafe the transactions. Despite codal provisions and instructions of the State Government and external audit, the procedure of drawal of self cheques is in practice and fraught with the risk of misuse.

- ***Financial irregularities under Twelfth Finance Commission (TFC) grants***

The State Government sanctioned (August 2009) construction of 538 kitchen-cum-store rooms at an estimated cost of ₹3.23 crore out of TFC grants under ZP, Chitradurga. Accordingly, CEO, ZP released (October 2009) a sum of ₹1.41 crore³¹ towards construction of kitchen-cum-store rooms in 235 schools. In turn, the EOs were to release the funds to School Development Management Committees (SDMCs) and the works were to be completed by June 2010. CEO, ZP at district level and the Secretary, RDPR Department at the State level were to monitor the utilisation of funds. Scrutiny of records revealed the following:

(a) Excess release to SDMCs

EOs released (March 2010) double the grant prescribed to 43 SDMCs and as a result only 192 schools were benefitted. On being pointed out, EO, TP, Hiriyur replied (July 2010) that excess grants were released based on the oral instructions

³⁰ providing adequate health services, education and improving facilities in libraries

³¹ ₹58.20 lakh to EO, TP, Hiriyur and ₹82.80 lakh to EO, TP, Challakere @ ₹ 0.60 lakh for each school

of BEO and President of TP. Thus, the action of EO, TP was without the approval of CEO, ZP who also did not monitor the progress reports, which resulted in certain schools being deprived of the grant.

(b) Blocking of funds

Blocking up of funds denied benefits to needy schools

Construction of kitchen-cum-store room entrusted by EO, TP had not been commenced by SDMCs as of July 2010 in 18 schools of Challakere taluk. Funds amounting to ₹12 lakh were blocked in bank accounts of SDMCs of such schools, depriving students of the benefit of this facility.

2.2.7.2 Panchayat Raj Engineering Division

• **Lapse of grants**

To avoid lapse of grants CEO, ZP was to monitor the cumulative progress of expenditure under each head of account from the progress reports and classified abstracts submitted by EE, PRED. It was noticed that out of a total grant of ₹12.98 crore released by CEO, ZP to EE, PRED during 2007-08 to 2009-10 towards implementation of plan programmes, an amount of ₹88.92 lakh lapsed due to non/under utilisation as detailed in **Table 2.10** below:

Table 2.10: Statement showing lapse of grants

(₹ in lakh)					
Year	Scheme	Head of Account	Grants received	Expenditure incurred	Lapsed amount
2007-08	Infrastructure Development programme for ST	2225-02-794-0-01	35.00	27.61	7.39
2008-09	Chief Ministers Grameena Sadak Yojana (CMGSY)	3054-80-196-1-02	888.23	838.56	49.67
	Minor Irrigation, New Supplies	2702-80-052-1-01	2.75	Nil	2.75
2009-10	CMGSY	3054-80-196-1-02	372.00	342.89	29.11
Total			1,297.98	1,209.06	88.92

Source: Grant and outlay register of PRED

On being pointed out by Audit (January 2011), the EE, PRED stated that due to technical problems in treasury and delay in submission of bills by contractors, the funds were lapsed to Government Account. The fact, however, remained that it affected execution of new works to that extent during the subsequent years.

• **Irregular drawal of funds**

Irregular drawal of funds to avoid lapse of grants

MCE stipulates that no money shall be drawn from treasury unless it becomes due for payment. The State Government also issued instructions (January 2007) to PRED not to draw funds from the treasury in anticipation of expenditure and deposit them in bank accounts. Funds for developmental activities had to be drawn on Detailed Contingent bills from the treasury. It was noticed that during March 2010, funds aggregating ₹8.70 crore were drawn by EE, PRED on payees' receipts in respect of different schemes/developmental works as detailed in **Appendix 2.4** and deposited in SB accounts. As of July 2010 an amount of ₹3.86 crore was still lying in these accounts. EE, PRED replied (April 2010) that CEO, ZP had instructed (March 2010) the PRED to draw unutilised funds on payees'

receipts to avoid the lapse of grants. This was in violation of codal provisions and instructions of the State Government, indicating lack of expenditure controls.

2.2.7.3 Social Welfare Department

- **Accumulated balance in bank accounts**

Grants received by DSWO during 2001-09 for two schemes³² amounting to ₹69.13 lakh remained unutilised even as of July 2010 in the SB account³³. These amounts were lying unutilised for almost 10 years and there was no system for review by the controlling authorities.

2.2.8 Operational Controls

Operational Controls are exercised to regulate implementation of schemes/developmental activities by PRIs and line departments according to the stipulated guidelines/instructions/best practices, etc. Deviations by the implementing agencies and failure to exercise necessary checks by the monitoring authorities led to non-achievement of the envisaged objectives. Audit observed the following lapses in operational controls:

2.2.8.1 Panchayat Raj Engineering Division

- **Non-provision for source sustainability measures**

Failure to provide source sustainability measures to recharge ground water bore wells

CEOs of ZPs approve the AAPs under Accelerated Rural Water Supply Programme (ARWSP) and submit them to the State Government for consolidation. The consolidated AAP approved by the State Government is forwarded to GOI for allocating funds under ARWSP.

ARWSP guidelines provided for utilisation of 20 per cent of the earmarked funds for tackling water quality and source sustainability issues. Scrutiny of AAPs approved by CEO, ZP disclosed that there was no provision for source sustainability measures such as check dams, percolation chamber etc. near the source to facilitate ground water recharge. Audit observed that during the period 2005-10, there were 203 non-working ground water bore wells in the district. Thus, non-provision of source sustainability measures in AAPs by CEO, ZP and non-monitoring the inclusion of such measures in the consolidated AAPs by the State Government resulted in failure to address the issue of recharging ground water borewells.

- **Multi Village Water Supply Scheme**

The State Government administratively approved (March 2008) the work of Water Supply Scheme to Revalkunte and 26 villages in Molkalmuru taluk, under the Sub-mission programme. The Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore was to ensure alignment/availability of land before according technical sanction. The estimate for ₹9.02 crore was technically sanctioned (March 2008) and the work was entrusted (June 2008) to a contractor with the stipulation to complete it within April 2009. After incurring

³² compensation to victims of atrocities and facilities to SC colonies

³³ S.B. Account No.54012616107 of State Bank of Mysore, Chitradurga

an expenditure of ₹8.56 crore as of March 2010, further progress could not be made due to non-obtaining of permission from the Railway authorities for the water supply line to cross under the railway track. The EE, PRED, Chitradurga sought this permission in July 2010 only after being pointed out by Audit (April 2010) and the permission is yet to be obtained (January 2011). Laxity on the part of the EE, PRED to get the requisite permission and CE, PRE Department in according technical sanction routinely resulted in delay in completion. Also, non-monitoring of work by CEO, ZP and Principal Secretary, RDPR Department led to denial of safe drinking water to four villages for almost two years.

2.2.8.2 Education Department

- ***Unfruitful expenditure on a school building***

The CEO, ZP, Chitradurga administratively approved (January 2008) the work of construction of five class rooms in Government Girls' High School, Molkalmuru at an estimated cost of ₹23 lakh. The work was entrusted (February 2008) to Nirmithi Kendra (agency) for which an amount of ₹20 lakh was released (March 2008). The site for construction of school was already identified and made available by the Town Municipality, Molkalmuru to the Department during 1985 itself.



Incomplete work of Government Girl's High School, Molkalmuru

Due to objection from local people, the agency could not commence the work. A writ petition was filed (November 2008) by the public and the Hon'ble High Court of Karnataka directed (December 2008) the appropriate authority (DDPI) to consider the representation of the public and pass orders within eight weeks. The DDPI, however, did not take appropriate action in the matter for almost two years. The petitioners represented (March 2010) in the Hon'ble High Court of Karnataka for contempt of court. Soon after, the DDPI intimated (June 2010) its inability to allow the entire vacant land for public purpose. Meanwhile, the agency started construction of class rooms and completed the work up to the foundation level incurring an expenditure of ₹five lakh (July 2010). The petitioners obtained a stay order (July 2010) restraining the DDPI from construction of the school building. Thus, laxity on the part of the DDPI to take appropriate action on time and non-monitoring the progress of work by CEO, ZP led to unfruitful

expenditure of ₹five lakh and deprivation of the facility of five additional class rooms to the students.

- **Delay in distribution of note books and school bags**

Non-distribution of books, bags etc. to school children on time resulted in deprivation of minimum facilities to SC/ST students

The State Government accorded sanction (April 2007) under Vidya Vikasa Yojane (Scheme) for purchase and distribution of school bags and note books to SC/ST students studying in V to VIII standard during the academic year 2007-08. Accordingly, the CPI, Bangalore released (May 2007) ₹65.24 lakh to DDPI, Chitradurga with a condition that the distribution of books, bags etc. was to be completed before August 2007. A three-member committee under the Chairmanship of CEO, ZP was to be constituted to oversee the purchase and distribution. However, the DDPI, Chitradurga called for tenders (August 2007) after three months of fund release and the supply orders were placed during December 2007. While the note books (2.85 lakh) were supplied during December 2007, the school bags (26,183) were supplied during January 2008.

Similarly, the DDPI procured geometry boxes for the year 2007-08 during March 2008 and supplied to the SC/ST students during May/June 2008 after the academic year. The DDPI replied (May 2010) that the CEO, ZP delayed in giving permission to call for tenders and assured that such irregularities would be avoided in future. Thus, abnormal delay in finalisation of tenders by the DDPI and failure in monitoring by the committee deprived SC/ST students of these necessary items at the appropriate time.

2.2.8.3 Youth Services and Sports Department

Idle investment on four³⁴ incomplete stadia in Chitradurga district due to non-provision of sufficient funds was brought out in the Comptroller and Auditor General of India (CAG's) Audit Report (ZPs) for the year ended 2003. The State Government replied (November 2008) that the incomplete stadia would be completed by obtaining grants under TFC. During the course of review, Audit analysed the follow-up action taken on two incomplete stadia and observed that administrative sanction was accorded without ensuring provision of funds and there was deficiency in monitoring at all levels as detailed below:

- **Sports Stadium at Holalkere taluk**

Insufficient fund release and inadequate monitoring led to incomplete stadia despite incurring ₹82.14 lakh

The construction of work of the Sports stadium was commenced during October 1994 by Karnataka Land Army Corporation (KLAC). Due to non-release of funds by CEO, ZP during 2000-01 to 2005-06, KLAC revised the estimate (December 2006) to ₹21 lakh for the balance work which was administratively approved by the State Government during December 2006. The progress of work was to be inspected by the Taluk Level Stadium Committee (TLSC) and reported to the Commissioner, YSS Department, Bangalore. In the meantime, a dispute arose (June 2007) regarding the title of the land identified for the construction and the claimant obtained (June 2008) a stay order from the court. As of June 2008, a total expenditure of ₹28.60 lakh was incurred. Audit observed that even though the land to the extent of six acres had been transferred (April 1994) to the

³⁴ Challakere, Hiriya, Holalkere and Hosadurga

Department as per Mutation Register of Revenue Department, the AD had failed to initiate action to get the stay vacated in time. In reply to an enquiry, the AD stated (January 2011) that the President, TLSC had been orally instructed to get the stay vacated. This lackadaisical attitude of the AD and Stadium Committee and absence of monitoring by the Commissioner, YSS, Bangalore resulted in the stadium remaining incomplete even after 16 years of its commencement.

• **Sports stadium at Hosadurga**

The construction of a stadium at Hosadurga was sanctioned during January 1996 and the work was commenced by KLAC during January 1997. As against the estimated cost of ₹26.90 lakh, the CEO, ZP had released a sum of ₹14 lakh till 2000-01. Subsequently, funds were not released till 2005-06. In the meantime, KLAC revised (December 2006) the estimate to ₹46.41 lakh for the balance work. Accordingly, CEO, ZP released ₹41.41 lakh during 2006-07 and as of January 2010, KLAC incurred an expenditure of ₹53.54 lakh but the compound wall, gallery and field track were still not completed. On an enquiry by Audit (January 2011) on the incomplete stadium, KLAC replied that since provision of a synthetic track is being considered, the work remained incomplete. Thus, due to improper monitoring of the work by AD, TLSC, and also by the Commissioner, YSS, Bangalore at State level, the stadium remained incomplete even after 14 years of its sanction.

2.2.8.4 Health and Family Welfare Department

• **Non-adherence to norms in establishment of PHCs, CHCs and Sub-centres**

According to the norms of the Department, each Sub-centre, Primary Health Centre (PHC) and Community Health Centre (CHC) was to cater to 5,000, 30,000 and 1.20 lakh population respectively. Out of every four such PHCs, one was to be upgraded as a CHC; the first referral hospital having specialised medical facilities. The DH&FWO proposes to the Commissioner, H&FWS, Bangalore for establishment of health centres based on the population norms. The position of existence of Sub-centres, PHCs and CHCs in the taluks of the district as of March 2010 was as shown in **Table 2.11** below:

Table 2.11: Position of establishment of CHCs, PHCs & Sub-centres

Sl. No.	Name of the taluk	Total rural population as of March 2010	No. of centres to be established			Actually established			Shortfall (-)/excess (+) (percentage)		
			Sub centres	PHC	CHC	Sub centres	PHC	CHC	Sub centres	PHC	CHC
1	Challakere	3,66,589	73	12	3	51	13	2	(-) 22 (30)	(+) 1 (8)	(-) 1 (33)
2	Chitradurga	4,72,977	94	16	4	44	16	2	(-) 50 (53)	-	(-) 2 (50)
3	Hiriyur	2,94,274	59	10	3	52	19	2	(-) 7 (12)	(+) 9 (90)	(-) 1 (33)
4	Holalkere	2,14,841	43	7	2	40	13	1	(-) 3 (7)	(+) 6 (86)	(-) 1 (50)
5	Hosadurga	2,39,307	48	8	2	40	9	3	(-) 8 (17)	(+) 1 (13)	(+) 1 (50)
6	Molkalmuru	1,44,506	29	5	1	16	5	1	(-) 13 (45)	-	-
	Total	17,32,494	346	58	15	243	75	11	(-) 103 (+) 30	(+) 17 (+) 29	(-) 4 (-) 27

Source: As furnished by DH&FWO

Minimum health facilities were denied to rural people due to shortfall in establishment of health Sub-centres

As against the requirement of 346 Sub-centres and 15 CHCs there were only 243 Sub-centres and 11 CHCs. As against the requirement of 58 PHCs there were 75 PHCs in violation to the norms of the Department. The DH&FWO and the Commissioner, H&FWS, Bangalore did not review the position of availability of health centres in the district periodically so as to ensure proper health care facilities to the rural population.

• *Idle investment on construction of trauma care centres*

Non-establishment of trauma care centres led to denial of emergency care to accident victims

The State Government approved (October 2006) construction of 11 trauma care centres (in three taluk general hospitals³⁵ and eight CHCs³⁶) under the control of ZP for emergency treatment to accident victims and entrusted to Karnataka Health System Development and Reform Project³⁷ (KHSDRP). However, they did not consider the staff required for the operation of these trauma care centres at the time of approval. Each trauma care centre was estimated at ₹25 lakh and funds were released to KHSDRP under TFC. On completion of construction, after incurring an expenditure of ₹2.73 crore (December 2007 to September 2009), these trauma care centres were handed over to Administrative Medical Officers of respective taluk general hospitals/CHCs.

Audit scrutiny revealed that all the trauma care centres were not functioning due to non-appointment of required staff. Based on the orders of the Commissioner, H&FWS, Bangalore, the DH&FWO instructed (December 2009) the taluk general hospitals and CHCs to convert the building to 20 bedded wards. This has also not been done. Thus, the buildings constructed neither catered to trauma cases nor to general health care needs. The State Government also did not monitor working of these trauma care centres after its completion. As a result, 2,036 cases were referred to other hospitals (during January 2009 to December 2010) for providing immediate care to accident victims. Failure of the State Government to provide for required staff prevented the trauma care centres from functioning and deprived the accident victims of immediate and timely medical aid.

2.2.8.5 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

Audit reviewed the performance of the MGNREGA Scheme in Chitradurga district and brought out comments in the Audit Report (PRIs) for the year ended March 2007. Follow-up by Audit revealed that the irregularities still persisted as detailed in subsequent paragraphs.

³⁵ Challakere, Holalkere and Hosadurga

³⁶ B.Durga, Bharamsagara, Dharmapura, K.K.Pura, Maradihalli, Nayakanahatti, Parasurampura and Sirigere

³⁷ an agency of State Government for providing infrastructure under health sector

Only three per cent of the registered households were provided 100 days of employment

- **Provision of employment**

The guidelines stipulated provision of 100 days of wage employment on demand, in a financial year to each of the registered households. The rural households were to register with the GPs concerned for issue of job card. Every adult member of a registered household whose name appeared in the job card was entitled to apply for unskilled manual work under the Scheme. It was observed in audit that as against 1.58 lakh households provided employment, the envisaged 100 days of employment was provided to only three per cent households. The job cards were not issued in respect of 502 households though applied for, thus denying benefits to the rural labourers under the Scheme.

- **Unemployment allowance not paid**

Employment was to be provided to every registered household within 15 days of demand. The labourers were entitled for unemployment allowance at the rates prescribed in the guidelines if employment was not provided within the specified time limit. As per Progress Report submitted to GOI for 2009-10, no unemployment allowance was paid to the registered labourers during the year, though due for 3,141 days.

- **Social Audit**

Absence of public vigilance due to non-conducting of Social Audit

An innovative feature of the Scheme was that it provided a pivotal role to Social Audit, a public assembly where all the details of the Scheme were scrutinised as a means of continuous public vigilance. The Programme Officers were required to convene the Social Audit at the grama sabhas. It was, however, noticed that Social Audit of the Scheme had not been conducted during 2006-07 to 2009-10, indicating absence of public vigilance and accountability.

2.2.9 Human resources and material management

Human resources

Adequate and efficient human resources play a major role in successful implementation of schemes and developmental works in a department. Scrutiny of manpower management in two test-checked line departments revealed the following deficiencies:

2.2.9.1 Health and Family Welfare Department

- **Non functioning of life saving/life care units**

Based on the proposals/requirements made by DH&FWO duly recommended by the CEO, ZP, the State Government was to recruit doctors/para-medical staff, etc. and post them to needy places. Audit observed that neither DH&FWO nor the Health Committee of ZP made any effort to assess the manpower requirements. Consequently, life saving/life care units such as operation theatre, X-ray unit,

laboratory and ophthalmic unit were not functioning in taluk general hospitals/CHCs as shown in **Table 2.12** below:

Table 2.12: Statement showing details of life saving/life care units

Sl.No.	Name of the life care unit	Name of CHCs/General Hospitals (GH)	Reasons for non-functioning
1	Operation theatre	Molkalmuru GH, Rampura CHC, Belagur CHC, Parashurampura CHC, Nayakanahatti CHC, Srirampura CHC, K.K.Pura CHC, B.Durga CHC	No specialist surgeons to conduct operation, lack of equipments and shortage of staff
2	Dental unit	Molkalmuru GH	
3	X-ray unit	Rampura CHC, Belagur CHC, Srirampura CHC, K.K.Pura CHC, B.Durga CHC	
4	Ophthalmic unit	Parashurampura CHC, Nayakanahatti CHC, Srirampura CHC, B.Durga CHC	
5	Laboratory	Rampura CHC, Belagur CHC	

Source: As furnished by the Department

It was observed that these units were not functioning since 2005-06 due to shortage of specialised staff and lack of basic facilities. Adequate action taken by the DH&FWO to get the posts sanctioned was not forthcoming from the records made available to audit. Health Committee of ZP also did not deliberate the issue of posting of essential staff to these CHCs. Due to non-functioning of these life saving/life care units, critical health services were denied to the rural population.

- **Overall shortage of staff**

During 2005-06 to 2009-10, the percentage of shortfall in general doctors ranged from 16 to 23 whereas in respect of specialists it ranged from 36 to 52. While the percentage vacancy in respect of staff nurses varied between 7 and 28, it was 23 to 27 in respect of health assistants, who were to create health awareness among the rural population and were instrumental in preventive/curative services. Further, it was observed that only 27 out of 75 PHCs were functioning round the clock due to non-availability of residential doctors. Audit scrutiny revealed that even though the Education and Health Standing Committee of ZP met 14 times during 2006-10, shortfall and filling up of posts in health sector was not deliberated upon and no suitable instructions were issued to the concerned authorities for filling up of vacant posts.

