सत्यमेव जयते

# Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2011

**Government of Karnataka**

*Report No.5 of the year 2012*

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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 Finances, (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 2010-11 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 2010-11 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 one performance review, one thematic audit and a paragraph based on the audit of financial transactions of the Panchayat Raj Institutions. The fourth chapter contains a performance review and one thematic audit based on the audit of financial transactions of Urban Local Bodies. A synopsis of the findings contained in the performance reviews and thematic audits are presented in this overview.*

## 1. An overview of Panchayat Raj Institutions

*A review of finances of Panchayat Raj Institutions revealed that there was no mechanism at the apex level to oversee the devolution of functions to Panchayat Raj Institutions. The Grama Panchayats did not initiate any steps/campaigns to ensure participatory planning in Ward Sabha/Grama Sabha meetings during 2006-11. Zilla Panchayats' control over expenditure was ineffective due to direct transfer of Government of India funds to implementing agencies. Balances under suspense heads of accounts were not reconciled. Internal control mechanism was weak as instances of non-remittances of Government dues, statutory deductions and non-submission of detailed accounts for the amounts drawn on AC bills were noticed.*

**(Paragraphs 1.1 to 1.12)**

## 2. District Rural Social Sector Audit

*With a view to improving the socio-economic conditions of the rural population, various centrally sponsored, central plan and state/district sector developmental programmes are implemented in the districts. A review on Rural Social Sector Audit of Tumkur and Koppal districts revealed that while no District Planning Committee was formed in Tumkur district, there was no vision for sectoral development in both the districts. Operational controls in implementation of rural social sector schemes were inadequate as evidenced by misappropriation of scheme funds, payment of wages on fictitious nominal muster rolls, increase in maternal mortality rate, lack of infrastructure facilities in elementary schools and health care units, abnormal delay in completion of water supply projects, etc. The monitoring and internal control mechanism was ineffective due to absence of internal audits, delay in preparation of monthly and annual accounts by Panchayat Raj Institutions.*

**(Paragraph 2.1)**

## 3. Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme

*The theme-based review on implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme revealed that lapses and irregularities such as non-preparation of district perspective plan, execution of works not recommended by Grama Sabhas, non-conducting of Social Audit, etc., reported by Audit in earlier Audit Report (Panchayat Raj Institutions)–2007 still persisted. Deficiencies in enumeration procedure, unrealistic labour* *budgets, irregularities in utilisation of funds, and non-maintenance of mandatory control registers facilitated misappropriation of Scheme funds. Instances of delay in payment of wages, irregular payments, and failure to provide 100 days of employment to majority of the households defeated the spirit of the Scheme. Monitoring of the Scheme was inadequate.*

**(Paragraph 2.2)**

## 4. An overview of Urban Local Bodies

*The State Government had decided to increase the devolution to Urban Local Bodies from six to eight per cent of Non-Loan Net Own Revenue Receipts of the State during the period from 2005-06 to 2009-10, however, the devolution actually decreased from 8.41 to 7.29 per cent during 2007-10 and was further reduced to 7.11 per cent during 2010-11. The Secretary/Director of Municipal Administration failed to ensure prompt and timely action by executives of Urban Local Bodies in respect of audit objections raised by the Comptroller and Auditor General of India.*

**(Paragraphs 3.1 to 3.4)**

## 5. Road and drain works in Bruhat Bangalore Mahanagara Palike

*The Bruhat Bangalore Mahanagara Palike discharges obligatory and discretionary functions by providing civic services and infrastructure facilities to the citizens of Bangalore as per the provisions of Karnataka Municipal Corporations Act, 1976. The Performance review on Road and drain works in Bruhat Bangalore Mahanagara Palike revealed, inter alia, that the planning process was undertaken without any proper need assessment, or taking into account the road history. There was no sanctity in the approval of programme of works due to execution of large number of works over and above the budgeted works. There were irregularities in accounting of deposits, misutilisation of deposits and irregular discounting of bills, etc. Operational controls were not in place and the tendering process was vitiated, tenders were manipulated, estimates were tampered with, and funds were siphoned off. Works were executed to benefit the contractors resulting in doubtful, wasteful, irregular and avoidable works. Monitoring and internal control mechanism was absent at all levels.*

**(Paragraph 4.1)**

## 6. Non-tax revenue management in the City Corporations and City Municipal Councils

*The system for assessment and collection of Non-tax revenue in the City Corporations and City Municipal Councils was deficient. No survey was conducted to assess the existing business establishments and collect trade licence fee. Trade licences were not renewed leading to arrears in collection of fee. There were also arrears in collection of rent and water charges. There was significant shortage of manpower for revenue collection in test-checked City Corporations and City Municipal Councils which further compounded the problem of insufficient collection of Non-tax revenue.*

**(Paragraph 4.2)**

# Chapter I

## An overview of Panchayat Raj Institutions

# CHAPTER - I

## SECTION 'A'
## AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

### 1.1 Background

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

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

### 1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1** below. The population growth in Karnataka in the last decade was 17.25 *per cent* and was less than the national average of 21 *per cent*. The decadal growth rate of population in the State revealed a declining trend, though the growth rates varied widely across districts. The State, with its urban population at 34 *per cent* of total population, is currently ranked as the seventh most urbanised among all States.

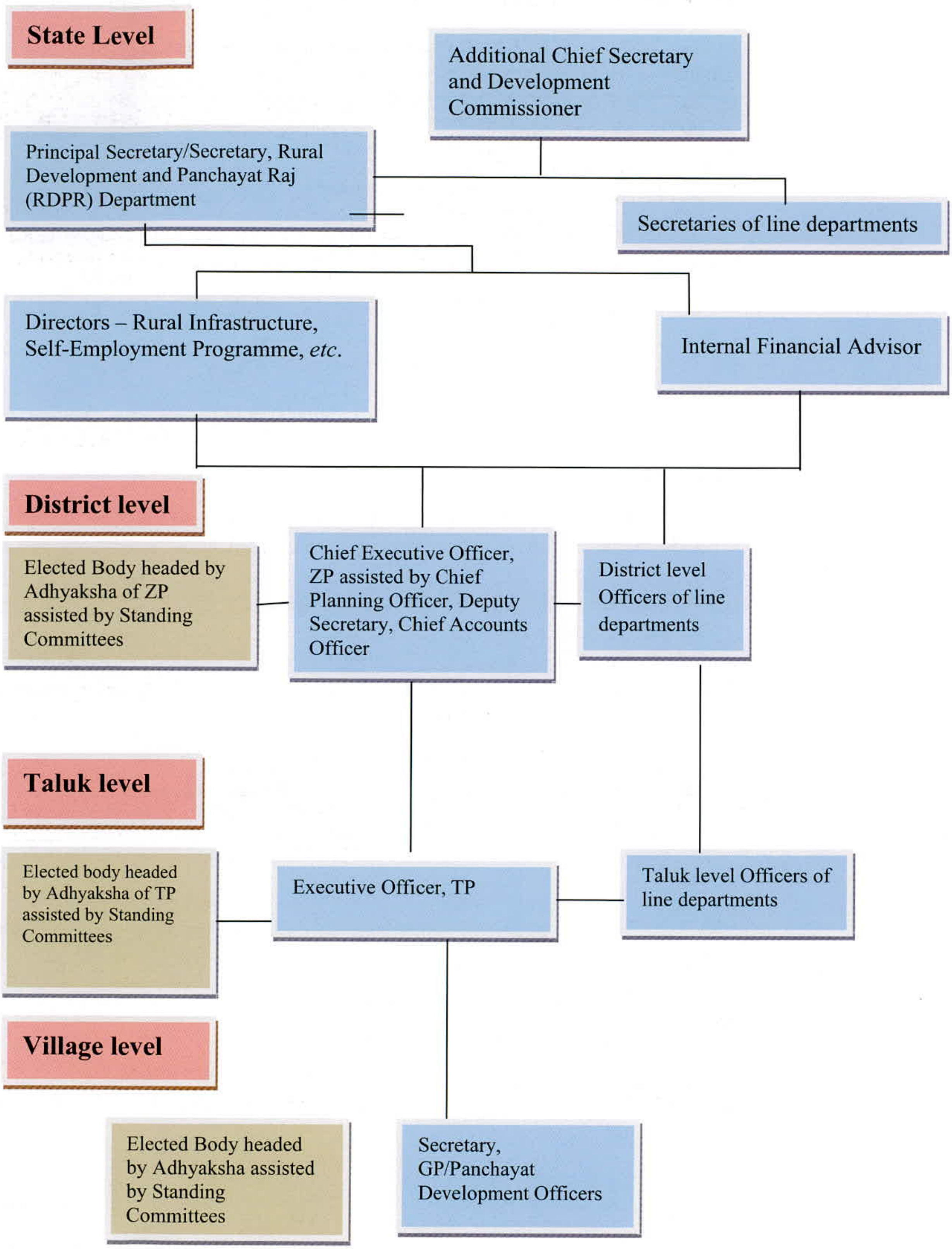
The urban and rural population decadal growth rates were 29 *per cent* and 12 *per cent* respectively. The population of the State was 5.29 crore, of which women comprise 49 *per cent*. The service sectors along with the agricultural sector dominate the State's economy. The State has 114 backward taluks out of which 39 taluks spread over 14 districts are the most backward.

**Table 1.1: Important statistics of the State**

| Indicator | Unit | State value | National value | Rank amongst all States |
|---|---|---|---|---|
| Population | 1,000s | 52,851 | 10,28,737 | 9 |
| Population density | Sq.Km | 276 | 313 | 14 |
| Urban population *(per cent)* | 1,000s | 17,962 (34) | 2,86,120 (28) | 7 |
| Number of PRIs | Numbers | 5,834 | 2,40,540 (Approx) | 14 |
| Number of Zilla Panchayats (ZPs) | Numbers | 30 | 540 (Approx) | 8 |
| Number of Taluk Panchayats (TPs) | Numbers | 176 | 6,000 (Approx) | 13 |
| Number of Grama Panchayats (GPs) | Numbers | 5,628 | 2,34,000 (Approx) | 14 |
| Gender ratio | 1,000 males | 965 | 933 | 9 |
| Poverty ratio | Percentage | 33 | 37 | NA |
| Literacy | Percentage | 67 | 65 | 16 |

Source: Economic Survey 2010-11 and Karnataka at a glance 2009-10 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 of Standing Committees |
|---|---|---|---|
| GP | Adhyaksha | (a) Production Committee<br>(b) Social Justice Committee<br>(c) Amenities Committee | Chairman (Elected among the elected members of GPs, TPs and ZPs) |
| TP | Adhyaksha | (a) General Standing Committee<br>(b) Finance, Audit and Planning Committee<br>(c) Social Justice Committee | |
| ZP | Adhyaksha | (a) General Standing Committee<br>(b) Finance, Audit and Planning Committee<br>(c) Social Justice Committee<br>(d) Education and Health Committee<br>(e) Agricultural and Industries Committee | |

Source: KPR Act

## 1.4 Financial profile

### 1.4.1 *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 | - | - | Assessees and users | Bank | Assessees and users | Bank |
| Assigned revenues | State Government | Treasury | State Government | Treasury | State Government | Bank |
| SFC | | | | | | |
| State Plan | | | | | | |
| CFC/CSS | GOI | Bank | GOI | Bank | GOI | Bank |

Source: As furnished by the RDPR 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 (MGNREGS) | GOI and State Government transfer their respective shares of MGNREGS funds into a bank account, called State Employment Guarantee Fund (SEGF), set up outside the State accounts. The Director, MGNREGS administers onward transfer of funds from it to ZPs, TPs and GPs. |
| 2 | Sarva Shiksha 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 Chief Executive Officers (CEOs) of ZPs, who in turn releases to School Development Management Committees for implementation of the Scheme. |

| Sl.No. | Scheme | Fund flow |
|---|---|---|
| 3 | National Rural Health Mission (NRHM) | Funds for NRHM are released by GOI to the States through two separate channels *i.e.*, through State Finance Department 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, release funds to the ZPs. The Central assistance for the Scheme was provided by way of free supply of food grains 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. |
| 5 | Pradhan Mantri Gram Sadak Yojana (PMGSY) | PMGSY is a 100 *per cent* CSS. 50 *per cent* of the cess on high speed diesel is earmarked for this programme. The State Rural Road Development Agency is to select a bank with internet connectivity at the State Headquarters for maintaining the programme account. Once selected, the account shall not be changed to any other bank/branch without the concurrence of National Rural Road Development Agency. The Ministry of Rural Road Development releases the programme funds, administrative/travel expenses and quality control funds into the programme and administrative account. |

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

The grants enjoin the sanctioning authorities in GOI to ensure proper utilisation of the grant money. This is achieved through progress reports, Utilisation Certificates (UCs) and internal audit of scheme accounts in PRIs by the CAO.

### *1.4.2 Resources: Trends and Composition*

**Table 1.5** below shows the trends of resources of PRIs for the period 2006-07 to 2010-11.

**Table 1.5: Time series data on resources of PRIs**

**(₹ in crore)**

| | 2006-07 | 2007-08 | 2008-09 | 2009-10# | 2010-11# |
|---|---|---|---|---|---|
| Own revenue | 138.34 | 133.64 | 144.74 | NA | NA |
| CFC transfers (Twelfth /Thirteenth) | 177.60 | 177.60 | 177.60 | 177.60 | 419.38$^{\pi}$ |
| Grants from State Government and assigned revenues | 7,962.34 | 9,488.13 | 9,841.85 | 11,216.04 | 11,918.53 |
| GOI grants for CSS/State Schemes* | 2,372.98 | 2,680.40 | 3,285.09 | 2,871.95 | 1,718.97 |
| Other receipts* | 171.24 | 99.57 | 82.29 | 13.28$^{£}$ | 8.63 |
| **Total** | **10,822.50** | **12,579.34** | **13,531.57** | **14,278.87** | **14,065.51** |

Source: Certified annual accounts up to 2010-11 for ZPs and TPs; figures as furnished by State Accounts Department (SAD) for GPs

* GOI grants released to TPs through ZP accounts are excluded

\# excludes GPs except CFC transfers

$^{\pi}$ 1$^{st}$ and 2$^{nd}$ instalments of 13$^{th}$ Finance Commission grants of ₹209.69 crore each

$^{£}$ significant decline was due to discontinuance of exhibiting the statutory deductions as other receipts from 2009-10 onwards

NA: Not available

Reduction in resources of PRIs during 2010-11 was mainly due to reduction in release of GOI grants for CSS such as MGNREGS, Swarna Jayanthi Gram Swarozgar Yojana, Integrated Wasteland Development Programme, Drought Prone Area Development Programme, Total Sanitation Campaign (TSC), *etc.*

### *1.4.3 Application of Resources: Trends and Composition*

**Table 1.6** below shows the trends of sector-wise application of resources of ZPs and TPs for the period 2006-07 to 2010-11.

**Table 1.6: Application of resources sector-wise**

**(₹ in crore)**

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **ZILLA PANCHAYATS** | | | | | |
| **State grants and assigned revenues** | | | | | |
| **Capital Expenditure** | **157.92** | **38.61** | **17.92** | **0.005** | **3.96** |
| Social Services | 139.38 | 31.95 | 17.61 | 0 | 2.01 |
| Economic Services | 18.54 | 6.66 | 0.31 | 0.005 | 1.95 |
| **Revenue Expenditure** | **3,096.32** | **3,454.69** | **3,558.22** | **3,420.21** | **4,228.77** |
| General Services | 94.82 | 105.34 | 123.22 | 115.56 | 0.46 |
| Social Services | 1,896.58 | 2,253.07 | 2,574.15 | 2,467.20 | 3,361.32 |
| Economic Services | 1,104.34 | 1,095.83 | 860.85 | 837.45 | 866.99 |
| Suspense | 0.58 | 0.45 | 0 | 0 | 0 |
| **CSS/State Schemes** | | | | | |
| **Capital Expenditure** | **4.61** | **57.72** | **64.08** | **8.58** | **153.86** |
| Social Services | 4.26 | 57.72 | 64.08 | 8.58 | 145.36 |
| Economic Services | 0.35 | 0 | 0 | 0 | 8.50 |
| **Revenue Expenditure** | **2,407.48** | **1,941.02** | **1,455.20** | **1,605.88** | **3,325.32** |
| General Services | 0 | 0 | 0 | 0.72 | 0 |
| Social Services | 363.36 | 454.52 | 548.18 | 374.36 | 406.40 |
| Economic Services | 2,044.12 | 1,486.50 | 907.02 | 1,230.80 | 2,918.92 |
| **Total** | **5,666.33** | **5,492.04** | **5,095.42** | **5,034.68** | **7,711.91** |
| **TALUK PANCHAYATS** | | | | | |
| **Capital Expenditure** | **1.63** | **0** | **0** | **0.16** | **0.26** |
| General Services | 0 | 0 | 0 | 0 | 0 |
| Social Services | 1.38 | 0 | 0 | 0.15 | 0 |
| Economic Services | 0.25 | 0 | 0 | 0.01 | 0.26 |
| **Revenue Expenditure** | **3,192.26** | **3,951.21** | **4,537.89** | **4,971.83** | **6,316.59** |
| General Services | 0.25 | 65.95 | 0 | 0 | 0.76 |
| Social Services | 2,827.53 | 3,427.17 | 4,194.75 | 4,560.82 | 5,816.15 |
| Economic Services | 279.15 | 350.04 | 334.84 | 408.75 | 497.78 |
| Suspense | 85.33 | 108.05 | 8.30 | 2.26 | 1.90 |
| **Total** | **3,193.89** | **3,951.21** | **4,537.89** | **4,971.99** | **6,316.85** |
| **Grand Total** | **8,860.22** | **9,443.25** | **9,633.31** | **10,006.67** | **14,028.76** |

Source: Separate Audit Reports (SARs) of ZPs and consolidated SARs for TPs up to the year 2010-11

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

The transfer of funds by GOI directly to the implementing agencies, not routed through ZP and TP funds, rendered ineffective the control of the ZPs over expenditure. This also resulted in their inability to monitor the progress of works/expenditure incurred through GPs, external agencies and also district level offices. The position still persists despite being pointed out in earlier Audit Reports.

### *1.4.4 Quality of 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 |
|---|---|---|---|---|---|---|---|
| 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 | 10,006.67 | 13.18 | 0.13 | 7,411.11 | 74.06 | 8.74 | 0.09 |
| 2010-11 | 12,412.43 | 57.96 | 0.47 | 9,472.58 | 76.31 | 69.16 | 0.56 |

Source: RDPR Progress Reports and SARs up to 2010-11
NA : Not available

Audit observed that the percentage of expenditure on social sector gradually increased over the years. Significant increase in capital expenditure in 2010-11 as compared to 2009-10 was mainly due to asset creation under Suvarna Gramodaya Scheme and commissioning of water supply projects.

***1.4.5*** The public investment in social sector and rural development through major CSS during 2009-10 and 2010-11 is given in **Table 1.8** below:

**Table 1.8: Statement showing investment through major CSS**

**(₹ in crore)**

| Schemes | 2009-10 | | Percentage of shortfall (-)/ excess (+) in utilisation | 2010-11 | | Percentage of shortfall (-)/excess (+) in utilisation |
|---|---|---|---|---|---|---|
| | Release | Expenditure | | Release | Expenditure | |
| MGNREGS | 3,026.29 | 2,641.88 | (-)12.70 | 1,927.87 | 2,081.30 | (+)7.96 |
| National Rural Drinking Water Programme | 469.19 | 472.17 | (+)0.64 | 587.75 | 560.00 | (-)4.72 |
| PMGSY | 2,222.94 | 2,364.59 | (+)6.37 | 917.67 | 662.42 | (-)27.82 |
| Indira Awaas Yojana (IAY) | 753.94 | 532.84 | (-)29.33 | 596.19 | 482.49 | (-)19.07 |
| TSC | 16.80 | 16.40 | (-)2.38 | 69.42 | 77.22 | (+)11.24 |

Source: Annual Report of RDPR, Progress reports of RDPR and Management Information System (MIS)

Note : Expenditure includes opening balance

It could be seen from the table above that the available funds under PMGSY Scheme were not utilised optimally during the year 2010-11. However, under MGNREGS, even though the labour payments were pending, the expenditure was reported as incurred in MIS.

### *1.4.6 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 1.1**. The allocation and expenditure during 2009-10 and 2010-11 are indicated in **Table 1.9** below:

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

**(₹ in crore)**

| Schemes | 2009-10 | | Percentage of shortfall (-)/ excess (+) in utilisation | 2010-11 | | Percentage of shortfall(-) / excess (+) in utilisation |
|---|---|---|---|---|---|---|
| | Allocation | Expenditure | | Allocation | Expenditure | |
| Grama Swaraj Project | 115.00 | 117.49 | (+)2.17 | 88.54 | 93.11 | (+)5.16 |
| Suvarna Gramodaya Yojana | 1,000.60 | 251.41 | (-)74.87 | 401.05 | 419.84 | (+)4.69 |
| Mukhya Mantri Grameena Raste Abhivrudhi Yojane | 148.28 | 144.34 | (-)2.66 | 148.27 | 133.67 | (-)9.85 |

Source: Annual Reports and Progress Reports of RDPR Department

It was seen from the table above that the expenditure incurred during 2010-11 was more than the allocation in respect of Grama Swaraj and Suvarna Gramodaya Schemes. This was due to utilisation of unspent balances of previous years available with the implementing officers.

## 1.5 State Finance Commissions

After enactment of the 73rd amendment to Constitution, the State Government constituted three SFCs to determine the principles on the basis of which adequate financial resources would be ensured for PRIs.

The details of finances of the State, share of PRIs as decided (October 2011) by the State Government based on the Third SFC recommendations and funds actually released to PRIs for the year 2010-11 are as in **Table 1.10** below:

**Table 1.10: Details of allocation by the State Government**

**(₹ in crore)**

| Particulars | 2010-11 |
|---|---|
| Non-Loan Net Own Revenue Receipts (NLNORR) of the State | 41,831 |
| Allocation as decided by the State Government (32 *per cent* of NLNORR) | 13,386 |
| Funds actually released to PRIs | 12,555 |

Source: State Finance Accounts

It could be seen from the table above that the funds released by the State Government constituted only 30 *per cent* of the NLNORR as against the decision for allocation of 32 *per cent*.

## 1.6 Devolution of Functions, Funds and Functionaries

### *1.6.1 Functions*

The 73rd amendment to the Constitution envisaged transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government through executive orders had to transfer all the 29 subjects to different tiers of PRIs. For effective functioning of both the State Government and PRIs, Activity Mapping delineated the role and responsibilities of each tier of PRIs under each transferred subject. The State Government, however, devolved functions under 26 subjects and the remaining three subjects are yet to be transferred. Of these, 'Public Distribution System' is implemented by the Food and Civil Supplies Department. 'Social welfare' and 'Welfare of the weaker sections' are implemented by both the State Government and PRIs.

As devolution of governance to the different tiers of PRIs involved a large number of line departments, there was a need to monitor the devolution through a 'Monitoring Cell' at the State level. However, no such cell/mechanism is in place in the State. The Activity Map brought out in the year 2003 had to be revised in the light of withdrawal of certain functions of PRIs such as purchase of medicines which was centralised by the Health Department, construction of student hostels for weaker sections and backward classes by Societies established by the State Government, *etc.* However, no action has been taken to revise the Activity Map even after eight years.

### *1.6.2 Funds*

The funds required for the implementation of the functions were to be devolved with the transfer of functions. In test-checked district of Shimoga, it was noticed that meagre funds were released to PRIs under Khadi, Village and

Cottage Industries towards interest subsidy to artisans, bee-keeping activities, *etc.*

### *1.6.3 Functionaries*

The GPs in the State implement a large number of Central/State sector schemes/programmes and substantial funds are released to the GPs. However, the sanctioned posts for the GPs were grossly inadequate against the activities devolved. The staff members working in the GPs were not qualified and were not permanent. Many works/schemes executed by the GPs were technical in nature and none of the GPs were equipped with technical staff. In many cases even the Secretary of the GP was not adequately qualified but was promoted to the post, based on the service rendered as a temporary employee.

Though the State Government created the post of PDO in addition to the Secretary at the GP level, 41 *per cent* of these posts remained vacant (September 2011) as the State Government did not appoint the required number of PDOs. The vacancy position of PDOs in the State is as detailed in **Table 1.11** below:

**Table 1.11: Details of vacancy position of PDOs as of September 2011**

| | |
|---|---|
| Total number of GPs in the State | 5,628 |
| Total PDOs required | 5,628 |
| Working strength | 3,312 |
| Total number of vacancies in the State | 2,316 |
| Percentage of shortfall | 41 |

Source: As furnished by the RDPR Department

In the test-checked 68 GPs of two TPs[1], only 17 GPs had both PDO as well as Secretary, 42 GPs had only Secretaries, six GPs had only PDOs and three GPs were functioning with in-charge arrangements from other GPs, indicating shortage of functionaries at grass root level.

## 1.7 District Planning

*1.7.1* The objective of district planning was to arrive at an integrated, participatory, coordinated idea for development of a district. The District Planning Committee (DPC) in each district, constituted by the State Government was responsible for consolidation and integration of all PRIs and Urban Local Bodies (ULBs) plans to articulate the development vision for the district.

Audit observed the following deficiencies in district planning.

### *1.7.2 Preparation of District Development Plans*

*1.7.2.1* Government of India (GOI) issued (November 2007) guidelines for preparation of a Comprehensive District Development Plan (CDDP) for each district for the Eleventh Five Year Plan (EFYP) period (2007-12) facilitating the DPCs to prepare Annual District Development Plans (ADDPs) in tune with the CDDP. The Ministry of Panchayati Raj, GOI had also instructed for preparation of CDDP by April 2008. Audit observed that the DPCs submitted the CDDPs to the State Government during March – November 2010 after a delay of almost three years from the commencement of EFYP period. It is,

[1] TP-Bhadravathi -39; TP-Hosanagara-29

therefore, evident that the ADDPs prepared for the years 2007-08 to 2009-10 by DPCs could not be in consonance with the CDDPs, defeating the objective of overall development vision for the districts. The Chief Planning Officer, ZP, Davanagere replied (June 2011) that the abnormal delay in preparation of CDDP was due to delay in finalisation of plans at GP level. However, the fact remained that the CDDP and ADDPs prepared and submitted to the State Government defeated the purpose of a comprehensive planning for the EFYP period.

***1.7.2.2 Deficiencies in CDDPs and ADDPs***

As per CDDP guidelines, the CDDP should combine and synthesise the activities of the plans under the schemes like BRGF which is a Centrally Sponsored Scheme.

Audit observed the following deficiencies in CDDPs and ADDPs for the years 2007-12 in the test-checked districts[2]:

- the financial allocation under department-wise developmental programmes as per ADDPs during the period 2007-12 was insufficient when compared to the fund requirement projected in CDDPs in two test-checked BRGF districts as detailed in **Table 1.12** below:

**Table 1.12: Statement showing mis-match in proposals of CDDPs and ADDPs**

**(₹ in lakh)**

| Department | Proposals in CDDP | | Allocation in ADDPs | |
|---|---|---|---|---|
| | Davanagere | Gulbarga | Davanagere | Gulbarga |
| Agriculture | 20,002.00 | 4,334 00 | 7,110.41 | 2,287.31 |
| Horticulture | 3,065.00 | 2,930.27 | 532.10 | 259.53 |
| W&CD* | 10,782.52 | 25,359.66 | 6,447.11 | 7,124.29 |
| Fisheries | 1,428.00 | 447.88 | 198.46 | 91.54 |
| Co-operation | 4,165.00 | 12,200.00 | 79.14 | 54.14 |

Source: As furnished by ZPs *Women and Child Development

- ADDPs prepared were not based on the priorities emerging from the lower tiers of PRIs, but were based on the allocation made to PRIs in the State budget;
- CDDPs proposed developmental schemes to bridge critical gaps in local infrastructure requirements by way of provision of funds under BRGF Scheme. However, the DPC proposed very meager funds in BRGF action plans when compared to the projected requirement of funds in CDDPs; and
- Sectoral allocations[3] projected under CDDP of Davanagere district for dovetailing of funds under BRGF Scheme were not addressed at all by the DPC in the action plans of BRGF.

Therefore, it is evident from the deficiencies stated above that the exercise of preparation of CDDPs and ADDPs were not based on a vision for development of the districts.

***1.7.2.3 Functioning of DPC***

As per the provisions of KPR Act, the DPC was required to meet once in a

[2] Backward Regions Grant Fund (BRGF) districts of Davanagere and Gulbarga

[3] Horticulture (₹12.65 crore), Fisheries (₹13.02 crore), Social forestry (₹12.12 crore), *etc.*

quarter to prepare development plans for the district, coordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. Audit noticed in test-checked districts that the DPCs did not meet regularly and the shortfall in convening meetings ranged from 25 to 100 *per cent*.

Audit observed the following deficiencies in functioning of DPCs in the test-checked districts:

- As per BRGF guidelines, the DPCs were required to prepare a perspective 'Vision Document' projecting the development of the districts over the next 10 to 15 years. This exercise was not attempted in any of the test-checked districts; and
- The guidelines stipulated constitution of a DPC cell by the ZPs to watch compliance with the decisions taken in its meetings. It was noticed that no such cell was constituted in the test-checked districts of Davanagere and Gulbarga. The CEO, ZP, Gulbarga replied (November 2011) that DPC cell would be formed at the earliest.

#### *1.7.2.4 Deficiencies in planning at grass root level*

The following deficiencies in planning at the grass root level contributed to insufficiency in district planning:

- GPs did not initiate any steps/campaigns to ensure participatory planning in Ward Sabha/Grama Sabha meetings during 2006-11;
- GPs were to prepare action plans considering the felt needs which were to be approved by the elected body of the concerned GPs. Contrary to the prescribed procedure, it was noticed that the action plans under BRGF were prepared by DPC and forwarded to the lower tiers of PRIs for approval; and
- According to the guidelines issued, a separate sub-plan showing the scheme-wise allocations for Scheduled Castes (SCs)/Scheduled Tribes (STs) in proportion to the population of these communities was to be prepared by each Panchayat. No such sub-plan was prepared in the districts test-checked and hence Audit could not ensure whether the issues relating to SC/ST development were addressed or not.

## 1.8 Accountability framework

### *1.8.1 Audit mandate*

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

***1.8.1.2*** 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 State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Support (TGS) Module to the CAG up to the year 2014-15.

## 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, 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 Debt, Deposit and Remittance (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 Financial Reporting issues

#### *1.10.1 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. Fifteen ZPs did not furnish details of supplementary grants received from the State Government. While the ZP, Gulbarga did not exhibit the budget provision in the annual accounts, the other 29 ZPs depicted huge excesses and savings in expenditure over budget provision ranging from 11 to 180 *per cent* (excess) and 12 to 44 *per cent* (savings) for the year 2010-11. It was also observed that an expenditure of ₹44.62 crore was incurred by 18 ZPs without budget provision as detailed in **Appendix 1.2,** evidencing 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 (October 2011).

#### *1.10.2 Ineffective control over expenditure*

As per the provisions of KPR Act, the ZP Fund includes all amounts transferred to the ZP by appropriation from the Consolidated Fund of the State and all grants, assignments, loans and contributions made by the State Government. Finance Department has specified (July 2005) that in respect of state sector schemes, the ZPs/TPs shall draw the funds directly from the treasury based on releases made by the administrative departments without transferring it to the ZP/TP Fund.

The State Government released ₹277.63 crore to the ZP, Mandya during the period 2006-11 for further release to the implementing agencies of the State sector schemes without routing through the ZP Fund. Of this, ₹39.59 crore was transferred to external agencies like Nirmithi Kendra, Karnataka Rural Building Centre, Karnataka Urban Water Supply & Drainage Board, Karnataka Rural Infrastructure Development Limited and Mysore Resettlement and Development Agency. No records were maintained by the ZP for watching the release, expenditure, details of estimates prepared by these agencies for execution of works, quality assurance, *etc*. This resulted in ineffective control over funds which were not routed through the ZP Fund.