2.2.9.2 Commerce and Industries Department

A paragraph on non-functioning of the Artisan Training Institutes (ATIs) had appeared in the CAG's Audit Report (PRIs) 2007. Audit reviewed the action taken on the observation of ATI, Chitradurga and observed as follows:

- **Nugatory expenditure and idle equipments**

On a review of records it was observed that the Institute had imparted training for 15 students (2005-06 for five and 2006-07 for 10) as against the target of 60 students during 2005-07. No training was imparted by the Institute thereafter though it incurred an expenditure of ₹41.81 lakh during 2007-10 towards salary of the staff and office expenses. The State Government replied (June 2010) that since funds were not allotted to ATIs for training programmes, no training to artisans was provided. Audit noticed that the DD, Rural Industries Division had

Non-allocation of funds to ATIs led to nugatory expenditure and idle equipments

neither prepared any perspective plan for training activities nor undertaken any convergence programmes during these years. DD also admitted (December 2010) that the services of the staff were not utilised under any other training programme. Hence, the entire expenditure towards salary component was rendered nugatory. Apart from this, the equipments provided to this institute to the extent of ₹6.13 lakh were also kept idle.

Material management

Material management in a department is essential to have control over the inventory and ensure transparency in procurements, etc. Discrepancies noticed by Audit in two test-checked departments are detailed below:

2.2.9.3 Education Department

- **Splitting up of purchases**

Canons of financial propriety stipulate that no authority should sanction any expenditure which is likely to involve expenditure at a later date beyond its own powers of sanction. Instead of resorting to tender procedure as per KTPP Act, the DDPI, Chitradurga procured reversible Nandhi wood and steel desks worth ₹8.20 lakh from two agencies³⁸ during March 2008 and February 2009 by splitting purchase orders (12 invoices) so that the value of each purchase order fell within the limit of ₹ one lakh.

DDPI replied (May 2010) that purchases were made as per the resolution of the Education Standing Committee of ZP to invite quotations and split up purchase taluk-wise. The decision of the Standing Committee without assigning any reasons for such purchase resulted in irregular purchase without the benefit of competitive rates.

2.2.9.4 Health and Family Welfare Department

- **Non-conducting of annual physical verification of stores**

KFC provided for annual physical verification of stores at the end of March each year to tally the book balance and physical balance. Audit observed that the annual physical verification of drugs and chemicals and instruments was not conducted in the stores wing of DH&FWO in three taluk general hospitals and in 11 CHCs during the period 2005-10. Due to this, Audit could not ensure the correctness of book balance and physical balance. The Assistant Administrative Officer of DH&FWO stated (January 2011) that physical verification of stores would be undertaken for the year ended March 2011.

2.2.10 Monitoring mechanism and internal control

A healthy monitoring mechanism will ensure achievement of desired goals. Internal audit is very essential to assess the existing internal controls to help

³⁸ District Industrial Supply and Marketing Co-operative Society, Shimoga and Sri Rama Enterprises, Chitradurga

achieve the objectives. Audit observed the following failures in monitoring mechanism and internal control.

2.2.10.1 Panchayat Raj Institutions

- **Non-preparation of periodical returns**

Audit observed that none of the test-checked GPs prepared and submitted the monthly, quarterly and annual returns of financial and physical progress of developmental works/schemes to the higher authorities. Only UCs were submitted in a routine manner. No provisions existed in the KPR Act/Rules to initiate action by higher authorities on the defaulting PRIs. This indicated inadequacies in monitoring mechanism on the affairs of the GPs by TPs/ZP/controlling departments.

- **Miscellaneous Public Works Advances**

Codal provisions stipulated that items in the Miscellaneous Public Works Advance (MPWA) account are cleared either by actual recovery or by transfer under proper sanction or authority, to some other head of account. A review of MPWA register in PRED revealed that an amount of ₹3.22 crore comprising of 76 items as detailed in **Appendix 2.5** was pending unsettled from as early as 1987-88 and the EE, PRED had not initiated any action to adjust advances outstanding with vouchers and supporting records. Monitoring mechanism by CEO, ZP was also not in place to check the advances made in the division.

- **Internal Audit**

Inadequate coverage of internal audit

As per KPR Act, the CAO, ZP was to conduct internal audit of all the offices under the jurisdiction of ZP and to audit all the transactions both centrally at the ZP and locally in respective offices. There were no guidelines/manual for internal audit prescribed by the State Government. Audit plan prepared by CAO was not based on risk analysis and was also not commensurate with the size of auditee units. It was observed that during 2005-10, while the CAO had not conducted any audit centrally, there was shortfall in local audit ranging from 92 to 98 *per cent*. Inadequate coverage of internal audit resulted in financial/compliance irregularities as discussed in previous paragraphs. The CAO, ZP replied (June 2010) that due to shortage of staff, there was shortfall in coverage of internal audit.

- **External Audit**

According to the provisions of KPR Act, the accounts of every GP shall be audited annually by the Controller of State Accounts Department (SAD) who will submit a summary of the observations of the Audit Reports to the State Government.

Audit observed that the guidelines contained in Local Fund Audit Manual of 1967 are being followed even after four decades without revision. As a result, audit plans prepared were not based on risk analysis of the auditee units. Out of test-

checked GPs, audit of three GPs³⁹ accounts from 2007-08 onwards were in arrears. On being pointed out (December 2010), the Controller of SAD stated (March 2011) that delay in completion of audit was due to shortage of manpower and non-production of GP accounts to Audit on time. A separate GP audit manual has been prepared and submitted to the State Government for approval.

- **Response to audit objections**

The Karnataka ZP (Finance and Accounts) Rules stipulate that the responsibility for expeditious settlement of audit objections issued by the Accountant General lies with the CEO, ZP. As of March 2010, 64 paragraphs involving ₹59.84 crore pertaining to the period 1991-2009 were pending settlement in PRIs as shown in **Table 2.13** below:

Table 2.13: Statement showing pending audit objections in PRIs
(₹ in crore)

Sl.No.	Office	Period of observation	Number of paragraphs	Amount involved
1	CEO, ZP	1994-2007	19	20.25
2	EO, TP	1994-2009	18	3.89
3	EE, PRED	1991-2009	27	35.70
Total			64	59.84

Source: Inspection reports

Non-response to audit observations may aggravate persistence of irregularities, invite serious financial impropriety and adversely affect the accountability mechanism.

- **Right to Information**

Right to Information Act, 2005, envisaged uploading of disclosure on subjects like organisation, duties, norms, rules and procedures followed, staff and their remuneration and records maintained, *etc.* on the web site.

Audit observed that the Deputy Secretary of ZP, Chitradurga did not upload proactive disclosures through website.

- **Vigilance mechanism**

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

Audit observed that out of 222 cases within the jurisdiction of ZP, Chitradurga, taken up for investigation, 216 cases were pending settlement as of March 2011. The recommendations of Lokayukta on cases investigated were not binding on the State Government for initiating further action.

A comparative picture of anti-corruption strategy in relation to practices in GOI is shown in **Table 2.14** below:

³⁹ Adivala, Aimangala and Eshwaragere in Hiriur Taluk

Table 2.14: Comparative picture of anti-corruption strategy

Issue	Practice in Lokayukta of State Government	Practice in GOI
Complaint policy-complaints to Lokayukta	Complaint to be filed with affidavit	Does not apply. Detailed complaint policy available.
Technical examination of work	Technical and Audit Cell exist but there were vacancies to the extent of 37 per cent	Chief Technical Examiner under Central Vigilance Commission (CVC) functional; seeks quarterly return on major projects and works
Whistle blower protection policy	No such policy	Exists. CVC is designated authority to implement it
Vigilance awareness	No such provision	Vigilance awareness week celebrated every year
Appointments in senior positions and sensitive posts	No vigilance clearance required from Lokayukta	Vigilance clearance from CVC required

Source: Karnataka Lokayukta Act, 1984 and CVC Act, 2003

2.2.11 Conclusion

The ADDPs finalised by DPC were framed in a routine manner without visualising an overall plan for the district development. Financial discipline and financial control in PRIs and line departments were poor as evidenced by drawal of funds on self-cheques, lapse of grants, irregular drawal of funds and parking of funds outside Government account. Operational controls in test-checked Departments were inadequate as apparent from denial of safe drinking water facility to rural habitations, non-distribution of school books and bags to SC/ST children on time, incomplete stadia for more than a decade, non-functioning of trauma care centres, *etc.* Critical health services were affected in the absence of essential staff in health centres. In ATI, expenditure on establishment without service delivery was observed. While inadequacy in coverage of internal audit by CAO, ZP was noticed, audit of annual accounts of GPs was not completed on time by the Controller, SAD.

2.2.12 Recommendations

- DPC needs to adhere to the provisions of KPR Act pertaining to holding of meetings and preparation of ADDPs by engaging experts in different fields.
- The State Government needs to consider a suitable mechanism to oversee the drawal of self-cheques by drawing officers.
- The drawing officers should periodically take stock of the funds lying unutilised in bank accounts and the State Government needs to evolve a system of review through management information system, returns *etc.*
- Technical sanction by competent authorities should be accorded in a prescribed proforma which will ensure fulfilment of all required parameters *viz.*, availability of adequate land, check measurements, *etc.*
- The State Government should consider operationalisation of trauma care centres by appointing doctors and para-medical staff on contract basis as followed under National Rural Health Mission.

SECTION 'B' - PARAGRAPHS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.3 Unfruitful expenditure on water supply schemes

Improper action of the Director, Rural Development and Panchayat Raj Department in according administrative approval before ensuring availability of the land coupled with failure of the Executive Engineers of four Panchayat Raj Engineering Divisions, in acquiring land before commencement of water supply schemes resulted in unfruitful expenditure of ₹37.39 crore besides denial of safe drinking water to the rural population

With an objective of providing safe drinking water to rural habitations facing water quality problems such as fluorosis, arsenic, brackishness, *etc.*, the Executive Engineers (EEs) of four Panchayat Raj Engineering Divisions (PREDs)⁴⁰ proposed nine water supply schemes (Schemes) under sub-mission project of Rajiv Gandhi National Drinking Water Mission. The project cost was shared between Government of India (GOI) and the State Government in the ratio of 75:25. The Schemes were to be monitored by the Principal Secretary to Government, Rural Development and Panchayat Raj (RDPR) Department at the State level and the Chief Executive Officer (CEO), Zilla Panchayat (ZP) at the district level.

The Schemes were administratively approved by the Director and Ex-officio Joint Secretary to Government, RDPR Department between October 2005 and February 2009 based on the decision of the State Level Empowered Committee. The technical aspects of the Schemes were to be looked after by the Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore, who accorded the technical sanction to the estimates during March 2007 to March 2009.

The codal provisions stipulated that no work should be commenced on land which had not been duly handed over by the requisite authorities. The provisions of the Forest (Conservation) Act, 1980 impose restrictions on use of forest land for non-forest purposes and stipulate obtaining prior approval of GOI for such diversions.

The project consultants indicated clearly the extent of forest land required for the Schemes in the Detailed Project Reports. Audit observed that the Schemes were administratively approved by the Director and Ex-officio Joint Secretary to Government, RDPR Department even before availability of land for the Schemes. The CE, PRE Department, Bangalore also instructed the EEs of PREDs to obtain clearance for the forest land required before issue of work orders. Acquisition of forest land to the extent of 5.88 hectares (ha) was required for execution of all the Schemes and the works were stipulated to be completed by August 2010 as per the work orders issued.

⁴⁰ Bagalkot, Belgaum, Chikkodi and Chikmagalur

Details of the present status of the Schemes are as detailed in **Table 2.15** below:

Table 2.15: Statement showing details of water supply works

(₹ in lakh)

Sl. No.	Name of the water supply work	Administrative Approval/ Technical Sanction	Estimated cost/ Tendered amount	Date of commencement/ Stipulated date of completion	Extent of forest land required and purpose	Expenditure as of September 2010/ (Percentage)	Date of seeking permission from Forest Department	Present status/pending works in forest land
BAGALKOT DISTRICT								
1	Sirur & 4 other villages in Bagalkot taluk	28.07.06 10.12.08	492.80 474.32	20.01.09 20.12.09	0.93 ha WTP	312.35 (66)	15.07.10	Water sump
2	Katageri & 13 other villages in Badami taluk	28.07.06 25.01.08	500.91 720.52	08.08.08 08.07.09	0.61 ha WTP	717.72 (99)	22.05.10	WTP
3	Machakannur & 5 other villages in Mudhol taluk	16.07.08 18.02.09	400.00 401.19	20.01.09 20.12.09	0.98 ha WTP	281.91 (70)	26.06.10	WTP/MBR pipe line work
4	Yalahatti & 4 other villages in Jamakhandi taluk	25.02.09 05.03.09	720.00 464.00	06.07.09 06.06.10	0.77 ha WTP	329.30 (71)	02.08.10	WTP
5	Jakanur & 7 other villages in Badami taluk	27.08.08 24.02.09	615.04 630.00	26.06.09 26.05.10	0.86 ha WTP	369.77 (59)	17.08.10	WTP
6	Belur & 11 other villages in Badami taluk	25.02.09 02.03.09	610.50 682.50	05.09.09 05.08.10	0.017ha Balancing tank	636.95 (93)	09.07.10	MBR pipe line work
BELGAUM DISTRICT								
7	Bassapur & 11 other villages in Hukkeri taluk	28.10.05 28.03.07	475.00 640.28	11.02.08 11.08.09*	0.93 ha WTP/ZBR	391.86 (61)	09.03.09	WTP and overhead Tank
8	Manihal & 9 other villages in Ramdurg taluk	22.05.07 25.01.08	504.50 568.68	10.07.08 10.07.09*	0.39 ha WTP/ZBR	339.38 (60)	20.08.10	Raising main pump house, WTP/ZBR
CHIKMAGALUR DISTRICT								
9	Karakurchi & 8 other villages in Tarikere taluk	31.05.07 22.08.07	632.16 586.74	15.03.08 15.12.08*	0.40 ha WTP	359.90 (61)	21.01.09	Water filter unit/WTP/Approach works
Total						3,739.14		

* Stipulated date of completion includes monsoon period

WTP – Water Treatment Plant; ZBR – Zonal Balancing Reservoir; MBR - Medium Balancing Reservoir

Scrutiny revealed that in violation of the codal provisions, even before acquisition of forest land, the EEs issued work orders to commence works such as construction of WTP, jackwell, etc., on forest land. The EEs initiated action belatedly to acquire the forest land under the Act ranging from 10 to 22 months from the date of commencement of the work. An expenditure of ₹37.39 crore was incurred on these Schemes as of September 2010 and the contractors stopped work due to non-availability of required land for further execution. The CE, PRE Department, Bangalore instructed (June 2009) CEO, ZP and EEs of PREs to speed up execution and fix responsibility for delay in completion. In spite of instructions, the works remained incomplete even after 4 to 13 months from the stipulated date of completion as of September 2010. The percentage of expenditure incurred on these works ranged from 59 to 99 of the tendered amount even without acquisition of forest land, indicating poor monitoring of the Schemes at all levels. Further, due to delay in providing the required land for execution, cost escalation for the remaining work components could not be ruled out.

Availability of land is a basic requirement that needs to be confirmed before a project is sanctioned. Despite requisite codal provisions and being pointed out

repeatedly by Audit, the PRIs are sanctioning works in a routine manner without checking availability/without acquiring land. The improper action of the Director and Ex-officio Joint Secretary to Government, RDPR Department in according administrative approval before ensuring availability of the land and failure of the EEs of PREs, to acquire land for the Schemes before commencement of works resulted in unfruitful expenditure of ₹37.39 crore besides denial of safe drinking water facility to the population of these villages.

The matter was referred to the State Government (February 2011), reply is awaited (March 2011).

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
COMMERCE AND INDUSTRIES DEPARTMENT**

2.4 Loss of seed margin loan

Failure of the Deputy Directors, Khadi and Village Industries Commission to obtain legally binding documents and to initiate follow-up action for recovery in co-ordination with the financial institutions/banks and guarantors resulted in irrecoverable loss of ₹4.80 crore to the State exchequer

In order to develop sustainable economic activity and create employment opportunities, potential entrepreneurs are encouraged to set up small/tiny industrial units in the rural areas. However, financial constraints act as a deterrent to such entrepreneurs as banks/financial institutions insist that the potential entrepreneurs should have the capacity to contribute 30 per cent of the project cost in order to avail loans from them. To overcome such inability on the part of the potential entrepreneurs, the share of contribution on the part of the entrepreneurs was given as 'seed margin loan' by the State Government through the Deputy Directors (DDs) of Khadi & Village Industries Commission (KVIC) who are under the control of Zilla Panchayats (ZPs). The eligible entrepreneurs were given a loan of 50 per cent of the cost of immovable assets and 10 per cent of the working capital subject to a maximum of ₹40,000 to general category and ₹60,000 to SC/ST applicants. In addition to interest of 11.75 per cent per annum, the loan attracts penal interest for non-payment in time. The beneficiaries were required to repay the loan and interest as per the schedule of repayment mentioned in the sanction order. The Taluk Industrial Extension Officers (TIEOs) were to monitor timely repayment. A grace period of four years was allowed for repayment of first instalment of the loan.

The eligible entrepreneurs were identified by the TIEOs and recommended to the DD, KVIC for assistance in the form of loan. The beneficiaries were to execute agreement/bond/hypothecation deed creating second charge on the fixed assets in favour of the State Government. The financial institutions/banks were to retain the pledged documents for their term loans until the seed margin money was

repaid by the beneficiaries and No Objection Certificate furnished by the Department.

Scrutiny of records showed that 3,690 units had availed of a total loan amount of ₹9.66 crore during the period 1987-88 to 2003-04. The loans to these units were given by obtaining consent letters from the financial institutions/banks for creation of second charge on the properties already mortgaged for the loan sanctioned by them. Consent letter from a third person referred by the beneficiary as guarantor was also obtained. As of March 2010, the outstanding demand from these units including interest and penal interest was ₹18.94 crore, of which recovery effected as only ₹1.02 crore. 2,377 units were closed as of 31 March 2010 pending recovery of ₹17.92 crore.

On test-check of 1 records of eight district offices⁴¹, it was seen that out of 1,065 units who have availed a total loan of ₹2.84 crore during the period 1987-88 to 2003-04, only 1 units had repaid ₹43.41 lakh. As of March 2010, a sum of ₹4.80 crore was due in respect of 701 closed units and legally binding documents were not available in 323 closed units. The Deputy Directors replied (March 2010) that even though the financial institutions/banks were asked not to release the documents of these units until the seed margin loan was fully recovered, they had returned the documents of the mortgaged properties without intimation. However, follow-up action taken with the financial institutions/banks or action initiated on the guarantors for recovery was not forthcoming from the records made available to audit.

The Commission for Industrial Development and Director of Industries and Commerce admitted (January 2011) that records to prove follow-up action taken by the Department were not traceable. It was also replied that in order to overcome these issues, the State Government may introduce one time settlement option by waiving interest and penal interest and recover the loan amount from guarantors, failing which such cases would be referred to Revenue Authorities to recover the same arrears of land revenue.

Thus, failure on the part of the Department to obtain legally binding documents and to initiate follow-up action for recovery in co-ordination with banks/financial institutions and guarantors resulted in irrecoverable loss of ₹4.80 crore to the State exchequer.

The matter was referred to the State Government (May 2009), reply is awaited (March 2011).

⁴¹ Bangalore (Rural), Bagepalli, Chamara Nagar, Chikmagalur, Davanagere, Gadag, Haveri and Mysore

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
HEALTH AND FAMILY WELFARE DEPARTMENT**

2.5 Idle investment on Primary Health Centres

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Karwar to prepare a comprehensive estimate and non-posting of staff by the State Government coupled with improper monitoring at all levels led to idle investment of ₹69.45 lakh on two Primary Health Centres

With an objective to provide basic health facilities to the rural population, the State Government sanctioned (March 1997) 92 Primary Health Centres (PHCs) in the State with the required staff which included two PHCs at Diggi and Doddamane of Joida and Siddapura taluks respectively under Zilla Panchayat (ZP), Karwar. The State Government directed that expenditure should be incurred out of the 1997-98 Minimum Needs Programme grants subject to availability of funds after incurring expenditure on PHCs sanctioned earlier. The State Government did not make provision of funds in the budget thereafter and it accorded administrative approval only in December 2005 for the construction of these PHCs. Guidelines prescribed a minimum of 30,000 population for sanctioning a PHC. The Executive Engineer (EE), Panchayat Raj Engineering Division (RED), Karwar was to prepare a comprehensive estimate and the Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore was to ensure basic facilities before according technical sanction. The Principal Secretary, Government, Health and Family Welfare (H&FW) Department was to post necessary staff for the PHCs. The CEO, ZP at the district level and the Additional Chief Secretary to Government at the state level were to monitor the execution and functioning of the PHCs. The works were estimated at ₹34 lakh each which included a loan component of ₹28.90 lakh from National Bank for Agriculture and Rural Development and a contribution of ₹5.10 lakh from the State Government. Technical sanction for the estimates prepared by the EE, PRED, Karwar was accorded (Diggi – October 2007 and Doddamane – March 2007) by the CE, PRE Department, Bangalore.

The Chief Accounts Officer (CAO), ZP released an amount of ₹58.84 lakh to EE, PRED, Karwar with a stipulation to complete the buildings by July 2007. According to the civil works of the PHCs were completed as stipulated incurring an expenditure of ₹69.45 lakh (₹33.96 lakh-Diggi and ₹35.49 lakh-Doddamane) and handed over⁴² to the District Health and Family Welfare Officer (DH&FWO), Karwar.

⁴² Diggi (March 2009) and Doddamane (December 2010)

Scrutiny of records of DH&FWO, Karwar revealed that despite timely completion of the civil works of these PHCs, they were not functioning due to the following reasons:

Reasons for non-functioning	Failure and authority responsible
The population was sparse (less than 1000) and the area was covered by thick forest	The Director, H&FW Services, Bangalore proposed for establishment of PHC in violation to the guidelines that prescribed minimum 30,000 population for sanctioning a PHC.
No approach road/bridges and power supply	The CE, PRE Department, Bangalore technically sanctioned the estimate prepared by the EE, PRED, Karwar without making provision for approach road and bridge.
Non-posting of staff	The Principal Secretary to Government, H&FW Department, Bangalore did not post required staff inspite of requisition by DH&FWO, Karwar.
Improper monitoring	Status of work submitted by DH&FWO, Karwar was not monitored properly by CEO, ZP at district level and by the Additional Chief Secretary to Government at State level.

Thus, failure of the EE, PRED, Karwar in preparing a comprehensive estimate for the PHCs and non-posting of required staff by the State Government coupled with improper monitoring of the functioning of PHCs at district and state levels led to idle investment of ₹69.45 lakh on two PHCs.

The matter was referred to Government in May 2010 and the State Government endorsed (August 2010) the reply of DH&FWO, Karwar countersigned by CAO, ZP which mainly attributed non-functioning of PHCs to non-provision of necessary facilities and non-posting of required staff.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.6 Avoidable expenditure on purchase of solar lighting system

Failure to follow the prescribed procurement procedures resulted in avoidable expenditure of ₹31.41 lakh on purchase of solar lighting system

The Karnataka Transparency in Public Procurement Act (Act), 1999 stipulated that any procurement of goods and services above ₹ one lakh by local bodies in the State should necessarily be made by inviting tenders and giving wide publicity in leading newspapers. Exemption was available, if procurement was made through Directorate of General Supplies and Disposals (DGS&D) Rate Contract (RC) holders or RC fixed by Stores Purchase Department of the State Government.

The District Planning Committee approved (October 2009) the proposal of providing solar lighting system to Scheduled Caste (SC)/Scheduled Tribe (ST)

colonies for 2007-08 under Backward Region Grant Fund Scheme. Accordingly, the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Davanagere approved (December 2009) action plan prepared by EO, TP, Honnali for providing 77 sets of solar lighting system costing ₹49.50 lakh. While according approval, the CEO, ZP stipulated that the purchases should be made after inviting short term tenders under the Act or as per the DGS&D rates. However, in violation to the provisions and also the instructions of CEO, ZP, the President, TP, Honnali directed (December 2009) the EO, TP to invite quotations locally and subsequently obtain the approval of ZP, Davanagere. The TP President also stated that this aspect was discussed with the members of the Finance and Audit Standing Committee of TP. Accordingly, the EO, TP invited quotations locally (December 2009) and selected the lowest quotation. Finance and Audit Standing Committee of TP thereafter resolved (December 2009) to procure solar lighting system from the lowest rate quoted supplier. The CEO, ZP also accorded (January 2010) sanction for the purchase of solar lighting system from the selected supplier.

Audit scrutiny of records of EO, TP, Honnali revealed (August 2010) that 77 sets of solar lighting system were procured (January – February 2010) from the lowest quoted supplier⁴³ at a rate which was much higher than the RC rate⁴⁴ of DGS&D for a similar set of solar lighting system.

The Director (Quality Assurance) of DGS&D, Bangalore unit, confirmed (January 2011) that the rates paid by EO, TP, Honnali were higher than their rates.

Thus, failure to follow the prescribed procurement procedures by the Finance and Audit Standing Committee, TP, Honnali resulted in avoidable expenditure of ₹31.41 lakh on purchase of solar lighting system.

The State Government endorsed (February 2011) the reply of CAO, ZP which stated that due to the insistence of the Hon'ble Minister, President and members of TP and also in public interest, procurement from local supplier was made. It also stated that the solar lighting system procured was superior when compared to the specifications of DGS&D. However, this reply is not tenable as procurement at a higher rate was injudicious since DGS&D, being a central procurement agency, finalises RCs with appropriate specifications after involving leading manufacturers and user departments and were being widely used by the State Governments/Central Government Departments.

⁴³ M/s. Hari Energy Company, Honnali @ ₹65,000 per set

⁴⁴ DGS&D RC rate @ ₹24,209 per set

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.7 Wasteful expenditure on abandoned road work

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Gulbarga to ensure existing connectivity, proper alignment, availability of land and technical/practical feasibility prior to proposing the road work resulted in abandoning the work rendering the expenditure of ₹25.17 lakh wasteful

The spirit and objective of the Pradhan Mantri Gram Sadak Yojana (PMGSY) was to provide a single connectivity to unconnected habitations in the rural areas through an all weather road. The Scheme guidelines also stipulated that, prior to preparation of Detailed Project Report (DPR), the Programme Implementation Unit should conduct a proper survey to assess land availability and feasibility of the work. Necessary check lists and certificates in this regard were to be appended to the DPR for its approval.

Scrutiny of records (June 2010) of the Executive Engineer (EE), PMGSY Division, Gulbarga revealed that a work⁴⁵ of 'Improvements to road from Wadi Junction to Kundanoor via Ingalagi village' in Chittapur taluk of Gulbarga district for a length of 5.37 Kms. at an estimated cost of ₹1.06 crore (under package KN 15-21) was technically sanctioned (February 2006) by the Karnataka Rural Road Development Authority (KRRDA), the nodal agency for the State. The project report and estimate for the work were prepared by the EE, Panchayat Raj Engineering Division (PRED), Gulbarga. The EE, PRED, Gulbarga had certified that the required road formation width was available as per the guidelines and there was no need to acquire extra land. The work was entrusted (August 2006) to a contractor at his tendered rate of ₹1.12 crore.

The State Quality Monitor inspected the alignment of the road during September 2006 and reported that the width for the road was insufficient, the alignment ran along the side of a deep stone quarry and the other side of the road was filled with quarry debris in heaps. He suggested some protective measures. The contractor, while executing the work, represented (September 2006) to the EE, PRED, Gulbarga on these facts and expressed his difficulty in executing the work properly. Meanwhile, an aggrieved person from Kundanoor village approached (September 2006) the Court of Civil Judge (Junior Division) at Shahabad and obtained stay for acquisition of his land for the road work. The work was stopped during September 2006.

Based on the request of Assistant Executive Engineer, PMGSY Sub-Division, Gulbarga, the alignment of the road was further inspected by the Coordinator to the State Technical Agency (January 2007-April 2007), the Superintending Engineer (SE), Panchayat Raj Engineering Circle, Gulbarga and Chief Operating Officer (COO), KRRDA between March 2007 to August 2007. The SE in his

⁴⁵ the work was then implemented under the jurisdictional control of EE, PRED, Gulbarga

inspection report stated that the estimate for the work was prepared without considering the necessary provisions required as per the conditions of the road. While noticing that there was another road connecting the villages to District Road/State Highway, the COO reported that this road was not technically feasible/proper and ordered the work to be dropped. Accordingly, the work on which an expenditure of ₹25.17 lakh had been incurred towards construction of embankment was dropped, rendering the entire expenditure wasteful. This clearly indicates that the KRRDA accorded the technical sanction in a routine manner.

The matter was referred to State Government in July 2010, and the State Government endorsed (January 2011) the reply of COO, KRRDA, which stated that at the time of preparation of DPR, the formation of road width was available. Subsequently, Shahabad stones were dumped all along the road leading to reduction of width. The reply was contrary to the inspection report of SE (April 2007) which stated that the entire road ran in black cotton area full of quarry spoil and the owners of quarries had been dumping all the waste of Shahabad stone pieces on the road surface since many years.

Thus, flouting of the Scheme guidelines and failure of the EE, PRED, Gulbarga in conducting suitable survey and investigation to ensure existing connectivity, proper alignment, availability of land and technical/practical feasibility prior to proposing/entrusting the work, resulted in abandoning the work, rendering the expenditure of ₹25.17 lakh wasteful.

**RURAL DEVELOPMENT AND PANCHAYAT RAJ
DEPARTMENT
AND
SOCIAL WELFARE DEPARTMENT**

2.8 Unfruitful outlay on a residential school

Faulty action of Taluk Social Welfare Officer, Turuvekere to construct a residential school building for Hanumapura village Scheduled Tribe students on a site other than the one allotted coupled with non-monitoring of work by District Social Welfare Officer, Tumkur resulted in unfruitful expenditure of ₹19.81 lakh besides depriving the tribal students of better facilities

The State Government decided (2005-06) to construct an Ashrama Shaale⁴⁶ for the Scheduled Tribe (ST) students of Hanumapura village of Turuvekere taluk and entrusted the work⁴⁷ to a contractor (July 2007). The Taluk Social Welfare Officer (TSWO), Turuvekere was to monitor the progress of work and report to District Social Welfare Officer (DSWO), Tumkur.

⁴⁶ Residential school

⁴⁷ The Deputy Commissioner (DC), Tumkur identified the land for the work at Survey No.78 of Shettygondanahalli measuring one acre and 10 guntas and transferred (August 2005) it to the Taluk Social Welfare Officer (TSWO), Turuvekere.

Based on an inspection (November 2008) the TSWO intimated the DSWO that the construction site was an encroached area of Forest Department. Consequently, after completing the work up to plinth level incurring an expenditure of ₹19.81 lakh, the contractor stopped the work (December 2008) due to objection raised by Forest Department.

DSWO who was to monitor the district works through progress reports and physical inspection was not aware about such encroachment till November 2008.

On an enquiry by Audit (May 2010), TSWO admitted the lapse and stated (June 2010) that the contractor was instructed to execute the work in the adjacent vacant land of the existing Ashrama Shaale instead of the land allotted which was two kilometers away without road network. TSWO also stated that the DSWO, Tumkur had been requested to submit a proposal to the DC, Tumkur to transfer 38 guntas of land originally allotted, to Forest Department as compensation.

These instructions of TSWO, Turuvekere to construct a residential school building for ST students on a site other than the one allotted coupled with non-monitoring of works by DSWO resulted in unfruitful expenditure of ₹19.81 lakh besides depriving the tribal students of better facilities.

The State Government (March 2011) endorsed the reply of the CAO, ZP, Tumkur which stated that the school is being constructed in the site allotted and only a portion of the land belongs to the Forest Department. The reply was contrary to the earlier statement of TSWO who admitted that the allotted land was two kilometers away without road network.

2.9 Suspected misuse of scholarship amount

Failure of Taluk Social Welfare Officer, Bangalore (East) to obtain utilisation certificate and monitor timely disbursement of scholarship amount to Scheduled Caste students of a college resulted in suspected misuse of ₹12.75 lakh by the college authorities besides denial of the intended benefits to the students

The State Government is providing financial assistance to Scheduled Caste (SC) students in the form of post-matric scholarship to meet their maintenance expenditure, non-refundable fees, etc. enabling them to complete their education. The State Government releases the budgeted funds to the Taluk Social Welfare Officer (TSWO). The TSWO scrutinises the applications of students and sanctions the scholarship amount. He issues cheques in favour of the Principals of the colleges based on the sanction accorded by him for the eligible students. TSWO is responsible for watching receipt of utilisation certificate from the colleges duly supported by proof for having disbursed the scholarship amount.

Scrutiny of records of Bangalore (East) TSWO (February 2010), revealed that utilisation certificates for 45 cheques (₹77.80 lakh) issued during February 2005 to December 2009 in favour of the Principals of a group of

institutions⁴⁸, supported by proof of having disbursed the scholarship amount to students, were not forthcoming.

On cross verification by Audit with reference to the list showing the details of scholarship amount drawn and disbursed as furnished by a college⁴⁹, scholarship amount sanctioned and the bank pass sheets of TSWO, it was found that two cheques issued by TSWO for ₹12.75 lakh sanctioned to 79 students for the period 2006-08 were encashed⁵⁰ by the college authorities. The said cheques were neither accounted in the bank account⁵¹ operated by the college authorities nor disbursed to the eligible students as per the statement furnished by the college. The Bank also denied receipt of those cheques during the period 2006-09 and their subsequent withdrawal by students through cheques as claimed by the college. In the absence of proof of having disbursed the scholarship amount to students, the possibility of misuse of funds by the college authorities cannot be ruled out.

Thus, failure of TSWO, Bangalore (East) to obtain utilisation certificates and monitor timely disbursement of scholarship amount to SC students of a college resulted in suspected misuse of ₹12.75 lakh by the college authorities besides denial of the intended benefits to the students. Possibility of such misuse of scholarship amount in the other cases cannot be ruled out. The matter needs thorough investigation.

The matter was referred to Government (July 2010), reply is awaited (March 2011).

GENERAL

2.10 Recoveries at the instance of Audit

During compliance audit of PRIs, Audit objected to revenue loss to PRIs/State Government to the extent of ₹80.14 lakh and as a result, the concerned Departments recovered ₹69.62 lakh as detailed in Table 2.16 below:

Table 2.16: Statement showing recoveries at the instance of Audit

Sl. No.	Department/Particulars	Amount objected	Amount recovered
1	RDPR Department Consideration amount agreed (₹13,068 for a cent) for sale of land to a co-operative society to the extent of 30 cents belonging to TP, Devanahalli was far less than the prevalent guidance value fixed (₹one lakh for a cent) by the Stamps and Registration Department	₹26.08 lakh (January 2008)	₹26.08 lakh (February 2010)

⁴⁸ SCT group of Institutions, Bangalore

⁴⁹ SCT Institute of Technology, Bangalore

⁵⁰ Vijaya Bank Account of TSWO for ₹6.79 lakh (June 2007) and ₹5.96 lakh (April 2008)

⁵¹ Savings Bank Account No.849620100010409 of Bank of India, Jeevanbhimannagar branch, Bangalore.

Sl. No.	Department/Particulars	Amount objected	Amount recovered
2	Women & Child Development Department Reduction in cost (₹33,000 per MT to ₹29,000 per MT) fixed (May 2008) by the State Government for supply of Amylase Rich Energy Food to Anganwadi children was not effected by Child Development Project Officers under the control of ZPs	₹54.06 lakh (June 2008)	₹43.54 lakh (August 2010)

2.11 Poor response to Inspection Reports

The Karnataka Zilla Panchayat (Finance and Accounts) Rules stipulate that Head of the Departments/Drawing and Disbursing Officers of the Zilla Panchayat (ZPs) shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with Chief Executive Officer (CEO) of ZPs. Despite Ad-hoc Committee meetings being held regularly, 4,013 Inspection Reports consisting of 15,258 paragraphs were outstanding in various ZPs, as of March 2010. During the year 2009-10, 3,193 paragraphs were cleared in 23 Ad-hoc Committee meetings held. Out of the Inspection Reports outstanding, 56 *per cent* reports containing 40 *per cent* paragraphs were pending for more than five years, which highlighted the inadequate action of the CEOs in the settlement of objections.



CHAPTER-III

**An overview of Urban
Local Bodies**

CHAPTER III

SECTION 'A'

AN OVERVIEW OF URBAN LOCAL BODIES

3.1 Introduction

3.1.1 The 74th Constitutional amendment enacted in 1992 envisioned creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies (ULBs⁵²) 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 XII Schedule of the Constitution. The amendment also brought out some principal changes in the urban fabric of the country, *inter alia*, mandating

- establishment of an independent State Election Commission for the superintendence and conduct of municipal elections every five years and
- constitution of a State Finance Commission (SFC) every five years for reviewing the financial position of municipalities.

The amendment introduced certain uniformity in the fundamental structure of the ULBs at the national level. Being a State subject, State Legislative Acts govern these bodies and set out their powers, responsibilities, service delivery mandates and obligations with regard to accounting, audit and oversight.

The category-wise ULBs in the State as of February 2011 are as shown in **Table 3.1** below:

Table 3.1: Category-wise ULBs in Karnataka State

Sl.No.	Urban Local Bodies	Number of ULBs
1	City Corporations (CCs)	9
2	City Municipal Councils (CMCs)	43
3	Town Municipal Councils (TMCs)	94
4	Town Panchayats (TPs)	68
5	Notified Area Committees (NACs)	4

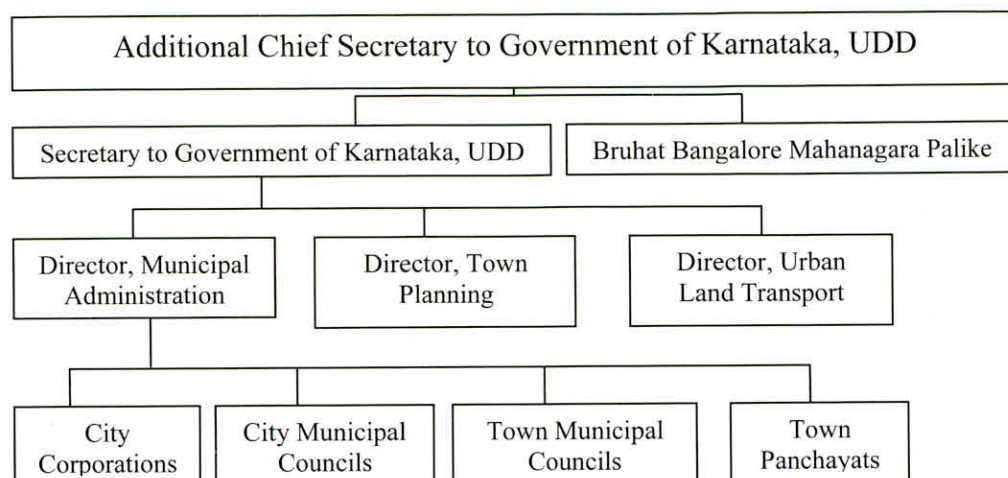
Source: Administrative Report of UDD for the year 2009-10

The CCs are governed by the Karnataka Municipal Corporations Act (KMC Act), 1976 and the other ULBs are governed by the Karnataka Municipalities Act (KM Act), 1964. Each corporation/municipal area is divided into a number of wards, which is determined and notified by the State Government considering the population, dwelling pattern, geographical condition and economic status of the respective area.

⁵² Classified as City Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats, *etc.* based on the population

3.2 Organisational set-up

3.2.1 The Urban Development Department (UDD) is headed by Additional Chief Secretary to Government of Karnataka and is the nodal department. The organisational structure with respect to functioning of ULBs in the State is as under:



3.2.2 In order to ensure comprehensive development and to improve service delivery system in thickly populated areas and urbanised areas in the State, the State Government constituted various Boards/Authorities⁵³ assigning specific functions to them.