### *1.10.3 Arrears in ZP/TP Accounts*

The KPR Act stipulated that annual accounts were to be passed by the general body of the PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General for audit. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Fourteen ZPs and 125 TPs forwarded annual accounts for the year 2010-11 with delays ranging from 18 to 67 days and 18 to 110 days, respectively. This was due to non-convening of the general body meetings by PRIs in time because of administrative reasons. Non-preparation of annual accounts and non-conduct of audit of CSS by Chartered Accountants within the stipulated date was also attributed to delay in passing the annual accounts.

### *1.10.4 Placement of SARs before the State Legislature*

The SARs of one ZP for the year 2007-08, three ZPs for the year 2008-09, 10 ZPs for 2009-10 and consolidated SARs of TPs for the year 2009-10 were yet (October 2011) to be placed in the State Legislature.

### *1.10.5 Deficiencies in ZP and TP accounts*

The deficiencies noticed in accounts of ZPs and TPs during 2009-10 and 2010-11 are detailed below:

- The State Government withdrew (June 2007) the Letter of Credit (LOC) system in Panchayat Raj Engineering Divisions and Forest Divisions and cheque drawing powers of Drawing and Disbursing Officers (DDOs). The balances outstanding under suspense heads[4] should be cleared after due reconciliation as the validity of the cheques drawn expires three months after the month of issue. However, annual accounts of ZPs for the year 2009-10 reflected huge balances as detailed in **Appendix 1.3**. Further, seven ZPs[5] exhibited clearance of balances under remittance head in the annual accounts for the year 2010-11 without indicating the details of clearances. As a result, Audit could not ensure the correctness of these clearances.

[4] DDR heads of account

[5] Bagalkot, Chikmagalur, Chitradurga, Davanagere, Gulbarga, Hassan and Udupi

- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZPs in the annual accounts. However, balances of ₹157.36 crore and ₹6.72 crore were outstanding under TP and GP suspense accounts respectively in the annual accounts of 16 ZPs for the year 2010-11 as detailed in **Appendix 1.4**. It was also observed that in respect of eight ZPs, adverse balances of ₹22.64 crore and ₹20.88 crore under TP and GP suspense accounts, respectively were exhibited in the annual accounts 2010-11 which was irregular and was fraught with the risk of misuse.

### *1.10.6 Accounting system in Grama Panchayats*

- The State Government enacted the Karnataka Panchayat Raj (KPR) Grama Panchayats (GPs) (Budgeting and Accounting) Rules, 2006 which provided for mandatory preparation of accounts based on the Double Entry Accounting System (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.
- In seven test-checked GPs[6] of Mandya district during 2009-11, though books of accounts were prepared under DEAS, arrears of electricity charges of Rs.4.01 crore was omitted to be accounted under accrual basis and hence the same was not reflected in the Balance Sheet. Thereby, the accounts did not reflect the true and fair picture.
- Audit of 5,360 accounts[7] of GPs was in arrears up to the year 2010-11. In the test-checked Zilla Panchayat (ZP), Mandya, audit of 22 accounts of GPs were in arrears for the period 1989-90 to 2009-10 due to non-production of records by the GPs to State Accounts Department.
- The Executive Officers of TPs and the Chief Executive Officer, ZP, Mandya did not monitor and ensure audit of accounts of GPs annually as required under the provisions of the KPR Act. Statutory recoveries of 232 GPs in Mandya district amounting to ₹2.45 crore[8] were also not remitted to the Government account.

### *1.10.7 Non-recovery of revenue and water supply charges*

The provisions of KPR Act empower GPs to collect tax and other revenues and water supply charges, to be utilised for developmental activities and maintenance of the water supply schemes, respectively. Audit observed that an amount of ₹11.66 crore was pending collection as of March 2011 towards tax, other revenues and water charges from the GPs as indicated in **Table 1.13** below:

[6] Belur, Budanur, H. Malligere, Hulikere, Keelara, Thadagavadi, Thaggahali

[7] As furnished by State Accounts Department

[8] ₹0.58 crore - Income Tax ,₹0.97 crore – Sales Tax, ₹0.90 crore – Royalty

**Table 1.13: Shortfall in collection of revenue and water charges**

**(₹ in crore)**

| Year | Opening balance | Demand for the year | Total | Amount actually collected | Balance | Percentage of shortfall in collection |
|---|---|---|---|---|---|---|
| 2006-07 | 1.08 | 5.08 | 6.16 | 3.09 | 3.07 | 50 |
| 2007-08 | 2.81 | 5.48 | 8.29 | 3.65 | 4.64 | 56 |
| 2008-09 | 4.26 | 6.68 | 10.94 | 4.03 | 6.91 | 63 |
| 2009-10 | 5.90 | 7.50 | 13.40 | 4.74 | 8.66 | 65 |
| 2010-11 | 7.34 | 10.04 | 17.38 | 5.72 | 11.66 | 67 |

Source: As furnished by GPs (2006-07 – 85 GPs; 2007-08 – 85 GPs; 2008-09 – 90 GPs; 2009-10 – 103 GPs; and 2010-11 – 97 GPs)

Note: The reason for variation in carryover of balance as opening balance was non-availability of data for the years under review by all the test-checked GPs

The shortfall in collection of revenue and water charges ranged from 50 to 67 *per cent.* In test-checked GPs, the PDOs/Secretaries failed to issue demand notices or invoke penal provisions on defaulters to ensure collection of revenue. This showed the lackadaisical attitude and lack of effort of the GPs to supplement their resources. Further, a comparison of the receipts from water charges and the expenditure on the maintenance of water supply revealed that the expenditure far exceeded the receipts by 321 to 427 *per cent* during 2006-11 as detailed in **Table 1.14** below. Despite this huge gap, there was no attempt on the part of the GPs to increase the collection. Two GPs[9]did not maintain any details of collection of water charges and in these GPs, misuse of user charges collected could not be ruled out.

**Table 1.14: Collection of water charges and expenditure on water supply maintenance**

**(₹ in crore)**

| Year | Water charges collected | Expenditure | Percentage |
|---|---|---|---|
| 2006-07 | 0.29 | 0.98 | 338 |
| 2007-08 | 0.32 | 1.07 | 334 |
| 2008-09 | 0.39 | 1.25 | 321 |
| 2009-10 | 0.44 | 1.88 | 427 |
| 2010-11 | 0.52 | 1.70 | 327 |

Source: As furnished by GPs

### *1.10.8 Non-remittance of cess*

As per the instructions (May 2005) of the State Government, a cess towards providing adequate health, education, improved library facilities *etc.,* aggregating 34 *per cent*[10] of the total tax collection of GPs had to be remitted to the State Government. The Secretaries/PDOs of GPs were to comply with the instructions and the CEO, ZP was required to watch deduction of cess and consequent remittance to the State exchequer. However, the Secretaries/PDOs of the GPs entered the amounts so collected by way of cess in the Demand, Collection and Balance registers. It was observed in 77 GPs during 2006-11 that collected cess amounting to ₹5.97 crore was not remitted to the State Government account. The omission persisted despite being pointed out by the statutory auditors repeatedly. Audit observed that the GPs utilised the cess collected for their administrative/development purpose in contravention of the instructions. Further, neither the EOs of TPs nor the CEOs of the ZPs have

[9] Bulasagara and Guttidurga

[10] Health cess 15 *per cent*, education cess 10 *per cent*, library cess six *per cent* and beggary cess three *per cent*

issued directions to GPs to remit these substantial outstanding amounts to the concerned heads of Government account. Non-remittance of this amount to the State exchequer defeated the purpose for which these collections were made. It was also observed that there was no mechanism in place in the State to watch the remittance of the cess collected.

### *1.10.9 Non-remittance of taxes*

Codal provisions stipulate that revenues received should be remitted in full to GP fund without undue delay. Audit scrutiny revealed that in 14 GPs, collected taxes amounting to ₹17.35 lakh were not remitted to the GP fund during 2006-11. In respect of three GPs[11], taxes of ₹0.85 lakh were neither accounted in the cash book nor remitted to the GP fund. The possibility of misappropriation of these taxes collected could not be ruled out. The PDOs/Secretaries of the GPs failed to comply with the codal provisions and the EOs of the TPs also failed to monitor the remittance.

### *1.10.10 Non-remittance of statutory deductions*

Statutory deductions such as Value Added Tax, Royalty and Income-tax deducted from contractors/suppliers' bills during 2006-11 amounting to ₹40.13 lakh were exhibited separately in the Cash Book but were not remitted to Government account by the Secretaries of 22 GPs. This was also neither watched by the EOs of the TPs nor monitored by the CEOs of the ZPs.

### *1.10.11 Thirteenth Finance Commission grants*

The Thirteenth Finance Commission guidelines stipulated that the GOI was to release the funds to the State Government. The funds were to be transferred to PRIs within five/ten days of their receipt depending upon the availability/non-availability of banking facilities, failing which interest at RBI rate was to be paid for the delayed period. There were delays ranging from 2 to 178 days in release of the second instalment of grants to GPs during 2010-11, but interest of ₹0.22 crore was not paid by the State Government.

### *1.10.12 Non-submission of Non-payable Detailed Contingent (NDC) bills*

**In seven ZPs, detailed accounts for ₹3.58 crore drawn on AC bills were not submitted**

While codal provisions permit the DDOs to draw funds on Abstract Contingent (AC) bills towards contingent charges required for immediate disbursement, DDOs are required to submit the NDC bills to the CAOs before the 15th of the following month. The CAO, ZP is to exercise watch over the pendency of NDC bills and under the orders of the CEO, ZP concerned, issue advice to the Treasury Officer not to honour further bills and also withhold the salary of the defaulting DDOs. It was noticed that 32 departmental officers under the jurisdiction of seven ZPs did not submit the NDC bills (November 2011) for amounts aggregating ₹3.58 crore drawn on 106 AC bills. Some of these bills were drawn as early as in the year 1987-88 as detailed in **Appendix 1.5**. Despite this irregularity being pointed out in previous Audit Reports, the CAOs did not initiate action against officers who failed to render detailed accounts.

[11] Amaramudnuru-₹0.15 lakh; Doddamole-₹0.54 lakh, and Yerandi-₹0.16 lakh

### 1.10.13 Cases of misappropriation/defalcation

**150 cases of mis-appropriation/ defalcation involving ₹15.25 crore were pending**

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

As of March 2011, 12 ZPs reported 150 cases of misappropriation, defalcation, loss of material, *etc*., involving Government money amounting to ₹15.25 crore on which final action was yet to be communicated as detailed in **Appendix 1.6**. These cases were to be reviewed once in three months by the CEO, ZP at the district level and by the Secretary to Government, RDPR at the State level. The position of the pending cases is shown in **Table 1.15** below:

**Table 1.15: Position of pending cases**

**(₹ in crore)**

| Position of the pending cases | | |
|---|---|---|
| **Nature of cases** | **Number of cases** | **Amount involved** |
| Under investigation | 108 | 10.68 |
| Pending in Courts | 17 | 3.91 |
| Others | 25 | 0.66 |
| **Total** | **150** | **15.25** |

Source: As furnished by ZPs

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

## 1.11 Poor response to Inspection Reports

The KZP (F&A) Rules stipulate that heads of the Departments/DDOs of the ZPs shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the CEOs of ZPs. Despite *ad-hoc* Committee meetings being held regularly, 3,427 Inspection Reports (IRs) consisting of 12,639 paragraphs were outstanding in various ZPs as of March 2011. During the year 2010-11, 2,710 paragraphs were cleared in 10 a*d-hoc* Committee meetings. Year-wise details of IRs and paragraphs outstanding in respect of all the ZPs are detailed in **Appendix 1.7.** Out of the IRs outstanding, 1,780 (52 *per cent*) IRs containing 4,357 (34 *per cent)* paragraphs were pending for more than five years, which highlighted the inadequate action of the CEOs in settlement of the objections.

## 1.12 Conclusion

No action was taken to revise the Activity Map even after eight years by the State Government. Evidently, there was no mechanism at the apex level to oversee the devolution of functions to PRIs. GPs did not initiate any steps/campaigns to ensure participatory planning in Ward Sabha/Grama Sabha meetings during 2006-11. Control over expenditure by ZPs was ineffective due to direct transfer of GOI funds to implementing agencies. Balances under suspense heads of accounts were not reconciled. Internal Control mechanism was weak as the instances of non- remittances of Government dues, statutory deductions and non submission of detailed accounts for the amounts drawn on AC bills were noticed.

# Chapter II

# Results of Audit of Panchayat Raj Institutions

# CHAPTER - II

# RESULTS OF AUDIT

# SECTION 'A' - PERFORMANCE REVIEW

# RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

## 2.1 District Rural Social Sector Audit


**Executive Summary**

With a view to improving the socio-economic conditions of the rural population, various centrally sponsored, central plan and state/district sector developmental programmes are implemented in the districts. A review of Rural Social Sector Audit of Tumkur and Koppal districts revealed that while no District Planning Committee was formed in Tumkur district, there was no vision for sectoral development in both the districts. Operational controls in implementation of rural social sector schemes were inadequate as evidenced by misappropriation of scheme funds, payment of wages on fictitious nominal muster rolls, increase in maternal mortality rate, lack of infrastructure facilities in elementary schools and health care units, abnormal delay in completion of water supply projects, *etc*. The monitoring and internal control mechanism was ineffective due to absence of internal audits, delay in preparation of monthly and annual accounts by Panchayat Raj Institutions.


### 2.1.1 Introduction

The important statistics on geographical area, population census and development index pertaining to Tumkur and Koppal districts are detailed in **Table 2.1** below:

**Table 2.1: Statistics pertaining to Tumkur and Koppal districts**

| Indicator | Unit | Tumkur | Koppal |
|---|---|---|---|
| Area | Square Kilometres | 10,598 | 8,458 |
| Population | In lakh | 26.81 | 13.89 |
| Rural population | Percentage | 77.52 | 83.15 |
| Taluk Panchayats (TPs) | In numbers | 10 | 04 |
| Grama Panchayats (GPs) | In numbers | 321 | 134 |
| Human development index | Rank | 15 | 24 |
| Gender development index | Rank | 15 | 24 |
| Health Index | Rank | 9 | 16 |
| Poverty level index | Rank | 20 | 24 |
| Education level index | Rank | 11 | 24 |
| Income level index | Rank | 22 | 14 |
| Gender ratio | 1,000 male | 979 | 983 |
| Poverty ratio | Percentage | 31.40 | 32.56 |
| Literacy | Percentage | 74.32 | 57.93 |

Source: Economic Survey 2010-11 and as furnished by the Departments.

## 2.1.2 Organisational structure

The Chief Executive Officers (CEO) of Zilla Panchayats (ZPs) monitor the developmental activities and schemes implemented by Panchayat Raj Institutions (PRIs) and through line departments. The CEO of the ZP is also responsible for reporting the progress of works to the State level officers of the concerned departments. The organisational structure of State/district level officers is given in **Table 2.2** below:

**Table 2.2: 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, MGNREGS, *etc.* | CEO assisted by Deputy Secretary, Chief Planning Officer (CPO), Chief Accounts Officer (CAO). Executive Engineer (EE) assisted by Assistant Executive Engineer in PRED | Executive Officer (EO) | GP Secretary/ Panchayat Development Officer (PDO) |
| Health and Family Welfare | Commissioner, Health and Family Welfare Services | District Health and Family Welfare Officer (DH&FWO) | Taluk Health Officer | - |
| Education | Commissioner for Public Instruction (CPI) | Deputy Directors of Public Instruction (DDPI) | Block Education Officers (BEO) | - |

Source: Administrative Reports of Departments

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

## 2.1.3 Scope of audit and methodology

The performance review of District Rural Social Sector Audit of Tumkur and Koppal districts for the period 2006-07 to 2010-11 was conducted (April to October 2011) by test-check of records of two ZPs[12], seven TPs[13], two GPs each[14] of test-checked TPs, selected through monetary unit and simple random sampling methods, respectively. Two Panchayat Raj Engineering Divisions[15] (PRED) and taluk/district level offices of line departments implementing rural social sector developmental programmes/schemes were also test-checked. The Entry Conference of the review was conducted with the CEO, ZP, Tumkur (April 2011) and Deputy Secretary of ZP, Koppal (May 2011) detailing the audit objectives, scope and methodology of audit. The Exit Conference was held with the CEO of the ZP, Tumkur and the Deputy Secretary of the ZP, Koppal during October/November 2011, who generally accepted the audit observations.

[12] Koppal and Tumkur

[13] Gubbi, Koppal, Koratagere, Kushtagi, Madhugiri, Pavagada and Turuvekere

[14] Gubbi (Ankasandra and G.Hosahalli), Koppal (Bisralli and Hatti), Koratagere (Budgavi and Kuramkote), Kushtagi (Dothihal and Hirebannigol), Madhugiri (Kaldevapura and Kavanadala), Pavagada (Vallur and Thirumani), and Turuvekere (Kondajji and Banasandra)

[15] PRED, Koppal and PRED, Madhugiri

### 2.1.4 Audit objectives

The audit objectives of the review were to assess:

- the effectiveness of decentralised planning process and governance in the districts;
- whether the benefits of rural social sector programmes/schemes have reached the targeted beneficiaries; and
- the existence of monitoring mechanism and internal control system.

### 2.1.5 Audit criteria

The source of audit criteria adopted for the performance review were:

- The Karnataka Panchayat Raj (KPR) Act;
- Guidelines of the test-checked rural social sector developmental programmes/schemes; and
- Government orders, instructions issued by Government of India (GOI)/State Government from time to time.

### 2.1.6 District planning

***2.1.6.1*** The State Government accorded (May 2006) approval for formation of District Planning Committee (DPC) in Tumkur district with the objective of preparing an integrated plan for the district by consolidating draft plans prepared by PRIs and Urban Local Bodies (ULBs). However, no DPC has been formed yet (October 2011), indicating the lackadaisical attitude of the State Government in ensuring formation of DPC in time. The State Government stated (November 2011) that due to non-conducting of elections to ULBs, members could not be nominated.

In Koppal district, the DPC was formed during October 2001 but it has held only six meetings since inception. The last meeting was held during December 2008. The CPO of the ZP, Koppal stated (October 2011) that preparation of the District Development Plan (DDP) was entrusted (May 2011) to Karnatak University, Dharwad. However, this was in contravention of the instructions of the State Government (April 2011) wherein it was ordered only to avail of the services of technical agencies while preparing the DDP. Evidently, the entrustment of work of preparation of the DDP to an external agency defeated the very purpose of constitution of the DPC.

#### *2.1.6.2 Delay in preparation of perspective plans*

**District Planning Committee did not visualise perspective development of the districts**

According to the guidelines issued by the State Government (April 2001), the DPC was to prepare at least once in five years, a perspective plan for the development of the district defining the goals of development in each sector *viz.,* Agriculture, Health and Sanitation, Education, Rural Development, *etc.* and outlining the strategy to be followed for the development of each sector with reference to the local conditions. The perspective plan should contain a set of projects for comprehensive development of the District for 10-15 years. However, the Comprehensive District Development Plans (CDDP) were prepared (May 2010-Tumkur/January 2012-Koppal) after a delay of three to five years from the commencement of the eleventh five year plan period (2007-12). Due to delay in preparation of the perspective plan, the DPC could not foresee the perspective development of the district during the initial year of the eleventh five year plan period.

The State Government had also decided (April 2001) to prepare a Development Perspective Plan (DPP) of all the districts in the State for the next 18-20 years *i.e.,* up to the year 2020. In order to avoid anarchic planning, the DPCs were to lead in preparation of the DPP considering the felt needs of the people and local resources and identify the gravity of development gaps and problems in each sector. The DPCs were to prioritise a shelf of integrated schemes in a scientific and participatory manner and implement these schemes by including them in Five Year Plans and Annual Plans by the Local Bodies, Boards and Corporations. However, the DPCs had not visualised such a DPP for the test-checked districts and the State Government had neither fixed any target date nor initiated follow-up action to ensure its preparation (October 2011).

#### *2.1.6.3 Non-formulation of district vision*

In the State workshop held during November 2003, it was decided to constitute sectoral sub-committees consisting of the members of the DPC to discuss the themes for development of each sector for inclusion in the draft sectoral vision document. However, it was noticed that though five sectoral sub-committees were formed (January 2004), the vision document had not been prepared (October 2011) in Koppal district. In the absence of DPC in Tumkur district, sectoral sub-committees were not formed (October 2011).

### 2.1.7 Decentralised governance

***2.1.7.1*** The State Government, with an intention to strengthen the independent functioning of PRIs, issued (August 2003) an Activity Map indicating the redistribution of functions specified among the PRIs. It had transferred 26 subjects out of 29 and 66 out of the 726 functions were yet to be distributed amongst PRIs. However, the State Government did not review the devolution of activities and their functions to PRIs thereafter.

#### *2.1.7.2 Functioning of Standing Committees*

The ZP was to meet once in two months for finalisation of Annual Action Plan (AAP), approval of budget, monitoring of ongoing works, *etc.* However, the ZP, Koppal held only two meetings during the year 2010-11. Deliberations during these meetings were limited to *post facto* sanction of works, allotment of shops, progress of works, *etc.*

Similarly, in test-checked TPs of Koppal, only four meetings were held during 2010-11. Interestingly, during this period, no meetings were held in any of the test-checked GPs of Koppal district.

In Koppal ZP, though the Standing Committees were constituted during 2005, only 10 meetings were held by each Committee during the last five years. Scrutiny of proceedings of the Standing Committees revealed that the Action Taken Reports on the previous meetings were not adequately deliberated upon to resolve issues.

***2.1.7.3*** The KPR Act also envisaged convening Grama Sabhas to meet twice in a year to discuss the accounts of the previous year along with the audit report thereon, identify works for the AAP, prioritise works based on necessity and monitor the ongoing works of GPs. However, the Grama Sabhas did not conduct any meeting during the review period.

## 2.1.8 Financial position

### *2.1.8.1 Resources and application of funds*

The details of funds available and expenditure incurred in Tumkur and Koppal districts for rural social sector developmental programmes/schemes during the years 2006-07 to 2010-11 are shown in **Table 2.3** below:

**Table 2.3: Fund availability and expenditure**

**(₹ in crore)**

| Year | Fund availability | | Expenditure | |
|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal |
| 2006-07 | 616.52 | 338.02 | 553.23 | 228.03 |
| 2007-08 | 632.58 | 348.43 | 602.86 | 239.84 |
| 2008-09 | 797.73 | 415.68 | 686.91 | 279.45 |
| 2009-10* | 1,059.58 | 423.86 | 746.92 | 254.00 |
| 2010-11* | 870.78 | 580.78 | 774.65 | 331.20 |

Source: Annual accounts of ZPs and TPs. Figures for GPs as furnished by the State Accounts Department (SAD) up to the year 2008-09;
* Figures for the years 2009-11 in respect of GPs were not furnished

Audit observed that the fund availability increased over the years but the expenditure did not increase proportionately. The drawing and disbursing officers of Tumkur and Koppal districts did not fully utilise the funds available during the years 2006-11, resulting in lapse of State grants and depriving the districts of the benefits of developmental programmes.

### *2.1.8.2 Fund flow mechanism for flagship rural social sector schemes*

The fund flow mechanism to the implementing agencies from GOI and the State Government for important social sector schemes in the districts is shown in **Table 1.4.**

***2.1.8.3*** In addition to their own resources, funds are allocated to the PRIs through the State budget as well as directly released by GOI as grants towards various socio-economic and developmental schemes like District Rural Development Agency, MGNREGS, *etc.* The funds available and expenditure incurred under various developmental programmes/schemes in Tumkur and

Koppal districts during 2006-07 to 2010-11 is given in **Table 2.4** below:

**Table 2.4: Funds availability and expenditure incurred for important rural development programmes in Tumkur and Koppal District**

**(₹ in crore)**

| Scheme | District | 2006-07 | | 2007-08 | | 2008-09 | | 2009-10 | | 2010-11 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FA | Ex | FA | Ex | FA | Ex | FA | Ex | FA | Ex |
| MGNREGS | Tumkur | - | - | - | - | 4.48 | 0.81 | 146.87 | 176.43 | 152.21 | 159.98 |
| | Koppal | - | - | 0.68 | 0.01 | 88.23 | 4.07 | 94.24 | 85.79 | 64.82 | 64.62 |
| IAY | Tumkur | 9.08 | 3.21 | 16.25 | 6.19 | 33.19 | 11.25 | 49.08 | 31.81 | 55.83 | 26.49 |
| | Koppal | 7.50 | 5.66 | 9.76 | 3.79 | 26.41 | 10.04 | 37.58 | 27.27 | 32.49 | 24.23 |
| Scholarship (SC/ST) | Tumkur | NF | NF | 11.49 | 11.49 | 8.49 | 8.18 | 5.61 | 8.41 | 11.27 | 10.01 |
| | Koppal | 1.39 | 1.36 | 1.96 | 1.62 | 1.80 | 1.74 | 2.02 | 2.00 | 2.59 | 2.47 |
| Scholarship (OBC) | Tumkur | 0.37 | 0.37 | 0.40 | 0.39 | 0.45 | 0.45 | 0.57 | 0.57 | 0.62 | 0.62 |
| | Koppal | 0.10 | 0.10 | 0.16 | 0.15 | 0.24 | 0.24 | 0.60 | 0.60 | 0.47 | 0.47 |
| ICDS | Tumkur | 11.60 | 9.01 | 12.20 | 10.47 | 16.81 | 13.93 | 20.90 | 15.15 | 21.93 | 16.53 |
| | Koppal | 4.43 | 4.43 | 5.40 | 5.70 | 7.69 | 7.69 | 11.31 | 9.75 | 10.03 | 10.25 |
| SSA | Tumkur | 31.22 | 31.00 | 32.49 | 31.79 | 35.23 | 33.18 | 38.31 | 35.92 | 44.56 | 43.55 |
| | Koppal | 2.80 | 2.80 | 2.80 | 2.43 | 2.84 | 2.84 | 2.84 | 2.84 | 2.84 | 2.84 |
| TFC | Tumkur | 11.25 | 10.21 | 11.25 | 5.32 | 11.25 | 8,42 | 11.25 | 16.17 | 13.16 | 2.76 |
| | Koppal | 8.18 | 4.98 | 8.26 | 4.10 | 9.24 | 3.38 | 10.93 | 5.36 | 7.82 | 6.20 |
| TSC | Tumkur | 6.53 | 3.24 | 2.96 | 1.96 | 2.35 | 1.02 | 1.24 | 0.45 | 5.93 | 4.48 |
| | Koppal | 2.59 | 1.13 | 2.10 | 0.88 | 6.70 | 0.72 | 6.15 | 3.55 | 3.01 | 2.42 |
| SGSY | Tumkur | 3.89 | 2.89 | 6.44 | 5.07 | 7.09 | 5.48 | 9.35 | 6.45 | 7.61 | 9.26 |
| | Koppal | 3.12 | 2.36 | 5 .31 | 3.82 | 6.61 | 5.32 | 7.49 | 4.63 | 6.79 | 6.78 |
| NRHM | Tumkur | 2.52 | 1.95 | 6.75 | 5.49 | 13.90 | 11.83 | 19.61 | 14.05 | 19.77 | 17.00 |
| | Koppal | NA | NA | 3.83 | 2.89 | 12.65 | 7.69 | 6.43 | 10.80 | 11.88 | 11.73 |

Source: Annual Accounts of ZPs, TPs and GPs; NF: Not furnished

IAY: Indira Awaas Yojana, SC/ST: Scheduled Caste/Scheduled Tribe, OBC: Other Backward Classes, ICDS: Integrated Child Development Scheme, TFC: Twelfth Finance Commission, TSC: Total Sanitation Campaign, SGSY: Swarnajayanthi Gram Swarozgar Yojana, FA: Fund availability, Ex: Expenditure

It is observed from the table above that the expenditure was in excess of fund availability under MGNREGS Scheme during 2009-11 in Tumkur district. This was due to incorrect reporting of expenditure on labour and material by GPs in the Management Information System (MIS) even before actual payment. This incorrect reporting in MIS was also not monitored at higher levels. This is a serious deficiency in the monitoring mechanism and is also a misrepresentation of the status of implementation of the Scheme.

The shortfall seen in the utilisation of funds under the IAY was due to non-release of grants to the beneficiaries for not contributing their share.

## 2.1.9 Implementation of Rural Social Sector Schemes

### *2.1.9.1 Mahatma Gandhi National Rural Employment Guarantee Scheme*

The primary objective of the Scheme was to enhance livelihood security in rural areas by providing 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.

The District Programme Coordinator (DPr.C) at district level and the Programme Officers (POs) at the taluk and village levels were responsible for the Scheme implementation. The Director, MGNREGS under the control of the Principal Secretary, RDPR Department, was to monitor the Scheme at the State level.

Audit findings are detailed in succeeding paragraphs:

***(I) Planning process***

***(a) District Perspective Plan***

Planning is critical to the successful implementation of the Scheme. The basic aim of the planning process is to ensure that the District is prepared to offer productive employment on demand.

Perspective Plan for the Scheme prepared by ZP, Tumkur, was not made available to Audit. While GOI had released ₹10 lakh (2007-08) under the Scheme for Information, Education and Communication (IEC) activities to the CEO of ZP, Tumkur for preparation of perspective plan, only ₹ one lakh was utilised. The task of preparation of perspective plan for the Scheme pertaining to ZP, Koppal was entrusted (May 2011) to the Karnatak University. Non-preparation of perspective plans indicated lack of seriousness and the apathy of the district administration towards the Scheme.

***(b) Preparation of Action Plan***

As per the Scheme guidelines, the Grama Sabhas were to meet on 2nd October every year for discussing the need-based works and to suggest the prioritised works to the GPs within 15 days. The GPs were to further consolidate the suggestions received from the Grama Sabhas and approve the AAPs and transmit them to the EOs of TPs by 15th November every year. However, it was observed that the test-checked GPs prepared the AAPs without conducting any Grama Sabhas. There was no effort to ensure that the approved AAPs were need-based.

All works included in the approved AAPs were not executed for the year 2008-09 in any of the test-checked GPs of Koppal ZP due to delay in release of funds by the EOs of TPs. As a result, only five *per cent* of the funds could be utilised as detailed under **Table 2.6**. There were also cases of execution of works not included in the AAPs in test-checked GPs of Koppal ZP.

***(c) Mandays generation***

The details of mandays generated during the years 2009-11 in test-checked districts are as shown in **Table 2.5** below:

**Table 2.5: Statement showing mandays generated in test-checked districts during the years 2009-11**

**(Figures in lakh)**

| Year | Number of job cards issued to households | | Number of households who demanded employment | | Number of households provided employment | | Mandays projected/ generated | | Number of households provided with 100 days of employment | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal |
| 2009-10 | 4.11 | 2.08 | 2.57 | 1.48 | 2.50 | 1.46 | 411.00/ 152.47 | 208.00/ 102.25 | 0.47 | 0.59 |
| 2010-11 | 2.59 | 2.15 | 1.28 | 1.33 | 1.25 | 0.85 | 259.00/ 58.61 | 215.00/ 47.64 | 0.06 | 0.15 |

Source: MIS Reports.

It could be seen from the table above that in Tumkur district, the number of households provided with 100 days of employment was a meagre 18 *per cent* and five *per cent* during 2009-10 and 2010-11 respectively, as against the number of households which had demanded employment. There was a substantial shortfall in the mandays generated during the years 2009-10 and 2010-11 which indicated unrealistic preparation of labour budget. It was therefore, clear that the DPr.Cs and POs did not initiate the plan process appropriately to generate employment even to the households who demanded employment. It is also possible that employment was generated, but availed of by ineligible people, as brought out in succeeding ***paragraph 2.1.9.1 (III) (a)***.