3.2.3 While Bruhat Bangalore Mahanagara Palike (BBMP) functions directly under the UDD, the other ULBs discharge their duties under the control/guidance of subordinate wings of UDD headed by a Director for each wing. The subordinate wings of UDD and their responsibilities are as indicated in Table 3.2 below:

Table 3.2: Subordinate wings of UDD and their responsibilities

Sl.No.	Wing	Responsibilities
1	Municipal Administration	<ul style="list-style-type: none"> to ensure that ULBs discharge their functions and guide them in discharge of obligatory, special and discretionary functions urban reforms, especially relating to revenue collection, computerisation and accounting implementation of the Centrally Sponsored and State Government Schemes
2	Town Planning	<ul style="list-style-type: none"> assist the Government in formulation of policies on matters related to planning and development of urban and rural areas of the State extending technical support to Urban Development/Planning authorities, ULBs in preparation and enforcement of development plans and preparation of town extension

⁵³ Bangalore Metropolitan Regional Development Authority, Bangalore Development Authority, Bangalore Water Supply and Sewerage Board, Bangalore Metro Rail Corporation Limited, Karnataka Urban Water Supply and Drainage Board, Karnataka State Town Planning Board, Karnataka Urban Infrastructure Development and Finance Corporation, Urban Development Authorities (UDAs) for 27 cities

Sl.No.	Wing	Responsibilities
		schemes, etc.
3	Urban Land Transport	<ul style="list-style-type: none"> periodical assessment of travel demand in a given urban area through scientific methods determination of the level of public transport required in different corridors and the type of transport systems required based on a comprehensive appraisal of public transport technologies assessment and recommendation of the new investments needed for creation of infrastructure over a specified time horizon liaisoning with the municipal bodies/UDAs in designing and developing integrated policies and plans for city level transportation and their financing

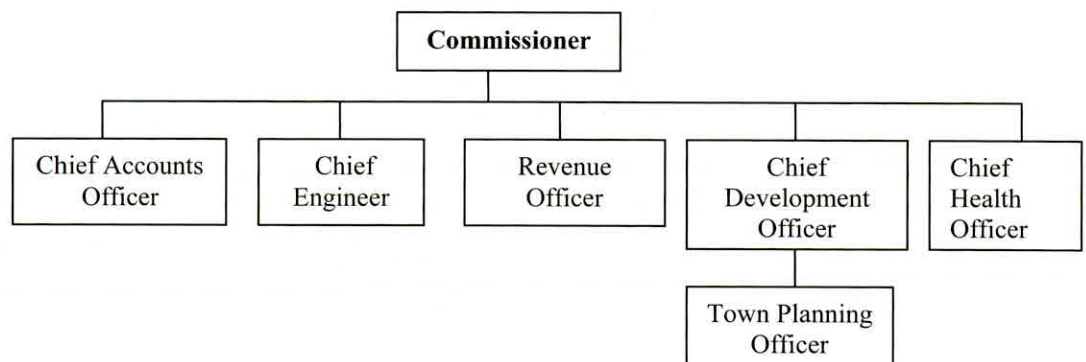
Source: Administrative Report of UDD

3.2.4 Composition of ULBs

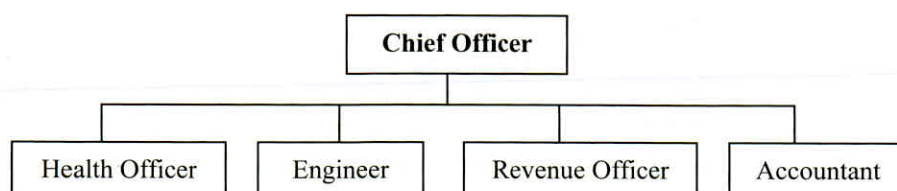
All the ULBs have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected on majority by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP have four⁵⁴ Standing Committees, BBMP has additional four⁵⁵ 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, which are detailed in **Appendix 3.1**. The executive set-up of CCs and ULBs are as shown below:

Executive set-up of City Corporations



Executive set-up of other ULBs



⁵⁴ 1) Taxation, Finance and Appeals 2) Public Health, Education and Social Justice
3) Town Planning and Improvement 4) Accounts.

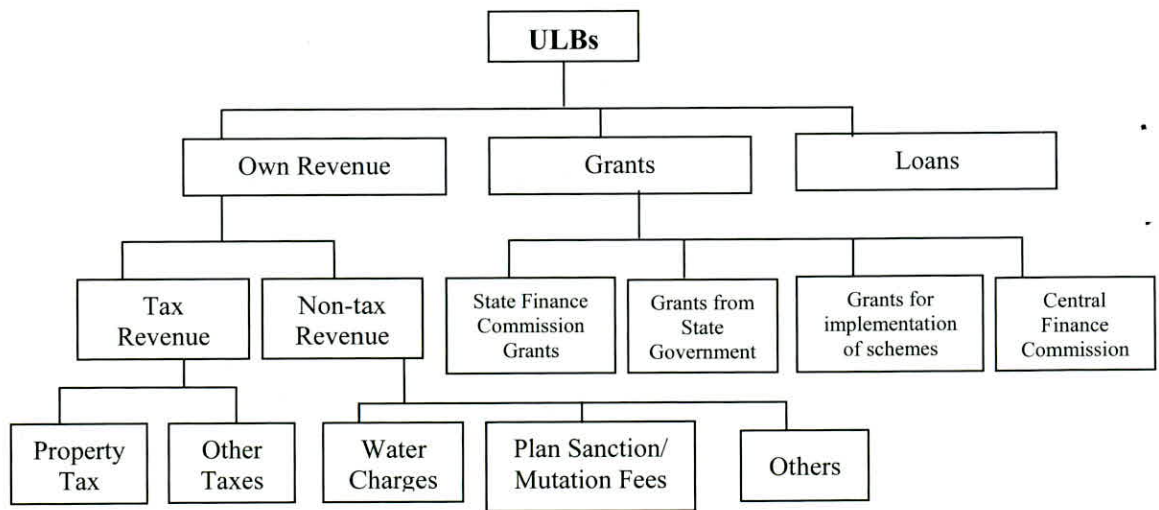
⁵⁵ 1) Public Works 2) Education and Social Justice 3) Appeal 4) Horticulture

3.3 Financial profile

3.3.1 Resources of ULBs

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

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. Flow chart of finances of ULBs is as shown below:



3.3.2 Custody of fund in ULBs

The grants received from the State Government are kept in Personal Deposit account of ULBs in the Treasury. All receipts are to be paid into the treasury and any money required for disbursement are drawn from the treasury through cheque. The grants received for implementation of schemes are kept in banks duly authorised by the State Government. The Drawing and Disbursing Officers (DDOs) under ULBs are empowered to draw the fund from the treasury/banks after getting sanction from the Commissioner/Chief Officer.

3.3.3 Release of Grants to ULBs

The details of grants released by the State Government to ULBs during the period from 2007-08 to 2009-10 are as shown in **Table 3.3** below.

Table 3.3: Statement showing release of grants

ULBs	2007-08		2008-09		2009-10	
	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	534	559	802	749	679	662
CMCs/TMCs	968	968	1,210	1,260	1,335	1,372
TPs/NACs	398	397	449	331	351	438
Total	1,900	1,924	2,461	2,340	2,365	2,472

(₹ in crore)

Source: State Budget Estimates and Finance Accounts

It could be observed from the table above that though the grants released by the State Government to all ULBs increased by 28 *per cent* from the period 2007-08 to 2009-10, the grants released to CCs decreased by 12 *per cent* during 2009-10 when compared to the previous year.

3.3.4 Own revenue of ULBs

Own revenue of ULBs include property tax, advertisement tax, fees, water charges, *etc.* Details of own revenue of ULBs are shown in **Table 3.4** below:

Table 3.4: Statement showing own revenue of ULBs

Year	Total own revenue		
	Tax Revenue	Water Charges	Total own revenue
2007-08	103	Not available	-
2008-09	200	1,144	1,344
2009-10	216	1,148	1,364

(₹ in crore)

Source: As furnished by Municipal Administration

3.4 State Finance Commission

3.4.1 The 73rd and 74th Constitutional amendments mandate the constitution of State Finance Commission every five years to determine sharing of revenue between the State Government and local bodies. So far, three SFCs were constituted and recommendations of the first and second finance commissions were implemented.

The second SFC recommended (January 2003) devolution of funds at the rate of eight *per cent* of the Non-Loan Gross Own Revenue Receipts (NLGORR) of the State Government. However, the State Government decided (June 2006) to release eight *per cent* of Non-Loan Net Own Revenue Receipts (NLNORR) of the State to ULBs. The details of release of grants to ULBs during 2007-10 are shown in **Table 3.5** below:

Table 3.5: Release of grants to ULBs

Year	Percentage		
	NLNORR of the State	Released to ULBs	Percentage
2007-08	29,345.00	2,468.20	8
2008-09	30,804.00	2,339.11	7
2009-10	33,923.00	2,471.69	7

(₹ in crore)

Source: State Finance Accounts

It could be observed from the table that though the State Government released eight *per cent* of NLNORR during 2007-08, the grants released declined to seven *per cent* during 2008-10.

3.4.2 Financial position of CCs

The receipt and expenditure of all the CCs including BBMP during the period from 2007-08 to 2009-10 is detailed in **Table 3.6** below:

Table 3.6: Receipt and expenditure of CCs

CCs	2007-08		2008-09		2009-10		Percentage of increase compared to 2007-08	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
Bangalore (BBMP)	1,935.87	1,821.97	2,508.06	2,436.21	3,363.07	3,397.92	74	86
Mangalore	160.27	150.50	175.77	120.62	232.64	223.25	45	48
Bellary	34.57	28.64	80.08	67.45	109.09	111.20	216	288
Hubli-Dharwad	99.46	73.26	122.46	91.73	109.33	110.38	10	51
Belgaum	65.10	51.49	89.48	62.17	85.21	101.13	31	96
Davanagere	60.89	17.22	48.29	58.96	96.08	98.57	58	472
Gulbarga	52.37	46.52	55.33	39.77	67.07	63.11	28	36
Mysore	144.02	124.69	157.50	145.74	197.26	154.60	37	24

Source: Audit Report of Chief Auditor (2007-08) and Fund based accounting system figures furnished by BBMP. In respect of other CCs – as furnished by Municipal Administration (Municipal Reforms Cell)

Note: Tumkur CC has been reverted to CMC from 2011

3.5 Investment through major schemes

Expenditure incurred *vis-à-vis* receipts for major schemes implemented by ULBs during 2008-09 and 2009-10 are given in **Table 3.7** below:

Table 3.7: Statement showing receipts and expenditure of major schemes

Name of the Scheme	2008-09		2009-10	
	Receipts	Expenditure	Receipts	Expenditure
Swarna Jayanti Shahari Rozgar Yojane (SJSRY)	38.64	31.49	54.07	26.67
Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	151.97	118.43	15.55	199.13
Chief Minister's Small and Medium Towns Development Programme (CMSMTDP)	NA	123.41	NA	332.42
Chief Minister's Special Grant to seven CCs	119.00	17.43	243.00	272.21
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	283.08	358.00	446.78	1,091.00

Source: As furnished by Municipal Administration and Karnataka Urban Infrastructure Development and Finance Corporation Limited.

NA: not available

3.6 Devolution of Functions, Funds and Functionaries

3.6.1 Transfer of Functions

The 74th amendment envisaged devolution of 18 functions to ULBs. The State Government stated (November 2010) that out of 18 functions, 14 functions were transferred to ULBs and two⁵⁶ functions are being implemented by ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services have not been transferred to ULBs. The water

⁵⁶ (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)
(2) Slum improvement and upgradation (ULBs and Slum Development Board)

supply for domestic and industrial purposes is implemented through separate agencies⁵⁷ of the State Government.

3.6.2 Transfer of Funds

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly through budget to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

3.6.3 Transfer of Functionaries

The KMC and KM Acts stipulate that the State Government, as it considers necessary, appoint personnel including officers from Karnataka Municipal Administrative Service to ULBs and also depute the staff as per the percentage fixed under Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010.

3.7 Accountability framework

3.7.1 Powers of the State Government

Acts governing ULBs entrusts the State Government with the following powers so as to enable it to monitor the proper functioning of the ULBs:

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

A detailed list of powers of the State Government is given in **Appendix 3.2**.

3.7.2 Vigilance mechanism

The Lokayukta appointed by the State Government as stated in Chapter I of the Report has power to investigate and report on allegations or grievances relating to the conduct of officers and employees of ULBs.

3.7.3 Audit mandate

The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The Commissioner/Chief Officer shall be responsible for rectification of any defects or irregularities pointed out in the report of the SAD. The Director of Municipal Administration (DMA) has the power to penalise for illegal payment or loss caused by gross negligence or misconduct based on the recommendations of the Controller, SAD.

⁵⁷ Bangalore Water Supply and Sewerage Board for BBMP area and Karnataka Urban Water Supply and Drainage Board for other ULBs

The State Government entrusted (May 2010) the audit of accounts of all ULBs to the Comptroller and Auditor General of India under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09.

3.7.4 Arrears in Primary Audit

Audit of accounts of 190 ULBs as against 214 ULBs for the period up to 2008-09 was conducted by SAD as of 31 March 2010. The audit of remaining 24 ULBs was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD.

3.7.5 Response to Audit Observations

The Commissioners/Chief Officers are required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to SAD within three months from the date of issue of IRs. The Controller, SAD informed (March 2011) that the DMA though intimated of the position through regular correspondence, failed to ensure prompt and timely action by the concerned officers of the ULBs. As a result, there were 1,02,887 audit paragraphs outstanding as at the end of March 2010 relating to the period up to 2009-10 involving ₹2,366.82 crore.

3.8 Resource utilisation

3.8.1 Twelfth Finance Commission grants

Twelfth Finance Commission (TFC) recommended GOI grants of ₹323 crore to ULBs in the State for five years from 2005-06 to 2009-10 to be released in 10 instalments (two instalments in a year). TFC suggested earmarking at least 50 per cent of grants for solid waste management (SWM) activities. The State Government allocated the grants to all ULBs based on the population and issued (January 2006) guidelines for execution.

As per the guidelines, priority should be given to public-private partnership to enhance service delivery of SWM services in urban areas and also for creation of database and maintenance of accounts at the grass root level. The State Government allocated (January 2006) grants in the ratio of 50:40:05:05 to SWM, untied grants, creation of database and energy saving measures respectively. The details of funds released and expenditure incurred on these activities during the period 2005-10 is as shown in **Table 3.8** below:

Table 3.8: Application of TFC grants in ULBs

Category	Grants	Expenditure					Closing Balance
		SWM	Untied Grants	Database	Energy Savings	Total	
CCs	82.32	23.75	42.67	2.85	0.54	69.81	12.51
CMCs	91.36	39.40	28.01	5.93	6.41	79.75	11.61
TMCs	97.02	47.03	30.65	5.53	3.57	86.78	10.24
TPs	51.81	26.00	19.10	0.48	1.52	47.10	4.71
NACs	0.49	0.01	0.48	0.00	0.00	0.49	0.00
Total	323.00	136.19	120.91	14.79	12.04	283.93	39.07

Source: Data furnished by Municipal Administration

As is apparent from the table above, the ULBs have utilised only 42 per cent of grant on SWM during the period 2005-10.

3.8.2 Delayed release of funds

TFC guidelines stipulated that the GOI was to release the funds to State Government which in turn were to be transferred to ULBs within 15 days of their receipt, failing which interest at the RBI rate was to be paid for the delayed period. There were delays in transfer of funds, ranging from 1 to 136 days, during the period 2005-06 to 2007-08 but interest of ₹0.49 crore has not been paid by the State Government.

3.8.3 Deficiencies in utilisation of grant

Test-check of records of eight CCs⁵⁸, 11 CMCs⁵⁹, 30 TMCs⁶⁰ and 20 TPs⁶¹ disclosed the following deficiencies:

- ₹3.12 crore was diverted for other works in contravention of guidelines issued, as detailed in **Appendix 3.3**.
- Nine ULBs⁶² invested the TFC grants of ₹8.84 crore in fixed deposit in nationalised banks during the period 2005-10, thereby defeating the intention of providing timely service to the urban population as envisaged.

3.9 Conclusion

While the grants released by the State Government to all ULBs increased by 28 *per cent* from the period 2007-08 to 2009-10, the grants released to CCs decreased by 12 *per cent* during 2009-10 when compared to the previous year. Even though the second SFC recommended grants to the extent of eight *per cent* of NLGRR of the State, the State Government released only seven *per cent* of NLNRR of the State during 2008-10. Out of 18 functions to be devolved to ULBs, the State Government devolved only 14 functions. The ULBs have utilised only 42 *per cent* of TFC grants on SWM during the period 2005-10 as against the prescribed 50 *per cent*.

⁵⁸ Bangalore, Belgaum, Bellary, Davanagere, Dharwad, Gulbarga, Mangalore and Mysore

⁵⁹ Chikmagalur, Chitradurga, Gadag, Gokak, Harihar, Hospet, Jamakhandi, Shahabad, Tiptur, Tumkur and Yadgir

⁶⁰ Aland, Athani, Badami, Bailhongal, Bannur, Bantwal, Chittapur, Doddaballapur, Gundlupet, Harapanahalli, Hiriyur, Hoovinahadagali, Hunsur, Kampli, KR Nagar, Malavalli, Malur, Moodabidri, Mudalgi, Nanjangud, Pavagada, Puttur, Ron, Sandur, Sedam, Shahpur, Shorapur, Sira, Siraguppa and Ullal

⁶¹ Afzalpur, Belthangadi, Channagiri, Chincholi, Gubbi, Gurmitkal, Honnali, Jagalur, Jewargi, Kamalapura, Koratagere, Kottur, Kudachi, Kudligi, Mulki, Periyapatna, Saragur, Sullia, Sringeri and Tekkalkote

⁶² Athani, Belgaum, Gokak, Jhamkhandi, KR Nagara, Mangalore, Mudalgi, Pavagada and Raibhag

SECTION 'B'

Financial Reporting

3.10 Framework

3.10.1 Financial reporting in the public sector is a key element of accountability. Best practices⁶³ require preparation of General Purpose Financial Statements (GPFS) for each entity. According to Karnataka Municipalities Accounting and Budgeting Rules (KMABR), 2006, the ULBs shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet, Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit to the Auditor appointed by the State Government, within two months from the end of the financial year.

3.10.2 Municipal Reforms

The initiative of municipal reforms was consummated during 2006 through the Nirmala Nagara programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance system, *etc.* This programme was initially funded by Karnataka Urban Development Coastal Environmental Project. Only 57 ULBs, including eight CMCs which merged with BBMP were covered under this programme. These reforms are now adopted by the remaining ULBs of the State under Karnataka Municipal Reforms Project (KMRP). The main objectives of KMRP are to:

- improve delivery of urban services through enhancing the quality of urban infrastructure;
- enhance accountability, transparency and improve governance of ULBs;
- make ULBs need sensitive, demand responsive and self reliant;
- improve the financial health of the ULBs; and
- promote institutional reforms, capacity building measures and performance based investments and to explore and promote ways for public-private partnerships.

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

⁶³ Standard on presentation of financial statements issued by International Public Sector Accounting Standards (IPSAS)

3.10.3 Accounting Reforms

On the recommendations of Eleventh Finance Commission, GOI entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the CAG of India.

The Ministry of Urban Development, GOI developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government brought out the KMABR based on the NMAM with effect from 1 April 2006. The financial statements of ULBs comprise of Income and Expenditure Account, Receipts & Payments Account and Balance Sheet. KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2011, all the ULBs are preparing the fund-based accounts in double entry system.

The BBMP is maintaining FBAS based on the Bangalore Mahanagara Palike (Accounts) Regulations, 2001 and the funds of BBMP are classified into three categories *viz.*, Governmental Fund, Propriety Fund and Fiduciary Fund based on the objectives, policies and activities.

3.10.4 Budget

According to the provisions of KMC Act, KM Act and Rule 132 of KMABR, the ULBs were to prepare the budget estimates duly considering the grants, loans and own revenues before fifteenth of January each year for the ensuing financial year and submit to the Municipal Council for approval. The Commissioner/Chief Officer was to seek additional funds required, if any, through re-appropriation/additional grants after getting the approval of the Municipal Council.

3.11 Financial Reporting issues

3.11.1 Preparation of unrealistic budget

The overall budget provision and the expenditure of the ULBs (excluding BBMP) for the years 2007-08, 2008-09 and 2009-10 are given in **Table 3.9** below:

Table 3.9: Statement showing budget provision and expenditure of ULBs

(₹ in crore)					
Year		Budget Provision	Expenditure	Savings	Percentage of savings
2007-08	Revenue	983.42	867.91	115.51	12
	Capital	749.28	588.34	160.94	21
2008-09	Revenue	1,371.24	994.84	376.40	27
	Capital	1,334.15	874.74	459.41	34
2009-10	Revenue	1,547.65	1,164.88	382.77	25
	Capital	1,858.79	1,198.76	660.03	36

Source: As furnished by MRC. The Cell did not furnish data relating to two CCs, 15 CMCs, eight TMCs and 21 TPs

Persistent savings were observed in both revenue and capital expenditure *vis-à-vis* the budget provisions over the last three years ranging from 12 to 36 *per cent*, indicating preparation of unrealistic budget estimates.

3.11.2 Certification of accounts

According to KMABR, the financial statements of ULBs shall be audited by the Chartered Accountants (CAs) appointed by the DMA. The CAs after completion of audit shall submit to the Municipal Council and the State Government, a report along with the audited accounts. **Table 3.10** below shows the position of accounts prepared by ULBs and certified by the CAs during the period 2006-07 to 2009-10 (February 2011).

Table 3.10: Position of preparation and certification of accounts

Year	Number of ULBs which prepared accounts					Number of accounts certified by CAs*				
	CC	CMC	TMC	TP	Total	CC	CMC	TMC	TP	Total
2006-07	4	34	6	7	51	4	34	6	7	51
2007-08	4	42	41	7	94	2	22	5	3	32
2008-09	4	28	3	6	41	NIL	NIL	NIL	NIL	NIL
2009-10	3	9	1	4	17	NIL	NIL	NIL	NIL	NIL

Source: Information furnished by MRC

* except BBMP

It was observed that while the number of ULBs which prepared the accounts during 2006-10 varied between 17 and 94 out of 213, the number of accounts certified by CAs were 51 and 32 during 2006-07 and 2007-08 respectively. Despite preparation of accounts, the CAs did not certify accounts in any of the ULBs during 2008-10.

3.11.3 Improper maintenance of Investment Register

As at the end of March 2010, BBMP had invested ₹61.08 crore in term deposits as seen from the provisional annual accounts. Audit could trace only term deposit entries for ₹46.04 crore in the Investment Register maintained. No supporting records were produced for the remaining amount of ₹15.04 crore.

3.11.4 Non-accountal of transactions

An amount of ₹20.70 crore invested in term deposits⁶⁴, (42 Fixed Deposits of ₹49 lakh each and a deposit of ₹12 lakh) were encashed in October 2008 with an interest of ₹46.63 lakh. However, these transactions were neither recorded in the Investment Register of BBMP nor brought to the books of accounts maintained under FBAS.

3.11.5 Theft, loss, misappropriation, surcharge, etc.

During 2009-10, the Controller, SAD has reported misappropriation/defalcation cases involving ₹38.02 lakh in ULBs of 18 districts.

The Controller, SAD proposed surcharge⁶⁵ of ₹1.84 crore and forwarded to DMA to initiate action on the officers/officials based on the seriousness of audit objections reported during the period 1996-97 to 2002-03. Further action taken by the DMA is not forthcoming. During December 2010, the Department has issued show cause notice to two officers for recovery of ₹36.94 lakh based on the report of SAD for the year 2007-08.

⁶⁴ Axis bank (Account No.02004)

⁶⁵ penalty

3.12 Conclusion

In spite of preparation of accounts by ULBs, the CAs did not certify accounts for the years 2008-10. Persistent savings were observed in both revenue and capital expenditure *vis-à-vis* budget provision ranging from 12 to 36 *per cent* over the last three years. Internal control mechanism was inadequate as evidenced from misappropriation/defalcation cases, improper maintenance of investment register and non-accountal of transactions in the books of account.



CHAPTER-IV

Results of Audit of Urban Local Bodies

CHAPTER IV – RESULTS OF AUDIT

SECTION ‘A’ - PERFORMANCE REVIEW

URBAN DEVELOPMENT DEPARTMENT

4.1 Unit area value based self assessment scheme of property tax in Bruhat Bangalore Mahanagara Palike

EXECUTIVE SUMMARY

The Bruhat Bangalore Mahanagara Palike provides civic services and infrastructure facilities to the citizens of Bangalore while discharging its functions as per the provisions of the Karnataka Municipal Corporation Act, 1976. The Bruhat Bangalore Mahanagara Palike is statutorily empowered to levy and collect tax and non-tax revenues. The property tax has traditionally been and continues to be the principal source of revenue to upkeep the basic services in the city. The implementation mechanism in property tax management suffered from several deficiencies. Among others, the abnormal delay in conducting the physical survey of properties by Bruhat Bangalore Mahanagara Palike based on the digital mappings of the area geographical information system resulted in absence of a comprehensive database of properties. Instances of incorrect declaration of properties and their usage pattern led to short payment of property tax of ₹207.35 crore during the years 2008-10. Control mechanism as regards revenue collection was ineffective as evidenced from non-maintenance of database, registers, non-verification of returns filed, unencashed cheques, etc.

4.1.1 Introduction

The Bangalore Mahanagara Palike⁶⁶ (BMP) was statutorily empowered to levy and collect tax and non-tax revenues in accordance with the provisions of the Karnataka Municipal Corporations Act, 1976 (KMC Act). The BMP was renamed as Bruhat Bangalore Mahanagara Palike (BBMP) during 2007 by extending its jurisdiction to cover 110 adjoining urbanised villages. The BBMP comprised of 198 wards functioning under the jurisdictional control of eight⁶⁷ zonal offices. The BBMP is statutorily empowered to levy and collect tax and non-tax revenues. The property tax has traditionally been and continues to be the principal source of revenue to upkeep the basic services in the city. Apart from its own resources, the GOI and the State Government were also releasing grants to BBMP for its functioning.

The KMC Act provided for levy and collection of property tax at such percentage not being less than 20 *per cent* and not more than 25 *per cent* of the taxable annual value of building, vacant land or both.

⁶⁶ the coverage of earlier Bangalore City Corporation was extended from 52 to 100 wards and renamed as Bangalore Mahanagara Palike during 1995

⁶⁷ Bangalore (East), Bangalore (South), Bangalore (West), Bommanahalli, Byatarayanapura, Dasarahalli, Mahadevapura and Rajarajeshwarinagar

The Self Assessment Scheme (SAS) of property tax (based on the annual rental value) and payment of tax voluntarily by the property owners was first introduced during the year 2000. In order to further augment the revenue base of BBMP, the State Government amended (January 2009) the KMC Act to introduce the self assessment of property tax under Unit Area Value (UAV)⁶⁸ based system. Different tax rates are determined for each area or street by classifying them into zones, nature of use to which the building is put to and for class of buildings and vacant lands.

Based on the guidance value⁶⁹ of the locality published by the Department of Stamps and Registration, the jurisdictional area of the BBMP had been classified into six value zones⁷⁰ for the purpose of levy and collection of property tax. The SAS provided for incentive for timely payment of property tax and penalty for delay/non-payment.

4.1.2 Organisational structure

BBMP is functioning under the administrative control of the Urban Development Department (UDD) of the State Government, which approves the tax proposals submitted by the BBMP. The Standing Committee on Taxation and Finance in BBMP, which comprises of elected representatives is vested with the matters relating to finance and taxation.

The organisational structure for revenue collection is as under:

Department/Office/Centre	Head of the office	Responsibility
UDD	Additional Chief Secretary to Government of Karnataka	<ul style="list-style-type: none"> Calling for records/documents, etc. Approving proposals for revision of taxes Taking decisions on policy matters, etc.
Central office	Commissioner	Overall monitoring of revenues
	Special Commissioner	
	Deputy Commissioner (Revenue)	
Eight zonal offices	Additional Commissioner/Joint Commissioner	
Revenue divisional offices (30)	Revenue Officers (ROs)	Responsible for levy and collection of municipal taxes, license fees and accounting
Revenue sub-divisional offices (64)	Assistant Revenue Officers (AROs)	<ul style="list-style-type: none"> Supervision of the assessment and collection, daily collection under all taxes Scrutiny of returns filed by the assesses Proper accounting of taxes collected
Help centres at each ward	Tax Inspectors	Collection and remittance of property tax

⁶⁸an average rate of expected returns from the property per square foot per month on the basis of the average market rate determined through mass appraisal method or real estate market information or any other reliable source or combination of these sources having regard to the location, type of construction of building, parking area of vehicles and such other criteria as may be prescribed

⁶⁹average market rate for properties in a particular locality

⁷⁰categorised as A,B,C,D,E and F value zones

4.1.3 Scope of audit and methodology

The performance appraisal on the implementation of SAS of property tax in BBMP for the period 2008-10 was conducted by sample check of records of the Commissioner and 16 AROs⁷¹ (selected out of 64 AROs⁷² based on monetary unit sampling without replacement method) of BBMP coming under seven⁷³ zonal offices. The Entry Conference in connection with the performance appraisal was held during August 2010 with the Special Commissioner, BBMP. The Exit Conference was held during March 2011 and the Special Commissioner, BBMP generally accepted the audit observations and assured that they would take remedial action.

The draft review report was forwarded to the State Government in January 2011; reply is awaited (March 2011).

4.1.4 Audit objectives

The audit objectives for the performance appraisal were to ascertain whether:

- the BBMP had a reliable database of all the properties;
- the existing system for levy, collection and accountal of property tax was efficient and effective; and
- the control mechanisms were adequate.

4.1.5 Audit criteria

The criteria adopted for the performance review were:

- KMC Act, 1976.
- Handbook on property tax issued by the BBMP for filing returns under SAS for the years 2008-09 to 2010-11.
- Guidelines on zonal classification issued by the BBMP and
- Orders and circulars relating to property tax issued by the State Government and BBMP.

4.1.6 Audit findings

The findings of the performance review are discussed in the succeeding paragraphs.

⁷¹ Chamarajpet, Hebbal, Jagajeevanramnagar, Jayanagar, Jeevanbhimanagar, Konanakunte, Madivala (BTM Layout), Mahadevapura (Hoodi), Mahalakshimpura, Marathahalli, Nagarbhavi, Nelegedaranahalli, Ramamurthyagar, Shantinagar, Shivajinagar and Whitefield

⁷² Due to failure in updation of software, tax collection particulars of all the 64 AROs were accounted against 53 AROs

⁷³ Bangalore (East), Bangalore (South), Bangalore (West), Bommanahalli, Dasarahalli, Mahadevapura and Rajarajeshwarinagar

4.1.7 Creation of database

4.1.7.1 Non-availability of comprehensive database

BBMP neither possessed a comprehensive database nor conducted any survey for precise assessment

Any tax assessment system will not be successful without having a comprehensive inventory of properties. It is stipulated that the AROs were to maintain a property register to record the details of all the assessable properties under their jurisdiction duly categorising the properties into different groups⁷⁴ and also having additional information such as age of the property, usage pattern, number of floors, total built-up area, etc. Such comprehensive and updated database was not maintained by any of the test-checked AROs. Audit further observed that even after the vast expansion of the erstwhile BMP area by merging the surrounding villages, the BBMP did not conduct any survey to arrive at an accurate number of properties within its revised jurisdiction.

4.1.7.2 The Jawaharlal Nehru National Urban Renewal Mission (JNNURM), a flagship programme launched in December 2005 by GOI as a part of larger urban agenda, prescribed the following two major targets in respect of property tax:

- to enhance the coverage of properties by putting in place a Geographical Information System (GIS) and
- to improve tax demand-collection ratio to 85 per cent by 2012.

In order to have an integrated database of properties within the jurisdiction of BBMP, there was a need to conduct comprehensive physical survey of existing properties based on the information/digital mappings obtained through GIS. The Additional Commissioners of zonal offices stated (December 2010) that even though the GIS was completed, the physical survey of existing properties was still in progress. However, the details to the extent of completion of such physical survey were not made available to Audit in any of the test-checked revenue sub-divisions.

As the BBMP failed to have a comprehensive database required for collection of property tax, achieving the target of raising the tax demand-collection ratio to 85 per cent remained a distant reality.

4.1.8 Levy, collection and accountal of property tax

4.1.8.1 Property tax collection

The total revenue of BBMP and quantum of property tax collected during the years 2007-10 is detailed in Table 4.1 below:

Table 4.1: Statement showing total tax revenue and property tax

Year	2007-08	2008-09	2009-10*
Total Revenue	1,934.35	2,289.91	3,461.01
Total Tax Revenue	907.55	711.01	1,362.58
Total Property Tax	719.09	517.95	1,142.73
Percentage of property tax to tax revenue	79	73	84

Source: As exhibited in the balance sheets of BBMP

*provisional accounts figures

⁷⁴ as published in the Handbook on property tax

Despite introduction of revised SAS system for payment of property tax during 2008-09, it was observed that the property tax collected when compared to tax revenue declined from 79 *per cent* to 73 *per cent*. There was 28 *per cent* reduction in property tax collection during 2008-09 to that of previous year. No reasons were furnished by BBMP for reduction in collection of property tax.

While furnishing the details of total property tax collected, the BBMP failed to furnish the break-up of tax collected and the arrears of tax collected for the respective years. The year-wise details of revenue outstanding were not available either with the AROs or BBMP central office. Therefore, audit could not ensure whether the BBMP had actually increased its revenue compared to previous years by introduction of SAS system.

4.1.8.2 Non-revision of property tax rates

The provisions of KMC Act provided for revision of property tax rates once in three years. In disregard of the provisions, the property tax rates fixed during the year 2000 are still being continued (December 2010) without any further revision.

BBMP did not adopt the prevailing market value of the properties

The BBMP claimed to have adopted the average market value of the properties in determination and classification of value zones. However, it was observed that the BMP/BBMP had adopted the market value of the year 2000 and the same had not been revised despite steady increase in real estate market value of properties in Bangalore. This had adversely affected the generation of tax revenues of BBMP.

4.1.8.3 Incorrect declaration of returns

Failure of the AROs in cross-verification of returns filed facilitated defaulters going unpunished

According to the SAS system, the AROs were required to cross-verify the truthfulness of the declaration and payment of tax in at least 10 *per cent* of the returns filed by the property owners. Audit, however, observed that none of the AROs cross-verified the returns and in the absence of database/basic records, accepted the details submitted by the property holders. Due to absence of cross-verification, the possibility of incorrect declaration of returns and defaulters going unpunished could not be ruled out.

4.1.8.4 For the purpose of self assessment of property tax, the physical properties classified under six value zones were categorised into 18 groups (five residential and 13 non-residential) which included vacant land, telecommunication towers, hoardings and properties exempt from property tax. Of the 642 tax returns made available to audit, 286 returns (45 *per cent*) did not contain sufficient information for assessment of those properties and thereby audit could not ascertain the correctness of the returns. The AROs accepted such incomplete returns without raising any objections.

Incorrect declaration of property tax returns resulted in revenue loss of ₹207.35 crore

Out of the available 356 returns (complete in all respects), audit test-checked 169 returns and found that in 68 cases (40 per cent), these assesses had incorrectly declared their property tax resulting in loss of revenue of ₹207.35 crore during the period 2008-10, as detailed in the **Table 4.2** below.

Table 4.2: Statement showing details of short collection of tax and interest

(₹in lakh)

Category	Total number of returns analysed	Number of returns found irregular	Total revenue loss	Audit observation
Residential apartments	12	3	2,690.46	Incorrect adoption of rate of tax and non-payment of interest for delayed payment
Educational institutions	30	22	2,647.73	Exemption claimed without enclosing the certificate
Sports and recreations clubs	10	3	932.19	Non-payment and incorrect computation of property tax
Shopping malls and multiplexes	6	3	1,229.15	Incorrect declaration of category
Star/luxury hotels	20	9	358.40	Incorrect adoption of service area and rate of tax
Software companies	25	10	9,445.98	Non-adoption of tax rates applicable to centrally air conditioned category
Other non-residential properties	50	11	2,839.35	Mis-classification of zone and incorrect computation
Government residential quarters	6	6	515.27	Non/Short payment of tax on residential accommodation
Hospitals	10	1	76.74	Incorrect computation without furnishing complete property details
Total	169	68	20,735.27	

Source: Tax Returns

Note : Loss of revenue includes penal interest for non-payment of property tax calculated up to March 2011

Possibility of significant revenue leakage due to absence of the system of cross-verification could not be ruled out.

4.1.8.5 Inadequate networking leading to improper accounting

Laxity in networking of offices hindered proper accountal and reconciliation of tax collected

A comprehensive automated system both at BBMP central office and in each sub-divisional office duly connected through an appropriate network would help in tracking the payment of property tax from all the property owners under the jurisdiction besides maintaining a full-fledged accounting system. However, such an automated system was not in place in BBMP as evidenced from the following:

- Though the number of AROs increased (August 2009) from 53 to 64, the details of collection from these AROs were accounted against the erstwhile 53 AROs due to non-updation of software even as of March 2011.
- The payment of property tax 'online' is being directly accounted in the central office of BBMP without routing through the ARO concerned. This lacuna in the automation system resulted in non-updation of records of AROs despite payment of tax by the property owners and consequent non-reconciliation.

Enforcement of penal provision against the defaulters was inadequate

4.1.8.6 Inadequate enforcement of penal provision

The provisions of KMC Act provided for levy of penal interest at the rate of two *per cent* per month on the tax not/short paid. Further, the Commissioner may recover the tax by distraint under his warrant and by sale of moveable property of the defaulter. If the defaulter's property could not be attached, the Commissioner may prosecute the defaulter before a Magistrate. In the absence of database and failure of AROs in cross-verification of tax returns filed, the BBMP did not identify any defaulter on its own and collected the penal interest only from voluntary tax payers who paid late. Laxity in enforcement of the penal provisions led to defaulters getting away scot free. There was also no compulsion for the property owners to pay the correct tax or even to pay any property tax at all.

4.1.9 Control mechanisms

The internal control and monitoring mechanism in BBMP with regard to revenue collection was ineffective as discussed below.

- The AROs failed in proper accounting of daily collections in the help centres and did not reconcile the bank balances periodically. Non-maintenance of required registers, improper accounting and non-reconciliation with bank accounts led to incorrect reporting of collections at sub-divisional level.
- The scheme provided for payment of property tax through cheque or demand draft. The AROs issued the tax receipts on the spot without waiting for the realisation of cheques. Many property owners had misused the provision and made payment through cheques which were not realised despite issuance of tax receipt. On an enquiry, the BBMP furnished the details of 1,404 cases of unrealised cheques involving an amount of ₹1.96 crore up to the year 2009-10 under the jurisdiction of 30 AROs. Of this, it was noticed that 1,272 unrealised cheques involving ₹1.79 crore pertained to the years 2008-10. Details in respect of remaining 34 AROs were not furnished to audit. Besides, details of action taken on those who had misused the provision were not forthcoming from the records. There was no provision under the Act or an administrative mechanism for a systematic auditing of the returns filed/assessed cases.

4.1.10 Conclusion

Despite having GIS mappings, in the absence of physical survey and updated basic records, the details of properties to be assessed were not available with BBMP. The rates of property tax had not been revised periodically, as required, hindering generation of tax revenue. The AROs failed in cross-verification of returns filed which facilitated improper declaration and short payment of tax. Failure of AROs in proper reconciliation with bank accounts coupled with non-computerisation and non-networking of the collection centres with sub-divisions and central office hindered proper accounting of revenue collection. Inadequate enforcement of penal provisions enabled defaulters to escape punishment.

4.1.11 Recommendations

- BBMP needs to consider revision of tax rates periodically in order to generate sufficient revenue.
- Collection of tax should be either on-line or through demand draft to rule out the possibility of non-realisation of cheques.
- An independent system of cross-checking the self assessed returns and to identify and initiate action on the defaulters needs to be in place.
- Revenue officers should be made accountable in the event of significant shortfall in tax collection, failure to check incorrect declarations.
- The State Government should evolve an overall monitoring mechanism to improve revenue collection of BBMP.

SECTION 'B' - PARAGRAPHS

URBAN DEVELOPMENT DEPARTMENT

BRUHAT BANGALORE MAHANAGARA PALIKE

4.2 Cash management

4.2.1 Introduction

The finances of Bruhat Bangalore Mahanagara Palike (BBMP) consisted mainly of the grants received from Central and State Governments and tax and non-tax revenues collected by BBMP.

The financial transactions of the BBMP were operated through bank accounts opened in various banks⁷⁵; a Personal Deposit Account in the name of Commissioner, BBMP operated in the District Treasury, Bangalore for facilitating credit/withdrawal of grants and loans released by the State Government. In addition, flexi accounts for third party amounts like contractors' security deposit, earnest money deposit, *etc.* (till their refunds) and escrow accounts for repayment of institutional loans were opened and operated in various banks. While Assistant Revenue Officers (AROs) and other revenue generating units were permitted only to remit the revenues realised by them to designated bank accounts, the Divisional Zonal Offices were permitted to remit as well as make payments.

Audit reviewed (October to December 2010) the cash management in BBMP during the period from 2008-09 to 2009-10 through test-check of records in the office of the Chief Accounts Officer (CAO), BBMP.