***(II) Financial Performance***

***(a)*** The Financial position of fund availability and expenditure incurred under the Scheme during the years 2008-09 to 2010-11 is given in **Table 2.6** below:

**Table 2.6: Statement showing fund availability and expenditure incurred in test-checked districts during 2008-11**

**(₹ In crore)**

| Year | Fund availability* | | Expenditure | | Percentage of excess(+)/ shortfall(-) | |
|---|---|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal |
| 2008-09 | 4.48 | 88.23 | 0.81 | 4.07 | (-)81.92 | (-)95.39 |
| 2009-10 | 146.87 | 94.24 | 176.43 | 85.79 | (+)20.13 | (-)08.97 |
| 2010-11 | 152.21 | 64.82 | 159.98 | 64.62 | (+)05.10 | (-)00.31 |

Source: As furnished by the ZPs, Tumkur and Koppal *Includes opening balance

It is observed from the table above that there was excess utilisation of funds in Tumkur district during 2009-11. This was due to incorrect reporting of expenditure in MIS by the GPs without actually incurring it, as detailed in **Appendix 2.1**. In Koppal district, the application of funds was very meagre during 2008-09 which was due to release of funds during the end of the year by the State Government.

***(b) Irregularities in utilisation of Scheme funds***

***(i)*** The EOs of TPs of ZP, Koppal had incurred an expenditure of ₹2.19 crore on purchase of iron display boards and multi-coloured wall calendars under the Scheme during 2009-11.

Audit scrutiny revealed that the EOs of TPs procured these items without inviting tenders and without approved action plans. Though the materials were taken to stock in GPs test-checked, details of issue of these materials were not produced to Audit as there were no stock/issue registers in these GPs. The calendars printed for the financial year 2010-11 were not distributed till date (October 2011), thereby rendering the expenditure wasteful. Similarly, the iron display boards were also not put to use till date (October 2011), resulting in unfruitful expenditure.

Thus, irregular purchase by the EOs of TPs without the sanction inviting tenders and non-utilisation of the material by the concerned GPs resulted in wasteful/unfruitful expenditure of Scheme funds worth ₹2.19crore. The CEO, ZP, Koppal replied (November 2011) that action would be initiated for detailed investigation.

***(ii)*** The CEO of ZP, Tumkur released an amount of ₹7.50 lakh (March 2010) to KEONICS for installing a multi party audio and conferencing location software in the ZP office in order to interact with all the departmental officers and secretaries of the GPs. The software had not been installed (October 2011), rendering the expenditure unfruitful.

***(iii)*** Contrary to the Scheme guidelines, during the years 2007-10, the CEO of the ZP, Tumkur appropriated funds of ₹35.85 lakh allocated for the purpose of IEC activities under the Scheme and released it to the EOs of TPs for execution of works. As a result, creating awareness amongst the rural population, capacity building for the functionaries, *etc.,* suffered.

***(iv)*** For the purpose of asset management under the Scheme, the CEO of ZP, Tumkur released (October 2010) a sum of ₹30 lakh to Nirmithi Kendra as advance payment towards capturing the photographs of the assets created by using Global Positioning System software. The items of work included survey, inventory of assets, status of assets created, *etc.,* for future reference. The work had not commenced (October 2011), thereby blocking Scheme funds for more than a year. Besides, the ZP had no comprehensive list of its assets.

***(v)*** The CEO of ZP, Koppal released a sum of ₹68.33 crore during 2008-10 to the Koppal Head Post Office for distribution of wages to the labourers engaged in the works executed under the Scheme. However, the Head Post Master furnished expenditure details for ₹69.91 crore which was more than the funds released. This was due to the failure of the CEO of the ZP to monitor the funds released and reconcile the expenditure periodically.

***(III) Scheme implementation***

***(a) Misappropriation of Scheme funds***

**Internal control failure resulted in misappropriation of Scheme funds of ₹57.53 lakh and payment of ₹1.44 crore on fictitious NMRs**

**The Scheme guidelines stipulated that wages for the labourers should be paid through banks or post offices. To avoid use of large number of cheques, a pay order or wage credit advice had to be generated in favour of a group of labourers as per the Nominal Muster Roll (NMR) and addressed to the Branch Manager of the bank/Post Master of the post office for crediting the amount shown against each labourer to his account. Further, the guidelines also stipulated that details of wages paid through the banks/post office network should be made public to maintain transparency as envisaged in the Act.**

**Audit scrutiny of records in three test-checked[16] GPs revealed the following:**

**The bank accounts indicated in wage credit advices sent to Banks for payment and the bank accounts reflected in NMRs (manual/MIS generated) differed in test-checked cases. The differences amounted to ₹57.53 lakh in test-checked works costing ₹71.54 lakh during the year 2010-11. The President and the Secretary of these GPs failed to verify the correctness of wage payments as per NMRs and issued wage credit advice in a routine manner. Since payments were made to unauthorised persons, the possibility of the implementing authorities having nexus with them cannot be ruled out.**

[16] Kavanadala GP of Madhugiri Taluk, Thirumani and Vallur of Pavagada Taluk

**(b) *Fictitious Nominal Muster Rolls***

**As per the Scheme guidelines, the Secretary/PDO of GPs should inform the PO for issue of the required number of NMRs for recording the attendance of labourers employed in the works taken up for execution. Each NMR would possess a unique identity number and was to be certified by the PO on issue to the Implementing Officers. However, on test-check of the records of two GPs[17] the following discrepancies were observed:**

- **The PO of TP, Kushtagi issued 2,040 NMRs (June 2008 to October 2009) to the Secretary, Hirebannigol GP, of which only 526 NMRs were utilised for the works taken up. While the remaining 1,514 NMRs were available, the Secretary of the GP utilised 615 NMRs which were not authenticated and issued by the PO. Labour payment of ` 92.26 lakh based on these NMRs not issued by the PO was made by PDO/Secretary of the GP.**

- **Similarly, the PO of TP, Kushtagi issued 990 NMRs (June 2008 to June 2009), to the Secretary of the GP, Dothihal, of which only 209 NMRs were utilised. Out of a total of 655 NMRs utilised for the works executed during 2009-10, only 206 NMRs were genuine and the remaining 449 NMRs were not issued by the PO and payment of ` 51.79 lakh was made by the PDO/Secretary of the GP based on these NMRs.**

- **Fifty seven works *viz.,* land development in individual farmers' land reported to have been executed in Dothihal GP as per these NMRs as well as NMRs issued by POs without the name of the farmer, survey number, copy of record of rights, check measurement in measurement books, *etc.*, were therefore doubtful.**

**The following internal control lapses led to misappropriation of Scheme funds and payment of wages on fictitious NMRs:**

- **The mandatory forms[18] prescribed under the Scheme guidelines were either not maintained or were incomplete. As a result, the authenticity of labourers employed as per NMRs could not be verified;**

- **The GPs had not maintained work registers;**

- **The EOs of TPs had not inspected all the Scheme works and failed to analyse the data as submitted by the GPs. They also failed to ensure the receipt of entitlements by eligible beneficiaries;**

- **Progress report of ongoing works was not maintained in the test-checked GPs;**

- **Expenditure figures as per bank/post office pass books and the cash books of GPs for the Scheme were not reconciled;**

[17] Dothihal and Hirebannigol

[18] Form 1-Application for Registration for employment; Form 2- Register of Applications; Form 3-Register of job seekers; Form 4-Details of employment provided and wages paid; Form 5 -Household job card issue register; Form 6 -Application for work; Form 7- Employment demand register; Form 8 -Notice for reporting for work; Form 9 -Public notice of intimation to report for work.

- **Works executed were not as per the approved AAPs;**
- **The NMRs were without the signatures/thumb impression of 649 beneficiaries; and**
- **District Quality Monitors (DQMs) for verifying the quality of work executed were not identified in Koppal ZP. The CEO of Tumkur ZP did not provide details of DQMs identified and quality audits conducted by them.**

**Thus, the failure of control procedures by the Presidents and Secretaries of GPs and lack of supervisory control by the EOs of TPs resulted in diversion of Scheme funds amounting to ₹57.53 lakh to individual bank accounts of unauthorised persons. Further, the payment of wages of ₹1.44 crore on fictitious NMRs being irregular, execution of works was also doubtful. The matter calls for detailed investigation.**

### *2.1.9.2 National Rural Health Mission*

Government of India launched (April 2005) National Rural Health Mission (NRHM) to bridge gaps in healthcare facilities in the rural sector. Its main objectives were to provide accessible, affordable, accountable, effective and reliable healthcare facilities in rural areas with community participation. The goals of the Mission were to reduce Maternal Mortality Rate[19] (MMR), Infant Mortality Rate[20] (IMR), enhance Total Fertility Rate, universal access to public health services, prevention and control of communicable and non-communicable diseases, institutional deliveries, safe deliveries, immunisation, *etc.*

#### *(I) Organisational structure*

Organisational set-up of NRHM indicating the involvement of PRIs and their responsibilities are detailed below:

| Level | Agency | Involvement of PRIs | Responsibilities |
|---|---|---|---|
| State | State Health Society (SHS) | Two Presidents each from all the three tiers of PRIs are the nominated members. The CEOs of the ZPs are the official representatives | Planning, implementing, monitoring and evaluation of NRHM at State level. Monitors the fund flow for implementation of the Scheme |
| District | District Health Society (DHS) | The CEO of the ZP is the President of the Society and the DH&FWO is the member secretary | Participate in planning and implementation of the Scheme at the district level. Monitor the fund flow for the Scheme |
| Block/ Taluk | Arogya Raksha Samithis/Block Health Monitoring Committee (BHMC) | The President of the TP is the Chairperson, the EO of the TP is the Convenor of the Samithi and the ZP members representing the taluks are members | Planning and implementation of the Scheme at block/taluk level |
| Grama/ village | Health Advisory Committees | Presidents of the GPs and the ZP members are the members of the Committee | Preparation of village health plan by discussing the health issues at Grama Sabha. Reviews the implementation of the Scheme at village level |
| | Village Health and Sanitation Committees (VHSC) | Presidents of the GPs are the Chairmen and Secretaries of the GPs are the members | |

Source: Scheme guidelines and as furnished by department

The State Government approved (December 2005) formation of a DHS in all districts. However, the DHS were formed only during June 2006 and January 2008 in Tumkur and Koppal districts, respectively. The DH&FWO was responsible for implementation of the Scheme at the district level till the

[19] The number of maternal deaths per one lakh live births
[20] The number of infant deaths to 1,000 live births

society was formed. As per the guidelines, the society had to meet once in a month for devolution of funds and monitoring the implementation of the strategies under NRHM. The shortfall in conducting meetings was as shown in **Table 2.7** below:

**Table 2.7: Details of meetings held by the Society**

| Year | Number of meetings conducted | | Percentage of shortfall | |
|---|---|---|---|---|
| | Koppal | Tumkur | Koppal | Tumkur |
| 2006-07 | Nil | 2 | 100 | 83 |
| 2007-08 | 2 | 4 | 83 | 67 |
| 2008-09 | 9 | 12 | 25 | - |
| 2009-10 | 6 | 9 | 50 | 25 |
| 2010-11 | 12 | 7 | - | 42 |

Source: As furnished by the DHS, Tumkur and Koppal

It is seen from the table above that the shortfall in conducting meetings ranged from 25 to 100 *per cent.* As a result, there were shortcomings in implementation of the Scheme as discussed in succeeding paragraphs.

***(II) Planning***

National Rural Health Mission envisaged participation of representatives of PRIs in planning at village level through VHSC, at taluk level through BHMC and at district level through DHS.

Audit observed that VHSCs had not met in six[21] test-checked Primary Health Centres (PHCs) at village level (March 2011). Though the BHMCs were constituted in Koppal (2008-09) and in Tumkur (2010-11), none of them was functioning as of September 2011. Non-functioning of these committees resulted in non-utilisation of earmarked funds for addressing local issues as discussed in paragraph below. The DH&FWO, Tumkur replied (October 2011) that VHSCs were not functioning due to absenteeism of members of VHSC and Accredited Social Health Activist (ASHA) and assured that the issue would be reviewed and action taken for effective functioning.

***(III)Financial Position***

The financial position of NRHM in the test-checked districts is shown in **Table 2.8** below:

**Table 2.8: Funds position of NRHM in test-checked districts**

**(₹ in crore)**

| Year | Opening balance | | Funds received | | Expenditure | | Unspent balance | |
|---|---|---|---|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal |
| 2006-07 | 0.06 | Nil | 2.47 | Nil | 1.95 | Nil | 0.58 | Nil |
| 2007-08 | 0.58 | Nil | 6.18 | 3.83 | 5.50 | 2.89 | 1.26 | 0.94 |
| 2008-09 | 1.26* | 0.94 | 16.65 | 12.65 | 11.84 | 7.69 | 6.07 | 5.90 |
| 2009-10 | 5.11* | 5.90 | 14.51 | 6.43 | 14.06 | 10.80 | 5.56 | 1.53 |
| 2010-11 | 5.07* | 1.53 | 14.70 | 11.88 | 17.00 | 11.36 | 2.77 | 2.05 |

Source: As furnished by DHS, NRHM, Tumkur and Koppal

* Difference between opening and unspent balance is due to refunds.

It was observed that the DHS, Tumkur refunded ₹1.49 crore to the SHS during

[21] Thovinakere, Yelarampura (Koratagere taluk), Vallur (Pavagada taluk) Bhagyanagar, Irkalgudu (Koppal) and Bevur (Yelburga)

the years 2008-11 due to non-utilisation of funds mainly from the untied grants allocated. Similarly, a sum of ₹14.62 lakh was refunded by DHS, Koppal during the year 2008-10. This indicated that the resources for community action at the local level were not fully utilised.

It was also observed that a sum of ₹27.37 lakh was pending utilisation with the VHSCs of Tumkur district as of March 2011. On an enquiry, it was replied (October 2011) by the DHS, Tumkur that the funds remained unutilised due to non-availability of ASHA workers, delay in training these workers, *etc.*

***(IV) Implementation of the Scheme***

Deficiencies in delivery of health services under the Scheme are discussed below:

***(i)* Infant Mortality Rate**

Infant mortality is considered as the most sensitive indicator for a nation's socio-economic development and also of the public health services.

Year-wise details of IMR in test-checked districts are given in **Table 2.9** below:

**Table 2.9: Year-wise details of IMR**

| Year | IMR | |
|---|---|---|
| | Tumkur | Koppal |
| 2006-07 | 18.54 | 27.09 |
| 2007-08 | 20.27 | 27.05 |
| 2008-09 | 18.41 | 27.97 |
| 2009-10 | 18.10 | 24.44 |
| 2010-11 | 17.61 | 25.26 |

Source: As furnished by the department

Though there has been an overall decrease in IMR in both districts, the decrease was not significant and not stable, as IMR in Koppal increased in 2010-11 as compared to the previous year and similarly in Tumkur in 2007-08. Reasons for the increasing trend were mainly due to shortfall in institutional deliveries and non-provision of timely financial assistance to the expecting mothers as discussed in subsequent paragraphs.

***(ii)* Maternal Mortality Rate**

***(a)*** Year-wise details of MMR in test-checked districts are given in **Table 2.10** below:

**Table 2.10: Year-wise details of MMR**

| Year | MMR | |
|---|---|---|
| | Tumkur | Koppal |
| 2006-07 | 99.55 | 155.63 |
| 2007-08 | 143.28 | 151.61 |
| 2008-09 | 105.68 | 113.14 |
| 2009-10 | 119.21 | 157.24 |
| 2010-11 | 142.27 | 208.84 |

Source: As furnished by the Department

It could be seen from the table above that in Tumkur and Koppal districts, the MMR showed an increasing trend. In spite of a Committee headed by the Deputy Commissioner and the CEOs of ZPs inquiring into the reasons for the cause of death/deficiency in service delivery, the MMRs were alarming. The maternal death were mainly due to anaemia, hypertension, non-availability of blood banks to administer blood, absence of doctor and staff nurse in PHCs at the time of delivery, *etc*. Despite this Scheme, the districts were unable to ensure and provide safe delivery and post partum facilities to the mothers.

***(b)*** State Government introduced "Prasuthi Araike" in 2008 for women from BPL families to encourage rest, provide nutritious food and medical care during first and second live births. Under the Scheme, ₹2,000 was to be provided to the pregnant women in two instalments, one during the second trimester of pregnancy and the other within 48 hours of delivery at any Government hospital. Scrutiny of records of two PHCs[22] of Koratagere taluk revealed that the Medical Officers (MO) of these PHCs failed to provide financial assistance at the prescribed intervals. It was also noticed that payments were made to women long after the date of delivery, ranging from one to six months, thereby defeating the very purpose of the Scheme. The DH&FWO, Tumkur replied (October 2011) that due to belated release of funds by the State Government, the second instalment of financial assistance could not be provided in time.

***(iii) Institutional deliveries***

In order to reduce maternal deaths, the Scheme provides for encouraging institutional deliveries by creating awareness among the rural poor. Details of institutional deliveries when compared to the total deliveries in the test-checked districts are given in **Table 2.11** below:

**Table 2.11: Details of institutional deliveries**

| Year | Total Number of deliveries | | Number of institutional deliveries | | Percentage of shortfall | |
|---|---|---|---|---|---|---|
| | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur |
| 2009-10 | 29,949 | 40,094 | 24,808 | 38,413 | 17 | 4 |
| 2010-11 | 27,439 | 38,796 | 24,292 | 37,857 | 11 | 2 |

Source: As furnished by the Department

Though *cent per cent* objective could not be fulfilled, the reduction in percentage of shortfall during 2010-11 when compared to previous year was due to the active involvement of ASHA workers.

***(iv) National Vector Borne Diseases Control Programme***

The main objective of the programme was to control and eradicate vector borne diseases such as malaria, filaria, dengue, *etc*. The cases of dengue reported in test-checked ZPs are detailed in **Table 2.12** below:

**Table 2.12: Details of dengue cases**

| Year | Koppal | Tumkur |
|---|---|---|
| 2008 | 0 | 21 |
| 2009 | 7 | 37 |
| 2010 | 44 | 109 |
| 2011 | 7 (as of August 2011) | 7 (as of October 2011) |

Source: As furnished by the Department

It could be observed from the table above that the dengue cases showed an increasing trend, indicating that the eradication of vector borne diseases remained a distant objective.

[22] Thovinakere PHC (17 cases) - ₹0.17 lakh and Yelarampura PHC (54 cases) - ₹0.54 lakh

***(v) Strengthening of infrastructure***

***(a)*** National Rural Health Mission stipulates creation of new infrastructure/building for health centres and strengthening of the existing ones for improving accessibility and quality of healthcare delivery services.

A district hospital should have, *inter alia*, blood bank, critical care area, obstetrics and gynaecology unit, psychiatry unit, delivery suite unit, trauma centre, dermatology and venereology units, *etc.* A PHC should have communication facility, kitchen, and nurses' room. However, these facilities were not available (September 2011) in the district hospitals and PHCs test-checked in the districts. While, DH&FWO of Tumkur District replied (October 2011) that these facilities could not be provided from out of untied grants, the district surgeon of Koppal district stated (November 2011) that due to non-availability of these facilities, cases were referred to other hospitals. The reply of DH&FWO, Tumkur could not be accepted since untied funds were returned to SHS unutilised as discussed in ***paragraph.2.1.9.2(III)***. Evidently, the envisaged healthcare facilities were not provided despite availability of sufficient funds under the Scheme.

***(b) Shortfall in creation of Community Health Centres (CHCs) and PHCs***

National Rural Health Mission envisaged creation of one PHC for every 30,000 and one CHC for every 1.20 lakh population. Details of PHCs/CHCs established in test-checked districts are shown in **Table 2.13** below:

**Table 2.13: Details of PHCs/CHCs in test-checked districts**

| Name of the district | Total rural population (in lakh) | Number of centres to be established | | Actually established | | Shortfall (-)/ Excess (+) | |
|---|---|---|---|---|---|---|---|
| | | PHC | CHC | PHC | CHC | PHC | CHC |
| Tumkur | 20.78 | 70 | 17 | 141 | 4 | (+)71 | (-)13 |
| Koppal | 11.55 | 39 | 09 | 42 | 9 | (+)03 | Nil |

Source: As furnished by the Department

It could be seen from the table above that there was shortfall of CHCs in Tumkur district, indicating non-availability of specialised services. However, it is creditable that against 70 PHCs to be set up, 141 have been established, thereby increasing accessibility to basic and emergency health services.

***(c)*** Under the Scheme, 131 PHCs and four CHCs procured (2009-10) bio-metric machines at a cost of ₹20,000 each to check attendance of staff. In all the PHCs and CHCs of Tumkur district, it was observed that the bio-metric machines were not being put to use due to repairs of these machines after installation. The expenditure of ₹27 lakh was, therefore, rendered unfruitful, defeating the purpose of purchase of these machines. It was replied by DH&FWO (October 2011) that these machines were under maintenance.

***(V) Human Resource Management***

Under NRHM, ASHA is an important village level functionary. She acts as bridge between Auxiliary Nursing Midwife (ANM) and villagers and promotes universal immunisation, health care delivery programmes, *etc.* There was a requirement of 1,074 and 2,150 ASHAs in Koppal and Tumkur districts based on rural population, against which 802 and 1,785 ASHAs, respectively were working as of September 2011.

Similarly, while there was shortage of 44 *per cent* of MOs and 23 *per cent of* para-medical staff in CHCs and district hospital in Koppal district, there was shortage of 24 *per cent* of MOs and 31 *per cent* of para-medical staff in Tumkur district. It was replied (September 2011) by DH&FWO of Tumkur district that as the State Government did not accord approval for selection of ASHAs and MOs/para-medical staff, the vacancies could not be filled up. The shortfall in manpower hindered delivery of healthcare services to rural population as discussed in earlier ***paragraphs 2.1.9.2 (IV) (i) to (iv)***.

***(VI) Monitoring and evaluation***

***(i)*** National Rural Health Mission envisaged formation of task group in each district for examining the new health financing mechanism of reimbursement of hospital bills for services rendered and to streamline the healthcare services. Audit observed that no such task force was formed, defeating the objective of implementing new health financing mechanism under NRHM.

***(ii)*** National Rural Health Mission also envisaged external evaluation/social audit through professional bodies/NGOs, mid-term course reviews and appropriate correction. However, neither any external evaluation nor mid-term course review was conducted in the test-checked districts to improve the implementation of the Scheme.

### *2.1.9.3 Implementation of Sarva Shiksha Abhiyan*

Government of India launched (January 2001) Sarva Shiksha Abhiyan (SSA) to achieve universalisation of elementary education by 2010 in a time-bound manner for all children in the age group of 6 to 14 years. SSA emphasises on bringing out-of-school children into mainstream education through innovative activities, opening of Education Guarantee Centres/Alternative Innovative Education for inaccessible habitations and inclusive education for children with special needs by involving PRIs/SDMCs/Non-Governmental Organisations (NGOs). SSA in the State is implemented through "Sarva Shiksha Abhiyan Samithi – Karnataka", a Society established during January 2001.

***(I) Organisational structure***

Organisational set-up of SSA indicating the involvement of PRIs at all levels and their responsibilities are detailed below:

| Level | Committee | Involvement of PRIs | Responsibilities |
|---|---|---|---|
| State | Executive Committee | Principal Secretary to Government of Karnataka, Department of Primary and Secondary Education is the Chairman, Secretaries of these departments are members and the State Project Director (SPD) is the member secretary | Overall monitoring and implementation of the Scheme at State level |
| District | District Implementation Committee | The President of the ZP is the President of the Committee, the CEO of the ZP is the working President assisted by DDPI and District Programme Officer (DPO) as working members of the committee | Planning, release of funds and monitoring the progress in implementation of the Scheme |
| Block/ Taluk | Block Implementation Committee | The President of the TP is the President of the Committee, the BEO is the member secretary assisted by other members of the TP | Preparation and approval of block level plans, monitoring of fund flow and supervision of Scheme implementation |
| Grama/ village | SDMC | President selected from the elected members (parents of the school children), Head Master of the School is the Member Secretary, and other members include Health Activist, Anganwadi teachers, Self Help Groups, Education expert, parents, *etc.* | Monitoring the physical and financial progress of works implemented under the Scheme as per the Action Plans prepared based on the needs of the school |

Source: Scheme guidelines

### *(II) Preparatory activities*

It was mandatory under SSA to track the progress of each and every child in the 0-14 age group. The DPO did not have the data of children of 0-6 age group in the districts test-checked. In the absence of such data, the eligible children for enrolment in school at elementary level could not be ascertained.

### *(III) Planning*

Manual for appraisal of plans 2002 envisaged detailed planning process for achieving the objective of universalisation of education by 2010. However audit observed that while the core group was formed only during 2010-11 in Tumkur district, a core team exclusively for assessing learning level achievement was formed in July 2010 in Koppal district.

### *(IV) Financial position*

The details of budget proposed, allocation, releases and expenditure in test-checked districts is as shown in **Table 2.14** below:

**Table 2.14: Budget proposal, allocation, releases and expenditure in test-checked districts**

**(₹ in crore)**

| Year | Budget Proposal | | Budget approved | | Releases | | Expenditure | |
|---|---|---|---|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal |
| 2006-07 | 61.04 | 26.40 | 27.57 | 25.06 | 27.57 | 26.26 | 27.57 | 24.99 |
| 2007-08 | 177.69 | 57.17 | 31.87 | 20.68 | 31.70 | 20.05 | 31.70 | 20.05 |
| 2008-09 | 57.19 | 43.90 | 38.75 | 31.95 | 37.93 | 31.19 | 37.93 | 31.19 |
| 2009-10 | 54.03 | 61.94 | 40.00 | 34.05 | 39.22 | 34.05 | 39.69 | 29.43 |
| 2010-11 | 86.44 | 73.84 | 54.47 | 44.54 | 39.38 | 44.54 | 40.82 | 37.51 |

Source: As furnished by DPOs Tumkur and Koppal and Annual Work Plan and Budget (AWP&B)

It was observed that in Tumkur district, the expenditure was slightly more than the releases during 2009-11 which was incurred out of other sources such as interest on bank deposits, *etc.,* over and above the releases.

### *(V) Programme implementation*

**Infrastructure facilities under education sector were insufficient**

The programme implementation lays emphasis on improvement in the quality of infrastructure and support services, pre-service and in-service education of teachers, curriculum and teaching/learning materials, pupil education, monitoring and supervision, *etc.*

Major interventions under SSA are discussed in succeeding paragraphs.

***(i)*** Audit noticed the following infrastructural deficiencies in 4,783 primary and upper primary schools[23] as given in **Table 2.15** below:

**Table 2.15: Statement showing infrastructural deficiencies**

| Category | Number of Primary Schools and Upper Primary Schools | |
|---|---|---|
| | Tumkur (Percentage) | Koppal (Percentage) |
| Schools without common toilets | 97 (3) | 359 (29) |
| Schools without toilets for Girls | 685 (19) | 174 (14) |
| Schools without water | 103 (3) | 82 (7) |
| Schools without own building | 15 (0.42) | 8 (0.65) |
| Schools without ramps | 1,895 (53) | 135 (11) |
| Schools without boundary wall | 2,732 (77) | 276 (23) |
| Schools without electricity connections | 20 (0.56) | 67 (6) |
| Schools without play ground | 2,096 (59) | 427 (35) |
| Schools without library | 119 (3) | 154 (13) |

Source: District Information System for Education (DISE) 2010-11

[23] 3,566-Tumkur and 1,217-Koppal

Despite lack of basic facilities, the DPO did not include the proposals received from the SDMCs and BEOs for creation of infrastructure facilities such as providing drinking water facility, toilets/urinals, *etc.,* in the district AWP&B 2010-11.

***(ii)*** SSA was to adopt zero rejection policy as per SSA manual and no child was to be left out of the school system. Children with special needs irrespective of the kind, category and degree of disability were to be provided education in an appropriate environment. Special fund was also available for this purpose. However, 1,188 children with special needs remained out-of-school in the test-checked districts as per Household Survey Statistics (HSS) data for 2010-11. Even though the DPOs prepared the action plans, the reasons for non-coverage were not furnished to Audit.

***(iii)*** Early Childhood Care and Education (ECCE) Programme envisaged empowerment of anganwadi teachers to train young children by supply of educational and play materials. Audit observed that though the DPO had approved a sum of ₹15 lakh under this programme for the year 2010-11 in Tumkur district, no funds were released. Similarly, a provision of ₹15 lakh towards district level programme under ECCE was made in the AWP&B for 2010-11 of Koppal district, of which an expenditure of ₹10.71 lakh was incurred. It was replied (November 2011) by the Deputy Programme Coordinator (Dy.PC), Koppal that due to non-participation of anganwadi teachers, the balance amount could not be spent, indicating lack of capacity building of anganwadi teachers.

***(iv)*** Under the envisaged intervention for SC/ST children, while an expenditure of ₹9.83 lakh out of target of ₹15 lakh was incurred in Koppal district, an amount of ₹22.31 lakh was spent in Tumkur district against the target of ₹15 lakh during 2010-11. The Dy.PC, Koppal replied (November 2011) that due to deviation in the proposed programme of study tour for SC/ST children, the allocated funds could not be utilised in full. This deprived the SC/ST children of their envisaged facilities.

***(v) Enrolment and Retention of school children***

Gross Enrolment Ratio (GER), Net Enrolment Ratio (NER) and Retention Rate (RR) of the children in the school system are performance indicators of the Scheme objective. NER indicates the percentage of enrolment corresponding to the targeted child population. RR refers to the percentage of students who continue to be in the school to the total number of students originally enrolled. As per the data furnished by DISE and HHS of Koppal and Tumkur districts for the year 2010-11, the GER, NER and RR as compared to benchmark of 100 *per cent* were as given in **Table 2.16** below:

**Table 2.16: Details of GER, NER and RR in test-checked districts**

**(Figures in *percent*)**

<table>
<tr><th rowspan="2">School category</th><th colspan="2">GER</th><th colspan="2">NER</th><th colspan="2">RR</th><th colspan="2">Transition from PS to UPS</th></tr>
<tr><th>Koppal</th><th>Tumkur</th><th>Koppal</th><th>Tumkur</th><th>Koppal</th><th>Tumkur</th><th>Koppal</th><th>Tumkur</th></tr>
<tr><td>Primary School (PS)</td><td>106</td><td>98.53</td><td>93.99</td><td>88.89</td><td>97.24</td><td>96.57</td><td rowspan="2">84.10</td><td rowspan="2">95.48</td></tr>
<tr><td>Upper Primary School (UPS)</td><td>106</td><td>102.77</td><td>96.02</td><td>84.86</td><td>93.80</td><td>96.13</td></tr>
</table>

Source: As furnished by DISE and HSS

It could be observed from the table above that there were shortfalls in NER, RR and transition percentage from PS to UPS. Increase in GER was due to enrolment of over-aged children who were not enrolled in the earlier years

***(vi) Interventions for out-of-school children***

Allocation of funds is made for conducting bridge courses to mainstream out-of-school children. On scrutiny of records of the DPOs of Koppal and Tumkur, it was noticed that there was poor achievement in conducting bridge courses for the year 2010-11 as shown in **Table 2.17** below:

**Table 2.17: Statement showing bridge courses for out-of-school children**

**(₹ in lakh)**

| Bridge courses | Physical target (Number of children) | | Physical achievement (Number of children) (percentage) | | Allocation | | Expenditure | |
|---|---|---|---|---|---|---|---|---|
| | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal | Tumkur | Koppal |
| Residential bridge course for 12 months | 156 | 500 | 43 (28) | 216 (43) | 15.60 | 50.00 | 0.40 | 31.99 |
| Non-residential bridge course for 12 months | 423 | 542 | 235 (56) | 119 (22) | 12.69 | 16.26 | 5.77 | 2.69 |
| Bridge course for three months - Chinnara Angala | 841 | 3,146 | 313 (37) | 1,025 (33) | 21.02 | 23.59 | 6.48 | 15.73 |
| National Child Labour Project Schools | - | 150 | - | Nil | - | 4.50 | - | Nil |

Source: As furnished by DPOs

It is observed from the table above that there was shortfall in providing bridge course training to the identified out-of-school children to bring them in to mainstream education, despite availability of funds. The DPO replied (November 2011) that the unwillingness of the parents to send their children for training resulted in the shortfall.

***(VI) Resource support and capacity building***

***(i)*** Ten days each at block and cluster levels in-service training was to be provided to teachers every year. Accordingly, the DPOs made a provision of ₹55.15 lakh and ₹1.91 crore during 2010-11 with a target of in-service training to 11,030 teachers and 12,739 teachers in Koppal and Tumkur districts, respectively. However, in-service training was provided to only 4,714 teachers in Koppal district indicating shortfall of 57.26 *per cent* in imparting relevant training to the targeted teachers through effective teaching learning strategies. No funds were released to Tumkur district, resulting in non-imparting of training to the targeted teachers.