The Entry Conference (August 2010) and Exit Conference (March 2011) was held with Special Commissioner, BBMP.

4.2.2 Financial position of BBMP

The financial position of BBMP during the period under review is as shown in **Table 4.3** below.

Table 4.3: Financial position of BBMP

Year				(₹ in crore)
	Opening Balance	Receipts	Expenditure/payments	Closing Balance*
2008-09	346.28	2,508.06	2,436.21	418.13
2009-10	418.13	3,363.07	3,397.92	383.28
Total		5,871.13	5,834.13	

Source: Uncertified Annual accounts furnished by CAO, BBMP

* Net of credit and debit balances of bank accounts

⁷⁵ Syndicate and Canara banks being nodal banks for general receipt/expenditure of BBMP and Industrial Development Bank of India (IDBI) exclusively for accounting of property tax revenues

As at the end of March 2009, BBMP had outstanding arrears of revenue amounting to ₹596.62 crore which had increased by 87 per cent to ₹1,114.47 crore by the end of March 2010. The BBMP availed loan from financial institutions aggregating ₹2,052 crore⁷⁶ during the period 2008-10 and had current liability and provisions⁷⁷ of ₹692.56 crore and ₹2,797.33 crore as on 31 March 2009 and 2010 respectively.

4.2.3 Audit findings

4.2.3.1 Non-maintenance of cashbook

As per the provisions of the Karnataka Financial Code, every office is required to maintain a cash book and all financial transactions are to be recorded in real time. As the BBMP was operating more than 600 bank accounts, there was a need to maintain a cash book for each bank account separately duly reconciling the balances with the bank accounts periodically.

However, during audit, it was noticed that the BBMP had not maintained the cash book for bank accounts as prescribed. Wherever maintained, the receipts side of the cash book was left blank without any entries either for funds transferred or amounts remitted to the account. As a result, Audit could not vouchsafe the correctness of the balances exhibited in the records of the CAO. The Chief Auditor has also pointed out this deficiency in his audit reports for the periods 2006-07 and 2007-08.

During the Exit Conference, CAO, BBMP stated (March 2011) that instructions would be issued to the concerned officials for maintenance of cash books for each bank account.

4.2.3.2 Expenditure Management

The demand drafts/ cash /cheques received by BBMP were sent to banks without being entered in the cash books. Hence Audit could not ensure that cheques/cash deposited in banks were fully and correctly accounted under BBMP account. While making payment towards work bills and other claims also, the CAO, BBMP did not have any supporting records and relied only on bank balances. The various DDOs were given Letters of Credit (LOC) based on this incomplete information.

4.2.3.3 Non-reconciliation of balances with bank accounts

During the years 2008-09 and 2009-10, the BBMP has incorporated 602 bank accounts in its annual accounts prepared centrally under fund based

⁷⁶ 2008-09 – ₹500 crore and 2009-10 – ₹1,552 crore

⁷⁷ Includes cess, taxes and royalties, recoveries adjustable/payable to outsiders, Earnest Money Deposit, security deposit and provision made towards works bills and administrative expenses

accounting system (FBAS). Neither the bank balances reflected in the annual accounts for the years 2008-10 were reconciled with that of the bank statement balance nor the confirmation of balances from concerned subordinate offices was obtained to ensure the correctness of bank balances exhibited in the accounts under FBAS. It was noticed in test-check that there were differences ranging from ₹11.18 lakh to ₹159.96 crore between bank balance as per BBMP accounts and statements furnished by banks, as at the end of March 2009, in respect of 15 bank accounts maintained at Central Office of BBMP and made available to Audit for verification. However, no action was taken by the authorities to reconcile the difference.

BBMP in its reply (March 2011), stated that action would be taken to reconcile the differences.

4.2.3.4 Retention of funds in bank accounts without transfer to nodal bank accounts

Huge funds were retained in the bank accounts without being transferred to nodal accounts

As per instructions (September 2001) of the CAO, the AROs were required to ensure that the revenues collected in the revenue generating units of the BBMP were credited to designated bank accounts and transferred to nodal bank accounts (at Syndicate Bank or Canara Bank) weekly. Further, AROs were required to submit the bank statement every Monday to the Zonal Assistant Controller of Finance (ZACF). In turn, the ZACF was required to obtain a copy of the nodal bank account pass sheet from the CAO's office and ensure the prompt and correct transfer of funds from revenue generating units to concerned nodal accounts.

However, the AROs failed to adhere to these stipulations and it was noticed that as of March 2009⁷⁸, funds aggregating more than ₹1,065 crore⁷⁹ were lying idle in 106 bank accounts⁸⁰, out of which ₹774.87 crore pertained to collections prior to April 2008. On a review of 16 bank account statements, it was noticed that the delay in transfer of funds to nodal accounts varied from 65 to 888 days.

Failure of the AROs in transferring the funds regularly and failure of the ZACF in monitoring and enforcing monetary discipline resulted in retention of huge sums in bank accounts and undue benefit to banks. It also deprived the BBMP of these revenue receipts forcing it to resort to taking loans from financial institutions at high interest rates.

⁷⁸ the accounts for 2009-10 yet to be finalised

⁷⁹ the difference in figures to that exhibited in financial position under paragraph 4.2.2 was due to exhibition of net debit and credit balances

⁸⁰ Bank accounts operated by AROs and having balance more than ₹10 lakh only are commented

The CAO replied (March 2011) that corrective measures have been initiated to watch the timely transfer of funds and actual position would be intimated in due course.

4.2.3.5 Non-adherence to agreement resulting in loss of interest

The BBMP entered into (February 2009) a Memorandum of Understanding (MoU) with IDBI. The MoU stipulated that the revenue collections of AROs should be transferred to the nodal bank accounts on daily basis and also that funds over and above ₹ one crore were to be transferred to flexi deposit account on T + 2 days basis⁸¹.

Despite this, it was noticed in Audit that average daily balances ranging from ₹13 crore to ₹82 crore were allowed to remain in nodal bank accounts without being transferred to flexi deposit account. The number of days wherein the balance exceeded ₹ one crore ranged from 1 to 18 during the period from April to June 2009. Non-adherence to the provisions of MoU deprived BBMP of interest amounting to ₹15.47 lakh⁸². This clearly indicates the failure of the CAO to monitor the balances in nodal bank accounts and failure to scrupulously follow the stipulations of MoU.

In reply, the CAO stated (March 2011) that IDBI had given interest on the balances held by it, the details of which would be intimated.

4.2.3.6 Loss of benefit to BBMP

Based on the position of funds, the BBMP was taking on an average 5 to 6 months to make payment of bills to the contractors. In order to facilitate faster settlement of contractors bills, BBMP introduced Bills Discount facility (Hundi system) which provided for the banks to discount the bill directly to the contractor with tenure up to 180 days. This was done by executing a tripartite agreement between BBMP, Bank and contractor concerned which, *inter alia*, stipulated that the BBMP would make payment on the due date of the bills to the bank or authorise the bank to debit the bill amount to its account with the bank. The commission or service charges would be collected by the bank from the contractor while discounting his bills depending upon the tenure of the bills. Interest beyond 180 days would be payable by BBMP. It was noticed in Audit that during 2008-09 and 2009-10, bills discounted amounting ₹83.41 crore by the contractors in 17 out of 27 divisions of BBMP were paid before their due dates ranging from 3 to 179 days.

Had BBMP adhered to the interest-free time period of 180 days, the available funds could have been invested in interest earning term deposits to help reduce its liabilities.

⁸¹ transaction day on which the balance exceeds ₹ one crore plus 2 days

⁸² @ of 5.25 per cent per annum

4.2.3.7 Maintenance of bank accounts in individual names

All the bank accounts operated by BBMP were to be in the name of the Commissioner by official designation and no account was to be opened in individual names. However, test-check of records disclosed that four⁸³ bank accounts were opened and operated in BBMP in the individual names of the officials. No cash books were being maintained for these bank transactions. In the absence of cash book, Audit could not ensure whether all the bank transactions/ entries appearing in the pass sheets of the said banks were genuine and brought in to the books of accounts correctly.

The CAO stated (March 2011) that no bank accounts were being operated at present under individual name.

4.2.3.8 Inter-bank transfers

As per the prevailing system, all the funds collected by the subordinate offices of BBMP were to be transferred to nodal bank accounts which in turn were to be transferred to other accounts on need basis. No internal fund transfers among the operative bank accounts were permitted for cash transactions through banks. However, the test-check of transactions revealed inter-bank transfers on 42 occasions involving funds ranging between ₹ one lakh and ₹ Six crore during 2008-10. The CAO failed to monitor such irregular inter-bank transfers, evidencing weak internal control system in BBMP.

4.2.4 Conclusion

Cash books in respect of bank accounts were either not maintained or were incomplete. Huge funds were retained in bank accounts without transferring to nodal accounts and the balances were not reconciled. Inter-bank transfers revealed weak internal control system in BBMP. Opening/operating of bank accounts in the name of individuals was fraught with the risk of misappropriation of funds.

4.3 Undue benefit to a contractor

Unjustified action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in changing the scope of road drain work led to undue benefit of ₹87 lakh to a contractor

The work of widening and construction of Race Course Road from Anandrao Circle to Basaveshwara Circle in Bangalore was taken by Bruhat Bangalore Mahanagara Palike (BBMP) at a cost of ₹3.91 crore based on the Schedule of Rates (SR) for 2006-07. The Chief Engineer (CE) accorded technical sanction and short term item rate tenders were called for by the Executive Engineer (EE), Road Widening Division. The Commissioner, BBMP, recommended the lower of only two tenders received for approval of the State Government instead of rejecting the tenders due to lack of competition. The State

⁸³ at Canara Bank extension counter of BBMP

Government accorded approval (June 2008) based on the SR of 2007-08 for a negotiated rate of ₹5.72 crore at 14.48 per cent above the estimated cost.

The contractor who executed the agreement on 27 July 2008 was required to complete the work by April 2009. Out of 17 items of work entrusted to the contractor as per the agreement, the amount quoted for 16 items worked out to ₹5.51 crore which was 41 per cent above the estimated cost of these items based on SR for 2007-08. The amount quoted for the remaining item, viz., construction of rubble stone masonry drain was ₹20.60 lakh, which was 81 per cent below the estimated cost of ₹1.08 crore based on SR for 2007-08. Details of quoted rates in respect of some of the items of work are detailed in **Table 4.4** below:

Table 4.4: Items of work for which rates were quoted

Item of work	Estimated Rate (in ₹)	Estimated cost (₹ in crore)	Tendered Rate (in ₹)	Tendered cost (₹ in crore)	Percentage of excess(+)/below (-)
Construction of wet mix macadam	1,462.80	0.68	2,200	1.02	(+) 50
Providing and laying dense bituminous macadam	6,413.57	1.18	9,462	1.74	(+) 47
Providing and laying bituminous concrete	6,998.27	0.80	10,600	1.21	(+) 51
Providing and constructing coursed rubble stone masonry drains	4,192.15	1.08	800	0.21	(-) 81

Thus, the contractor loaded his rates for the majority of the items with huge profit margins and yet managed to bring down the overall tender percentage to 14.48 per cent by deliberately under-quoting for rubble masonry drain.

During inspection, the CE cited lack of space on the roadside for stacking materials due to heavy traffic and suggested (June 2008) construction of drains with reinforced cement concrete (RCC) instead of coursed rubble stones. The CE's *suo motu* suggestion was directed towards rendering the item of construction of drains in stone masonry inoperative as the contractor had quoted an abnormally low rate for this item. This suggestion was enforced by the EE at once despite the fact that every variation order authorising a new item of work was to be approved by the Commissioner before its execution. The construction of RCC drain was paid for as an extra item at the Schedule of Rates for 2008-09 plus the tender percentage of 14.48 per cent. EE stated (January 2011) that CE had ordered the change in scope of work as there was blockage of traffic due to stacking of materials. The reply was not tenable as the traffic conditions were within the knowledge of the contractor before submission of the bid and were factored in his quoted rates. Thus, the changeover from stone masonry drain to RCC drain was not need driven and was directed towards relieving the contractor of the responsibility of constructing stone masonry drain at his abnormally low rates. The change order abuse resulted in an unauthorised benefit of at least ₹87 lakh to the contractor.

Irregularities in the tendering process which should have been aborted due to lack of competition coupled with unjustified change over from stone masonry to RCC for the road drains resulted in an undue benefit of ₹87 lakh to the contractor.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.4 Extra expenditure on a road work due to defective estimates

Action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in not following the prescribed specifications led to avoidable extra payment of ₹39.49 lakh on a road widening and strengthening work

Government approved (June 2008) the entrustment of the work of widening and strengthening the existing Palace Road from the Mysore Bank Circle to High Ground Police Station to a contractor at a cost of ₹7.75 crore, which was 24 *per cent* over the Schedule of Rates (SR) for 2007-08.

Bruhat Bangalore Mahanagara Palike (BBMP) follows the specifications prescribed by the Ministry of Surface Transport, Government of India (Ministry) for preparation of estimates for road-works, wherein cross-sections of the road are to be taken at an interval of 50 metres in plain and rolling terrains to determine accurately the quantities of roadway excavation. Contrary to the specifications, BBMP determined the quantities of roadway excavation on *ad-hoc* basis. The estimates were to be checked by the technical/drawing branch, but no such branch existed in the division. The Chief Engineer (CE) accorded (September 2008) technical sanction despite faulty preliminary investigation. During excavation, it was noticed that the ground level in the stretches to be widened was 1 to 1.5 metres higher than the existing road level, resulting in huge increase of quantities of roadway excavation. In terms of the agreement with the contractor, any additional quantity exceeding 125 *per cent* of the tendered quantity executed under an item of work was to be paid at the rate mentioned in the prevalent SR plus or minus the overall tender percentage. The quantity of the excavation in ordinary soil increased by 219 *per cent* (from 14,733 cubic metres (cum) to 46,944 cum) over the tendered quantity. Also, 28,528 cum of excavation in ordinary soil in excess of 125 *per cent* of the tendered quantity was paid at the rate of ₹238.43 per cum against the tendered rate of ₹100 per cum, resulting in avoidable extra payment of ₹39.49 lakh to the contractor.

Executive Engineer, Road Widening Division, BBMP stated (December 2010) that the work which had earlier been entrusted to Karnataka Road Development Corporation Limited (KRDCL) by Government was subsequently transferred to BBMP and the estimate prepared by the KRDCL was adopted for execution.

The reply was not acceptable as the new estimate was prepared by BBMP and technically sanctioned by the CE without following the procedure prescribed by the Ministry.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.5 Extra expenditure due to failure to invoke defect liability provisions

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike to invoke the defect liability provisions in the agreement led to extra expenditure of ₹87 lakh on a road which had developed defects within four to seven months of construction

The work of widening and strengthening of the existing Bellary Road from High Grounds Police Station to Windsor Manor Circle (chainage Km 1.20 to Km 2.00) was executed by Bruhat Bangalore Mahanagara Palike (BBMP) through four contractors between September 2008 and December 2008. The Chief Engineer (Major roads) accorded (March 2008) technical sanction for all the works. The works in these chainages commenced during July to December 2008 and were completed between September and December 2008 at a cost of ₹4.23 crore.

As per the contract agreement, these four contractors were to rectify defects, if any, during the defect liability period of one year from the date of issue of completion certificate, failing which BBMP was to assess the cost of rectification of defects and recover it from the contractors.

The bituminous surface laid by these contractors consisted of a binder course of bituminous macadam of 50 mm thickness and a wearing course of bituminous concrete of 40 mm thickness. The consultant appointed by BBMP for the work reported (April 2009) that the road had developed distress in the form of ruts, cracks and potholes and suggested for profile correction of the road and providing fresh overlays of dense bituminous macadam of 50 mm thickness and bituminous concrete of 40 mm thickness.

Although the road developed distress during the defect liability period within 4 to 7 months of its completion, BBMP did not get the defects rectified by these contractors. On the other hand, Commissioner, BBMP sanctioned (July 2009) an estimate which included profile correction and fresh overlays of dense bituminous macadam and bituminous concrete from chainage 1.20 Km to 2.00 Km. Interestingly, tenders for laying fresh bituminous surfaces in these chainages had been invited (February and May 2009) after splitting the work into two portions based on the orders of the Commissioner

far in advance of sanction. The work was got completed (June and August 2009) at a cost of ₹87 lakh.

The action of BBMP in sanctioning a fresh estimate for rectification was evidently driven towards relieving the contractors of the burden of rectification, which resulted in an extra expenditure of ₹87 lakh to BBMP. The EE stated (December 2010) that a 900mm dia pipeline running below the road surface had not been noticed at the time of estimation and it was removed before constructing the bituminous surfaces. It was further stated that sinking of the road was noticed after laying the bituminous surfaces and fresh overlays were, therefore, provided. The reply appears to be an afterthought as the existence and removal of the pipeline never figured in the proposal of fresh bituminous overlays approved by the Commissioner. No payment had been made to the contractors towards removal of the pipeline. The reason stated by the EE was totally different from that stated by the Commissioner who approved the fresh overlays on the ground that only one layer of asphaltting had been provided earlier. The reason adduced by the Commissioner was also incorrect as payments for two layers of asphaltting had been made to contractors for chainages Km 1.20 to 2.00. The conflicting reasons adduced by the Commissioner and the EE for providing the fresh overlays raise a doubt as to whether at all the initial construction of the bituminous surfaces and the subsequent provision of fresh bituminous overlays had been carried out according to the contract specifications. As fraudulent practices cannot be ruled out, the matter requires investigation by the State Government.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.6 Wasteful expenditure on providing utility cable ducts

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike in taking possession of the requisite land before commencement of work resulted in wasteful investment of ₹4.31 crore on partially constructed cable ducts

Codal provisions provide that no work should be commenced unless the required land is available and transferred to the executing authority. Bruhat Bangalore Mahanagara Palike (BBMP) took up (August 2008 to December 2009) the work of providing utility cable ducts and chambers on either side of four roads⁸⁴ by splitting the work into 14 packages and entrusting them to seven different contractors at their lowest tendered rates aggregating ₹16.66 crore. The Chief Engineer (Major roads) accorded technical sanction between March and May 2008 for all these works with directions to the EE to ensure availability of land before commencement.

⁸⁴ Hosur Road, Palace Road, Race Course Road and Sheshadri Road

It was seen that these ducts and chambers were meant primarily for the cables of the Bangalore Electricity Supply Company and other service providers. These service providers had already laid their cables beneath the existing four roads. BBMP took up the construction of the ducts to facilitate relocation of the cables of the service providers when the roads would be widened. For effective relocation of the already laid cables, it was imperative that the road widening works and construction of ducts were to be dovetailed into an integrated programme wherein the ducts were completed first and kept in a state of readiness to facilitate relocation of the cables when the existing roads were dug up for widening. The status of the cable duct works as of October 2010 in seven test-checked packages was as shown in **Appendix 4.1**.

The execution of these duct works witnessed lack of planning as the road widening works in three packages had commenced seven to ten months in advance of commencement of the duct works. Consequently, the ducts were not ready in these three packages at the time of road widening. Further, the Executive Engineer (EE) disregarded the CE's guidelines and selected the contractors for the duct works without ensuring the availability of land and consequently, ducts were provided only in places where land was available. It was further seen that before taking up the duct works, BBMP had not consulted the service providers and ensured their readiness to relocate the cables. The road widening works including the bituminous surfacing were, nevertheless, completed without relocation of the existing cables as only 4,289 metres of ducts were provided as against the requirement of 7,243 metres due to non-availability of land. The ducts partially provided along the stretches of these roads did not, therefore, serve any purpose.

EE replied (December 2010) that the works had been taken up in anticipation of getting the required land but the public were unwilling to part with their land. The reply was not tenable as works were to be taken up by the BBMP only after ensuring availability of land.

Thus, commencement of works on the cable ducts without taking possession of the requisite land and without consulting all the service providers resulted in wasteful investment of ₹4.31 crore on partially constructed cable ducts.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.7 Extra payment because of manipulation of specifications and estimated rate for desilting works

Improper action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in irregularly adopting the specification applicable for excavation for foundation of culverts and inflating the estimated rate for two desilting works led to excess payment of ₹90.25 lakh to two chosen contractors

The Karnataka Transparency in Public Procurements Act, 1999 (Act) provides that no procurement entity shall procure goods or services except by inviting tenders.

The Commissioner, Bruhat Bangalore Mahanagara Palike (BBMP) requested (August 2008) the State Government to exempt, *inter alia*, two works⁸⁵ from the purview of the Act on the ground that these works were to be taken up urgently and there was no time to invite tenders. These two works envisaged desilting and re-sectioning of two canals. Government exempted (October 2008) these two works from the purview of the Act.

The Executive Engineer, Storm Water Drains Division, Hebbal Valley (EE) directed (January 2009) two contractors to execute these works without technical sanction, terms of entrustment or approval of the Administrator. The Chief Engineer, Storm Water Drains, BBMP (CE) accorded technical sanction to these works only in May 2009. EE entered into agreements with these two contractors (July 2009), requiring them to execute the works at the estimated rates. Against the estimated cost of ₹3.13 crore for these two works, payments aggregating ₹1.65 crore had been made to these two contractors as of December 2009. Audit scrutiny disclosed the following:

(i) For preparation of estimates for works, BBMP followed the SR of Public Works Department (PWD), Bangalore Circle which, *inter alia*, prescribed that the rates for items not found therein were to be obtained from the SR of Minor Irrigation (MI) or Panchayat Raj Engineering Department or National Highways, as the case may be. The work entrusted to the contractors consisted of excavation of accumulated earth from the beds and sides of the canals and disposal of the same on the canal sides in layers. While SR of PWD, Bangalore Circle for 2008-09 did not contain this item of work, the SR of MI provided a rate of ₹51 per cum for this item of work. Instead of preparing the estimate for desilting based on the rate of ₹51 per cum as per the SR of MI, the EE framed the estimate by irregularly adopting the rate of ₹88.70 per cum sanctioned in the SR of PWD, Bangalore Circle for excavation of foundation trenches in ordinary soil for pipe/masonry culverts which was not the relevant specification.

⁸⁵ (i) Resectioning and widening of Rajakaluve from Attur lake to Puttenahalli lake and Yelahanka tank to Rachenahalli tank via Jakkur tank (estimated cost: ₹1.61 crore)

(ii) Resectioning and widening of Rajakaluve from Rachenahalli tank to Mariyannana Palya Rajakaluve and Byatarayanapura village to Rachenahalli tank via Amruthahalli tank and Allalasaandra tank to Jakkur tank (estimated cost: ₹1.53 crore)

It was further seen that another 20 *per cent* was added to the rate of ₹88.70 per cum for working in foul conditions and 6 *per cent* as area weightage although the canals carried only the extra water from the tanks and not any sewage and the SR of PWD, Bangalore Circle did not sanction any such weightage. A final rate of ₹112.82 per cum was approved in the estimate for desilting against the admissible rate of ₹51 per cum. The CE also accorded (May 2009) technical sanction to the estimate without objecting to the irrelevant specifications and the rate adopted by the EE.

As of December 2009, BBMP had paid for excavation of 1.46 lakh cum at the rate of ₹112.82 per cum, involving an excess payment of ₹90.25 lakh.

(ii) At the time of ratifying the action of the EE in entrusting the works at the estimated rates, the Administrator had observed (July 2009) that the delay in taking up the works after obtaining exemption from Government defeated the very purpose of seeking exemption from Government on grounds of urgency. He had further observed that BBMP could have invited tenders during the period of the delay and obtained competitive rates less than the SR considering the nature of work involved. Thus, seeking the State Government's exemption from the purview of the Act for these two works and the subsequent entrustment of these works at inflated estimated rates was evidently directed towards bypassing the controls prescribed.

(iii) Although the EE entered into agreements with the contractor on 16 July 2009, the stamp papers used for the agreements had been purchased from the bank only on 5 August 2009. There was evidently manipulation of the date of agreement by the EE.

(iv) Recording of pre-measurements is a prerequisite for commencement of desilting works. The pre-measurements for these two works had been recorded in the measurement books on 20 April 2009 and 20 July 2009. Evidently, the desilting works ought to have been taken up by these two contractors after these dates. BBMP also insists on submission of photographs in support of the progress achieved at the time of submission of bills for payment. Photographs available in the files carried the date 6 November 2008 and showed distant pictures of a stationery excavator from different angles. A majority of the photographs showed full flow of water in the canal. The date of the photographs evidenced that the works had either been in progress or completed as on 6 November 2008 whereas the pre-measurements were recorded only on 20 April 2009 and 20 July 2009. The checklist prepared by the EE for one of these works mentioned that the work had commenced on 15 November 2008. Thus, the conflicting dates of commencement of works as evidenced by the measurement books, photographs and other documents evidently presented strong indications of manipulation of records, raising doubts whether these works had been executed at all. As the possibility of

malpractices in the execution of these works cannot be ruled out, the matter calls for detailed investigation.

Thus, the State Government's unjustified exemption of these two works from the purview of the Act helped the BBMP entrust the works directly to two chosen contractors after manipulating the specification and inflating the estimated rate. Besides the excess payment of ₹90.25 lakh to the contractor, the execution of these works witnessed manipulation of records raising doubts about the quality of the entire expenditure of ₹1.65 crore reported on the work.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).



(KEERTI TEWARI)
Accountant General
(Local Bodies Audit and Accounts)

BANGALORE
The 15 JUN 2011

COUNTERSIGNED



(VINOD RAI)
Comptroller and Auditor General of India

NEW DELHI
The 23 JUN 2011



APPENDICES

Appendix 1.1

The PRI-wise roles and responsibilities of Standing Committees

(Reference: Paragraph 1.3.1/Page 5)

Grama Panchayat	Taluk Panchayat	Zilla Panchayat
Production Committee for performing functions relating to agricultural production, animal husbandry, rural industries and poverty alleviation programmes.	General Standing Committee shall perform functions relating to the establishment matters, communications, buildings, rural housing, village extensions, relief against natural calamities, water supply and all miscellaneous residuary matters.	General Standing Committee shall perform functions relating to the establishment matters and functions relating to communications, buildings, rural housing, village extensions, relief against the natural calamities and allied matters and all miscellaneous residuary matters.
Social Justice Committee for performing functions relating to (i) Promotion of educational, economic, social, cultural and other interests of the Scheduled Castes (SCs/STs) and Backward Classes. (ii) Protection of such castes and classes from social injustice and any form of exploitation (iii) Welfare of Women and Children.	Finance, Audit and Planning Committee shall perform the functions relating to the finances of the TP, framing of budgets, scrutinising proposals for increase of revenue, examinations of receipts and expenditure statement, consideration of all proposals affecting the finances of the TP and general supervision of the revenue and expenditure of the TP and co-operation, small savings scheme and any other function relating to the development plan of the taluk.	Finance and Audit Planning Committee shall perform the functions relating to (i) the finances of the ZP, framing of budgets, scrutinising proposals for increase of revenue, examination of receipts and expenditure statement, consideration of all proposals affecting the finances of the ZP and general supervision of the revenue and expenditure of the ZP. (ii) the plan priorities, allocation of outlays to development, horizontal and vertical linkages, implementation of guidelines issued by the Government, regular review of planned programmes, evaluation of important programmes and small savings schemes.
Amenities Committee to perform functions in respect of education, public health, public works and other functions of the GP.	Social Justice Committee shall perform functions relating to (i) promotion of educational, economic, social, cultural and other interests of the SCs/STs and Backward Classes; (ii) protecting them from social injustice and all other forms of exploitation; (iii) amelioration of the SCs/STs and Backward Classes; (iv) securing social justice to the SCs, STs, Women and other weaker sections of the society.	Social Justice Committee shall perform functions relating to (i) promotion of education, economic, social, cultural and other interests of the SCs/STs and Backward Classes; (ii) protecting them from social injustice and all other forms of exploitation; (iii) amelioration of the SCs/STs and Backward Classes; (iv) securing social justice to the SCs/STs, Women and other weaker sections of the society.
	Standing Committee shall perform the functions referred to above to the extent the powers are delegated to them by the TP.	Education and Health Committee shall perform the following functions to (a) be in-charge of all educational activities of the ZP (b) undertake the planning of education in the district within the framework of the national policy and the Central and State Plans; (c) survey and evaluate the educational activities of the ZP; (d) perform such other duties pertaining to education, adult literacy and cultural activities as the ZP may assign to it; (e) health services, hospitals, water supply, family welfare and other allied matters.
		Agricultural and Industry Committee shall perform functions relating to agricultural production, animal husbandry, co-operation, contour bunding and reclamation; village and cottage industries; promotion of industrial development of the district.

Appendix 1.2

Details of major State and District sector schemes implemented by PRIs

(Reference: Paragraph 1.5.6/Page 9)

Sl.No.	Scheme/Project	Details of the Scheme/Project
1	Grama Swaraj	Introduced to give special emphasis to improve the service delivery by the Grama Panchayats
2	Suvarna Gramodaya	Aims at developing vibrant village communities by adopting an intensive and integrated approach to rural development in thousand villages every year
3	Mukhya Mantri Grameena Raste Abhivrudhi Yojana	A scheme under National Bank for Agriculture and Rural Development assisted Rural Infrastructure Development Fund was implemented for rural roads improvement and road connectivity
4	Suvarna Jala	Introduced for providing safe drinking water through roof top rain water harvesting structures in rural schools
5	Swacha Grama Yojane	Implemented with the intention of providing total sanitation in villages
6	Bhagyalakshmi	Implemented with an objective to promote welfare of girl child in below poverty line families and to raise the status of the girl child in the family by providing financial assistance for education, medical and insurance benefits
7	Stree Shakti	To empower women economically and socially by organising them in self help groups
8	Santhwana Scheme	To provide assistance to victims of domestic violence, rape, sexual abuse and dowry harassment

Appendix 1.3

Statement showing transfer of functions to PRIs

(Ref: Paragraph 1.6.1/Page 10)

Sl. No.	Subject	No. of Functions	Functions transferred			Functions not transferred		
			ZP	TP	GP	ZP	TP	GP
1	Agriculture including extension	48	15	19	14	-	-	-
2	Land Improvement, Soil Conservation	48	14	17	17	-	-	-
3	Minor Irrigation, Watershed	46	13	16	17	-	-	-
4	Animal Husbandry	38	05	10	08	05	05	05
5	Fisheries	40	15	13	12	-	-	-
6	Social Forestry	20	08	05	07	-	-	-
7	Minor Forest produce	22	03	02	01	08	03	05
8	Small Scale Industries	15	03	01	-	03	06	02
9	Khadi, Village & Cottage Industries	33	08	03	05	05	10	02
10	Rural Housing including IAY	10	01	02	07	-	-	-
11	Drinking water	15	05	03	07	-	-	-
12	Fuel and Fodder	12	02	01	09	-	-	-
13	Roads, Culverts, Bridges, etc.	32	13	11	08	-	-	-
14	Rural Electrification including distribution	10	03	01	04	-	01	01
15	Non-conventional energy	13	04	05	04	-	-	-
16	Poverty alleviation programme	61	25	19	17	-	-	-
17	Education including Primary and Secondary Education	16	05	05	06	-	-	-
18	Technical Training	11	06	04	-	-	-	01
19	Adult and Non-formal Education	10	05	02	03	-	-	-
20	Libraries	07	02	01	04	-	-	-
21	Cultural activities	10	05	02	02	01	-	-
22	Markets and fairs	11	04	05	01	-	-	01
23	Health and Sanitation	24	09	07	08	-	-	-
24	Family Welfare	28	15	07	06	-	-	-
25	Women & Child Development	50	18	13	19	-	-	-
26	Social Welfare-including welfare of the handicapped and mentally retarded	96	41	48	05	-	-	02
	Total	726	247	222	191	22	25	19

Appendix 1.4

Functions of Activity Mapping not transferred to PRIs

(Reference: Paragraph 1.6.2/Page 11)

Sl.No.	Subject/Activity	Functions not transferred
ZILLA PANCHAYATS		
1	Animal Husbandry Feeding and Fodder Dairy Development Poultry Development	Nutritive fodder, establishment of fodder banks. Assist cooperatives in the development of infrastructure for milk collection, transporting and processing. Infrastructure for poultry farming, production and supply of quality chicks to poultry farmers, allotment/leasing of community land for establishing poultry complexes.
2	Minor Forest Produce (MFP) Regeneration of species Training MFP collection Processing and Marketing	Planning MFP plantations, encouraging cultivation of MFP in existing forests, encourage plantations of MFP such as gum, resin, oil seeds, etc. plantation of MFP in drought areas. Training of tapping of gums, resins, etc. and grading. Monitoring of MFP collection, timely payment of collection. Setting up of SSI units for value addition of MFP, fixing of support price, godowns for storage, market extension activities.
3	Small Scale Industries Infrastructure Development Credit, financial assistance	Developing inter-linkages of institutions and organisations, establishment of small industrial estates, development of food processing complexes. Providing guidance about credit facilities and other financial incentives and coordination of credit support activities.
4	Khadi, Village & Cottage (KV&C) Industries Training, skill development Infrastructure Development and Credit financial support	Establishment of Training Centers for skill development. Supply of raw materials, equipment and other inputs, setting up of retail showrooms. Credit plan preparation, supervision of credit flow and financial assistance. Providing guidance about credit facilities. Coordination of credit support activities.
5	Cultural activities Promotion of cultural activities	Maintenance and supervision of Nehru Yuva Kendras.
TALUK PANCHAYATS		
1	Animal Husbandry Dairy Development Poultry Development	Development and opening of new milk routes for milk collection, promotion of milk production, ensuring timely payment to milk producers. Supply of quality milch animals. Training of poultry farmers, supply of poultry needs.
2	MFP Regeneration of MFP species Training Processing & marketing charges	Establishment of nurseries for MFP species. Organising training at Taluk Panchayat level. Constitution of Joint Forest Management Committee with Forest Department, ensuring value addition to MFP.
3	KV&C Industries Planning, Monitoring and Supervision Training, skill development and transfer of technology to beneficiaries Infrastructure development Credit and financial support Credit and financial assistance from Government departments and agencies	Preparation of Plan for KV&C Industries, other artisan activities. Selection of beneficiaries for training and skill development, arranging master craftsmen. Transfer and upgradation of technology. Supply of raw materials, equipment and other inputs to beneficiaries, coordination of infrastructure development plans, construction of worksheds and market complexes, organising the cooperatives for production and marketing. Providing credit support, assisting in project plan formulation, arrangement of subsidy and financial support, monitoring of progress. Assist in providing financial assistance.

Sl.No.	Subject/Activity	Functions not transferred
4	Small Scale Industries Industrial Resource Potential Survey Development of Infrastructure Entrepreneur development	Assisting in Industrial Resource Potential survey. Establishing small rural industrial estates and complexes. Organising entrepreneurial development programmes, selection of entrepreneurs, establishing industrial counselling and guiding centres. Assist entrepreneurs in formulating viable projects.
5	Rural Electrification including distribution	Monitoring and reporting progress of energisation of irrigation pumpsets
GRAMA PANCHAYATS		
1	Animal Husbandry Veterinary services-Feeding and Fodder	Supervision of Rural Livestock Unit Service Centers. Help in establishing cooperative fodder farm, allocation of community land for fodder production, controlling grazing, distribution of fodder during droughts.
2	MFP Regeneration of MFP species Training Processing and marketing charges	Identification of families willing to plant MFP species, distribution of MFP seedlings. Selection of trainees. Promotion of primary processing and value addition to MFP species, ensuring timely payment to MFP collectors.
3	Small Scale Industries Industrial Resource Potential Survey Development of Infrastructure	Assisting in survey and project formulation. Identification of suitable locations for rural industries.
4	KV&C Industries Planning, Monitoring and Supervision Infrastructure	Assisting TPs in identifying potential activities and formulation of projects. Assisting in distribution of raw material, equipment, <i>etc.</i> construction of common worksheds/work places and market complexes.
5	Rural Electrification including distribution	Land acquisition for installing/erecting electrification transmission poles
6	Technical Training and Vocational Education Promotion of Vocational Courses	Assist in identification of eligible candidates for vocational training.
7	Markets and Fairs Development of market yards	Construction of market complexes within the Grama Panchayat.
8	Social Welfare Drug prevention	Rehabilitation of drug addicts, take drug addicts to counselling/ de-addiction centres.

Appendix 1.5

Powers of State Government in relation to PRIs

(Reference: Paragraph 1.7.1/Page 11)

Section of KPR Act	Powers	Nature of power and conditionalities attached to its exercise
311	Power to make rules	The State Government may after previous publication by notification in the Official Gazette, make rules to carry out the purpose of the KPR Act. A rule under this Act may be made with retrospective effect and when such a rule is made the reasons for making the rule shall be specified in a statement laid before both Houses of the State Legislature, subject to any modification made under Section 320 of KPR Act. Every rule made under this Act shall have effect as if enacted in the KPR Act.
268(2)	Dissolution of Panchayats	If in the opinion of the State Government, a ZP or a TP exceeds or abuses its power or is not competent to perform or makes persistent default in the performance of the duties imposed on it under the Act or any other law for time being in force, the Government may, by an order published in the Official Gazette, dissolve such ZP or TP.
236	Conduct enquiry	The State Government may, at any time for reasons to be recorded, cause an inquiry to be made by any of its officers in regard to any GP, TP or ZP on specific matters concerning it, or any matters with respect to which the sanction, approval, consent or orders of the State Government is required under the KPR Act. The Officer holding such inquiry shall have the powers of the Civil Court under the Code of Civil Procedure 1908, to take evidence and to compel attendance of witnesses and production of documents for the purpose of the inquiry.
253 and 262	Access to audit reports	The Auditor shall, for the purpose of the audit have access to all the accounts and other records of TPs and ZPs. The Auditor shall send every year to the State Government, a consolidated audit report in respect of the TPs in the State and the State Government shall lay the consolidated report before both the Houses of the State Legislature. The State Government shall on receipt of the audit report of the ZPs, lay them before both the Houses of the State Legislature.
300	To obtain annual administrative report from PRIs	As soon as may be after the first day of April in every year and not later than such date as may be fixed by the State Government, the Secretary of GP/EO of TP and CEO of ZP shall place before the GP/TP/ZP respectively, a report of the administration of the GP/TP/ZP during the preceding official year in such form and with such details as the State Government may direct and shall forward the report with the resolution of the GP/TP/ZP thereon to the ZP and State Government, respectively. ZP shall on receipt of the reports, review the working of the GPs and TPs and shall submit a consolidated report in this behalf to the State Government.
196	Cadre control staff	The State Government shall appoint an Officer not below the rank of the Deputy Commissioner of a district as CEO of the ZP and also appoint a Chief Accounts Officer, Chief Planning Officer and one or more Deputy Secretaries for each ZP. The State Government shall post from time to time to work under every ZP such number of other officers and officials of the State Government (including any officers and officials appointed to such services from amongst persons employed by existing local authorities) and officers of the All India Services as the State Government considers necessary.

Source: KPR Act.

Appendix 1.6

Statement showing excess and savings over Budget for the year 2009-10

(Reference: Paragraph 1.12.3/Page 16)

(₹ in crore)

Sl No.	Zilla Panchayat	Number of major heads	Expenditure without budget provision	Expenditure incurred in excess of Budget provision			Savings in Expenditure over budget provision				
				Number of major heads	Budget provision	Actual Expenditure	Excess (per cent)	Number of major heads	Budget provision	Actual Expenditure	Savings (per cent)
1	Bagalkot	-	-	6	27.56	31.86	16	10	101.55	85.42	16
2	Bangalore (Rural)	-	-	1	1.43	1.91	34	11	27.33	18.69	32
3	Bangalore (Urban)	-	-	-	-	-	-	10	42.69	32.61	24
4	Belgaum	-	-	-	-	-	-	10	196.55	150.58	23
5	Bellary	3	0.72	4	2.94	4.22	44	10	101.72	69.42	32
6	Bidar	-	-	2	0.69	0.87	26	11	53.61	43.56	19
7	Bijapur	-	-	7	2.86	3.30	15	11	56.07	48.80	13
8	Chamarajanagar	-	-	-	-	-	-	14	0.24	0.19	21
9	Chikamagalur	-	-	10	10.75	12.88	20	5	24.98	18.49	26
10	Chikkaballapur	-	-	4	2.56	3.28	28	14	56.63	45.92	19
11	Chitradurga	-	-	-	-	-	-	-	-	-	-
12	Dakshina Kannada	-	-	-	-	-	-	-	78.57	48.82	38
13	Davanagere	4	5.88	-	-	-	-	8	50.25	39.02	22
14	Dharwad	-	-	-	-	-	-	-	-	-	-
15	Gadag	-	-	-	-	-	-	10	41.83	30.03	28
16	Gulbarga	-	-	-	-	-	-	13	157.32	110.39	30
17	Hassan	-	-	3	0.20	0.24	20	9	74.08	51.49	30
18	Haveri	2	7.78	2	6.10	8.04	32	20	161.82	75.91	53
19	Kodagu	-	-	-	-	-	-	-	-	-	-
20	Kolar	4	0.19	3	0.27	0.54	100	13	38.05	29.96	21
21	Koppal	-	-	-	-	-	-	7	46.20	36.22	22
22	Mandya	-	-	4	5.47	6.62	21	-	23.01	18.73	19
23	Mysore	1	1.16	1	3.48	3.59	*	11	57.15	47.87	16
24	Raichur	-	-	-	-	-	-	11	23.01	18.73	19
25	Ramanagara	-	-	-	-	-	-	14	33.39	0.16	99
26	Shimoga	-	-	8	16.54	16.79	*	8	36.37	19.96	45
27	Tumkur	-	-	-	-	-	-	14	95.40	82.46	14
28	Udupi	-	-	-	-	-	-	9	12.80	10.70	16
29	Uttara Kannada	2	0.24	2	1.38	1.74	26	10	83.89	64.56	23
	Total		15.97								

* Percentage less than 10 not indicated.