***(ii)*** The DPO, Koppal had targeted 7,673 SDMC community leaders in villages during 2010-11 for three days training to enable them to participate qualitatively in planning, implementation and monitoring of elementary education in the schools at village level. Audit observed that though a provision of ₹14.36 lakh was made, no training was imparted by the DPO, Koppal.

An amount of ₹50.84 lakh was released (August 2011) to BEOs of taluks in Tumkur district for conducting training to 27,141 SDMC and 332 Civic

Amenities Committee members for the year 2010-11. However, the details of training conducted were not made available to Audit.

### *2.1.9.4 Water supply Schemes*

***Rural Drinking Water Supply Schemes***

Rural population in Koppal district mainly depends on ground water sources for drinking water. In the majority of the villages, ground water is generally free from bacterial and chemical contamination when tapped from aquifers through bore wells.

Against 3,068 bore wells dug in the entire district, only 2,509 are working due to depletion in ground water level. Also due to this factor there were defunct Piped Water Supply (PWS) and Mini Water Supply (MWS) schemes as detailed in **Table 2.18** below:

**Table 2.18: Statement showing defunct PWS and MWS schemes in Koppal district**

| Sl. No. | Taluk | PWS | Defunct | MWS | Defunct |
|---|---|---|---|---|---|
| 1 | Gangavathi | 142 | 8 | 253 | 43 |
| 2 | Koppal | 102 | 1 | 159 | 3 |

Source: As furnished by PRED, Koppal

It could be observed from the table above that out of 412 mini water supply schemes, 46 were defunct due to non-availability/depletion in ground water level.

***(a) Planning***

Long term perspective plan for coverage of rural population for providing safe drinking water in the district ought to be prepared by adopting scientific management of ground water resource data. However, it was noticed that a long term perspective plan for coverage of rural population of the Koppal district has not been prepared.

***(b) Finance***

Details of funds available and expenditure incurred for water supply schemes under Rajiv Gandhi Sub-mission projects in Koppal district were as shown in **Table 2.19** below:

**Table 2.19: Details of funds available and expenditure incurred**

**(₹ in crore)**

| Year | Funds available* | Expenditure | Unspent Balance |
|---|---|---|---|
| 2006-07 | 7.98 | 6.60 | 1.38 |
| 2007-08 | 27.02 | 11.18 | 15.84 |
| 2008-09 | 59.71 | 40.25 | 19.46 |
| 2009-10 | 40.92 | 17.93 | 22.99 |
| 2010-11 | 67.29 | 16.36 | 50.93 |

Source: As furnished by PRED, Koppal    * includes opening balance

It was observed from the table above that a significant sum of ₹50.93 crore was pending utilisation as of March 2011. This was due to slow progress in work owing to land acquisition issues, change in scope of work *etc.* Inadequacies in implementation of the water supply schemes are discussed in the succeeding paragraphs.

### *(c) Programme implementation*

**Delay in execution of water supply projects deprived the rural population of safe drinking water**

*(i)* Under Rajiv Gandhi Sub-Mission Scheme, the PRED, Koppal took up 14 water supply projects costing ₹168.30 crore to provide safe drinking water during the period from 2006-07 to 2009-10 covering 240 water quality affected habitations. Of these, four works were test checked and the irregularities noticed in two works costing ₹8.58 crore are detailed in **Table 2.20** below:

**Table 2.20: Details of test-checked water supply projects**

| Name of the Work | Administrative Approval/ Technical Sanction | Estimated Cost/Revised Cost/Tendered amount (₹ in crore) | Date of Work order/Stipulated date of completion | Reasons for delay | Audit findings |
|---|---|---|---|---|---|
| Kanakagiri and nine other villages | 27.08.2008/ 15.10.2008 | 5.98/8.16/8.49 | 06.02.2009/ 21.01.2010 | Change of site for intake well was necessitated due to drawal of water for two schemes from the same source.<br><br>The land was not acquired for construction of impounding reservoir and water treatment plant (WTP).<br><br>Non-obtaining of permission to draw water from Tungabahadra Dam Canal before commencement of work. | The planning for the intake well for water supply scheme was improper as this was not noticed during the survey conducted by private consultants while preparing preliminary scheme report and detailed engineering study report.<br>The EE, PRED did not acquire the required land before commencement of work as per codal provisions.<br><br>Permission to draw water was obtained from EE, Tungabhadra Canal Division only during August 2011 which was more than 18 months from the stipulated date of completion. |
| Mangalore and two other villages | 25.10.2007/ 27.03.2008 | 2.60/---/2.93 | 16.07.2008/ 17.09.2009 | Due to delay in handing over of site to the contractor by nine months and also due to leakages in pure water raising main pipe line. | The EE, PRED failed to provide the mark out for jack well, intake well, balancing tank, pure water reservior to the contractor before commencement of the work. The CE/EE did not ensure provision of adequate diameter of pipes for the pipeline of pure water raising main while according technical sanction, which necessitated replacement of pipes due to leakages on pumping pressure and also provision of additional intermediary service sump. |

Source: Progress reports of PRED, Koppal

Thus, failure to monitor timely progress of drinking water supply works by CE, PRE Department and EE, PRED led to abnormal delay in completion, depriving the population of the basic facility of safe drinking water. Besides, the possibility of cost escalation for these projects could not be ruled out.

### *(ii) Wasteful expenditure on procurement of Field Kits*

The CE, PRED, Bangalore placed (August 2008) supply order for 5,628 water quality testing field kits at a cost of ₹1.33 crore[24] for supply to 38 PREDs of Karnataka State. Accordingly, the firm supplied (December 2008) 134 water quality testing field kits to the PRE Division, Koppal worth ₹3.17 lakh. The EE, PRED, Koppal distributed (January 2009) the kits to the EOs of four TPs[25] for onward distribution to the GPs.

[24] ₹2,368 each

[25] Gangavathi, Koppal, Kushtagi and Yelburga

As per the guidelines of the supplier, the Water Quality Testing Field Kits had to be utilised within one year from the date of its manufacture, since the shelf life of the reagents provided in the kits was for a year only.

However, the water testing lab attached to PRED, Koppal stated (November 2011) that no such tests were conducted by them and no GP had approached for such kind of water test. The Secretaries of test-checked GPs also did not furnish any proof for having utilised these kits for water quality testing. Hence, it is evident that the water quality testing field kits supplied to the GPs were kept idle thereby resulting in wasteful expenditure of ₹3.17 lakh, and the objective of water quality testing was also not achieved.

### 2.1.10 Internal control mechanism

Effective internal control system helps to provide reasonable assurance of adherence to laws, rules, regulations and orders, safeguards against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The control activities include documentation, system of authorisation and approval of payments, segregation of duties, reconciliation and verification, inspection and audit, review of operating performance and monitoring.

***(a)*** As per provisions of ZP and TP (Finance and Accounts) Rules, 1996, the ZPs/TPs have to prepare monthly accounts by the 20$^{th}$ of the following month and submit them in the first meeting of the ZP/TP held after the 20$^{th}$, for scrutiny. The test-checked TPs did not prepare monthly accounts on time and the accounts were in arrears for over a year.

According to provisions of the GPs (Budgeting and Accounting) Rules, 2006, the GPs have to prepare monthly accounts for submission to the planning and development standing committee for internal audit. In test-checked GPs, the monthly accounts were not prepared and the State Government had entrusted the work of preparation of annual accounts of GPs to Chartered Accountants (CAs). However, the CAs could not prepare as many as 56 annual accounts for the last five years due to failure of GPs to produce/complete updation of records as of September 2011.

***(b)*** The GPs are required to maintain, *inter alia,* cash book, asset register, stock registers and measurement books. However, in all the four test-checked GPs of Koppal and Kushtagi taluks, these registers were not maintained. None of the test-checked GPs prepared bank reconciliation statements nor maintained asset register for keeping records of properties created under various social and rural development programmes. As a result, the total assets of these GPs could not be ascertained.

***(c) Internal Audit***

**Internal Audit was absent**

The CAOs of ZPs are required to conduct internal audit of all the institutions coming under their control. However, no audits were conducted during the period 2009-11 in Koppal. It was stated that since there was only one Accounts Superintendent against the sanctioned strength of four, internal audit could not be carried out. The CAO of ZP, Tumkur did not furnish the details of internal audit conducted under his jurisdiction.

***(d) Social Audit***

Social Audit is a process in which people verify the developmental activities through the public platform and enforce accountability and transparency. This aspect of public vigilance and social audit is achieved through formation of vigilance and monitoring committees and social audit committees. However, in the test-checked TPs, it was noticed that though vigilance and monitoring committees were formed, no training was imparted to the members. The detailed reports of Social Audit stated to have been conducted were also not produced to Audit.

## 2.1.11 Audit arrangements in PRIs

***(I) External audit***

**External audit was deficient**

***(a)*** 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 audited entities and to the State Government. At the district level, the Assistant Controller (AC), Local Audit Circle (LAC) is responsible for audit planning and its implementation. It was observed that the SAD neither framed any auditing standards nor prepared audit manual to regulate audit functioning.

***(b)*** There is no system of risk analysis of auditee units for inclusion in audit plan on priority or otherwise. The AC, LAC, Koppal replied (November 2011) that special audits are being proposed in GPs.

***(c)*** There is shortage of staff in the office of the AC, LAC, Koppal. As against the requirement of six Auditors and one Accounts Superintendent for audit of PRIs in Koppal, only four Auditors are available since 2008, affecting audit effectiveness.

AC prescribed (November 1998) four to six mandays for audit of a GP. Due to shortage of staff, only two Auditors conducted audit of a GP for two days. AC conducted audit of only 17 to 78 *per cent* of GPs each year (2008-11) due to non-production of records. Shortfall in coverage and in manpower for Audit obviously resulted in irregularities in utilisation of funds as stated in earlier paragraphs.

***(d)*** There is no time limit prescribed for the Auditor to submit the audit notes to the AC after conduct of audit of GPs. Out of 23 GPs audited during 2010-11, 10 audit notes are yet to be issued by the AC (September 2011). Scrutiny of audit notes of GPs issued for the years 2006-07 to 2009-10 revealed that the audit objections mostly pertained to non-realisation of taxes and amounts held under objection were due to non production of vouchers/records, indicating Audit ineffectiveness.

***(e)*** As of March 2011, 6,980 audit Inspection Reports paragraphs were pending settlement in the office of the AC, Koppal. In most of the cases, the AC had not received replies from the auditee units (October 2011).

## 2.1.12 Conclusion

A review of rural social sector audit of Tumkur and Koppal districts revealed that the district planning was without a vision for the sectoral development of the district. Operational controls in implementation of rural social sector schemes were inadequate as evidenced from misappropriation of scheme funds, payment of wages on fictitious nominal muster rolls, increase in maternal mortality rate, lack of infrastructure facilities in elementary schools and health care units, abnormal delay in completion of water supply projects, *etc*. Internal control mechanism was ineffective due to absence of internal audits, non-production of social audit reports, non-preparation of monthly and annual reports of PRIs, *etc*.

### 2.1.13 Recommendations

- DPC needs to prepare vision document to have a strategy for sectoral development in the districts.
- Stringent action has to be initiated against the authorities responsible for misappropriation of funds under MGNREGS.
- Health infrastructure and school infrastructure facilities including manpower must be provided on priority to ensure improvement in healthcare and educational facilities in rural areas.
- Departmental Officers should be made accountable for any deviations to the detailed project reports of water supply schemes causing abnormal delay in execution.

# • SECTION 'B' – THEMATIC AUDIT

## 2.2 Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme

### 2.2.1 Introduction

***2.2.1.1*** Mahatma Gandhi National Rural Employment Guarantee Scheme-MGNREGS (Scheme) is the flagship programme of the Government of India (GOI) that directly touches the lives of the poor and attempts to enhance the livelihood security on a sustained basis by developing the economic and social infrastructure in rural areas. The most significant feature of the Scheme is that it vests the country's rural communities with rights to demand employment and binds the Government to honour and fulfill the demand within a time frame.

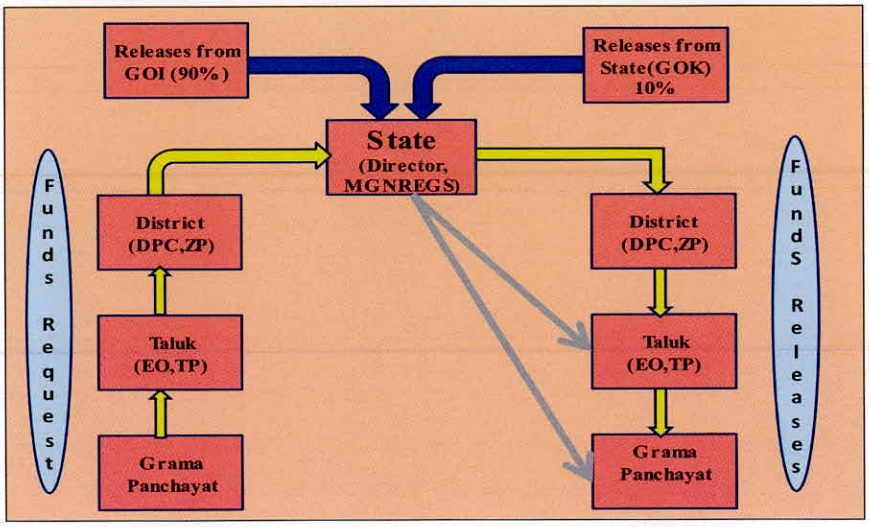
***2.2.1.2*** Consequent to GOI guidelines, the State Government notified the Karnataka Rural Employment Guarantee Scheme (KREGS) during February 2007. The KREGS envisaged provision of 100 days of guaranteed employment to every registered household whose adult members volunteer to do unskilled manual labour. The objectives of the Scheme, *inter-alia,* include-

- providing wage employment opportunities;
- creating sustainable rural livelihood through regeneration of the natural resource base *i.e.,* augmenting productivity and supporting creation of durable assets; and
- strengthening rural governance through decentralisation and process of transparency and accountability.

The Scheme is being implemented in the State as a Centrally Sponsored Scheme with sharing of funds between the GOI and State Government in the ratio of 90:10.

The fund flow in respect of the Scheme is as given in **Chart 2.1** below:

**Chart 2.1: Fund flow under the Scheme in Karnataka**



## 2.2.2 Organisational structure

| Level | Authority responsible for implementation of the Scheme | Functions and responsibilities |
|---|---|---|
| **State level** | State Employment Guarantee Council[26] | Advising the State Government regarding implementation of the Scheme, determining the preferred works, reviewing the monitoring and redressal mechanism from time to time and preparation of annual report to be laid before the State Legislature |
| | State Programme Coordinator (Principal Secretary, Rural Development and Panchayat Raj Department (RDPR)) | Overall supervision and monitoring of implementation of the Scheme in the State and to empanel reputed agencies to carry out impact assessment of the Scheme |
| **District level** | Zilla Panchayat (ZP) | Principal authority for planning and review of implementation of the Scheme, approving District/Taluk Rural Employment Guarantee Scheme plans, finalising and approving block wise shelf of projects, executing its own proposals and proposals received from other line departments and overall supervision and monitoring of implementation |
| | District Programme Coordinator (Chief Executive Officer(CEO) of ZP) | To assist the ZP in discharging its functions, consolidation of plans prepared by TP for inclusion in shelf of projects, according approval and coordinating with and supervising the performance of Programme Officers, and conducting periodic inspection of works in progress |
| **Taluk level** | Taluk Panchayat (TP) | Planning at the taluk level and prioritising the works and monitoring the implementation |
| | Programme Officer (Executive Officer(EO) of Taluk Panchayat) | Scrutinising the proposals submitted by Grama Panchayats for technical feasibility, matching employment opportunities with the demand for work at the taluk level and ensuring (i) execution of works as scheduled, (ii) payment of wages to labourers engaged and (iii) social audits |
| **Village level** | Grama Panchayat (GP) | Planning of works, registering households, issuing job cards, allocating employment, implementation of the Scheme and conducting social audits |

## 2.2.3 Irregularities observed in earlier Audit Report

***2.2.3.1*** A review of the Scheme was conducted earlier and findings were reported in the Audit Report of the Comptroller and Auditor General of India (Panchayat Raj Institutions) for the year ended 31 March 2007. The Committee on Panchayat Raj Institutions (PRIs) and Local Bodies (LBs) also discussed this performance review and the recommendations made (December 2011) in respect of these irregularities are indicated against each of these findings.

| Persistent irregularities observed by Audit | Recommendations of the Committee |
|---|---|
| Non-preparation of district perspective plan | District perspective plan needs to be compulsorily prepared in order to avoid execution of works not included in the priority list of works |
| Job cards acknowledged by same persons | The Committee stressed the need for proper enumeration to avoid issue of job cards to ineligible persons/households |

[26] comprise Hon'ble Minister for RDPR Department as Chairman, Development Commissioner as Vice-Chairman, 16 members from various Departments

| Persistent irregularities observed by Audit | Recommendations of the Committee |
|---|---|
| Provision of employment of 100 days to households | The Committee insisted on maintenance of employment register by the implementing agencies in order to ensure provision of 100 days of employment to all the households who demanded employment |
| Delay in payment of wages | The Committee recommended that the payment to labourers should be made within 15 days of employment provided to achieve the objective of the Scheme |
| Execution of works not recommended by the Grama Sabha | The Committee warned the programme officers to include only the works that were recommended by the Grama Sabhas in the Action plans |
| Social Audit not conducted | The Committee recommended that the State Government should instruct the ZPs to necessarily conduct Social Audit once in six months |

Audit observed that certain irregularities still persisted, indicating lack of corrective measures.

## Audit findings

The findings of the theme-based audit conducted for the period 2008-09 to 2010-11 are discussed in the succeeding paragraphs.

## 2.2.4 Registration and employment eligibility

### *2.2.4.1 Non-conducting of survey and issue of job cards*

**Deficiencies in issue of job cards and in enumeration were observed**

The provisions of the Scheme guidelines provided for door-to-door survey by GPs to identify persons willing to register for employment. Though a survey of the households was done initially, it was not repeated every year. Therefore, there was no updation of the initial lists of willing persons.

***2.2.4.2*** As per the provisions of the Scheme guidelines, unit of entitlement under the Scheme should be the households and the GPs should issue job cards only to the registered households. It also stipulated that the job cards should be issued within a fortnight from the date of receipt of the applications for registration, after affixing photographs of applicants for identification and ensuring transparency. However, it was observed that in nine [27] GPs, 5,534 job cards were issued against 9,056 applications received and there were delays ranging up to 150 days in issue of job cards. Photographs were not affixed to the job cards in 10.03 lakh cases in test-checked ZPs during 2009-10.

In Aladageri GP of Hirekerur TP, 1,403 job cards were issued against 1,045 applications, resulting in excess issue of 358 job cards. Audit observed in test-checked cases that multiple job cards ranging from three to six were issued to and acknowledged by the same persons.

***2.2.4.3*** It was observed that the enumeration procedure was deficient as it included registration of households more than once which was evidenced by issue of 2.47 lakh job cards as against 2.42 lakh rural households in six[28] TPs

[27] Aralikatti, Halaga, Kalledevaru, Kodachawad, Makari, Mohishet Nandagad, Nerli and Tadas

[28] Hukeri and Khanapur in Belgaum ZP, Byadgi and Hirekerur in Haveri ZP, Kolar and Mulbagal in Kolar ZP

during the year 2009-10. Audit also observed that in five GPs[29] of Kolar ZP, the maximum wages payable during 2009-10 were ₹5.68 crore (calculated by assuming that all the registered households were provided employment for 100 days). Against this, an amount of ₹9.53 crore was paid in these GPs. This clearly indicates that excess payment has been made due to incorrect enumeration, which proves that the job cards were not meticulously analysed at appropriate levels. The possibility of misappropriation and fraudulent payment in such cases was high as detailed in ***paragraph 2.2.6.4***.

### *2.2.4.4 Demand for employment*

The physical progress under the Scheme during the period 2008-11 was as detailed in **Table 2.21** below:

**Table 2.21: Physical progress under the Scheme during the years 2008-09 to 2010-11**

**(Figures in lakh)**

| State/ZPs | Households registered | | | Job cards issued | | | Employment demanded | | | Employment provided | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 08-09 | 09-10 | 10-11 | 08-09 | 09-10 | 10-11 | 08-09 | 09-10 | 10-11 |
| In the State | 62.11 | 53.57 | 51.82 | 61.15 | 53.01 | 51.63 | 7.33 | 36.25 | 24.14 | 7.01 | 35.35 | 22.25 |
| Belgaum | 5.97 | 5.31 | 5.33 | 5.93 | 5.30 | 5.32 | 0.70 | 3.54 | 2.54 | 0.68 | 3.49 | 2.48 |
| Haveri | 1.71 | 1.72 | 1.69 | 1.71 | 1.72 | 1.69 | 0.09 | 1.14 | 0.73 | 0.09 | 1.14 | 0.70 |
| Kolar | 2.65 | 1.97 | 1.96 | 2.61 | 1.95 | 1.94 | 0.20 | 2.26 | 1.03 | 0.19 | 2.16 | 0.88 |

Source: Management Information System (MIS) reports (www.nrega.nic.in)

Audit observed that demand for employment was low during 2008-09, surged in 2009-10 and considerably declined in 2010-11, evidencing significant variation in number of job seekers under the Scheme. The increase in 2009-10 was due to deficiencies in the enumeration procedure which led to issue of excess job cards as discussed in the preceding paragraph.

The State Government endorsed (April 2012) the reply of the CEO, ZP, Haveri, who stated that the demand for employment during 2009-10 and 2010-11 increased over 2008-09 due to IEC activities and accordingly employment was provided.

It could be observed that the households that reportedly demanded and were provided employment in Kolar ZP during the year 2009-10 were more than the households registered/job cards issued. This clearly indicated that there was incorrect reporting which facilitated fraudulent transactions, as discussed in ***paragraph 2.2.6.4.***

## 2.2.5 Labour budget and financing the Scheme

### *2.2.5.1 Unrealistic labour budget*

**Labour budgets in three ZPs were unrealistic**

The Scheme guidelines stipulated preparation of a five year perspective plan to facilitate development of the district. The main purpose of the perspective plan is to identify the type of works to be encouraged in the district and the potential linkages between these works and long term employment generation and sustainable development. Audit observed that while district perspective plan was prepared in Kolar, no district perspective plans were prepared in Belgaum and Haveri. The Scheme continues to be implemented with *ad-hoc* annual action plans which were prepared by the Secretaries of the GPs and approved by the EOs of the TPs.

[29] Hebbani, Hirehalli, Kappalamadagu, Mudavadi and Thoradevandahalli

The CEOs were required to prepare in the month of December every year a labour budget for the next financial year containing the details of anticipated demand for unskilled manual work in the district and plan for engagement of labourers in the works covered under the Scheme. The labour budget so prepared was to be based on a realistic estimate for the number and kind of works to be taken up. However, the labour budgets in the three ZPs were not realistic as evidenced by huge differences in employment generation *vis-à-vis* annual projections by the District Officers during 2009-11 as detailed in **Table 2.22** below:

**Table 2.22: Statement showing mandays projected and generated during 2009-11**

| Year | Name of ZP | Mandays projected | Actual mandays generated | Percentage (-) shortfall/ excess (+) |
|---|---|---|---|---|
| 2009-10 | Belgaum | 2,28,79,023 | 1,95,29,645 | (-) 15 |
| | Haveri | 31,33,182 | 62,70,482 | (+) 100 |
| | Kolar | 92,97,115 | 1,32,85,516 | (+) 43 |
| 2010-11 | Belgaum | 3,02,92,526 | 1,41,84,818 | (-) 53 |
| | Haveri | 58,41,363 | 38,03,278 | (-) 35 |
| | Kolar | 1,18,07,554 | 40,79,433 | (-) 65 |

Source: MIS reports (www.nrega.nic.in)

*2.2.5.2* The details of funds released and expenditure incurred during the years 2008-09 to 2010-11 in the State and in Belgaum, Haveri and Kolar ZPs were as shown in **Table 2.23** below:

**Table 2.23: Financial position under the Scheme during the period 2008-11**

**(₹ in crore)**

| Year | In the State | | | | In three ZPs | | | |
|---|---|---|---|---|---|---|---|---|
| | OB* | Total releases | Total availability of funds | Expendi-ture | OB | Total releases | Total availability of funds | Expendi-ture |
| 2008-09 | 210.87 | 440.55 | 651.42 | 357.87 | 36.30 | 10.70 | 47.00 | 39.63 |
| 2009-10 | 254.10 | 2,772.19 | 3,026.29 | 2,641.88 | 18.90 | 486.96 | 505.86 | 526.08 |
| 2010-11 | 421.25 | 1,927.87 | 2,349.12 | 2,081.30 | 37.88 | 358.93 | 396.81 | 445.50 |
| **Total** | | **5,140.61** | **6,026.83** | **5,081.05** | | **856.59** | **949.67** | **1,011.21** |

Source: Annual Reports of RDPR for the years 2008-09 to 2010-11

* No reasons were furnished for variation in opening balance of subsequent years.

It could be observed from the table above that there was a sharp increase in release of funds for the Scheme from the year 2009-10 onwards. Audit observed in the above three ZPs that the expenditure incurred during 2009-11 was more than the availability of funds. This could be on account of incorrect reporting of expenditure as per MIS even though the expenditure had not been incurred towards labour payments in five[30] GPs of Kolar ZP as discussed in ***paragraph 2.2.6.6.***

### *2.2.5.3 Non-reconciliation in transfer of funds*

The provisions of the Scheme guidelines stipulated that the CEOs of the ZPs should monitor all aspects of the Scheme implementation including flow of funds and the State Government should design a complete financial management system for the transfer and use of funds. It was, however, observed that flow of funds was not monitored properly and there were

[30] Hebbani, Mudavadi, Seethi, Soolur and Thoradevandahalli

discrepancies between the financial statements forwarded to higher authorities through MIS and audit reports submitted by Chartered Accountants (CA) in the three ZPs, as detailed in **Table 2.24** below:

**Table 2.24: Statement showing details of funds received and utilised as per MIS reports and CA reports**

**(₹ in crore)**

| Year | Belgaum | | | | Haveri | | | | Kolar | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Funds availability as per | | Expenditure as per | | Funds availability as per | | Expenditure as per | | Funds availability as per | | Expenditure as per | |
| | CA | RDPR | CA | RDPR | CA | RDPR | CA | RDPR | CA | RDPR | CA | RDPR |
| 2008-09 | 41.76 | 37.20 | 27.90 | 29.29 | 5.22 | 2.86 | 4.13 | 2.40 | 10.20 | 6.94 | 9.32 | 7.94 |
| 2009-10 | 285.85 | 272.37 | 265.51 | 279.66 | 15.02 | 96.74 | 14.42 | 98.58 | 135.48 | 136.75 | 134.08 | 147.84 |
| 2010-11 | NA | 248.66 | NA | 290.83 | NA | 85.91 | NA | 75.70 | 62.93 | 62.24 | 47.06 | 78.98 |

Source: RDPR Annual Reports and CA Reports NA: Not available

It was evident that the process of financial reporting and accounting lacked adequate scrutiny. Audit could not, therefore, assess the correctness of the financial position as reported by RDPR Department and CA. A review of the Scheme records and CA Reports for the year 2009-10 revealed that funds transferred online by the State Government did not tally with the funds finally accounted for by the CEOs of the above mentioned ZPs. This was due to non-receipt of on-line grants by the CEOs of the ZPs, leading to ₹40 lakh[31] remaining un-reconciled.

In Hebbani GP, the difference in expenditure figures as per bank account and MIS report amounted to ₹75.13 lakh during the year 2009-10.

### *2.2.5.4 Irregularities in utilisation of Scheme funds*

A unique feature of the Scheme is that allocation is not predetermined and the funds are released to the districts as per the labour budget and requirement of funds based on demand for works. Also, the provisions of Scheme guidelines prohibit the utilisation of Scheme funds for other purposes under any circumstances. It was, however, observed that there were irregularities in utilisation of Scheme funds as discussed in the succeeding paragraphs.

- ***Unauthorised administrative expenses***

The Scheme guidelines provide for incurring of administrative expenses on items contingent to administration and monitoring of the Scheme. In contravention, the CEO of the ZP, Belgaum incurred (2009-10) ₹49.10 lakh on providing capital assets to the ZP office building such as air conditioners, furniture, refrigerators and water purifiers, *etc.,* which were not directly related to administration/monitoring of the Scheme.

- ***Non-transparency in procurement***

As per Karnataka Transparency in Public Procurements Act 1999, purchases exceeding ₹ one lakh should be made on tender basis. It was, however, observed in four[32] TPs that computers, name boards, seedlings, *etc.* amounting

[31] Belgaum - ₹38 lakh and Haveri - ₹ two lakh

[32] Byadgi -₹4.20 lakh, Hirekerur -₹2.52 lakh, Hukeri -₹65.89 lakh and Khanapur-₹49.20 lakh

to ₹1.22 crore were procured during 2009-11 without calling for tenders, resulting in denial of the benefits of competitive rates.

- ***Irregular investment of scheme funds in fixed deposits***

The provisions of the Scheme guidelines stipulated that the Scheme funds should be kept in savings account. It was observed that the CEO of the ZP, Belgaum invested ₹49 crore out of the Scheme funds in fixed deposits during the year 2007-08 and 2008-09 for a short term of 46 days.

- ***Doubtful payments to suppliers***

On a scrutiny of records in Mudavadi GP, it was observed that a sum of ₹1.07 crore was shown as expenditure incurred during the year 2009-10 towards cement, size stone, sand boulders, *etc.* issued to works such as desilting and construction of drains, check dams, *etc.* Audit could not ensure the genuineness of materials issued or utilised as there was no stock and issue register. Further, none of the above works have been completed in accordance with the approved estimates except earth work excavation and clearance of jungle.

As per the guidelines, the President of the GP has to conduct physical verification of all the works executed under the Scheme. However, there were no attestations of the GP President for having verified the works. Further, the engineer-in-charge of works had shown dereliction in performance of his duties as the entries in measurement books were made without check measuring the works.

The Secretary of the GP replied (September 2011) that the Junior Engineer neither visited the work spot nor provided completion reports. Payments were made without ensuring receipt of Nominal Muster Rolls (NMRs) or completion of work. Audit was therefore unable to verify whether payments had actually been made to the suppliers and whether materials had actually been received.

- ***Execution of inadmissible works***

The provisions of Scheme guidelines, while listing out permissible works under the Scheme, stipulated that cement concrete roads should not be taken up under the Scheme. However, in violation of the Scheme guidelines, a sum of ₹1.43 crore was incurred towards execution of 91 cement concrete road works in five GPs and one TP. Also, a sum of ₹32.11 lakh was spent towards inadmissible works such as construction of compound walls in burial grounds, ranga mandira, *etc*., in three GPs[33].

- ***Execution of works not recommended by Grama Sabha***

As per the Scheme guidelines, each GP should prepare an action plan for the next financial year based on the recommendations of the Grama Sabha and forward it to the CEO of ZP through the EO of TP for consolidation and approval. The participation of the likely beneficiaries was to be ensured in Grama Sabha and works prioritised by Grama Sabha were to be taken up. It was, however, noticed in three TPs[34] that check dam and afforestation works

[33] Hospet, Mudavadi and Thoradevandahalli
[34] Byadgi, Hukeri and Khanapur

amounting to ₹3.04 crore were executed through line departments without discussion in the respective Grama Sabhas, defeating the objective of empowerment at grass root level.

- ***Non -maintenance of plantations***

As per the provisions of Forest Manual, the plantations raised were required to be maintained for a period of three years for their upkeep and survival. Scrutiny of records in Belgaum and Haveri ZPs revealed that provision for maintenance of plantations was not sought and follow-up actions regarding their maintenance or details of survival/mortality rate were not kept on record. In the absence of these, the fruitfulness of expenditure of ₹6.12 crore incurred during 2007-10 towards block plantations in 3,027 hectares and road side plantations in 1,469 kms was not ascertainable in Audit.