Appendix 1.7

List of multiple bank accounts

(Reference: Paragraph 1.12.4/Page 16)

Sl.No.	Name of Zilla Panchayat	Number of bank accounts required	Number of bank accounts operated
1	Belgaum	4	9
2	Bangalore (Rural)	2	5
3	Bijapur	2	4
4	Chitradurga	3	6
5	Hassan	2	4
6	Kolar	5	11
7	Mysore	6	13
8	Shimoga	2	4
	Total	26	56

Source: Certified annual accounts of ZPs

Appendix 1.8

Statement showing TP/GP Suspense outstanding in ZP accounts

(Reference: Paragraph 1.12.4/Page 16)

(₹ in crore)

Sl.No.	Name of Zilla Panchayat	Taluk Panchayat Suspense	Grama Panchayat Suspense
1	Bidar	4.86	1.27
2	Chamarajanagar	1.01	-
3	Chikmagalur	1.01	-
4	Davanagere	0.84	0.40
5	Dharwad	1.04	1.34
6	Gulbarga	1.96	-
7	Hassan	9.18	0.03
8	Haveri	37.31	1.19
9	Kolar	0.22	-
10	Koppal	59.83	-
11	Madikeri	-	0.33
12	Mandya	1.99	7.22
13	Mysore	5.07	5.94
14	Raichur	0.80	0.02
15	Tumkur	0.04	-
16	Udupi	-	0.51
17	Uttara Kannada	1.74	-
	Total	126.90	18.25

Source: Certified annual accounts of ZPs

Appendix 1.9

Non-submission of accounts for amounts drawn on AC bills

(Reference: Paragraph 1.12.6/ Page 17)

Sl. No.	Zilla Panchayat	Number of Departmental Officers	Number of NDC bills pending	Amount (₹ in crore)	Earliest year from which pending
1	Bangalore (Rural)	1	74	0.01	1987-88
2	Dakshina Kannada	1	14	0.03	2001-02
3	Kolar	3	1	0.02	2006-07
4	Koppal	NF	12	0.20	1999-2000
5	Mysore	22	NF	2.97	1986-87
Total		27	101	3.23	

Source: As furnished by ZPs

NF - not Furnished

Appendix 1.10**Non-closure of inoperative bank accounts****(Reference: Paragraph 1.12.8/Page 18)****(₹ in crore)**

Sl.No.	Name of Zilla Panchayat	Amount
1	Bangalore (Rural)	0.93
2	Belgaum	8.28
3	Davanagere	0.91
4	Gadag	0.26
5	Haveri	0.80
6	Kolar	1.92
	Total	13.10

Appendix 1.11

Cases of misappropriation/defalcation

(Reference: Paragraph 1.12.10/ Page 18)

(₹ in crore)

Sl. No.	Zilla Panchayat	Under investigation		Pending in court		Others		Total	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	Bagalkot	3	0.19	-	-	-	-	3	0.19
2	Bangalore (Rural)	5	0.06	-	-	-	-	5	0.06
3	Belgaum	8	0.86	-	-	-	-	8	0.86
4	Chamarajanagar	20	0.34	-	-	-	-	20	0.34
5	Dakshina Kannada	31	0.57	1	0.01	-	-	32	0.58
6	Gadag	2	0.10	1	0.18	10	0.33	13	0.61
7	Gulbarga	3	4.05	-	-	-	-	3	4.05
8	Hassan	31	0.57	-	-	-	-	31	0.57
9	Koppal	3	0.07	6	0.90	8	0.23	17	1.20
10	Mysore	33	4.37	1	0.13	-	-	34	4.50
11	Shimoga	6	0.47	2	0.05	-	-	8	0.52
12	Tumkur	1	0.05	-	-	-	-	1	0.05
13	Udupi	-	-	-	-	1	0.11	1	0.11
14	Uttara Kannada	6	0.59	1	0.05	-	-	7	0.64
	Total	152	12.29	12	1.32	19	0.67	183	14.28

Source: As furnished by ZPs

Appendix 1.12

List of incomplete works

(Reference: Paragraph 1.13/ Page 19)

(₹ in crore)

Sl. No.	Zilla Panchayat	Buildings		Roads & Bridges		Water Supply works		Suvarna Grama		Total	
		Number	Expenditure	Number	Expenditure	Number	Expenditure	Number	Expenditure	Number	Expenditure
1	Bagalkot	8	1.05	1	0.50	4	14.59	Nil	Nil	13	16.14
2	Belgaum	1	0.15	-	-	3	8.71	Nil	Nil	4	8.86
3	Gadag	2	0.20	-	-	1	6.59	Nil	Nil	3	6.79
4	Gulbarga	4	0.29	-	-	2	1.19	Nil	Nil	6	1.48
5	Mysore	4	0.44	-	-	2	1.29	3	2.17	9	3.90
6	Shimoga	-	-	-	-	5	12.29	6	1.18	11	13.47
7	Tumkur	4	0.10	-	-	1	1.01	16	9.68	21	10.79
8	Udupi	4	1.03	-	-	1	0.90	Nil	Nil	5	1.93
9	Uttara Kannada	-	-	-	-	2	12.47	1	0.17	3	12.64
	Total	27	3.26	1	0.50	21	59.04	26	13.20	75	76.00

Source: As furnished by ZPs

Appendix 2.1

Statement showing discrepancies between funds released and accounted during the period 2006-07 to 2009-10

(Reference: Paragraph 2.1.6.8/Page 29)

(₹ in lakh)

Sl.No.	Name of Taluk Panchayat	Funds released as per C-GSP	Accounted by Taluk Panchayats as of May 2010	Difference
1	Aland	1,008.46	985.61	22.85
2	Aurad	1,132.52	1,137.89	5.37
3	Beelgi	532.19	469.67	62.52
4	Channagiri	1,610.38	1,574.58	35.80
5	Gubbi	936.59	920.59	16.00
6	Humnabad	1,022.28	1,024.09	1.81
7	Kanakapura	1,284.46	1,268.33	16.13
8	Sandur	684.76	675.15	9.61
9	Shorapur	1,145.67	1,076.11	69.56
10	Sira	860.92	846.33	14.59

Appendix 2.2

Statement showing differences in opening and closing balance in the demand, collection and balance register

(Reference: Paragraph 2.1.6.8/Page 29)

(₹ in lakh)

Name of the Taluk Panchayat	Closing balance	Opening balance	Difference
	2005-06	2006-07	
Sandur	45.50	43.15	2.35
Yadgir	354.57	308.68	45.89
	2006-07	2007-08	
Channagiri	235.65	243.63	7.98
Sandur	57.92	59.80	1.88
Shorapur	234.11	222.32	11.79
Yadgir	445.12	445.66	0.54
	2007-08	2008-09	
Aurad	324.01	322.01	2.00
Channagiri	305.77	289.22	16.55
Shorapur	271.14	271.41	0.27
Yadgir	564.85	560.41	4.44
	2008-09	2009-10	
Channagiri	330.26	322.36	7.90
Humnabad	170.44	218.72	48.28
Sandur	59.09	61.54	2.45
Shorapur	322.00	329.54	7.54
Yadgir	666.90	661.33	5.57

Appendix 2.3

Details of drawal on self cheques

(Reference: Paragraph 2.2.7.1/Page 45)

Chitradurga Grameena Bank, Doddauarthyp GP SB.Account No: 3068

(Amount in ₹)

Sl.No.	Cheque No.	Amount	Sl.No.	Cheque No.	Amount
1	76577	6,500	8	495123	22,000
2	76992	7,590	9	495130	5,262
3	76580	34,638	10	216247	17,600
4	76993	7,200	11	216250	45,000
5	76996	35,956	12	216252	33,600
6	418674	11,180	13	216253	10,000
7	418680	12,000	14	216254	31,000
Total					2,79,526

SB.Account No: 3223

(Amount in ₹)

Sl.No.	Cheque No.	Amount	Sl.No.	Cheque No.	Amount
1	418512	11,000	9	418954	5,510
2	418513	6,000	10	418959	30,556
3	418514	17,000	11	418960	5,400
4	418515	15,278	12	217081	45,307
5	418519	3,550	13	495055	7,000
6	418520	5,000	14	495056	5,000
7	418951	15,278	15	495057	5,000
8	418952	4,000	16	465059	8,000
Total					1,88,879

Vijaya Bank, Maskal GP S.B. Account No: 4336

(Amount in ₹)

Sl.No.	Cheque No.	Amount	Sl.No.	Cheque No.	Amount
1	516718	1,500	8	95507	43,800
2	516720	2,000	9	95508	45,682
3	516719	45,684	10	95509	32,200
4	516722	3,300	11	95511	3,000
5	95505	4,800	12	95510	20,175
6	95504	22,842	13	95513	15,430
7	95506	11,215	14	95512	32,952
Total					2,84,580

**Pragathi Grameena Bank, Maradihally, Burujinaroppa GP
S.B. Account No. 3135**

(Amount in ₹)

Sl.No.	Cheque No.	Amount	Sl.No.	Cheque No.	Amount
1	840995	13,050	25	547982	8,241
2	840996	10,955	26	547981	16,735
3	840999	23,991	27	547980	19,655
4	840998	18,060	28	547985	31,291
5	840997	11,400	29	547983	12,956
6	547951	15,170	30	547986	5,000
7	547960	40,476	31	547988	7,568
8	547958	14,584	32	547995	26,480
9	547959	14,584	33	986911	6,650
10	547961	12,050	34	986919	1,800
11	547962	4,705	35	986918	6,250
12	547965	35,910	36	986917	30,272
13	547966	14,848	37	987018	2,400
14	547967	28,800	38	987012	3,000
15	547969	3,805	39	985161	1,20,000
16	547968	28,309	40	985162	6,650
17	547970	10,464	41	985163	5,000
18	547972	26,986	42	985166	1,300
19	547973	14,360	43	985169	15,000
20	547974	6,248	44	985178	43,800
21	547976	6,850	45	987151	10,000
22	547977	2,000	46	987153	45,000
23	547978	6,576	47	547987	4,610
24	547979	4,000			
Total					7,97,839
Grand Total					15,50,824

Appendix 2.4

Statement showing the details of amounts drawn by PRED to avoid lapse of grants

(Reference: Paragraph 2.2.7.2/Page 46)

			(₹ in lakh)
Sl.No.	Scheme	Head of Account	Amount
1	Twelfth Finance Commission Maintenance of buildings	2059-80-053-5-04-200 NP	43.24
2	Nanjundappa varadhi	4215-01-102-9-06-133 P	118.10
3	Twelfth Finance Commission Roads maintenance	3054-04-337-1-79-050 P	90.00
4	Horticulture buildings	2401-00-119-6-71-050 P	3.57
5	Agriculture buildings	2401-00-800-04-050 P	4.19
6	Backward Class and Minorities Hostel buildings	2225-03-800-53-050 P	19.37
7	NABARD-Secondary school buildings	2202-02-800-1-10 P	32.99
8	Additions and alterations	2202-02-109-0-77 P	8.23
9	Land acquisition cases	4702-00-101-9-01-132 P	0.19
10	Veterinary buildings	4403-00-101-0-02-436 P	9.65
11	Anganwadi buildings	4235-02-102-1-02-133 P	51.62
12	Suvarna Gramodaya Capital expenditure	4215-02-102-1-02-132 P	76.50
13	Suvarna Gramodaya-Special Component Plan (SCP)	4215-02-800-0-02-422 P	22.56
14	Suvarna Gramodaya - Tribal Sub Plan	4215-02-800-0-02 -423 P	11.42
15	Development of ST colony	2225-02-794-0-01-423 P	128.07
16	Rural communication SCP	5054-04-800-3-03-133 P	193.90
17	Rural Communication (Tribal Sub Plan)	5054-04-800-3-03-423 P	20.57
18	Rural Communication (SCP)	5054-04-800-3-03-422 P	16.12
19	Rural Communication-SCP	5054-04-337-7-01-133 P	20.04
Total			870.33

Appendix 2.5

Statement showing outstanding items under Miscellaneous Public Works
Advances

(Reference: Paragraph 2.2.10.1/Page 55)

(₹ in lakh)

Sl.No.	Year	No. of items	Amount
1	1987-88	5	1.87
2	1988-89	7	4.85
3	1989-90	6	13.74
4	1990-91	5	20.63
5	1991-92	6	6.34
6	1992-93	8	70.28
7	1993-94	1	2.43
8	1996-97	4	20.21
9	1997-98	3	9.09
10	1998-99	10	117.80
11	1999-2000	2	3.48
12	2000-01	1	14.37
13	2001-02	6	21.46
14	2002-03	5	7.21
15	2003-04	2	4.51
16	2004-05	3	1.10
17	2005-06	1	1.00
18	2006-07	1	1.92
	Total	76	322.29

Appendix 3.1

Duties and powers of Officers of ULBs

(Reference: Paragraph No. 3.2.4/Page 75)

Officers of ULB	Powers
Commissioner/Chief Officer	The Commissioner/Chief Officer shall perform all the duties and exercise all the powers specifically imposed or conferred upon him by or delegated to him under the KMC/KM Acts. He shall issue and withhold/withdraw all licenses and permissions. He shall receive and recover and credit to the municipal fund all fees payable for license and permissions granted or given by him under the Act. He shall take steps to remove any irregularity pointed out by the Auditor and shall report to the Council/Standing Committees, all cases of fraud, embezzlement, theft or loss of municipal money or property. He shall supply any return, statement, estimate, statistics, accounts, report or a copy of any document in his charge called for by the Municipal Council or the Standing Committee and shall comply with any orders passed thereon. He shall exercise supervision and control over the acts and proceedings of all officers and servants of the Municipal Council in matters of executive administration and in matters concerning the accounts and records.
Engineer	The Engineer of Municipal body is in charge of public works, gardens and roadside trees. He is responsible for preparation of all plans, estimates and execution of municipal works and their maintenance.
Revenue Officer	The Revenue Officer is responsible for the collection of all municipal revenue including the property taxes, cesses, licence fees, rents from buildings, etc.
Accounts Officer/Accountant	The Accounts Officer/Accountant is responsible for keeping the accounts and records relating to collection of revenue and expenditure there from. He is responsible to maintain general cash book, classified register of receipts and payments, pass book with a recognised bank or Government Treasury. He shall prepare accounts of receipt and expenditure and lay before the Municipal Council and also maintain all special fund accounts.
Health Officer	The Health Officer shall supervise and control the work of the Health Department including conservancy.
Internal Auditor/Accounts Superintendent	The Internal Auditor is responsible for concurrent supervision over municipal income and expenditure. He shall deal with audit note and statements of objection of the State Government Auditor, examine and certify all accounts, returns, statements and complete the examination of the monthly account within the first fortnight of the ensuing month and submit it to the Chief Officer. He shall adopt all measures and precautions to secure the Municipality against loss or harm arising from dishonesty, error or irregularity.

Appendix 3.2

Role of the State Government with respect to ULBs

(Reference Paragraph No.3.7.1/Page 79)

Powers	Nature of powers and conditionalities attached to its exercise
Power to frame Rules	The State Government may by notification in Gazette, frame rules for the KMC/KM Acts after approval by the State Legislature. (Section 421 of KMC Act and Section 323 of KM Act)
Power to dissolve ULBs	The State Government shall, by notification in the Gazette, dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties imposed on them, after giving reasonable opportunity. The order of dissolution of the ULBs shall be laid before both the houses of State legislature with a statement of the reasons there for. The State Government may appoint the Administrator during the period of dissolution of the ULBs. (Sections 99 and 100 of KMC Act, Sections 315 and 316 of KM Act)
Power to cancel and suspend a resolution or decision taken by ULBs	The State Government may cancel a resolution or decision taken by ULBs, if the State Government is of the opinion that it is not legally passed or in excess of the power conferred by KMC and KM Acts, any other law or likely to endanger human life, health, public safety or communal harmony or in violation of directions issued by Government. (Section 98 of KMC Act and Section 306 of KM Act)
Power of appointment, cadre control and transfers	The Commissioner and Chief Officers of ULBs are Government Servants and the staff in the ULBs are municipal employees. The State Government regulates the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs. The State Government may at any time transfer the Officers from a ULB and the staff is transferred by the Municipal Council. The State Government shall lend the services of the Government officers and employees to ULBs as may be necessary for the implementation of any schemes, project or plan assigned to the ULBs. An appeal against any order of the ULBs imposing penalty on any officer or employee shall lie with the State Government.

Appendix 3.3

Deviations from guidelines under TFC grants

(Reference: Paragraph 3.8.3/Page 81)

(₹ in lakh)

Sl. No.	Name of the ULB	Activities to which diverted	Amount
1	TMC, Hoovinahadagali	Purchase of computer printer, fax machine, photocopier, UPS and computer furniture	3.68
		Construction of office building in TMC premises	2.75
2	TMC, Ullal	Purchase of photocopier	0.85
3	CC, Gulbarga	Advances treated as expenditure	25.25
4	CC, Dharwad	Repair works	52.09
		Aluminium windows to Hubli-Dharwad Municipal Corporation building	1.30
		Repairs to office control room	0.23
		Construction of house to six beneficiaries under 18% Scheme	5.49
		Construction of building at Corporation premises	1.11
		Furniture to zonal office	15.57
		Kannada Rajyothsava celebration	0.27
5	TMC, Malur	Repair works	0.53
		Building repairs, roads and bridges	14.17
6	TMC, Harihar	Printing of Karnataka Milk Federation materials, construction of community hall, transfer of funds to Municipal accounts	4.55
		Diversion to CMC fund	0.18
7	TMC, Vijayapura	Expenditure incurred on roads and maintenance of public buildings	103.00
8	CMC, Chitradurga	Construction of compound wall to landfill site at Damavvanahalli village and construction of drainage	60.20
9	TMC, Nelamangala	Expenditure incurred on roads and maintenance of buildings	20.75
Total			311.97

Appendix 4.1

Wasteful expenditure on providing utility cable ducts

(Reference: Paragraph 4.6/Page 106)

Sl. No.	Name of the work	Tendered cost (₹ in lakh)	Date of commencement of duct work	Date of commencement of widening work	Length of duct to be provided (meters)	Length actually provided (meters)	Date of payment of final bill	Payment made for duct (₹ in lakh)
1	Hosur road from Yenkey factory to Ayyappa temple (right hand side)	82.07	15.12.2009	10.2.2009	930	670.40	Final bill not paid	59.13
2	Hosur road from Yenkey factory to Ayyappa temple (left hand side)	82.01	7.11.2008	10.2.2009	930	870.60	October 2009	78.67
3	Palace road- 1.35Km to 1.75Km-both sides	69.87	19.8.2008	19.9.2008	790	387	Final bill not paid	34.06
4	Race course road-0Km to 1.66Km-northern side	111.19	17.10.2008	25.3.2008	1,267	347	Final bill not paid	32.85
5	Race course road - 0.30Km to 1.66Km-southern side	118.13	15.12.2008	25.3.2008	1,346	814	August 2009	108.72
6	Sheshadri road -from Anandarao Circle to KR Circle – right hand side	91.74	15.12.2008	28.1.2009	990	550	Final bill not paid	52.99
7	Sheshadri road-from Anandarao Circle to KR Circle – left hand side	91.55	10.2.2009	28.1.2009	990	650	Final bill not paid	64.28
Total					7,243	4,289		430.70