- ***Non-adherence to the prescribed norms***

In order to ensure that adequate investments under the Scheme are channelised towards labour intensive programmes, such as water conservation, plantation, *etc.,* the guidelines stipulated that road works could be taken up as a last priority but not exceeding 10 *per cent* of the value of all the works. However, it was observed in Belgaum, Haveri and Kolar ZPs that out of the total expenditure of ₹845.19 crore incurred on works during the years 2009-11, a sum of ₹148.89 crore (18 *per cent*) was incurred on 14,597 works under rural connectivity. Thus, it was evident that the CEOs of ZPs failed to adhere to the prescribed norms as per the guidelines. The State Programme Coordinator who was responsible for overall supervision also did not prevent deviations from the prescribed norms.

## 2.2.6 Wage payment management

### *2.2.6.1 Non-maintenance of Employment Demand Register*

All registered job card holders were entitled to employment on demand within 15 days of such demand. For this purpose, the GP Secretary was required to accept applications for work from wage seekers and maintain an Employment Demand Register in Form-7 to list all such applications. It was, however, observed that none of the GPs of Belgaum, Haveri and Kolar ZPs maintained such registers. As a result, Audit could not check whether employment was provided in time to all those who had volunteered to do unskilled and manual work under the Scheme.

### *2.2.6.2 Unrealistic period of employment*

As per the provisions of the Scheme, a period of employment should ordinarily be at least 14 days continuously with not more than six days in a week. However, it was seen that in two[35] GPs of Kolar TP, the labourers were engaged continuously for 28 days to 81 days on different works which not only contravened the guidelines but was also unrealistic. The details are given in **Table 2.25** below:

[35] Seethi and Soolur

**Table 2.25: Statement showing the period of employment**

| Name of the GP | Name of the work/work code | Period of employment | Number of labourers | Number of days without a break |
|---|---|---|---|---|
| Soolur | Digging of trenches in the "a" and "b" blocks in the forest area of Antaragange | 01.01.2010 to 22.03.2010 | 94 | 81 days |
| | | 21.02.2011 to 22.03.2011 | 91 | 30 days |
| Seethi | OP/44047 | 01.10.2009 to 20.11.2009 | 60 | 51 days |
| | RC/99451907 | 01.01.2010 to 15.02.2010 | 60 | 46 days |
| | IC/9996702 | 01.01.2010 to 15.02.2010 | 60 | 46 days |
| | RC/999785 | 01.09.2009 to 28.09.2009 | 60 | 28 days |

Source: NMRs

Moreover, it was observed that a sum of ₹11.78 lakh paid as wage component in Soolur GP had become wasteful due to casing of mud on the trenches without executing plantation works.

### *2.2.6.3 Provision of 100 days of employment*

The primary objective of the Scheme was to enhance livelihood security by providing 100 days of wage employment, on demand, in a financial year to each of the registered households. It was, however, observed that out of 6.79 lakh households employed during 2009 - 10 in Belgaum, Haveri and Kolar ZPs, 100 days of employment was provided only to 0.71 lakh households (11 *per cent*).

### *2.2.6.4 Misappropriation of Scheme funds*

**Scheme funds of ₹61.63 lakh were misappropriated. Instances of delay, excess and irregular payment of wages were observed**

**The Scheme guidelines stipulated that wages should be paid through Banks or Post Offices so that the payment agencies were different from the implementing agencies. Further, to avoid use of a large number of cheques, a pay order or wage credit advice should be generated in favour of a group of labourers as per the NMR, and addressed to the Branch Manager of the Bank/Post Office for crediting the amount shown against each labourer to his account. The guidelines also stipulated that details of wages paid through the Banks/Post Office network should be made public to maintain transparency.**

**Scrutiny of records in ten[36] GPs showed that the Presidents and the Secretaries of these GPs misused the said provision of generating wage credit advices and issued credit advices to Banks/Post offices indicating the bank accounts of unauthorised persons and not the eligible beneficiaries as per the NMRs. This resulted in diversion of ₹61.63 lakh of Scheme funds to the bank accounts of unauthorised persons. Possibility of nexus between the unauthorised persons and the implementing officers cannot be ruled out.**

**In Hebbani GP, bank accounts of four such unauthorised persons were repeated in several wage credit advices issued to Bank and wages amounting to ₹3.88 lakh were credited to these four accounts during 2009-10. These accounts were credited with a minimum of ₹0.87 lakh to maximum of ₹1.16 lakh which were more than 10-14 times of the wages**

[36] Emmenatha, Gudipalli, Hebbani, Thoradevandahalli (Kolar ZP); Hospet, Kodachawad, Mavanur, Nandagad, Nerli (Belgaum ZP) and Karadikoppa (Dharwad ZP)

**any labourer could have earned annually under the Scheme. Contrarily, in the same GP, it was observed that in the wage credit advice, the bank account numbers of 19 eligible beneficiaries were not mentioned against their names. As a result, the bank could not credit the wages of ₹0.61 lakh to the actual beneficiaries.**

**Audit also noticed that two banks[37] of Nakkundi and Mehkar GPs were unable to credit wages of ₹6.57 lakh to the beneficiary accounts due to incorrect credit advice/non-indication of bank accounts in the advices provided by the Secretaries of these two GPs. An amount of ₹2.24 lakh only was recredited to the Scheme account and details for the balance amount of ₹4.33 lakh were not provided. Further, there were no records to indicate that payment of wages was made subsequently to the labourers.**

**Scrutiny further revealed that the following control omission/lapses also facilitated misappropriation of Scheme funds:**

- **Details of wages paid through Banks/Post office network were not made public;**
- **The mandatory forms prescribed under the Scheme guidelines were either not maintained or were incomplete. As a result, the authenticity of labourers employed as per NMRs could not be verified;**
- **Acknowledgements of the labourers were not obtained in many of the NMRs test-checked. Instances of overwriting, erasures, blanks, smudges, *etc.*, in NMRs were noticed;**
- **The EO, TP, Kolar leaked the password provided for uploading MIS to persons other than the PRI officials, resulting in feeding of incorrect data by unauthorised persons;**
- **Persons employed for work as per MIS data were more in number than the population of all the nine [38]GPs of Belgaum and Kolar ZPs which indicated deficiency in survey for registration. Also, systemic deficiencies such as non-undertaking of the annual updating exercise of registration by GPs and non-affixing of photographs in job cards hampered the identification of genuine beneficiaries as mentioned in *paragraphs 2.2.4.1 and 2.2.4.2* respectively;**
- **Payments were made to labourers even though the NMRs maintained for such works were without the initials of the Officer responsible to verify attendance;**
- **Signatures of the beneficiaries differed from the names mentioned in the NMRs.**
- **Social Audit was not conducted ;**

[37] Krishna Grameena Bank, Mehkar-₹4.33 lakh and Pragathi Grameena Bank, Nakkundi-₹2.24 lakh

[38] Emmenatha, Gudipalli, Hebbani, Thoradevandahalli (Kolar ZP); Hospet, Kodachawad, Mavanur, Nandagad, Nerli (Belgaum ZP)

- **Reconciliation of expenditure figures as per bank pass books and Cash Books of the Scheme was not done in these nine GPs;**
- **The EOs of TPs, Mulbagal and Kolar did not inspect all the Scheme works though the Scheme guidelines envisaged 100 *per cent* inspection of works. They also failed to analyse the data as submitted by GPs and ensure the receipt of entitlements by eligible beneficiaries; and**
- **The CEO of ZP, Kolar failed to initiate necessary action even though the MIS reports exhibited significant variation in employment demanded/provided as compared to the households registered/job cards issued.**

**Thus, the failure of control procedures and lack of supervisory control by the EOs of TPs and the CEOs of ZPs resulted in diversion of Scheme funds amounting to ₹61.63 lakh to unauthorised persons.**

#### *2.2.6.5 Delay in payment of wages*

As per the Scheme guidelines, payment of wages to the labourers should not be delayed under any circumstances and, in the event of any delay, workers are entitled to compensation as per the provisions of the Payment of Wages Act, 1936. However, it was seen that there were delays in payment of wages of ₹4.43 crore in 25 GPs[39] ranging from 11 to 280 days. Thus, the labourers were deprived of their timely wages, defeating the objective of livelihood security to the rural households.

#### *2.2.6.6 Pending payment of wages to the labourers*

In 14 GPs[40], it was observed that a total amount of ₹7.44 crore was still pending to be paid as wages to the labourers who were employed during the years 2009-10 and 2010-11. Thus, the labourers were deprived of their timely wages, defeating the objective of livelihood security to the rural households.

#### *2.2.6.7 Wage-Material ratio not maintained*

The guidelines stipulate that while executing works, expenditure on wage and material components has to be maintained in the ratio of 60:40 at all levels. However, it was observed in 15 GPs[41] that the ratio of wage and material component was 47:53. The expenditure incurred on material component during 2009-11 was ₹5.87 crore against the admissible amount of ₹4.39 crore, resulting in excess expenditure of ₹1.48 crore on material besides denial of 1.48 lakh mandays of wage employment to the rural labourers.

Materials such as cement, steel, granite slabs, *etc.*, procured (December 2009) for ₹7.93 lakh in two GPs[42] were yet to be utilised (October 2011) indicating

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[39] Eklura, Mirkhal, Yerandi (Bidar ZP), Belalu, Kollamogru, Mithabagilu (Dakshina Kannada ZP), Bhootaldinni, Ramatnal, Salagunda (Raichur ZP), Belavi, Halaga, Kodachawad, Mohishet, Nandagad, (Belgaum ZP), Aladageri, Aralikatti, Hirehalli, Kalladevaru, Makari, Sudambi, Tadas Yattinahalli MK, (Haveri ZP) Mudavadi, Seethi, Soolur (Kolar ZP)

[40] Anabi, Bijangera, Devargonal, Hebbani, Hesarughatta, Hodebeernalli, Hoogyam, Maladkal, Maniknagar, Mudavadi, Nakkundi, Seethi, Soolur and Thoradevandahalli

[41] Anneswara, Bidaraguppe, Chikkajaala, Doddathoguru, Haragadde, Hasiruvalli, Hesarughatta, Jalige, Kannamangala, Lakkondahalli, Nalluru, Nelavagilu, Singanaayakanahalli, Sonnappanahalli, and Sulibele

[42] Kannamangala- ₹5.58 lakh and Nalluru- ₹2.35 lakh

procurement of materials without immediate requirement and locking up of funds for almost two years. Besides, it was not clear whether these materials were fit to be used after a lapse of two years.

Audit also noticed that vouchers for payment made towards material procurements for ₹1.37 crore were not kept on record in nine[43] GPs for the years 2009-11.

## 2.2.7 Monitoring and evaluation

***2.2.7.1*** The Scheme guidelines envisaged verification and quality audit by external monitors at district level. The CEO of the ZP was to identify District Quality Monitors (DQMs) with the approval of the State Government. It was observed that the CEOs of test- checked ZPs have not designated/identified the DQMs at district level.

The guidelines also stipulated 100 *per cent* inspection of works taken up under the Scheme by the EOs at taluk level and 10 *per cent* by the CEOs at district level.

The CEOs of Belgaum and Haveri ZPs reportedly carried out verification of only 3,361 works (3.47 *per cent*) out of 96,788 works executed during 2009-11. The EOs of Byadgi and Khanapur TPs inspected 75 and 78 *per cent* of works respectively, whereas the EO of TP, Hirekerur did not inspect any of the 3,105 works carried out during 2009-11. However, none of the CEOs/EOs produced any documentary evidence including inspection notes to Audit, with the result that the contention of having inspected the works could not be confirmed.

The EOs of TPs were responsible for ensuring that Vigilance and Monitoring Committees (VMCs) were constituted to monitor the progress and quality of work while in progress. However, VMCs did not exist in 13 GPs[44]. In other GPs, where the committees were constituted, there was no documentary evidence to prove that the committee had performed its prescribed role.

### *2.2.7.2 Grievance Redressal Mechanism*

The State Government had issued (March 2009) notifications appointing the Secretary of GP, the EO of TP, and the CEO of ZP as Grievance Redressal Officers (GROs) at village, taluk and district levels, respectively. The EO of TP is accountable for the compliance and strict enforcement of the MGNREG Act and Rules at GP/TP level. It was also stipulated that complaint boxes should be installed at conspicuous places in the offices of GROs to facilitate submission of complaints. It was, however, observed that none of the test-checked GPs had installed complaint boxes.

### *2.2.7.3 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 to be scrutinised as a means of continuous public vigilance. The EOs were required

[43] Airasang, Anaji, Dadgi, Eklura, Hasiruvalli, Kalapur, Madkatti, Mehkar and Vishwanathapura

[44] Aladageri, Aralikatti, Belavi, Halaga, Hirehalli, Hospet, Kalledevaru, Kodachawad, Makari, Mavanur, Mohishet, Sudambi and Tadas

to convene the Social Audit at the Grama Sabhas. It was, however, seen that Social Audit of the Scheme has not been conducted in Hukeri and Khanapur TPs, indicating absence of public vigilance and accountability. In Hirekerur and Byadgi TPs, Social Audit was conducted during the year 2010-11 only and follow up action on the reports is yet to be initiated (December 2011).

### 2.2.8 Conclusion

The theme-based review of implementation of the Scheme revealed that lapses and irregularities such as non-preparation of district perspective plan, execution of works not recommended by Grama Sabhas, non-conducting of Social Audit, *etc.,* reported by Audit in earlier Audit Report (PRIs) – 2007 still persisted. Deficiencies in enumeration procedure, unrealistic labour budgets, irregularities in utilisation of funds and non-maintenance of mandatory control registers facilitated misappropriation of Scheme funds. Instances of delay in payment of wages, irregular payments and failure to provide 100 days of employment to majority of the households defeated the spirit of the Scheme. Monitoring of the Scheme was inadequate.

### 2.2.9 Recommendations

- Surveys need to be conducted periodically to identify and encourage unskilled labourers to avail of the benefits of the Scheme.
- Validation of Management Information System at all levels should be ensured to avoid incorrect reporting.
- Stringent action needs to be taken on the serious issue of payment of wages to persons other than the Scheme beneficiaries.
- The State Government should release funds only after ensuring conduct of Social Audit periodically and obtaining a satisfactory report on implementation of the Scheme.

# RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT AND EDUCATION DEPARTMENT

## 2.3 Supply of bicycles to school students

### 2.3.1 Introduction

There are 72,875 schools in the State, of which 26,302 are lower primary schools, 33,126 are higher primary schools and 13,447 are high schools. In 2006-07, the State Government introduced the Scheme of providing bicycles to girl students from below poverty line households, studying in VIII standard in Government and aided schools. This facility was extended to boys from 2007-08. The main objective of the Scheme was to motivate students to continue their schooling beyond elementary level, improve attendance and learning in classrooms and reduce the dropout rate by combating transportation constraints. Nodal officers for assessment, procurement, distribution and monitoring the Scheme of providing bicycles are Commissioner of Public Instruction (CPI), Deputy Directors of Public Instruction (DDPIs) and Block Education Officers (BEOs) at State, district and taluk levels, respectively. The Headmasters of the schools are to ensure the usage of bicycles by the students. During 2006-11, a sum of ₹475.75 crore was released, of which ₹474.36 crore was spent for purchase of bicycles.

Test-check of records of CPI, three DDPIs[45], six BEOs[46] and 36 schools (**Appendix 2.2**) revealed the following:

### 2.3.2 Avoidable extra expenditure on purchase of bicycles

The CPI, Bangalore invited (September 2010) tender for supply of 5.92 lakh bicycles by publishing in three national dailies and two local newspapers. In response to the tender notification, four companies[47] quoted a uniform rate of ₹2,750 and ₹2,795 per bicycle for boys and girls respectively. After negotiation, these companies agreed (October 2010) to supply bicycles for both boys and girls at a rate of ₹2,657 per unit. The State Government rejected the proposal (November 2010) and decided to invite fresh tenders for two academic years (2010-11 and 2011-12) to obtain competitive rates. Accordingly, e-tenders were invited (February 2011) but the fact of e-tendering was published only in those newspapers where earlier tender was invited. As a result, again only the same four companies, who had formed a cartel, participated in the retender and quoted a uniform rate of ₹2,880 and ₹2,970 correspondingly for supply of bicycles to boys and girls. On negotiation (March 2011), the companies agreed to reduce the price per unit to ₹2,768 (boys) and ₹2,858 (girls). The CPI recommended the matter to the High Level Committee (HLC) for re-negotiation as the price reduction was not

[45] DDPIs – Bagalkot, Hassan and Udupi
[46] Bagalkot, Belur, Hassan, Hungund, Kundapura and Udupi
[47] M/s. T I Cycles of India, Chennai, M/s. Avon Cycles Ltd., Ludhiana, M/s. Hero Cycles Ltd., Ludhiana and M/s. Atlas Cycles (Haryana) Ltd., Madhya Pradesh

substantial. On negotiation by the HLC with the four companies, the unit price was agreed to be reduced to ₹2,750 and ₹2,775 for supply of bicycles to boys and girls, respectively. The State Government accorded approval (May 2011) for purchase of 11,27,376[48] bicycles for the years 2010-11 and 2011-12 for a sum of ₹311.42 crore and supply order was placed (May 2011). Audit observed the following:

**Extra expenditure of ₹5.90 crore due to tender cancellation**

*(a)* The tender (September 2010) for purchase of bicycles was cancelled (January 2011) before expiry of the validity period of 120 days and fresh tenders were invited (February 2011). The CPI, Bangalore could have increased the quantity within the validity period of offer. Further, the Department did not provide wider publicity for the retender notification but again published in the same newspapers due to which competitive rates were not obtained as desired. This resulted in extra expenditure of ₹5.90 crore on the purchase of bicycles for the year 2010-11 as detailed in **Table 2.26** below:

**Table 2.26: Details of extra expenditure on cancellation of tender**

**(Amount in ₹)**

| Category | Requirement of bicycles for 2010-11 | Negotiated rate as per original tender | Total amount as per original tender | Rate accepted on re-tender | Amount paid for the year 2010-11 | Extra expenditure |
|---|---|---|---|---|---|---|
| Boys | 2,82,371 | 2,657 | 75,02,59,747 | 2,750 | 77,65,20,250 | 2,62,60,503 |
| Girls | 2,77,217 | 2,657 | 73,65,65,569 | 2,775 | 76,92,77,175 | 3,27,11,606 |
| **Total** | **5,59,588** | | **148,68,25,316** | | **154,57,97,425** | **5,89,72,109** |

Source: As furnished by CPI, Bangalore

The CPI, Bangalore stated (September 2011) that retendering was done to procure bicycles for two years (2010-11 and 2011-12) for all regions. He added that the Finance Department had also concurred so as to generate maximum competition since these companies had formed a cartel. The reply is not tenable as retendering was done within the validity period and the intention of the Department to procure bicycles for two years could have been conveyed to the tenderers for obtaining competitive rates.

*(b)* The supply of bicycles had to be completed within 90 days (August 2011) as per the supply order (May 2011). However, only 10.77 lakh bicycles were supplied as of June 2012 out of 11.27 lakh bicycles, defeating the very objective of the Scheme.

## 2.3.3 Assessment of usage

The CPI, Bangalore instructed (November 2009) that purchase of bicycles should be assessed according to actual requirement for the years 2006-09 without resulting in any surplus/deficit buying. However, it was observed that

[48] Boys-5,70,216; Girls-5,57,160

bicycles were in excess at the end of each year from 2006-07 to 2009-10 as detailed in **Table 2.27** below:

**Table 2.27: Details of bicycles procured**

| Academic Year | Opening balance | Purchases during the year | Total | Distribution during the year | Number of bicycles undistri-buted | Value of undistributed bicycles* (Figures in ₹) |
|---|---|---|---|---|---|---|
| 2006-07 | - | 4,20,323 | 4,20,323 | 4,08,321 | 12,002 | 2,43,64,060 |
| 2007-08 | 12,002 | 4,35,000 | 4,47,002 | 4,43,961 | 3,041 | 62,34,050 |
| 2008-09 | 3,041 | 6,66,222 | 6,69,263 | 6,33,884 | 35,379 | 8,48,03,463 |
| 2009-10 | 35,379 | 5,32,392 | 5,67,771 | 5,60,165 | 7,606 | 1,81,78,340 |

Source: As furnished by CPI, Bangalore

*2006-07 @ ₹2,030; 2007-08 @ ₹2,050; 2008-09 @ ₹2,397; 2009-10 @ ₹2,390 per bicycle

It is observed that 7,606 bicycles remained undistributed at the end of 2009-10. The indents were placed based on the information furnished by the District Information System for Education (DISE) to CPI, Bangalore, in a routine manner. This indicated that the purchases were effected without proper survey/assessment. Further, the condition and quality of excess bicycles stored till they are distributed to the eligible students in the next academic year could not be ensured in audit.

## 2.3.4 Assessment of usage

On joint inspection of 36 schools by Audit and BEOs in the test-checked districts to ascertain the usage of bicycles by X standard students who were issued bicycles in VIII standard (2008-09), it was observed that only 862 bicycles were used as against 2,827 bicycles issued indicating poor usage at an average of 30 *per cent* as detailed in **Table 2.28** below. In three schools the cycles were not used at all.

**Table 2.28: Statement showing details of bicycles issued and used by the students**

| ZPs test-checked | Number of schools | Number of bicycles issued | Number of bicycles used | Percentage of usage |
|---|---|---|---|---|
| Bagalkot | 16 | 1,093 | 610 | 56 |
| Hassan | 8 | 698 | 101 | 14 |
| Udupi | 12 | 1,036 | 151 | 15 |
| **Total** | **36** | **2,827** | **862** | **30** |

Source: Joint inspection reports.

The reasons attributed by the Headmasters of the schools for poor usage were that the bicycles were of substandard quality and that the road conditions were bad, necessitating constant repairs of the bicycles. Penalty was levied in 2008-09 against the suppliers due to supply of substandard bicycles. However, no details about penalties imposed for the years 2009-10 and 2010-11 were furnished. In aided schools, it was stated that the students were not using the bicycles supplied as they possessed their own. Limited usage by students of aided schools indicates failure in identifying the genuine beneficiaries under the Scheme.

The State Government endorsed (April 2012) the reply of the CEO, ZP, Udupi, who stated that due to severe rains and bad roads in rural areas coupled with the parents not insisting on the usage of bicycles, the students were not using their bicycles. Subsequently, after the parents were advised in this regard during the parents meetings, more students have started attending schools on their bicycles.

Thus, the decision of the State Government to cancel the tender for procurement of bicycles in 2010-11 not only resulted in extra expenditure of ₹5.90 crore but also deprived the students of the use of bicycles during the academic year.

# Chapter III

## An overview of Urban Local Bodies

# CHAPTER III

# AN OVERVIEW OF URBAN LOCAL BODIES

## 3.1 Introduction

***3.1.1*** The 74th Constitutional Amendment Act of 1992 envisioned creation of local self-governments for the urban area population. The amendment provided new opportunities for urban governance reforms in the country and aimed at providing a democratic structure of governance at the local level. The State of Karnataka ranks fourth in the degree of urbanisation among the major states in India and the urban population as per 2001 Census was 1.80 crore which was 34 *per cent* of the population of the State. The percentage of urban population in the districts of Karnataka varied between 14 *per cent* in Kodagu and 88 *per cent* in Bangalore (Urban).

***3.1.2*** In Karnataka, there are eight City Corporations (CCs), 44 City Municipal Councils (CMCs), 94 Town Municipal Councils (TMCs), 68 Town Panchayats (TPs) and four Notified Area Committees (NACs). 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 which specify the obligatory, special and discretionary functions to be discharged by these ULBs.

## 3.2 Finances of ULBs

***3.2.1*** The receipts of ULBs are broadly classified as (a) Tax and Non-Tax Revenue (NTR) and (b) Grants and Loans. The State laws empower the ULBs, being local self-governments, to impose taxes and collect fees for various services rendered by them, but the powers pertaining to the rates and revision thereof, procedure of collection, ceilings, method of assessment, exemptions and concessions *etc*., are vested with the State Government.

### *3.2.2 Revenues*

Property tax is the most important source of tax revenues for ULBs, an average of 53 *per cent* of own revenues. In the ULBs (except BBMP), against the demand of ₹355.35 crore for the year 2010-11, a sum of ₹290.03 crore (82 *per cent*) was collected during the year 2010-11. As per the progress report of Geographic Information System (GIS) survey in BBMP, Demand, Collection and Balance (DCB) in respect of 9.47 lakh (64 *per cent*), out of total 14.70 lakh properties, is yet to be generated (November 2011).

Rental income, fee & user charges, sale & hire charges, *etc*., constitute part of NTR. Apart from the rent and water charges, these are usually not related to a fixed and regular demand. The NTR receipts in 11[49] CMCs and two[50] CCs showed a decline during 2009-10 when compared to the previous year due to the failure in collection of dues outstanding, non-revision of lease agreements,

[49] CMCs – Bhadravathi, Bidar, Chikkaballapur, Gadag-Betagere, Kolar, Mandya, Ranebennur, Shimoga, Sirsi, Udupi and Yadgir

[50] CCs - Davanagere and Mangalore

short collection of licence fee, *etc.* There were arrears (March 2010) of ₹28.69 crore in collection of major components of NTR in these ULBs.

### *3.2.3 Financial position of CCs*

The receipts and payments of all the CCs including BBMP during the years 2009-10 and 2010-11 are detailed in **Table 3.1** below:

**Table 3.1: Receipts and payments of CCs**

**(₹ in crore)**

| CCs | 2009-10 | | 2010-11 (Provisional) | | | | | Percentage of increase(+)/decrease(-) compared to 2009-10 | |
|---|---|---|---|---|---|---|---|---|---|
| | Receipts | Payments | Opening balance | Receipts | Total availability of funds | Payments | Closing balance | Receipts | Payments |
| BBMP | 3,588.62 | 3,582.02 | 424.72 | 3,517.29 | 3,942.01 | 3,856.76 | 85.25 | (-)2 | (+)8 |
| Belgaum | 128.66 | 125.01 | 15.84 | 180.06 | 195.90 | 179.56 | 16.34 | (+)40 | (+)44 |
| Bellary | 131.05 | 131.87 | 27.95 | 104.19 | 132.14 | 113.48 | 18.66 | (-)20 | (-)14 |
| Davanagere | 177.70 | 168.83 | 32.85 | 205.14 | 237.99 | 229.17 | 8.82 | (+)15 | (+)36 |
| Gulbarga | 103.35 | 98.78 | 41.32 | 106.75 | 148.07 | 102.64 | 45.43 | (+)3 | (+)4 |
| Hubli-Dharwad | 213.35 | 212.45 | 25.58 | 208.03 | 233.61 | 220.84 | 12.77 | (-)2 | (+)4 |
| Mangalore | 286.62 | 282.51 | 32.19 | 211.24 | 243.43 | 192.94 | 50.49 | (-)26 | (-)32 |
| Mysore | 179.24 | 168.91 | 23.00 | 214.47 | 237.47 | 229.74 | 7.73 | (+)20 | (+)36 |
| **Total** | **4,808.59** | **4,770.38** | **623.45** | **4,747.17** | **5,370.62** | **5,125.13** | **245.49** | | |

Source-Budget estimates of CCs for the year 2011-12

It could be observed that overall receipts in CCs decreased by ₹61.42 crore, whereas there was increase of ₹354.75 crore in expenditure during the year 2010-11 as compared to the previous year. In four[51] CCs, there was reduction in receipts ranging from 2 to 26 *per cent*, while the receipts in other four CCs increased from 3 to 40 *per cent.* Similarly, the expenditure in Bellary and Mangalore CCs decreased by ₹18.39 crore (14 *per cent*) and ₹89.57 crore (32 *per cent*) respectively and increased from 4 to 44 *per cent* in other six CCs. The complete information on financial transactions of all the ULBs up to 2010-11 was called for (September 2011) from DMA. However, information has not been furnished (May 2012).

## 3.3 Finance Commissions

### *3.3.1 State Finance Commission*

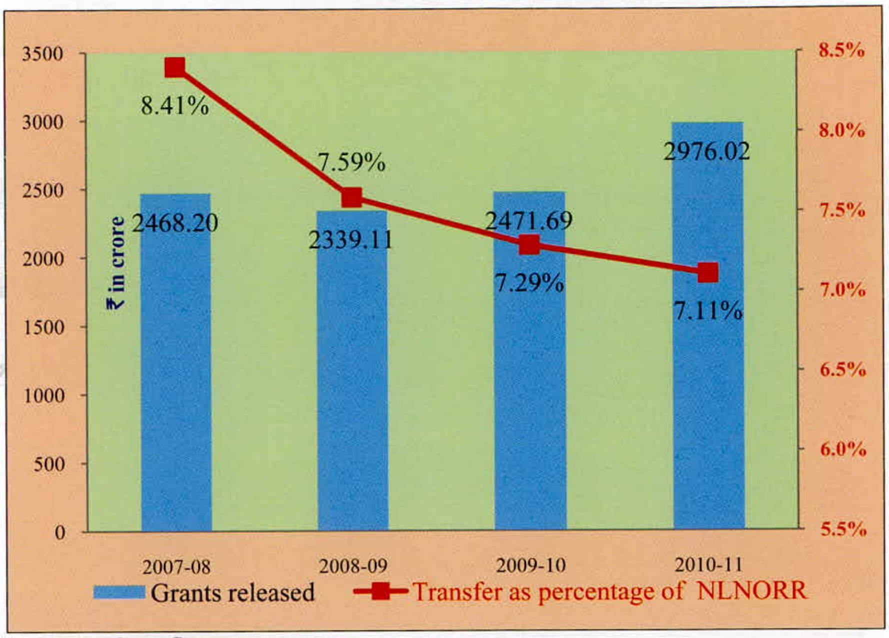
The 73rd and 74th Constitutional amendments mandated the constitution of State Finance Commission (SFC) every five years to determine the sharing of revenue between the State Government and local bodies. So far, three SFCs have been constituted and recommendations of the first and second finance commissions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

On the basis of the second SFC's recommendations in January 2003, the State Government had decided (June 2006) to increase devolution of funds to ULBs from six to eight *per cent* of Non-Loan Net Own Revenue Receipts (NLNORR) of the State during the period 2005-10.

[51] BBMP, Bellary, Hubli-Dharwad and Mangalore

The details of release of grants to ULBs during the years 2007-11 are shown in **Chart 3.1** below:

**Chart 3.1: Release of grants as percentage of NLNORR**




Source: State finance accounts

It could be observed from the above that devolution to ULBs which was 8.41 *per cent* of NLNORR during 2007-08 had decreased to 7.11 *per cent* during 2010-11.

The third SFC had recommended (December 2008) the devolutions to the ULBs at 10 *per cent* of State's Net Own Revenue Receipts, to be implemented from 2010-11 onwards. However, the State Government decided only in October 2011 to allocate 8.50 *per cent* of NLNORR during 2011-12 and increase it by 0.5 *per cent* every year. It was also decided by the State Government that since the entry tax was largely collected in the urban areas, the entire entry tax proceeds would be assigned to the ULBs.

### *3.3.2 Thirteenth Finance Commission*

The Thirteenth Finance Commission (TFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement the resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission recommended grants-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes, over and above the share of the States. The amounts allocated to the ULBs in the State for the period 2010-11 was ₹185.48 crore which was released in two instalments.

## 3.4 Accountability framework

### *3.4.1 Internal control and monitoring mechanism*

Internal controls help to provide reasonable assurance of adherence to laws, rules and regulations as well as safeguards against fraud and mismanagement. These also ensure reliable financial and management information to higher authorities. However, there was no Internal Audit Wing (IAW) in DMA for conducting periodical internal audit of ULBs every year. The Commissioner, DMA replied (December 2011) that steps are being taken to get sanction of the State Government for creation of IAW.

### *3.4.2 Audit mandate*

***3.4.2.1*** The Controller, State Accounts Department (SAD) is the statutory auditor of ULBs in terms of KMC and KM Acts. The Commissioner/Chief Officer is responsible for rectification of any defects or irregularities pointed out in the report of the SAD. The 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.

### *3.4.2.2 Audit under Technical Guidance and Support (TGS) module*

The State Government entrusted (May 2010) the audit of accounts of all ULBs (except NACs) to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 to 2010-11. Subsequently, audit of all ULBs was entrusted (October 2011) to the CAG based on TGS module from the year 2011-12.

### *3.4.2.3 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 Audit within three months from the date of issue of IRs. It was observed that though the State Government was intimated of the position through regular correspondence, the Secretary, UDD and the DMA failed to effectively ensure prompt and timely action by the concerned officers of the ULBs. As a result, 276 Inspection Report paragraphs were outstanding as at the end of October 2011 where money value objections involving ₹31.17 lakh were more than six months old.

# Chapter IV

# Results of Audit of Urban Local Bodies

# CHAPTER - IV

# SECTION 'A' - PERFORMANCE REVIEW

# URBAN DEVELOPMENT DEPARTMENT

## 4.1 Road and drain works in Bruhat Bangalore Mahanagara Palike

**Executive Summary**


The Bruhat Bangalore Mahanagara Palike discharges obligatory and discretionary functions by providing civic services and infrastructure facilities to the citizens of Bangalore as per the provisions of Karnataka Municipal Corporations Act, 1976. The Performance Review on road and drain works in Bruhat Bangalore Mahanagara Palike revealed, *inter alia,* that the planning process was undertaken without any proper need-assessment or taking into account the road history. There was no sanctity in the approval of programme of works due to execution of large number of works over and above the budgeted works. There were irregularities in accounting of deposits, mis-utilisation of deposits and irregular discounting of bills, *etc.* Operational controls were not in place and the tendering process was vitiated, tenders were manipulated, estimates were tampered with and funds were siphoned off. Works were executed to benefit the contractors resulting in doubtful, wasteful, irregular and avoidable works. Monitoring and internal control mechanism were absent at all levels.


### 4.1.1 Introduction

The Bangalore Mahanagara Palike was renamed as Bruhat Bangalore Mahanagara Palike (BBMP) during 2007 by extending its jurisdiction to cover 110 adjoining urbanised areas. The BBMP comprised 198 wards functioning under the jurisdictional control of eight zonal offices[52].

The elections for BBMP were held in March 2010 and the Council was formed in April 2010. The Council was not in existence during the period 2006-10 and, in its absence, the Administrator appointed by the State Government discharged its obligatory and discretionary functions. Construction, improvement and maintenance of road and drain are obligatory functions of BBMP.

[52] Bangalore East, Bangalore South, Bangalore West, Bommanahalli, Byatarayanapura, Dasarahalli, Mahadevapura and Rajarajeshwarinagar (RR Nagar)

### 4.1.2 Organisational structure

The organisational structure of BBMP is detailed below:

| Authorities/Body | Responsibilities |
|---|---|
| Elected Body –The Mayor, The Deputy Mayor and the Corporators of wards assisted by Standing Committees/The Administrator | Approval of Budget and Programme of Works (POW) |
| The Additional Chief Secretary to Government of Karnataka, Urban Development Department (UDD) | Responsible for overall administration of BBMP |
| The Commissioner assisted by the Special Commissioner | Preparation of Budget and POW, approval of estimates and tenders beyond ₹50 lakh. Responsible for monitoring and execution of works |
| The Chief Accounts Officer (CAO) assisted by the Assistant Controller of Finance (ACF) | Ensures availability of funds, scrutiny and assignment of work codes |
| The Joint/Additional Commissioners of zones assisted by Chief Engineers (CE), Superintending Engineers (SE), Executive Engineers (EE) and Assistant Executive Engineers (AEE) | Approval of estimates and tenders up to ₹50 lakh. Responsible for monitoring and execution of public works in zones of BBMP |

### 4.1.3 Scope of Audit and methodology

The Performance Review on road and drain works in BBMP for the years 2008-09 to 2010-11 was conducted covering seven divisions of three zones of BBMP[53] with an expenditure of ₹642 crore (19 *per cent*) out of ₹3,448 crore. The zones and divisions were selected by adopting simple random sampling method. Audit test-checked (May–November 2011) 597 road and drain works such as formation of new roads, water-bound macadam roads, asphalting, cement concrete roads, maintenance of roads, road side drains and tertiary storm water drains, costing ₹255.05 crore. The audit objectives and methodology of Audit were discussed with the Special Commissioner, BBMP during an Entry Conference held in May 2011. The draft review was forwarded (November 2011) to the Additional Chief Secretary to Government of Karnataka, UDD. The Exit Conference was held in March 2012 with the Secretary, UDD.

### 4.1.4 Audit objectives

The Audit objectives for the performance review on road and drain works in BBMP were to ascertain whether:

- the planning was in conformity with the requirements;
- the tendering process was adequate and conformed to the provisions;
- the works were properly authorised and were executed efficiently and economically; and
- quality control and monitoring mechanism at all levels were in place.

[53] Bangalore East (Pulakeshinagar, Sarvagnanagar and Shanthinagar), Dasarahalli (Dasarahalli and Hegganahalli) and RR Nagar (Kengeri and RR Nagar)

## 4.1.5 Audit criteria

The source of audit criteria in evaluating the performance of the road and drain works were:

- Karnataka Municipal Corporations (KMC) Act, Karnataka Municipalities (KM) Act, Karnataka Transparency in Public Procurement (KTPP) Act, and rules thereunder;
- Karnataka Public Works Accounts (KPWA) Code, Karnataka Public Works Departmental (KPWD) Code and Karnataka Financial Code (KFC);
- State Government orders, notifications, circulars and instructions issued from time to time;
- POW sanctions, approvals, proceedings; and
- Indian Road Congress (IRC) guidelines.

## Audit findings

The Audit findings are discussed in the succeeding paragraphs.

## 4.1.6 Planning process

### *4.1.6.1 Non-availability of data base*

**The planning process was defective without the availability of database or road history**

The KPWD code provides for maintenance of a register in the prescribed form with the basic information on assets created and owned. It was seen that no such register was maintained in BBMP. As such, the details especially with regard to the number of existing roads and drains, their condition, the kind of improvement and maintenance required were neither available with the CEs nor in any of the zonal offices. The road history register was also not maintained by the EEs of the divisions test-checked. In the absence of database, there was evidently no proper system of planning, prioritising and approval of works in BBMP. As a result, while executing the road works, the CEs/EEs of BBMP could not ensure that the actual requirements of construction/improvement/widening, *etc.* were met.

The State Government stated (May 2012) that though the practice of recording inventory of roads was in vogue since 1976, the road history was not updated. It was also stated that all the concerned Engineers are being addressed to maintain road information system.

### *4.1.6.2 Non-preparation of need-based POW*

Ideally, the POW has to be prepared on the basis of the requirements of different zones/wards. However, it was seen in Audit that after the budget was approved by the State Government providing equal lumpsum grants for each ward, the Joint Commissioners (JCs) of the zones prepared POW for each ward. Evidently, the POW was prepared on the basis of funds allocated and not on the needs of each ward. This defeated the very purpose of planning as the requirements of each ward would vary.

### *4.1.6.3 Assignment of work codes*

The flow chart for assignment of work codes is as shown below:

The Engineers of divisions identify the works for execution

↓

Identified works are proposed to the EE for inclusion in POW

↓

The CAO ensures availability of funds for works

↓

The Commissioner/JCs accords administrative approval for works

↓

The ACF assigns work codes

↓

The Commissioner prepares POW incorporating work codes

↓

The Council and the State Government approves the POW

No tender was to be processed and no work bill paid by the divisions without the work code. Audit found deviations from these controls as detailed below:

**Discrepancies in assignment of work codes and approval of works outside the POW were noticed**

***(a)*** In 28 cases, the ACF had assigned work codes without indicating all the details of the works proposed in the work code forms.

***(b)*** In seven cases, work codes were assigned in blank forms without any details.

***(c)*** In 14 cases, work codes were assigned even though work code forms were without the signature of the ACF and

***(d)*** During 2009-10, 780 works costing ₹222.62 crore were included in POW without work codes.

Possibility of payments for fictitious works due to deviations from the prescribed control mechanism in assignment of work codes could not be ruled out.

A Study Report (January 2011) by the Chief Auditor, BBMP on assignment of work codes also revealed the following irregularities:

- Work codes were assigned without the approval of the Commissioner;
- Work codes were assigned to works other than the proposed works;
- A single work code was assigned to more than one work. Conversely, more than one work code was assigned to a single work;
- Nomenclature of work was changed to suit the work code assigned;
- Work codes were assigned to a large number of works estimated to cost more than the actual budget; and
- Work codes were assigned for works for which the Commissioner had sought clarifications.

The State Government replied (May 2012) that the matter is under investigation by Criminal Investigation Department (CID).

### *4.1.6.4 Assignment of work codes over and above the POW*

***(a)*** Except in the case of an emergency, no work is to be taken up for execution other than the works approved in POW. In contravention of the provision, the Commissioner approved a large number of works without proper justification for assigning work codes including the works proposed by the elected representatives of the Legislative Assembly. The details of approved works as per POW *vis-à-vis* the works-assigned work codes are as shown in **Table 4.1** below:

**Table 4.1: Details of works approved in POW *vis-à-vis* works-assigned work codes**

| Year | Number of works approved for which work codes were assigned | | Percentage of excess |
|---|---|---|---|
| | As per POW | Actual | |
| 2008-09 | 3,018 | 10,123 | 235 |
| 2009-10 | 5,818 | 15,516 | 167 |
| 2010-11 | NA | 19,346 | - |

Source: Figures as furnished by BBMP NA: Not available

The Administrator had also pointed out (March 2010) that work codes were assigned much beyond the approved works in POW and the budget allocation. Evidently, the approval of huge number of works by the Commissioner was irregular and led to large scale irregularities in execution of works as discussed in succeeding paragraphs:

***(b)*** In all test-checked cases, the works approved in addition to the POW were estimated at less than ₹50 lakh to avoid two cover system of tendering[54] and e-procurement[55].

***(c) Sanction of large number of works***

The Administrator had instructed (March 2010) prioritising of other works such as garbage collection, hospitals and schools works, *etc.* By then, the Commissioner had sanctioned a large number of works over and above the POW to the extent of ₹1,910 crore. The CAO sought (March 2010) *post-facto* approval of the Administrator for which approval has not been accorded (January 2012). In spite of the Administrator's instructions, the Commissioner sanctioned additional works amounting to ₹36.84 crore without the approval of the Administrator during the fag end of March 2010.

The Administrator had also stated (December 2009) that though he requisitioned information on the financial position during the monthly meetings, the CAO did not apprise him and failed in his assigned duties. Evidently, the Commissioner and the CAO kept the Administrator in the dark about the financial position of BBMP.

54 A procedure under which tenderers are required to submit two separate sealed covers simultaneously, the first cover containing Earnest Money Deposit and details of capability to undertake tender. The second cover contains the price quotation which will be opened only if the technical capability is fulfilled.

55 Procurement of goods and services through on-line procurement portal set up and managed by the State Government

The State Government stated (May 2012) that prior to 2010-11, a large number of additional works were included over and above the approved works in the budget on the basis of the recommendation of the elected representatives. However, the fact remains that additional works were sanctioned without the approval of the Administrator, in violation of rules.

## 4.1.7 Financial Management

### *4.1.7.1 Budgeting*

As per the provisions of KMC Act, the Commissioner shall, on or before the 15th day of January each year, prepare and submit to the Standing Committee a budget containing a detailed estimate of income and expenditure of the BBMP for the ensuing financial year. It is obligatory on the part of BBMP to pass the budget three weeks before the commencement of the financial year and submit a copy to the State Government for approval. It was, however, seen that the CAO of BBMP did not prepare the budget and present it to the Council for approval in time in any of the years during the period under review. Details of submission and approval of budget by the Council/Administrator are as shown in **Table 4.2** below:

**Table 4.2: Details of submission and approval of BBMP budget**

| Year | Date of presentation to the Finance Committee | Date of Approval by the Council/ Administrator | Delay in number of days (from 10th of March) | Date of approval by the State Government |
|---|---|---|---|---|
| **2008-09** | 28.3.2008 | 28.03.2008 | 18 | 15.05.2008 |
| **2009-10** | 31.3.2009 | 31.03.2009 | 21 | 02.04.2009 |
| **2010-11** | 12.8.2010 | 09.09.2010 | 183 | 08.10.2010 |

Source: As furnished by BBMP

As can be seen, the budgets for the years 2008-10 were submitted to the Finance Committee and approved by the Administrator on the same day. For the year 2010-11, the CAO failed to submit the budget on the due date and the same was approved by the council only in September 2010. Evidently, the discussion on the budget was inadequate and the entire budgeting exercise was not taken seriously either by the BBMP or the State Government.

### *4.1.7.2 Allocation of fund and expenditure*

**Financial management was skewed due to failure in budgetary control.**

The BBMP receives funds for execution of developmental works from various sources such as State Government grants, Government of India grants, own funds, loans from various agencies, *etc.* The CAO is responsible for release of funds for developmental works of the zonal divisions of BBMP. The details of budget provision and the expenditure incurred during 2008-11 in BBMP towards zonal works are as shown in **Table 4.3** below:

**Table 4.3: Budget provision and expenditure for zonal works**

**(₹ in crore)**

| Year | Budget Provision | Expenditure | Excess (+)/ Savings (-) | Total revenue | Percentage of Expenditure to Total revenue |
|---|---|---|---|---|---|
| **2008-09** | 636.41 | 870.94 | (+)234.53 | 891.13 | 97.73 |
| **2009-10** | 876.84 | 1,277.37 | (+)400.53 | 877.86 | 145.51 |
| **2010-11** | 3,222.31 | 1,299.61 | (-)1,922.70 | 1,070.64 | 121.39 |

Source: As furnished by BBMP and budget documents

It was observed that in 2008-09 and 2009-10, the expenditure on works exceeded the budget provision by 37 and 46 *per cent*, respectively. Even though the expenditure on works increased substantially, there was no corresponding increase in own revenue by way of tax and non-tax revenue during 2009-11. This was due to sanction of a large number of works by the Commissioner other than the approved POW, when the Council was not in existence.

#### *4.1.7.3 Irregular operation of Hundi system*

In order to facilitate the settlement of pending contractors' bills due to execution of a large number of works without budget provision, the Commissioner entered into a tripartite agreement with banks for operating "Hundi system", wherein the contractors could discount their bills directly from the banks. This system was provided to benefit the contractors by early settlement of their claims without awaiting the availability of funds with the BBMP. The Commissioner, however, did not obtain prior permission from the State Government for operating the Hundi system.

The facility to discharge the bank liability was provided to BBMP for a period up to 180 days and, in case of default, interest was payable at 10.5 *per cent* per annum. As of March 2011, BBMP had approved bills of the contractors to the extent of ₹2,613 crore for discounting under Hundi system and bills to the tune of ₹1,863.57 crore were pending. However, due to improper planning and execution of a large number of works, the BBMP failed to discharge its liability to banks within the stipulated time, resulting in avoidable payment (September 2011) of interest of ₹21.33 crore to the banks.

The State Government replied (May 2012) that due to protests from the contractors for payment of their dues, the Commissioner had ordered for payments through Hundi system. However, the reply is not acceptable as no permission was obtained from the State Government for operating the Hundi system, as required under section 154 of KMC Act, 1976.

#### *4.1.7.4 Non-monitoring of Bank Guarantees*

Financial Code provisions stipulate that Bank Guarantees (BG) should be obtained from the contractors as a valid security towards performance of contracts for a period of one year from the date of completion of work. These BGs were required to be cross-verified with the Bank to ascertain their genuineness. They had to be renewed on expiry and encashed in case of any default in performance of the contracts. However, it was seen that only in Sarvagnanagar division, a BG register to watch the receipt, renewal or encashment of the BGs was maintained.

The State Government replied (May 2012) that strict instructions have been issued to the concerned to maintain the BG register in the prescribed format.

#### *4.1.7.5 Improper maintenance of cash book*

Codal provisions stipulate that all monetary transactions should be entered in the cash book as soon as they occur and the cash book should be closed daily. The Divisions should also reconcile the cash book balance with the balance appearing in the bank pass sheet. The Bank Reconciliation Statement (BRS) had to be submitted with monthly accounts to the CAO on the eighth of the following month. However, it was observed that in the test-checked divisions, the receipts or the remittances from/to the Bank on the day of transaction were not entered or closed daily in the cash books maintained during 2008-11. Receipts against cash received were also not issued. Submission of BRS by all divisions test-checked was in arrears as of March 2011. Improper maintenance of cash book coupled with non-reconciliation may result in non-detection of fraud, excess payments, non-remittances, *etc.*

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

#### *4.1.7.6 Non-submission of monthly accounts*

Codal provisions prescribe that the monthly accounts, with all vouchers and transfer entry orders in support of cash payments and other charges, be submitted by the Divisional Officer to the CAO on the eighth of the month following that to which it relates. Even though the CAO had impressed upon (March 2010) the divisions to submit monthly accounts on time, it was seen that none of the EE/AS of the test-checked divisions had submitted the monthly accounts for the period 2008-11 to the CAO as of January 2012 and as such, the progressive expenditure of BBMP could not be monitored.

The State Government replied (May 2012) that monthly accounts would be submitted regularly to the CAO in future by the Divisional Officers.

### 4.1.8 Preparation of estimates

A preliminary report and a rough estimate of the cost of work proposed to be taken up should be prepared by the engineers of the divisions for obtaining the administrative approval for the work. Thereafter, a detailed estimate supported by complete details such as schedule of all items, quantities, rate, cost, drawings, specifications, rate analysis, measurement details, *etc.* needs to be prepared for each work for obtaining technical sanction of the competent authority. Technical sanction ensures that the proposal is structurally sound and the estimate is economical.

**Estimates were tampered to suit execution of works favourable to contractors**

***4.1.8.1 (a)*** Audit observed that the preliminary reports and the rough estimates were not prepared by AEE/Assistant Engineer (AE) in any of the test-checked cases.

***(b)*** In test-checked divisions of Dasarahalli, Sarvagnanagar and Shanthinagar, the Members of the Legislative Assembly had requested the Commissioner on several occasions to take up road works at a specified amount indicated against each work. Even before estimates were prepared, tenders were called for by the EE for the amounts indicated by the representatives. Evidently, the control mechanism for preparation of estimates such as survey, condition of the road, items of works required, *etc.*, was ignored by the divisions. It was also evident that the estimates were prepared to match the amount indicated in the Notice Inviting Tenders (NITs).

The Government replied (May 2012) that before calling for tenders, estimates were prepared as per site conditions and no tenders were called for without preparation of estimates. The reply is not tenable since instances of preparation of estimates after inviting tenders were observed by Audit.

***(c)*** Road history provides the details of pavements constructed earlier and maintenance carried out thereafter. As per the codal provisions, it is mandatory that all estimates should contain a report based on the road history and indicate the justification for a particular work to be taken up for execution. However, it was seen in Audit in all the works approved by the EE/SE/CE that there were no reports accompanying the estimates for selecting the work in preference to others and also no road history for adopting a particular design, *etc.* Audit observed that the proposals initiated and works executed by the test-checked divisions, except in Sarvagnanagar division, were without any need-analysis or justification for such works.

The State Government replied (May 2012) that in future, separate reports would be enclosed to the estimates.

***(d)*** Ideally, the estimates relating to road works should contain the details of the place of the proposed work, name of the street or number, *etc.* It was seen in Audit in test-checked divisions that estimates costing ₹47.92 crore did not contain any such details for identification of works. The JCs and the CEs who accorded administrative approvals and technical sanctions, respectively, also did not question such vague preparation of estimates by the EEs. It was also observed in 114 cases that the details of measurements and drawings were not made a part of the detailed estimates, resulting in arbitrary adoption of quantities in the estimates. In absence of the details, Audit could not assess whether the works proposed were need-based.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that action had been taken to avoid such mistakes and a check-list had been issued to incorporate vital details which were necessary for an estimate.

***(e)*** According to IRC guidelines, in order to arrive at the thickness of pavement layers, Benkelman Beam Deflection (BBD) technique and traffic studies have to be conducted and report to be drawn before the estimates are prepared. The details of the existing condition of the road, age of the road, CBR[56] value, status of the base/sub-base, longitudinal and cross-sections along with location map, *etc.*, were to be recorded/enclosed with the estimate or report accompanying the estimate. However, it was seen in Audit that in all test-checked road works, except in a few cases of Hegganahalli division, the BBD tests and traffic studies were not conducted. The CBR value, longitudinal/cross-sections along with location maps have not been obtained before construction of the road in any of the test-checked cases in spite of the guidelines and instructions from the Commissioner (March 2008 and July 2009) to carry out the required tests before embarking on construction of new roads or strengthening of existing roads. Further, photographs showing the condition of the roads before the commencement of work were not available on record in most of the cases test-checked. The CEs who approved these estimates also failed to ensure compliance with these requirements before according technical sanction. Strangely, the Commissioner also approved these works disregarding his own instructions. In the absence of these studies and tests, Audit could not verify the correctness of the estimates.

It was seen in Audit that in six cases of Hegganahalli division where BBD

[56] California Bearing Ratio

tests were conducted, the results of the tests were received (June-July 2009) after the tenders for the same were invited during February 2009. There were no letters issued by the division to conduct such tests and no payments have been made towards these tests by the division. When the works were already tendered, there was no point in conducting the BBD tests. Evidently, these tests were conducted only to match the estimates prepared and not vice-versa.

The State Government replied (May 2012) that strict guidelines would be issued and check conducted before approval.

***(f)*** The Commissioner had instructed (November 2009) that all drain works should include a mouth-covering gate so that this would enable unhindered flow of waste water. However, it was seen in Audit in Kengeri division that mouth-covering gates were not provided in 14 works costing ₹1.88 crore which were approved after the instructions. As a result, most of the road works necessitated desilting of drains as discussed in ***paragraph 4.1.10.2 (iv)***.

### *4.1.8.2 Irregular recasting of estimates*

As per the codal provisions, the estimates have to be prepared taking into account the current Schedule of Rates (SR) available. After the receipt of tenders, the rates quoted by the contractors have to be recast with reference to the current SR and, thereafter, tender premium or discount should be worked out. A test-check of files relating to 14 works revealed that the estimates were approved by the CEs during June-July 2009 adopting the SR of 2008-09 when the SR of 2009-10 had already come into force (June 2009). It was seen in Audit that the divisions did not recast the rates as per the current SR of 2009-10. As a result, the cost of 14 estimates which should have been ₹6.07 crore at the current SR was estimated at ₹6.91 crore. After tendering, these works were entrusted to the contractors for a total amount of ₹7.55 crore (17 to 34 *per cent* over the amounts put to tender). Evidently, the CEs did not check the estimates submitted by the divisions and approved the estimates/tenders without recasting these to the current SR, resulting in irregular approval which was beyond the powers of JC and also the Commissioner[57]. This resulted in award of contracts at very high rates *vis-à-vis* the estimates.

It was also seen in Audit in two cases[58] in RR Nagar division that the EE of the division revised the rates of bituminous items to those prevailing at a later date (01 October 2009) and not on the date of opening of tenders (05 September 2009). This resulted in excess payment of ₹12.68 lakh, besides undue favour to the contractors.

### *4.1.8.3 Non-indication of lead-off[59] in the estimates*

In all the drain works, which were part of the road works, the lead-off of water or sewage to the primary/secondary drains was to be appended to the

[57] Approval of tenders up to eight *per cent*/8-15 *per cent* were within the powers of JC/Commissioner, respectively

[58] (1) Asphalting of roads from Sharada School to Lavakusha Nagar, Gaddebayalu via Gnanabharathi School, (2) Metalling and asphalting of roads from Rajiv Gandhi Circle to Rajiv Gandhi Public School and cross roads

[59] Lead off refers to the flow of drain/storm water from the tertiary drains to the primary/secondary drains

estimates. The AE/AEE was also to certify that the tertiary drains, where lead off was proposed, were functioning properly. However, it was seen that such certificates were neither appended to the estimates nor was the required lead off to the secondary or primary drains shown by way of a map. In the absence of a proper lead off and certificate from AE/AEE, Audit could not assess whether the construction of drains served the desired purpose.

The State Government replied (May 2012) that instructions would be issued in this regard to all the CEs.

#### *4.1.8.4 Irregular adoption of lead charges*

***(a)*** Whenever lead charges are provided in the estimates, it is mandatory that the nearest place of Hot Mix Plant (HMP) and Ready Mix Concrete (RMC) plant is indicated, the distance to the work spot is mentioned and rate analysis worked out. Lead charges for distances beyond one kilometre (km) can be paid separately but should not be made without a lead map. It was seen in Audit in Dasarahalli zone that in 107 estimates for concrete and asphalting road works, leads of 10 kms to 15 kms were provided and an expenditure of ₹1.33 crore was incurred without indicating the place of the HMP and RMC and also without enclosing lead maps to the estimates. As a result, the reasonability of expenditure on lead charges could not be assessed by Audit.

***(b)*** Further, in the SR of the year 2008-09 onwards, the lead charges for disposal of debris, excavated items, *etc.*, for a distance up to 15 kms are to be included in the estimates. However, it was seen in Audit that in 236 cases of test-checked divisions, payment of ₹2.41 crore was made during 2008-10 towards lead charges up to 15 kms, without indicating the places of dumping yard and the necessary lead maps. As a result, Audit could not ensure the veracity of payments made towards lead charges.

The State Government replied (May 2012) that for asphalting works and for disposal of excavated stuff, lead charges of 10 to 15 kms has been paid as there was no HMP and notified dumping yard within 15 kms lead. The reply is not tenable as the estimate should necessarily indicate the nearest place of HMP and dumping yard, besides enclosing the lead map.

#### *4.1.8.5 Inadequate scrutiny of estimates*

As per codal provisions, trial pits should invariably be dug at the site of work and nature of soil such as ordinary soil, hard soil, hard rock, soft rock, *etc.,* ascertained before preparing the estimates for work. It was seen in Audit that such an exercise was not done in any of the cases and no certificates were available on record. In the absence of such tests, the CE, while approving the estimates, should have adopted excavation only in ordinary soil. The total expenditure on excavation of soils other than ordinary soil worked out to ₹1.57 crore in 62 cases. The measurements recorded also indicated excavation for soft rock, hard rock or hard soil and payments were made accordingly. In the absence of trial pits as per the codal provisions, it is not clear as to how the estimates were prepared and the authenticity of the recorded measurements accepted.

The State Government replied (May 2012) that CID has taken the records for enquiry and reply would be furnished on receipt of records.

#### *4.1.8.6 Preparation of vague estimates*

Out of 10 test-checked pothole filling works, in eight cases involving an expenditure of ₹49.10 lakh taken up by Dasarahalli, Pulakeshinagar, Sarvagnanagar and Shanthinagar divisions, it was seen in Audit that there were no pre-measurements in any of the cases. Further, a scrutiny of estimates revealed that in all the cases the place/cross/name of the roads and number of potholes have not been indicated. Only a mention of the ward was given which was insufficient to arrive at the exact quantum of pothole filling to be undertaken. Evidently, the estimates were prepared and works were executed on *ad hoc* basis.

The State Government replied (May 2012) that a check list has been issued to incorporate all vital details which were necessary for an estimate.

### 4.1.9 Tendering process

Audit observed the following discrepancies/irregularities in tendering process:

#### *4.1.9.1 Non-maintenance of tender form register*

**Tendering system was vitiated due to irregularities in the tendering process**

All the divisions of BBMP were required to maintain a register for sale of tender forms indicating the total number of forms sold to the contractors, amount received, *etc.* It was seen in Audit that none of the divisions had maintained the register nor issued receipts for having sold tender forms. Hence, Audit could not ascertain the total number of tender forms sold and the amount realised and remitted to the bank account. It was seen in Audit that a sum of ₹0.86 lakh received towards sale of tender forms in Dasarahalli division was not traced to the bank pass sheets.

The State Government replied (May 2012) that the tender form registers were being maintained now. As regards RR Nagar division, it was stated that the records were seized by CID and replies would be furnished on receipt of the records.

#### *4.1.9.2 Tenders without sanction*

***(a)*** KPWD codal provisions stipulate that no tender shall be invited before obtaining administrative approval and technical sanction. Contrary to the provision, tenders in 163 test-checked cases (27 *per cent*) were invited by EEs of the test-checked divisions before obtaining technical sanction and administrative approval from competent authorities. Evidently, tenders were invited without ensuring availability of funds and technical scrutiny.

The State Government replied (May 2012) that in a few cases tenders were invited before according administrative approval and technical sanctions.

***(b)*** It was seen in Audit that the technical sanctions for the estimates in seven works in three divisions[60] during 2009-10 were approved after opening of tenders.

#### *4.1.9.3 Incomplete NITs*

The KTPP Act stipulates that the NIT should necessarily include the name of the work, estimated cost put to tender, period of completion, time and date of

[60] Hegganahalli, Sarvagnanagar and Shanthinagar

receipt and opening of tenders and other relevant conditions. However, it was seen in Audit that this information was not available in 15 NITs issued during 2008-10 in the test-checked divisions. The NITs contained only the total number of works being tendered without even indicating the nature of works.

The State Government replied (May 2012) that necessary instructions would be issued to all the CEs to check and avoid these lapses in future.

#### *4.1.9.4 Non-publication of NITs*

All NITs of the divisions are to be forwarded to the Public Relations Officer (PRO) for publication in two widely circulated newspapers. Audit observed that in respect of 63 cases, the NITs were published in a single newspaper.

It was seen in Audit that one NIT comprising 29 works costing ₹9.86 crore pertaining to Hegganahalli division was neither published in newspapers nor forwarded to the PRO for publication. The PRO stated (October 2011) that no NITs pertaining to the division were published by him for works tendered during 2008-09. Hence, Audit could not assess the veracity of the tenders received for these works in the division.

The State Government replied (May 2012) that instructions in KTPP Act would be strictly adhered to.

#### *4.1.9.5 Restricted participation in tenders*

***(a)*** The State Government amended (September 2003) the procedure for sale of tender documents as per KTPP Act and provided for issue of tender documents throughout the period of tender till the notified date of closure for issue of tender forms. However, it was seen in Audit in test-checked divisions that tender forms for works ranging from ₹20 lakh to ₹49.99 lakh were made available for sale for a short duration and not till the last date of receipt of sealed tenders. This not only contravened the provisions of the KTPP Act but also restricted the participation of tenderers.

The State Government accepted (May 2012) that there were lapses during manual tendering process and the procedure of issuing tender forms for the entire period was being followed now.

***(b)*** The KTPP Act prescribes that the Tender Inviting Authority should allow a minimum time of thirty days between the date of publication of NIT and the last date for submission of tenders where the value of the tender is below ₹ two crore. In a majority of the cases, the amount put to tender was less than ₹50 lakh and the test-checked divisions invited short term item-rate tenders and the time allowed for submission of tender forms in these cases ranged from 7 to 25 days. This limited the participation of tenderers, ultimately leading to non-receipt of competitive bids.

The State Government stated (May 2012) that as there were only seven months left in the financial year, short term tenders were called for. The reply is not tenable as seven months were sufficient for inviting tenders as per the procedure prescribed in the KTPP Act and completion of work before monsoon.

#### *4.1.9.6 Non-availability of contractors' details*

***(a)*** The Accounts Superintendent (AS) of the division should necessarily ensure that the tender forms are issued only to those contractors who satisfy the eligibility criteria as per the terms and conditions of NITs published. However, in the test-checked divisions, the AS failed to even keep a record of the persons who requested for tender forms and there were no copies of contractors' certificates. In the absence of this, Audit could not ascertain whether the works were entrusted only to eligible contractors.

The State Government replied (May 2012) that necessary instructions would be issued to concerned EEs in this regard.

***(b)*** The AS of the division was responsible for maintaining of a tender-opening register meant for watching tenders received, the rates quoted by tenderers, Earnest Money Deposit (EMD) amount and its date, eligibility of contractor, *etc*. The maintenance of the register was to be watched by the EE of the division. However, it was seen in Audit that the tender-opening registers were not maintained in five test-checked divisions[61] indicating the failure of the EE/AS to properly scrutinise and monitor the tender procedure.

#### *4.1.9.7 Vitiating tender sanctity*

***(a)*** In order to give equal opportunity to all the bidders and to maintain the sanctity of the tendering system, any change in the tender terms and conditions, specifications and tender-opening date, *etc.* is to be notified to all the tenderers well in advance. It was seen in Audit that the tenders were postponed in test-checked cases, even up to 11 times, quoting technical reasons. It was seen in Audit that the postponements were due to delay in preparation of estimates and technical approvals before inviting tenders, as discussed in ***paragraph 4.1.9.2 (a)***.

***(b)*** The postponement of the last date of receipt of tenders was not published by the EEs of the test-checked divisions in any of the newspapers for the information of the tenderers except Kengeri division. In Kengeri division, the postponement in five cases was published in newspapers after the original last date for receipt of tenders. Failure to publish the postponement of tenders in the newspapers or delayed publication restricted competitiveness and vitiated the tender sanctity.

The State Government replied (May 2012) that instructions would be issued once again to the concerned to take necessary action.

#### *4.1.9.8 Subversion of the spirit of competition*

As per the guidelines issued (December 2002) by the State Government, fresh tenders are to be invited when less than three tenders are received for a work. However, it was seen in Audit of 206 tendered test-checked (35 *per cent*) works that only two contractors participated for each work and the works were awarded and not rejected. Thus, possibility of bid rotation between the two contractors, subverting the spirit of competition, could not be ruled out.

The State Government replied (May 2012) that in future tenders would be rejected when there were less than three bidders.

It was also seen in Audit that in nine cases of test-checked zones, single tenders were accepted for works costing ₹2.27 crore, which evidently pointed

[61] Dasarahalli, Hegganahalli, Pulakeshinagar, Sarvagnanagar and Shanthinagar

to favours extended to selected contractors.

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

#### *4.1.9.9 Non-ensuring of contractors' eligibility*

The State Government's instructions (October 2008), read with NIT, specified certain conditions for participation in the tender above ₹50 lakh, such as satisfactory completion of at least one work to the extent of 50 *per cent* of the tendered cost for works costing up to ₹ one crore; the contractor owning at least 50 *per cent* of the equipment required for the work, *etc.* Scrutiny of 18 technical evaluations for works costing ₹50 lakh to ₹2.72 crore revealed that in 16 cases the details of execution of works to the extent prescribed were not obtained and in 14 cases the details of equipment owned by the contractors were not insisted upon. It was evident from the above cases that the tender evaluation was not done as prescribed and works were entrusted to agencies without ensuring the eligibility criteria for executing such works.

The State Government replied (May 2012) that action would be initiated against the officers concerned for such lapses.

#### *4.1.9.10 Rigging of tenders*

In two cover tendering system applicable to works above ₹50 lakh, the financial bid is to be opened only in respect of those contractors who qualify after technical evaluation. However, in five test-checked cases in RR Nagar division for works costing ₹ one crore each, even though the technical bid evaluation statements were blank, financial bids were opened and contracts were awarded during 2009-10. In these cases, while there were only two bids as per the technical evaluation statements, there were three financial bids for financial evaluation. Evidently, the tenders were rigged to suit the selection of the contractor.

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

#### *4.1.9.11 Irregularities in EMD*

KPWD codal provision stipulates that no tenders for the execution of work of any description should be received by the EE unless accompanied by the prescribed percentage of EMD. The EE, AS and the Accounts Clerk were responsible for watching the requirements, for accounting and refund of EMD after completion of work. Scrutiny of collection, accounting and refund of EMD revealed the following irregularities:

- Against the EMD of two *per cent* of the estimated cost of work (for works costing ₹ twenty lakh to ₹ one crore) to be obtained from the contractors as per the State Government instructions (October 2008), it was observed that only one *per cent* of the estimated cost was obtained as EMD in the test-checked divisions, thereby extending undue benefits to the contractors.

- In RR Nagar division, an amount of ₹35.57 lakh received by way of Demand Drafts (DD)/bankers cheque during 2008-11 towards EMD was neither taken to cash book nor remitted to bank account. No receipts were issued to the contractors. Even though the entries for having received the amount were made in the EMD register, the DD numbers mentioned there-against pertained to the EMDs furnished for tendered works of earlier years. Copies of the DDs were not made available to Audit for verification.

- In 34 test-checked cases of four divisions[62], the dates of DDs were after the last dates of opening of tenders. Evidently, the tenders were finalised and works were entrusted without following the provisions.
- The amounts received towards the EMD are to be repaid only on completion of the defect liability period and on request made by the contractors. Based on the instructions (December 2008) of the Commissioner, the EEs of five divisions[63] transferred ₹10.59 crore to main account of BBMP. Drawal of deposit amount for discharging other liabilities of BBMP is fraught with the risk of non-repayment of deposits when sought by the contractors.

Due to the above stated irregularities, the tenders received were not substantially responsive[64] and were to be rejected. Despite the above irregularities, the tenders were processed and contracts were also awarded.

The State Government replied (May 2012) that strict instructions would be issued to the divisions to adhere to the procedure.

#### *4.1.9.12 Avoidance of e-procurement*

***(a)*** In a meeting on e-procurement (April 2008), the CE of the Public Works Department stated that a saving of 8.85 *per cent* was achieved on the estimated amount through e-procurement system as the Department obtained competitive bids and the process was transparent and fair. The State Government also issued an order (April 2009) that all works costing ₹50 lakh and above (revised to ₹10 lakh and above during December 2009) should be tendered only through the e-procurement system for better competitive bids. However, in the test-checked divisions of BBMP, 75 *per cent* of the works were split during 2009-10 into packages of less than ₹50 lakh/₹10 lakh to avoid e-procurement.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that instructions had been issued to the concerned to adhere to the prescribed codal procedure and follow the KTPP Act.

***(b)*** The tender for asphalting of 35 bad roads of Lingarajapuram and KSFC layout costing ₹81 lakh was invited during February 2009. However, the estimate was approved by the CE in January 2010. Later, the EE of Sarvagnanagar division prepared another estimate for asphalting of 28 roads costing less than ₹50 lakh, deleting seven road works, which was also approved (January 2010) by the CE without indicating any reasons. Tenders were evaluated on the basis of original NIT issued during February 2009. Surprisingly, the EMD was obtained (January 2010) for the revised estimated amount. This clearly indicated that the CE/SE/EE tailored the estimate to avoid e-procurement and restrict competition and the revision of estimates was also within the knowledge of the tenderers.

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[62] Dasarahalli, Hegganahalli, RR Nagar and Sarvagnanagar

[63] Dasarahalli, Hegganahalli, Pulakeshinagar, Sarvagnanagar and Shanthinagar

[64] Tenders considered unfit for further processing due to violations of tender conditions

***(c)*** The instructions of the State Government for maintenance and repair works stipulated that works of emergency nature only shall be entrusted on piece-work system and not more than two works shall be entrusted to the same agency at a time. It was observed that in Shanthinagar division, the EE irregularly split (February-March 2011) the desilting/pothole filling works costing ₹45 lakh to 25 works of less than ₹ two lakh each in order to avoid obtaining sanction from the CE and also inviting tenders. All these works were entrusted on piece-work basis to a single contractor within a span of 20 days, evidently favouring the contractor.

### *4.1.9.13 Routine price negotiations*

The provisions of KTPP Act discouraged conducting negotiations even with the lowest tenderer in a routine manner as it defeated the very purpose and ethics of competitive tendering. This was to reduce the possibility of tenderers jacking up the prices in the original tender and reducing the prices marginally during negotiation. The first choice for the tender inviting authority was to reject the tenders and invite fresh tenders. Audit found that instead of rejecting the tenders, the EEs of the test-checked divisions invariably negotiated with the lowest tenderers who had quoted higher rates, even up to 229 *per cent* of the estimated rates. After negotiations, the contractors reduced their quoted rates to bring them within the powers of JC/Commissioner. With such a method, the possibility of BBMP paying more than the real cost of the work could not be ruled out.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that negotiations were conducted only when the tenderer had quoted abnormal rates and for urgent/emergency works. The reply is not tenable as conducting negotiations even with the lowest tenderer in a routine manner is in contravention of the KTPP Act.

### *4.1.9.14 Non-collection of performance security*

***(a)*** According to the amendment (October 2008) to the standard tender document, the successful tenderer shall deliver to the employer a performance security for an amount equivalent to five *per cent* of the contract price plus additional security for unbalanced tenders[65] within 20 days of the receipt of the letter of acceptance. It was observed that none of the test-checked divisions had collected the performance security for the works tendered during the period of review.

***(b)*** In Kengeri division, the EE issued (2008-10) work orders stating that performance security would be deducted from the final bills, which was in contravention of the tender clause.

***(c)*** In Hegganahalli division, the JC waived (2009-10) collection of performance security on the basis of request of the contractor. The JC did not have powers to override the orders of the State Government. The possibility of recovery in the event of any defective work noticed after the completion of work and settlement of bills of the contractors is, therefore, remote.

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[65] Rates quoted for items below the estimated rates by the tenderers

#### *4.1.9.15 Irregular entrustment of work*

As per the KTPP Act, no work costing more than ₹one lakh should be entrusted directly without calling for tenders. The State Government exempted (September 2007) the clause from KTPP Act for direct entrustment of work for construction of drains/culverts and lead off on emergency during August 2007 to February 2008. However, the EE of Shanthinagar division proposed the works only during February 2008 at Ejipura as an emergency measure so as to avoid flooding in the rainy season. The division then split the work and entrusted the work directly to four contractors at a cost of ₹1.20 crore during March 2008. Scrutiny of files revealed that the EE of the division had prepared estimates for road works instead of drains/culverts and also misled the State Government in seeking exemption as emergency works.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that there was slight deviation in the work which was got approved by CE (E) and JC (East). The reply is not tenable as the State Government had permitted direct entrustment of emergency works relating to construction of drains/culverts only and not for road works.

#### *4.1.9.16 Manipulation of agreements*

The work orders for the commencement of the works have to be issued only after an agreement is entered into by the contractor with the division. However, in a test-check of records in Dasarahalli, Hegganahalli and RR Nagar divisions, it was observed in 12 cases that the work orders were issued before entering into agreements with the contractors. This was evident from the dates of purchase of stamp papers by the contractor, which were much later than the date on which the agreements were entered into. Action of the EEs of the divisions was, therefore, highly irregular.

The State Government accepted (May 2012) that it was a case of gross violation of procedure and lapses on the part of the officers who executed the agreement. It was also stated that action would be initiated against the erring officers.

### 4.1.10 Execution of works

#### *4.1.10.1 Irregular execution of works*

##### *(i) Execution of works in places other than the approved ones*

**Works were not executed as per the prescribed norms leading to substandard, wasteful, irregular works, *etc.***

The estimates are to be prepared on the basis of a survey indicating the requirements of work and the place of execution. Under no circumstances can the place of work be changed unless approved by the competent authority after complete justification.

It was seen in audit that in 35 cases in Bangalore East and Dasarahalli zones roads including drain works costing ₹21.65 crore, were executed in places other than the places indicated in the approved estimates without the approval of the competent authorities. The AEE and EE who were responsible for proper execution also check-measured the works without taking into consideration the places proposed in the estimates. The AS, who was to audit the bills before payment with reference to the estimates, Schedule 'B'[66],

[66] Comprising items of works, quantity to be executed and rate finally approved

agreements, *etc.,* also failed to notice the changes in execution. This is a major failure in control mechanism and points to gross negligence in their duties by various officers. Also, the possibility of misappropriation of the funds without execution of works could not be ruled out.

The State Government replied (May 2012) that execution of works at the stipulated and specified places would be ensured.

***(ii) Works approved and executed differed***

The assigned work codes are approved by the Commissioner based on the works proposed. The CEs of the zones are responsible for approval of the estimates and accordingly monitor execution of the works. It was seen in Audit of the records in RR Nagar and Dasarahalli zones that seven works pertaining to construction, desilting of drains and removal of debris costing ₹2.63 crore were changed to road works after the issue of work codes and approval by the Commissioner. Payments were also made accordingly. There was no relation to the work proposed and the components of work estimated and executed. Evidently, the JCs and CEs of the zones did not ensure that the works proposed and executed were the same for which the work codes were assigned and approved by the Commissioner. Thus, there was no sanctity in assignment of work codes, and the failure of control mechanism and negligence of duties is again highlighted.

The State Government replied (May 2012) that action would be taken against the erring officers. In respect of RR Nagar division it was stated that CID had taken the records for enquiry and reply would be furnished on receipt of records.

***(iii) Completion of work even before finalisation of tenders***

As per the codal provisions, no work should be commenced before finalisation of tenders and issue of work orders. However, quality reports furnished by the third party consultants revealed that seven road including drain works costing ₹2.95 crore in RR Nagar division were completed even before finalisation of tenders. In 10 cases in five divisions[67], the works were commenced/completed even before the issue of work order. Further, the check measurements of these works in the Measurement Books (MBs) did not indicate the dates of execution. As a result, the tendering process was not only vitiated but also the completion of works even before finalisation of tender points to possibility of frauds.

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

***(iv) Execution of works by a contractor other than the one entrusted***

As per the tender conditions, no sub-letting of works is permissible after the award of works. It was seen in Audit of RR Nagar division that four works costing ₹1.98 crore were entrusted (October-December 2009) to three agencies for execution. Subsequently, the executing agencies were changed, based on the request of the first agencies pleading inability to execute the work. The EE, instead of cancelling the contracts by forfeiting the EMDs and inviting

[67] Dasarahalli, Pulakeshinagar, RR Nagar, Sarvagnanagar and Shanthinagar

fresh tenders, resorted to entrusting the works to other agencies as desired by the first agencies. Entrustment of work to contractors bypassing all procedural requirements not only pointed to the whimsical approach of the EE/CE but also nepotism and collusion in award of works.

The State Government replied (May 2012) that due action would be taken against the erring officers, if found guilty. It was also stated that CID had taken the records for enquiry.

***(v) Irregular payment of bills***

In two test-checked cases in Hegganahalli division, the AEE who check measured (March 2010 and September 2010) the works, certified that the works were satisfactorily executed and recorded the same in the MB. Accordingly, payment of ₹1.07 crore was made to the contractor. Subsequently, the AEE informed the EE (02 May 2011) to withhold further payments, as some works relating to construction of concrete road on left side of NG Halli were yet to be completed and in respect of the other work relating to construction of secondary drain and foot path, the MB was seized by Lokayukta in view of complaints by the public regarding the inferior quality of works executed. It is, therefore, evident that the AEE had made incorrect entries in the MBs, which resulted in payment of ₹1.07 crore to the contractor before completion of works.

***(vi) Execution of asphalting works during rainy season***

As per IRC guidelines, Bituminous macadam/Bituminous concrete shall not be laid during rainy season (June-November) or when the sub-grade or base course is damp or wet. When the road work is executed in rainy season, there is every chance of water seeping into the road and the road developing cracks immediately. The Commissioner had also issued (May 2009) orders that no asphalting works should be carried out during the rainy season. However, it was seen in Audit that 42 road works were executed at a cost of ₹16.49 crore during the rainy season in the test-checked divisions. The longevity of such asphalting is doubtful and there is every possibility that the entire expenditure would be rendered wasteful.

The State Government replied (May 2012) that action would be initiated against the erring officers.

***(vii) Preparation of estimates after completion of road works***

The EEs of Kengeri and Hegganahalli divisions proposed two works costing ₹98.34 lakh although these works were already executed by Bommanahalli division of BBMP and Bangalore Development Authority, respectively. On being asked by the elected representative/Technical Vigilance Commission Cell (TVCC) to cancel these works, in complete disobedience of the orders the divisions took up two other works not in the POW and without the approval of the Commissioner. This showed the complete disregard by the concerned EEs for orders and rules and the chances of dishonesty and misuse of the money could not be ruled out.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that CID had taken the records for enquiry.

### *4.1.10.2 Fraudulent execution of works*

#### *(i) Manipulation of estimates and payment of bills*

No executive authority can change the items of approved estimates unless any deviation has been duly got approved from the competent authority after justifying such changes. It was seen in Audit of RR Nagar division that in as many as 42 estimates costing ₹19.83 crore, the first few pages of the estimates were changed retaining the last page of the estimates where the competent authority had accorded the technical sanctions and administrative approvals. The names of the works were retained in the changed papers. The items of work proposed did not have any relation to the quantities and items estimated. In the last page, the serial number of items, page numbers and quantity of items were changed to match the total amount of the original work. A few instances are detailed in **Table 4.4** below:

**Table 4.4: Details of items of work proposed and estimated**

| Name of the work | Estimated cost | Audit findings |
|---|---|---|
| Providing asphalting to road (balance length) joining to service road of Outer Ring Road from Dobhighat and cross roads near service roads | ₹47.80 lakh | Change in number of items and not in chronological order |
| Construction of secondary drain at Jawaregowda nagar (Chainage 0 to 250 metres) | ₹49.98 lakh | Construction of SWD items changed to construction of road works |
| Construction of secondary drain at Marappa layout (Chainage 250 to 500 metres) | ₹49.98 lakh | Length of the drain has been reduced to 115 metres |

Source: Estimates for works

Even though such major manipulations were made in the approved estimates, the CE, who was to check the Draft Tender Schedule (DTS) before inviting tenders, also failed to notice such large scale tampering and approved the DTS without cross checking the contents of the estimates.

The manipulations were also ignored by the engineers at all levels who supervised the work, recorded the check measurements and made the payments of ₹21.93 crore. The AS and the Audit Clerks who audited the bills also failed to report such tampering with the estimates.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that CID had taken the records for enquiry.

#### *(ii) Fraudulent payments*

**As per the tender document, all concrete items shall be protected against injury until final acceptance, and concrete items shall be kept continuously moist for a period of 28 days. It was seen in Audit of RR Nagar division that the tenders for seven Reinforced Cement Concrete (RCC) drain works were invited (June 2009) indicating the period of completion of work within 90 days including rainy season. On cross-verifying (October 2011) with the PRO of BBMP, who was responsible for publishing all the NITs in various newspapers, it was seen that such tenders were neither published in any newspapers nor was any tender notification received from the division for publication.**

**Test-check of records revealed that the works were completed in all respects within six days from the date of issue of work orders (08 June 2009) and after incurring an expenditure of ₹2.23 crore. Since**

**RCC requires a minimum curing period of 28 days, the chances that the works completed within this short duration were fictitious and the payments shown as made to contractors were fraudulent cannot be ruled out. Audit scrutiny further revealed that the DDs towards EMD were received after the date of completion of work (15 June-19 June 2009). This indicated that tender evaluations were carried out after the completion of works. The technical sanctions were also accorded by the CE without date and the signature of AEE/EE of the division who prepared the estimates. Evidently, the entire tendering process was vitiated and the payments made were doubtful. A detailed investigation needs to be carried out.**

**The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.**

***(iii) Siphoning off of maintenance charges***

The EE of Sarvagnanagar division entered into six contracts (May to November 2009) for road works and maintenance of these roads for 3 to 12 months, stipulating the number of mandays to be used for the period of maintenance. However, it was seen in Audit that in these cases, the EE paid the entire maintenance amount of ₹25.19 lakh within 12 to 130 days of issue of work orders. The check measurements for the total mandays were also recorded before the completion of the proposed maintenance period. Evidently, the engineers had falsified the measurements to help the contractors in siphoning off the amounts without completion of works.

The State Government accepted (May 2012) the observation and stated that such lapses would be avoided in future.

***(iv) Execution of emergency works***

The Commissioner, in order to avoid floods in the city and combat natural calamity, had issued (August 2009) a circular permitting emergency works such as desilting of the drains, repair of roads *etc.,* to the extent of ₹ one lakh to be taken up in each ward and ordered release of ₹1.98 crore for 198 wards. The conditions stipulated that the amount was to be drawn on abstract contingent bills and non-payable detailed contingent bills were to be submitted after completion. Details of expenditure incurred during September 2009-October 2010 on desilting works are as shown in **Table 4.5** below:

**Table 4.5: Ward-wise details of works**

| Name of the zone | Number of wards | Amount (₹ in crore) |
|---|---|---|
| Bangalore East | 44 | 14.92 |
| Dasarahalli | 08 | 1.38 |
| RR Nagar | 21 | 3.17 |

Source: Payment bills for works

Audit observed the following irregularities:

***(a)*** Administrative approval was obtained after the works were carried out.

***(b)*** Under each ward, ₹ one lakh worth of work could be taken up during natural calamity. However, the zonal officers/CEs treated this as ₹ one lakh each time, and for each work in each road of the ward and spent crore of rupees as indicated in the table above.

***(c)*** The work involved desilting of roadside drain and filling of potholes. It was seen in Audit that there was no recording of check measurement for any of these works. The desilting of roadside drain constituted 90 *per cent* of the total claims made in each zone for which even a pre-measurement was not available.

***(d)*** In majority of the cases test-checked, the estimates for the piece-works were not prepared at all. It is not known as to how the works were taken up without estimates.

***(e)*** Wherever the estimates were prepared, it was in terms of number of tractors and men required for work, rather than the quantity of work as per SR rate, with the result that Audit could not assess the quantity of silt removed and check whether the relevant SR rates were adopted. The technical approvals were, therefore, highly irregular and contravened all the existing rules and orders.

***(f)*** Works aggregating more than ₹10 lakh were split up in such a way that the total value of one desilting work did not exceed ₹ one lakh in each case and were entrusted to contractors without adhering to any procedure for selection.

***(g)*** The item of pothole filling in the SR under the maintenance of roads including excavation, filling with metals, cleaning, bituminous concrete and levelling was at ₹297 per sqm. However, in total contravention of the rules, bills for pothole filling were paid by taking excavation, metal filling, cleaning, bituminous concrete and levelling separately instead of the item in SR. Moreover, the quantity of pothole filling was not mentioned in the bills. This was seen in 32 cases where ₹31.21 lakh was paid for pothole filling.

***(h)*** The bills submitted by the contractors were just a replica of the estimate. Even the font size, theme font, the spacing and mistakes in the estimates were carried forward to the final bill submitted in the letter head of the contractor. No separate bills were submitted by the contractors.

***(i)*** In contravention of the instructions, the ACF and AS of the zones drew the amount on detailed contingent bills after execution of works, indicating that these were not emergency works.

***(j)*** The dates were not indicated in any of the work bills submitted by the contractor.

***(k)*** VAT was not recovered from the contractors in any of the bills, thereby affording undue benefits to the contractors. Penal provisions were not invoked against the officials responsible for non-recovery, causing loss to the State Government.

It is evident that all the rules regarding drawal of funds, utilisation, *etc.,* were flouted in respect of the emergency works. The works were evidently split to avoid obtaining sanctions from higher authorities and were executed through piece-work contractors without inviting tenders, thereby foregoing the benefits of competitive rates. The works were also not subjected to quality control checks and defect liability clauses, unlike tendered contracts.

***(v) Suspected execution of desilting of drains***

The desilting of storm water drains in ST bed area was taken up by Shanthinagar division. The estimates for the work were prepared in the year 2004 and were tendered in 2008-09 for which no tenders were received. Thereafter, the work was taken up departmentally during 2008-09 by the engineers of the division. Scrutiny revealed that an amount of ₹9.78 lakh was claimed by the engineers of the division in four bills. However, it was seen in Audit that other than the bills, there were no nominal muster rolls, no measurements for desilted items, no bills for any machineries used, *etc.* In the absence of the supporting vouchers for the work executed, Audit could not assess the veracity of the expenditure incurred.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that the payment was made to the Head Mazdoor who in turn made payments to the labourers. However, the reply is not tenable as the works were taken up departmentally and the payments had to be made by the department directly to the labourers through nominal muster rolls, which were not found on record.

***4.1.10.3 Doubtful execution of works***

***(i) Repeated execution of a single work***

As per the codal provisions only one estimate is to be prepared for a work. A test check of estimates in RR Nagar division revealed that three estimates costing ₹1.49 crore were prepared for the 'Work of road improvements and asphalt in Papareddypalya main road 1x200 mtrs and $11^{th}$ to $15^{th}$ cross roads - 6x200 mtrs length - and got approved during July 2009 from the CE, RR Nagar zone. All these estimated works were executed by two contractors and payment of ₹1.58 crore was made (July 2010). Even though there were only five cross roads in all the three estimates, it was indicated as six cross roads while calculating the quantities for the components of works. It is not clear as to how the CE could approve different estimates for the same work and same specifications. It is doubtful whether the work was actually executed with the same estimates and specification. Even though the CE/EE was to visit the place and give a certificate to the effect that the works were necessary, such a certificate was not available on record. The entire approval of estimates, tendering and execution of works was, therefore, doubtful.

The State Government replied (May 2012) that action would be initiated against the erring officers.

***(ii) Non-utilisation of plastic in construction of roads***

The use of plastic in asphalting is widely practised as plastic, when added to hot aggregate, forms a fine coat over the aggregate and such aggregate when mixed with the binder gives higher strength, higher resistance to water and better performance over a period of time. The Commissioner had ordered (December 2007) use of plastic on all road works by mixing eight *per cent* plastic and reducing an equivalent quantity of bitumen from the wearing course. It was seen that in 19 road works taken up during 2009-10 in Dasarahalli and RR Nagar zones, plastic had not been used in asphalting, though the estimates had provided for it. In 148 other works, the estimates did not envisage use of plastic. Failure to use plastic in road works led to non-availment of the opportunity of reducing the cost of road and also keeping the environment clean by disposing of the plastic waste.

***(iii) Execution of works contrary to guidelines***

As per the pavement design stipulated in IRC guidelines, the sub-base of gravel/murram has to be the foundation on which the base course such as Water-bound Macadam (WBM) or Wet Mix Macadam (WMM) has to be laid. Test-check of records of EE, Kengeri division revealed that while executing the work of asphalting Global Village road from Mylasandra main road costing ₹25.76 lakh, granular sub-base has been laid over the WMM. This was also check-measured and recorded in MB. Evidently, the works executed were contrary to the provisions of IRC guidelines and the entire expenditure remained doubtful.

The State Government stated (May 2012) that action would be initiated against the erring officers.

***(iv) Excess payment for thermoplastic painting***

Thermoplastic painting lines are used to have better visibility and long service life over ordinary paints. In two test-checked cases in Dasarahalli division, it was seen in Audit that the length of road estimated did not correlate to the length of thermoplastic painting provided as detailed in **Table 4.6** below:

**Table 4.6: Details of thermoplastic painting**

| Name of the work | Road length (in metres) | Length of thermoplastic painting provided (in metres) | Difference in length (in metres) | Excess payment (₹ in lakh) |
|---|---|---|---|---|
| Improvement of roads at Krishnanagar in Shettyhalli | 2,223 (741 mtrs of three lines) | 43,755 | 41,532 | 29.73 |
| Improvements and asphalting to cross roads at MHR layout | 628 (Single line) | 6,085 | 5,457 | 5.89 |

Source: Payment bills

Estimates and payments to the extent of ₹35.62 lakh made by the EE of the division towards thermoplastic painting in excess of the actual road length was, therefore, doubtful.

The State Government replied (May 2012) that provision for thermoplastic painting was made in a separate estimate. The reply is not acceptable as these estimates included the component of thermoplastic painting in excess of the actual road length.

### *4.1.10.4 Wasteful execution of works*

***(i)*** In nine cases (2008-10) of Dasarahalli and RR Nagar divisions, gravel sub-base was provided after scarifying the existing asphalted road instead of providing only a tack coat and a wearing course. Providing gravel sub-base on the existing asphalted road would not give the binding effect and would wear out easily, thereby rendering the expenditure of ₹3.38 crore wasteful.

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

***(ii)*** The WBM course was to be constructed in two compacted layers of 75 mm of grade II and III metal as per IRC norms. However, in 25 cases (2008-10) in Dasarahalli and RR Nagar zones, laying each layer of WBM up to 200 mm thickness of grade II and III metal each was noticed resulting in extra expenditure of ₹1.02 crore. Further, laying of only one layer of metal was also noticed in 11 cases. As a result, the work executed was evidently of substandard quality and prone to premature damage.

***(iii) Negligence in execution***

The pavement thickness of the road depends on the present condition of the road. If it is an earthen road, proper sub-base, base, binder course and wearing course has to be provided. It was noticed in audit that the estimates for two road works in Kengeri division were prepared (2009-10) considering the roads as earthen roads. Scrutiny of photographs provided along with the estimates indicated that roads were WBM roads. However, the estimates included provisions for sub-base, base, binder course and wearing course which were also executed. As the existing roads were WBM roads, Audit is of the view that the provision of WBM again in the estimates was unnecessary and resulted in wasteful expenditure of ₹15.97 lakh.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that CID had taken the records for enquiry and replies would be furnished after receipt of records from CID.

***(iv) Injudicious execution of cable ducts***

In a meeting held during June 2007 under the chairmanship of the Hon'ble Chief Minister, it was decided to construct cable ducts under all important roads. The design for such cable ducts was also finalised wherein HDPE pipes of different dimensions had to be laid alongside the roads to avoid frequent digging of roads. In Kengeri division, two works for construction of cable ducts were executed during 2009-10 incurring an expenditure of ₹56.63 lakh. It was noticed in audit that instead of HDPE pipes, the division constructed cement concrete cable ducts below the drain. Further, the ducts were partially constructed for a length of 972 metres and did not serve the purpose, leading to wasteful expenditure of ₹56.63 lakh.

#### ***4.1.10.5 Excess/extra expenditure on works***

***Arbitrary execution of works***

***(i)*** WBM/WMM or any other equivalent granular construction could be provided as a base course as per IRC norms. It was, however, noticed that in nine cases of Dasarahalli and RR Nagar divisions, provision for both the base course of WBM and WMM were made instead of providing either of them, leading to extra expenditure of ₹36 lakh.

***(ii)*** As per IRC specifications, a maximum permissible layer of 200 mm of WMM could be provided with suitable type of compacting equipment. Audit observed in 39 cases in Dasarahalli and RR Nagar zones that provision of WMM was made up to 600 mm during 2008-10, thereby resulting in extra expenditure to the extent of ₹1.06 crore. Evidence of usage of proper compacting equipment even up to the permissible depth could also not be furnished to Audit.

Irregular preparation and approval of estimates and execution of works without adhering to specifications, testified the complete disregard of guidelines by the concerned BBMP officials.

The State Government replied (May 2012) that due action would be initiated against the officers who had violated the IRC specifications. It was also stated that the records were taken by CID for enquiry.

***(iii) Non-revision of estimates***

As per the directions (October 2009) of the Commissioner, the estimates were to be re-checked technically by the TVCC of the BBMP after their approval by the CE of the zone. All estimates had to be pre-audited by TVCC before commencement. Audit observed that the EEs of the divisions did not get majority of the works pre-audited.

Wherever pre-audit was undertaken, the TVCC recommended different specifications for road works and reduced the quantities for some items and deleted some items. However, it was noticed that the changes proposed by TVCC in respect of 11 works in Dasarahalli and RR Nagar zones were not incorporated by the EEs in the modified estimates and got approved by the CEs in respect of works costing ₹8.87 crore (2009-10). As a result, the execution of the original components of works was irregular.

The State Government replied (May 2012) that estimates would be prepared and got approved after getting the test results from the quality control authorities. It was also stated that further instructions had been issued to all the CEs to get the technical pre-audit report from the TVCC.

***(iv) Non-deduction of shrinkage***

The State Government had stipulated (March 1966) that in the case of earthen embankments, all measurements/payments should be made subject to deduction of shrinkage in the quantity of embankment actually constructed at the rate of 10 *per cent*. However, in 36 cases of earthen embankments in Dasarahalli and RR Nagar zones, the quantities towards shrinkages were not deducted before allowing payment to the contractors. Non-deduction of shrinkages from the quantity resulted in overpayment of ₹12.29 lakh.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that CID had taken the records for enquiry and replies would be furnished after verifying connected records.

***(v) Excess provision for wearing course***

As per IRC specifications, Semi Dense Bituminous Concrete (SDBC) shall be used as a wearing course of 25 mm thickness and laid as per the specifications and conforming to the lines, grades and cross sections. In eight road works in four test-checked divisions[68], it was noticed in audit that while calculating the quantity and making payment, the thickness of SDBC provided was up to 40 mm which was irregular. The failure of the divisions to check the calculations resulted in extra payment of ₹51.39 lakh to the contractors.

[68] Dasarahalli, Hegganahalli, Kengeri and Shanthinagar

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that CID had taken the records for enquiry and replies would be furnished after verifying connected records.

#### *4.1.10.6 Undue benefits to contractors*

***(i) Irregular adoption of price adjustment***

**Irregular adoption of price adjustment resulted in additional expenditure of ₹ 18 lakh**

As per the State Government orders issued during November 2008, price adjustment clause was applicable to work contracts whose estimated cost put to tender was ₹50 lakh and above, and the period of completion was more than 12 months. Further, as per the instructions of the State Government (June 2009), while recasting the rates of cement and bitumen for the purpose of price escalation, the permissible tender premium allowable to contractors should not exceed five *per cent*.

Audit observed that price adjustment was provided for works for which the period of execution was less than six months and tender premium was also allowed in excess of five *per cent,* thereby unduly benefitting the contractors. As a result, there was additional expenditure of ₹18 lakh in 11 cases in Dasarahalli and RR Nagar zones.

The State Government replied (May 2012) that CID had taken the records for enquiry and reply would be furnished on receipt of records.

***(ii) Arbitrary award of works***

The EE, Hegganahalli division had proposed (March–May 2008) to construct roads along with utility cable ducts in two works[69] at an estimated cost of ₹97 lakh which was approved by the CE. The work included construction of RCC cable duct along the sides of the road for laying cable. Even though only a single tender was received, instead of rejecting the tender, the EE entrusted the works to the single tenderer. After commencement of work, the entire cement work relating to the cable duct was deleted from the estimates by the EE even though he was not authorised to do so. There were no inspection notes by the SE, CE or the Commissioner indicating the reasons for deletion of this item of work. As a result, there were savings of ₹28.57 lakh for duct works and the EE entrusted additional asphalting works which were taken up at different places without the approval of the competent authority. The arbitrary decision of EE in awarding asphalting of road works resulted in undue favour to the contractor.

The State Government replied (May 2012) that depending on the site condition RCC cable ducts were deleted and the asphalting of road works were carried out. The reply is not acceptable as item of work relating to the cable duct was deleted without approval of the CE.

#### *4.1.10.7 Splitting up of works*

As per the codal provisions, no work shall be split up just to bring its sanction within the powers delegated to an officer and the sanction is to be accorded only by the officer competent to accord sanction for the work as a whole. The JC and the CEs of the zones have been delegated powers to sanction works

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[69] construction of cement concrete roads on the left side of Nelagedaranahalli and construction of secondary drain and foot path in ward No. 41

costing upto ₹50 lakh, beyond which these are to be approved by higher authorities[70]. A test check of the records relating to 11 works executed during 2008-10 in three selected zones showed that approval of the higher authorities had not been obtained, though the cost of these works ranged from ₹1.36 crore to ₹13.23 crore. These works had been split up into 340 individual works to bring these within the sanctioning powers of the JC/CE concerned. This was irregular and fraught with the risk of accepting differential rates for the same type of works and consequent additional financial burden on BBMP.

The State Government replied (May 2012) that instructions had been issued to the concerned to adhere to the codal provisions and follow the KTPP Act.

#### *4.1.10.8 Irregular engagement of tractors and labourers*

Seven estimates sanctioned by the CE, Bangalore East during 2009-10 envisaged maintenance of various works by hiring tractors, JCBs and labourers. The works were got executed through tender contractors at a cost of ₹0.84 crore. A scrutiny of records showed the following irregularities:

- In four cases, the administrative approval and technical sanction had been obtained after tendering.
- In three cases, draft tender schedule had not been approved before tendering.
- In three cases, tenders were opened before obtaining the technical approval.
- No pre-measurements were recorded for the removal of silt in the wards.
- In all these cases, the Measurement Books did not indicate the place of work, quantity of silt removed and the mode of disposal of the excavated silt.

In view of these irregularities, the works executed were not susceptible of verification and possibility of fraudulent payments could not be ruled out.

The State Government replied (May 2012) that in future, tender procedures would be followed. It was also stated that CID had taken the records for enquiry and reply would be furnished on receipt of records.

#### *4.1.10.9 Avoidable expenditure due to non-utilisation of excavated earth*

Specification of the Ministry of Road Transport and Highways stipulates that earth is to be obtained from approved sources, with preference given to available earth. The contractors are required to segregate the soil based on suitability. Earth is to be brought from other areas only if the available material is found unsuitable and not conforming to standards after undertaking Quality Control (QC) tests. No reports were furnished to Audit evidencing the use of the available earth in any of the works executed during 2008-10 in test-checked divisions. Instead, a quantity of 0.40 lakh cubic metres earth was

[70] Commissioner (upto ₹ three crore), Works Committee (₹ three to ₹ four crore), Council (₹ four to ₹ five crore) and State Government (above ₹ five crore)

obtained from borrow areas by incurring an expenditure of ₹1.22 crore in 36 works which could have been avoided.

### 4.1.11 Quality control and monitoring mechanism

### Quality control

#### *4.1.11.1 Third party inspection*

**Quality control mechanism was not effective**

As per Government Order (February 2005), Third Party Inspection (TPI) was made mandatory and the BBMP issued orders that all works should be inspected by a third party before payment was made to the contractors and the expenditure on this account would be charged to the cost of works.

However, it was noticed in 117 cases in test-checked divisions that the TPI was not conducted at all and payments were made on the basis of one or two reports on the quality of sand and metal aggregates. Further, it was noticed that in almost all the cases, the TPI reports were obtained by the contractors. Though the samples were to be obtained and given to the third party by the concerned engineers of the BBMP, the TPI reports indicated that the sample was given by the contractors and not by the executing agency. The charges for the inspection were to be paid by the BBMP but in none of the cases did the BBMP make any payment to the third party consultants.

In two cases in Dasarahalli and Kengeri division, the items in the estimates and the items inspected as per TPI reports did not match, indicating that the third party was conducting inspections without even ensuring that the correct items were inspected.

From the above, it is evident that TPI was undertaken only for the purpose of getting the bills passed and did not serve the purpose of getting the quality ensured by BBMP before payment.

#### *4.1.11.2 Absence of quality control*

The QC wing of the BBMP had addressed (March 2009) letters to all the EEs that advance information has to be given in writing whenever cement concrete and asphalting of roads was being carried out. This was to ensure that works were executed as per the approved estimates and also to collect samples for testing it in its laboratory. Audit observed in the test-checked divisions that none of the EEs/AEEs/AEs of the executing agencies had informed the QC wing about the work execution, or the date and place of casting cement concrete/asphalt. As a result, there was no quality control on cement concrete/asphalt utilised in road works.

The State Government replied (May 2012) that suitable action would be initiated against the erring officers.

#### *4.1.11.3 Bitumen, cement and steel not tested for quality*

As per the codal provisions, quality of bitumen, cement and steel should be certified either by an independent agency or the manufacturer's certificate for the quality of materials supplied should be obtained. Reference of these test certificates should be kept in the files to facilitate checking by any independent authority. Independent testing of bitumen, cement and steel should also be done at regular intervals to ensure proper quality. The above procedure was not adapted in a majority of the cases and Audit could not assess whether the materials supplied and used were of standard quality.

The State Government replied (May 2012) that test results of works and materials were mandatory and only after ascertaining the quality, bills of the works are considered for payment.

### 4.1.12 Monitoring and internal control mechanism

**Monitoring and internal control mechanism was absent at all levels**

*4.1.12.1* The monitoring and internal control mechanism were weak as discussed below:

Approval of a large number of works over and above the approved works of POW indicated lack of controls in planning.

The controls prescribed for payment of work bills on the basis of assignment of work codes for each work were bypassed by the ACF leading to payments made for doubtful works.

Necessary control registers were not maintained to regulate the tendering process. The sanctity of tendering process was given a go-by due to non-adherence of the prescribed procedure for tendering by the CEs/EEs.

The AEs/AEEs/EEs prepared the estimates vitiating the codal provisions and the CEs, who were to monitor the estimates, sanctioned them without due care, thereby providing undue benefits to the contractors.

The Commissioner who was to monitor the execution of all works in BBMP did not discharge his duties efficiently which was evident from the large number of avoidable and wasteful expenditure, doubtful works, *etc*.

Governmental supervision of the control mechanisms also failed largely.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that it was proposed to constitute a Committee for revaluating the necessity of works other than POW at different levels. Further, the State Government stated that an independent agency would be engaged to evaluate the performance of divisions/zones to ensure that large investment on work did not go futile.

#### *4.1.12.2 Pre-Audit*

In a circular issued in October 2009, the Commissioner had opined that the works executed were of bad quality and large numbers of complaints were received. In order to curb this and provide quality works, the Commissioner had ordered that all the estimates would have to be pre-audited by the TVCC and the works should commence only after the pre-audit. However, it was seen that a majority of the estimates were not made available to the TVCC for pre-audit. As a result, there were large scale inflated estimates which have been commented upon in the foregoing paragraphs.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that action would be initiated against the officers who had violated the instructions of the Commissioner.

#### *4.1.12.3 Internal Audit*

The objective of Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the direction of prevention of mistakes and to play a corrective role by pointing out mistakes and ensure remedies without loss of time. However, there was no provision in the KMC Act for internal audit in BBMP.

### 4.1.13 Conclusion

The performance review on road and drain works in BBMP showed that the planning process was defective without the availability of data base and road history. Approval of large number of works in addition to the POW was intended to benefit the contractors as evidenced by irregularities in assignment of work codes. Operational controls were not exercised by the executives leading to award of contracts after vitiating the tender process and manipulating tenders, tampering of estimates to favour tenderers, execution of doubtful, wasteful, irregular, and avoidable works. While the procedures of quality control and pre-audit were not followed, monitoring and internal control mechanism were absent at all levels.

### 4.1.14 Recommendations

- Data base and road history need to be maintained to prioritise works for execution.
- Accountability needs to be fixed on the authorities responsible for vitiating the tendering system.
- Pre-audit should strictly be enforced to curtail manipulations in estimates and execution.
- Accountability mechanism needs to be strengthened to avoid issue of work orders before entering into agreements with the contractors.
- Recovery should be effected from officials responsible for faulty works execution.
- Monitoring at all levels needs to be strengthened.
- An Internal Audit Wing needs to be established in BBMP.

The Special Commissioner (Planning & Finance), BBMP stated (June 2012) that these recommendations would be implemented.

# SECTION 'B' – THEMATIC AUDIT

## 4.2 Non-tax revenue management in the City Corporations and City Municipal Councils

### 4.2.1 Introduction

The City Corporations (CCs) and the City Municipal Councils (CMCs), as institutions of urban area local self-government play an important role in local economic development. In accordance with the powers conferred upon by Karnataka Municipalities Act, 1964 (KM Act), Karnataka Municipal Corporations Act, 1976 (KMC Act) and notifications issued there under, the Urban Local Bodies (ULBs) are empowered to collect the following Non-Tax Revenue (NTR):

- Rental income from municipal buildings, lease of lands, rent from civic amenities, *etc.*,
- Fees for certificates and extracts, regulation fees, building licence fees, trade licence fee, development charges, user charges for water supply, *etc.,* and
- Sale of forms, publications, stores and scrap and hire charges for vehicles and equipment, *etc.*

Rental income, water charges and trade licence fees are collected on the basis of demands raised by the ULBs. The demand, collection and arrears of revenue are watched through registers maintained for this purpose. Other NTRs are levied and collected as and when the event occurs.

### 4.2.2 Organisational structure

The organisational structure with reference to revenue collections in the CCs/CMCs is as given below:

| Authority | Responsibilities |
|---|---|
| The Additional Chief Secretary to Government of Karnataka | Overall supervision of revenue collection in ULBs of the State |
| The Director of Municipal Administration (DMA) | Administer the collection and management of revenue in ULBs |
| The Commissioner/ Municipal Commissioner (MC) | Supervise the collection of all revenues due to their respective ULBs under the Acts |
| Revenue Officers | Responsible for levy and collection of revenue |
| Revenue Inspectors | Determine the tax and NTR leviable based on survey conducted and prepare the demand notices, maintain demand registers to watch revenue collection |
| Bill Collectors | Responsible for serving demand notices and door-to-door revenue collection |

### 4.2.3 Scope of audit and methodology

The theme-based audit on "Non-tax revenue management in the CCs/CMCs" was conducted (April - August 2011) by test-check of records of the DMA, two CCs[71] and 11 CMCs[72] based on simple random sampling method.

### 4.2.4 Financial performance

***4.2.4.1*** The details of tax and NTR receipts in the ULBs of the State and test-checked CCs/CMCs during 2007-10 were as shown in **Table 4.7** below:

**Table 4.7: Details of tax and NTR in CCs and CMCs**

**(₹ in crore)**

| Year | Revenue in ULBs[73] of State | | Revenue in test-checked CCs | | Revenue in test-checked CMCs | | Percentage of NTR to total revenue | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax | NTR | Tax | NTR | Tax | NTR | ULBs | Test-checked CCs | Test-checked CMCs |
| 2007-08 | 129.52 | 124.44 | 15.94 | 25.65 | 13.77 | 17.16 | 49 | 62 | 55 |
| 2008-09 | 146.09 | 160.35 | 16.22 | 41.78 | 19.47 | 27.60 | 52 | 72 | 59 |
| 2009-10 | 192.40 | 162.88 | 34.83 | 36.22 | 23.05 | 24.04 | 46 | 51 | 51 |
| **Total** | **468.01** | **447.67** | **66.99** | **103.65** | **56.29** | **68.80** | **49** | **61** | **55** |

Source: Statements of tax and NTR as furnished by DMA.
Figures for the year 2010-11 not furnished by DMA.

It was observed that while there was an increase in NTR receipts in the ULBs of the State during the years 2007-2008 to 2009-2010, there was decline in NTR in test-checked CMCs and CCs during 2009-10 when compared to the previous year. This was due to the failure in collection of outstanding dues, short collection of licence fee, *etc.*, as detailed in subsequent paragraphs.

***4.2.4.2*** Major components of NTR receipts such as rental income, fees and user charges and receipts by way of sale of forms, stores, *etc.,* for the test-checked ULBs for the period 2007-10 are detailed in **Table 4.8** below:

**Table 4.8: Statement showing break-up of major NTR receipts in test-checked ULBs**

**(₹ in crore)**

| ULBs | Total NTR | Rental income | Fee and user charges | Sale and hire charges |
|---|---|---|---|---|
| 11 CMCs | 68.80 | 14.65 (21) | 50.14 (73) | 4.01 (6) |
| 2 CCs | 103.65 | 9.30 (9) | 92.48 (89) | 1.87 (2) |

Source: As furnished by test-checked ULBs
Note : Figures in brackets indicate percentage

### 4.2.5 Non-maintenance of Demand, Collection and Balance Register

Karnataka Municipal Accounting and Budgeting (KMAB) Rules, 2006 prescribe that every CMC should maintain a special Demand, Collection and Balance (DCB) register to record all rental receipts from municipal properties like land, shops, shopping complexes, *etc.,* and another DCB register in

[71] CCs- Davanagere and Mangalore

[72] CMCs- Bhadravathi, Bidar, Chikkaballapur, Gadag-Betagere, Kolar, Mandya, Ranebennur, Shimoga, Sirsi, Udupi and Yadgir

[73] Seven CCs and 37 CMCs. Seven CMCs (Bagalkot, Chintamani, Hassan, Kollegal, Raichur, Sagar and Shahabad) out of 44 CMCs did not furnish the details.

respect of trade licence fees. While CMC, Chikkaballapur did not maintain a DCB register in respect of trade licence fee, CMC, Kolar had not maintained DCB registers at all. However, though the CMC has been maintaining information in computer systems since 2008, it had not ascertained the arrears for periods prior to introduction of computerised system. In the absence of DCB registers, the correctness of rent/fee collected and remitted could not be assessed in audit. Evidently, without these registers, the monitoring of the revenue collection would be inadequate or absent in these CMCs.

## 4.2.6 Arrears of non-tax revenue

**Failure to recover municipal demand resulted in arrears of revenue of ₹28.69 crore**

KMAB Rules stipulate that every municipal demand shall be recovered as expeditiously as possible. It was, however, observed that there were arrears (as of March 2010) of ₹28.69 crore in collection of major components of NTR such as fee/renewal fee for trade licences, rent from municipal properties and user charges for water supply in the test-checked ULBs, as detailed in **Table 4.9** below:

**Table 4.9: Collection and arrears of major components of NTR in test-checked ULBs during the year 2009-10**

**(₹ in lakh)**

| CC/CMC | Trade licence | | | Rent | | | Water charges | | |
|---|---|---|---|---|---|---|---|---|---|
| | Demand¥ | Collection | Arrears | Demand¥ | Collection | Arrears | Demand¥ | Collection | Arrears |
| CC, Davanagere | 57.09 | 8.03 | 49.06 | 106.73 | 94.73 | 12.00 | 324.73 | 280.38 | 44.35 |
| CC, Mangalore | 101.21 | 77.11 | 24.10 | 223.49 | 151.19 | 72.30 | 3,457.00 | 2,216.00 | 1,241.00 |
| CMC, Bhadravathi | 1.65 | 1.35 | 0.30 | 16.63 | 13.48 | 3.15 | 172.35 | 82.89 | 89.46 |
| CMC, Bidar | NF | NF | NF | 76.86 | 18.07 | 58.79 | 146.66 | 33.20 | 113.46 |
| CMC, Chikkaballapur | DCB not maintained | | | NF | NF | 18.47 | 191.52 | 22.44 | 169.08 |
| CMC, Gadag-Betagere | 22.81 | 3.58 | 19.23 | 26.80 | 21.62 | 5.18 | 228.07 | 117.84 | 110.23 |
| CMC, Kolar | DCB not maintained | | | 33.88 | 12.35 | 21.53 | 125.36 | 45.90 | 79.46 |
| CMC, Mandya | NF | NF | 4.78 | 33.30 | 7.30 | 26.00 | Details available with Karnataka Urban Water Supply and Sewerage Board as water supply is maintained by the Board. | | |
| CMC, Ranebennur | 17.04 | 1.65 | 15.39 | 116.60 | 105.73 | 10.87 | 232.77 | 76.41 | 156.36 |
| CMC, Shimoga | NF | NF | NF | 52.96 | 28.25 | 24.71 | NF | NF | 192.08 |
| CMC, Sirsi | 2.04 | 1.98 | 0.06 | NF | NF | 9.10 | 69.20 | 30.48 | 38.72 |
| CMC, Udupi | 37.87 | 6.13 | 31.74 | 104.33 | 90.32 | 14.01 | 462.36 | 311.14 | 151.22 |
| CMC, Yadgir | NF | NF | NF | NF | NF | 2.01 | 72.37 | 12.00 | 60.37 |
| **Total** | | | **144.66** | | | **278.12** | | | **2,445.79** |

Source: As furnished by CCs/CMCs NF: Not furnished

¥ Demand includes arrears up to 2008-09

The arrears of trade licence fee was mainly on account of non-renewal of trade licences of business establishments by the licensing authorities due to shortage of manpower. The huge arrears in rental revenue and water charges indicate that adequate action was not initiated for recovery of dues.

## 4.2.7 Licence fee collection

**Non-conducting of survey of business establishments for issue of trade licences resulted in loss of ₹1.12 crore**

### *4.2.7.1 Loss of trade licence fee*

As per the provisions of KM Act and KMC Act, all business establishments which intend to trade in municipal areas should obtain trade licences from the concerned CMC/CC. KMAB Rules stipulates that it shall be the duty of the Municipality to enumerate all persons or things that are liable for payment of revenue and maintain their accounts for demand, collection and balances due.

It was, however, observed that nine[74] test-checked CMCs/CC neither initiated any action nor conducted a comprehensive survey to identify traders and bring them under trade licence net during the period 2007-10. As a result, these CMCs/CC failed to even ascertain the number of business establishments which have been functioning without trade licences.

In Davanagere CC, where a survey was conducted during 2010-11, it was observed that against 12,920 business establishments, trade licences have been issued to only 2,547 business establishments and the remaining 10,373 establishments had been functioning without trade licences.

Scrutiny also revealed that 1,722 business establishments in CMC, Kolar and 10,993 establishments in CMC, Shimoga had not obtained trade licences from respective CMCs.

Thus, the failure of CMCs/CC in identifying business establishments and issuing trade licences to them resulted in loss of revenue of ₹1.12 crore calculated at the minimum[75] of trade licence fee chargeable. Categories of business establishments were not made available to Audit in order to arrive at the actual loss of revenue.

#### *4.2.7.2 Loss of building licence fee*

As per the survey conducted (2009-10) at CMCs, Shimoga and Bhadravathi, there were 27,385 un-assessed properties/buildings which were constructed without obtaining building licences from the Municipalities. Failure of the MCs in enumerating and demanding licence fees from these properties resulted in loss of revenue. The DMA replied (December 2011) that action would be taken to recover the amount from the owners of the properties/buildings.

#### *4.2.7.3 Short collection of building licence fee of ₹15.63 lakh*

The provisions of KM Act stipulate that any person intending to construct a building should obtain permission from the MC of CMC by paying building licence fee at the rates approved by the concerned Council. The MC is also empowered to inspect any building during construction to ascertain whether it is in accordance with the plans or specifications which have been approved and, in case of any deviation, he may issue show cause notice or make a provisional order to demolish the work done or so much of it as, in his opinion, has been unlawfully executed.

It was observed in CMC, Shimoga that a builder[76] had applied for a building licence from the Municipality during March 2007 for constructing a hotel building[77] by declaring the area proposed for construction as 4,615.40 square metres (sq.mtrs). Accordingly, the Municipality issued building licence after collecting the licence fee of ₹1.88 lakh. Subsequently, the applicant submitted a revised building plan of the hotel and applied for (March 2010) a fresh building licence by declaring the built up area as 5,515.63 sq.mtrs.

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[74] CC-Mangalore, CMCs- Bhadravathi, Bidar, Gadag-Betagere, Mandya, Ranebennur, Sirsi, Udupi and Yadgir

[75] CC-Davanagere @ ₹500; CMC-Kolar @ ₹300; and CMC-Shimoga @ ₹500

[76] Akarsh Properties, Bangalore

[77] Hotel Central Royal Orchid

Based on the revised building plan, the CMC, Shimoga issued revised building licence during May 2010 by collecting the balance licence fee of ₹16.41 lakh as per the revised rates approved by the Council during September 2008.

However, on verification of the property tax return filed by the builder for the year 2010-11, it was observed that the construction was not in accordance with the plans or particulars on which the permission was granted; instead the area constructed was declared as 10,451.87 sq.mtrs.

The difference in area of building constructed, as declared in the property tax return and as per the building licence issued by the Municipality, was 4,936.24 sq.mtrs. The loss of revenue due to short collection of licence fee worked out to ₹15.63 lakh.

Failure of the MC of CMC, Shimoga to inspect the construction of hotel building and issue show cause notice for deviation resulted in unauthorised construction, besides short collection of licence fee.

The DMA replied (December 2011) that the matter has been referred to Town Planning Department, Government of Karnataka, for advice.

## 4.2.8 Potential loss of revenue

### *4.2.8.1 Non-renewal of lease agreements*

Provisions of KM and KMC Acts prohibit CMCs/CCs to grant lease of immovable properties free of cost or for an upset price. However, it was observed in CC, Davanagere that though the lease period in respect of 768 municipal shops had expired during March 2005 to October 2007, the Commissioner neither executed fresh agreements nor revised the existing rents. Similarly, fresh agreements were not executed for 201 shops in CMC, Kolar for which lease periods had expired by the year 2001. Thus, failure of CMC/CC to renew lease agreements and revise lease rents resulted in loss of potential revenue.

### *4.2.8.2 Unauthorised construction*

The provisions of KMC Act prohibit unauthorised occupation of municipal land and empower the Commissioner to remove such encroachments after issuing notices. On a scrutiny of records of CC, Davanagere, it was observed that there were 3,760 unauthorised houses which were constructed by encroachment of municipal land during the period 1980-2008.

The Commissioner, CC, Davanagere informed the Deputy Commissioner (DC) about the encroachment only during February 2009. In turn, the DC requested (June 2009) the DMA to regularise these unauthorised constructions after collecting ₹20 per sq. feet as development charges but the DMA did not initiate action to regularise and collect development charges (September 2011). The potential loss of revenue was estimated at ₹5.91 crore by the Commissioner.

Thus, the delay on the part of the Commissioner, CC, Davanagere in noticing the encroachments and failure of DMA to initiate action for regularisation resulted in potential revenue loss of ₹5.91 crore. The DMA replied (December 2011) that the matter had been referred to the State Government for orders.

#### *4.2.8.3 Non-letting out of slaughter house*

As per the provisions of KM Act, the CMC is authorised to let out any slaughter house to generate revenue. However, it was observed that the slaughter house at Santhemaidan in CMC Bhadravathi, though constructed during May 2009 under Integrated Development of Small and Medium Town Scheme incurring an expenditure of ₹26.65 lakh, was not let out till date (September 2011) resulting in loss of rental income.

The DMA replied (December 2011) that there was no demand for the slaughter house and necessary action would be initiated to auction it. Evidently, the MC had constructed the slaughter house without assessing the requirement.

### 4.2.9 Irregular collection of Khatha transfer/issue fee

As per DMA order (January 2006), Khatha transfer/issue fee at the rate of 1.5 *per cent* and two *per cent* of the stamp duty has to be collected by the CMC and CC respectively, from the applicant applying for Khatha transfer/issue certificate. It was, however, observed in 103 test-checked[78] cases that excess fee amounting to ₹3.26 lakh was collected during 2008-10 from the beneficiaries.

On the contrary, short collection of ₹0.13 lakh towards Khatha transfer/issue fee was also observed in 30 test-checked cases in CC, Mangalore.

The DMA assured (December 2011) that suitable action would be taken to collect the fee as per the order issued.

### 4.2.10 Shortage of human resources for revenue collection

Audit noticed shortage of staff deployed for collection of revenue in test-checked CMCs/CC as detailed in **Table 4.10** below:

**Table 4.10: Shortage of staff for revenue collection in test-checked ULBs**

| ULBs | Sanctioned | Working | Vacant | Percentage of shortfall |
|---|---|---|---|---|
| CC, Mangalore | 48 | 19 | 29 | 60 |
| CMC, Bhadravathi | 9 | 5 | 4 | 44 |
| CMC, Davanagere | 27 | 19 | 8 | 30 |
| CMC, Chikkaballapur | 7 | 3 | 4 | 57 |
| CMC, Mandya | 9 | 7 | 2 | 22 |

Source: Staff position statements as furnished by CC/CMCs

It could be seen from the table above that shortfall in staff varied between 22 and 60 *per cent* and hence the shortfall in collection of revenue was attributable to a significant extent to non-filling up of vacancies. The DMA replied (December 2011) that action was being taken to fill up the vacant posts.

### 4.2.11 Conclusion

The system for assessment and collection of NTR in the CCs and CMCs was deficient. No survey was conducted to assess the existing business establishments and collect trade licence fee. Trade licences were not renewed leading to arrears in collection of fee. There were also arrears in collection of

[78] 52 cases in CMC-Shimoga, 13 cases in CMC-Sirsi and 38 cases in CC-Davanagere

rent and water charges. There was significant shortage of manpower for revenue collection in test-checked CC and CMCs which further compounded the problem of insufficient collection of NTR.

### 4.2.12 Recommendations

- There is an urgent need to conduct a survey of existing business establishments in ULBs and to evolve a mechanism for enumeration from time to time in order to improve trade licence fee collection.
- A suitable methodology for periodical renewal of lease agreements of leased municipal properties and revision of rental income needs to be adopted.
- Immediate steps to fill up vacancies need to be taken to ensure timely collection of municipal revenue and use of information and communication technology to reduce dependence on manpower.

| | |
|---|---|
| **BANGALORE** | **(D.J. BHADRA)** |
| **The** | **Principal Accountant General** |
| | **(General and Social Sector Audit)** |

**COUNTERSIGNED**

| | |
|---|---|
| **NEW DELHI** | **(VINOD RAI)** |
| **The** | **Comptroller and Auditor General of India** |

# Appendices

## Appendix 1.1

### Details of major State and district sector schemes implemented by PRIs

### (Reference: Paragraph 1.4.6/Page 8)

| Sl.No. | Scheme/Project | Details of the Scheme/Project |
|---|---|---|
| 1 | Grama Swaraj | The Scheme was 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 | The 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 | The Scheme envisaged providing safe drinking water through roof top rain water harvesting structures in rural schools |
| 5 | Swacha GramaYojane | 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 |

Source: Annual Report of RDPR and Scheme guidelines

# Appendix 1.2

## Statement showing excess and savings over budget for the year 2010-11

## (Reference: Paragraph 1.10.1/Page 13)

(₹ in crore)

| Sl. No. | Zilla Panchayat | Number of sub-major heads | Expenditure without budget provision | Excess in expenditure over budget provision | | | | | Savings in expenditure over budget provision | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Number of major heads | Budget Provision | Actual Expenditure | Excess | Excess (Percentage) | Number of major heads | Budget provision | Actual expenditure | Savings | Savings (Percentage) |
| 1 | Bagalkot | 6 | 14.11 | - | - | - | - | - | 10 | 27.48 | 22.94 | 4.54 | **17** |
| 2 | Bangalore(Rural) | 2 | 2.51 | 9 | 12.43 | 16.15 | 3.72 | **30** | 11 | 14.55 | 11.95 | 2.60 | **18** |
| 3 | Bangalore(Urban) | 2 | 1.60 | 3 | 0.22 | 0.38 | 0.16 | **73** | 11 | 57.04 | 50.26 | 6.78 | **12** |
| 4 | Belgaum | 1 | 0.83 | 3 | 54.27 | 59.97 | 5.70 | **11** | 12 | 234.18 | 172.93 | 61.25 | **26** |
| 5 | Bellary | 2 | 1.75 | - | - | - | - | * | 12 | 125.27 | 93.39 | 31.88 | **25** |
| 6 | Bidar | 5 | 2.80 | 5 | 4.93 | 6.61 | 1.68 | **34** | 11 | 66.60 | 45.85 | 20.75 | **31** |
| 7 | Bijapur | 5 | 4.22 | 11 | 31.22 | 37.12 | 5.90 | **19** | 9 | 67.60 | 52.78 | 14.82 | **22** |
| 8 | Chamarajanagar | - | 0 | 5 | 1.12 | 3.14 | 2.02 | **180** | 15 | 41.96 | 29.06 | 12.90 | **31** |
| 9 | Chikkaballapur | 4 | 1.80 | 4 | 0.25 | 0.30 | 0.05 | **20** | 12 | 42.82 | 33.36 | 9.46 | **22** |
| 10 | Chikmagalur | 3 | 0.83 | 20 | 23.16 | 33.50 | 10.34 | **45** | 7 | 30.00 | 24.24 | 5.76 | **19** |
| 11 | Chitradurga | 6 | 2.48 | 9 | 24.02 | 31.78 | 7.76 | **32** | 8 | 18.97 | 15.38 | 3.59 | **19** |
| 12 | Dakshina Kannada | - | 0 | - | - | - | - | * | 12 | 69.48 | 49.08 | 20.40 | **29** |
| 13 | Davanagere | 4 | 1.03 | 10 | 23.62 | 28.43 | 4.81 | **20** | 8 | 62.53 | 49.35 | 13.18 | **21** |
| 14 | Dharwad | 0 | 0 | 4 | 3.48 | 3.87 | 0.39 | **11** | 13 | 98.92 | 79.43 | 19.49 | **20** |
| 15 | Gadag | 0 | 0 | - | - | - | - | * | 9 | 46.62 | 38.68 | 7.94 | **17** |
| 16 | Gulbarga | -- | - | - | - | - | - | - | - | - | - | - | - |
| 17 | Hassan | 1 | 0.25 | 1 | 0.05 | 0.07 | 0.02 | **40** | 12 | 91.68 | 65.48 | 26.20 | **29** |
| 18 | Haveri | - | 0 | - | - | - | - | * | 15 | 135.41 | 111.94 | 23.47 | **17** |
| 19 | Kodagu | 2 | 0.71 | 6 | 4.13 | 5.02 | 0.89 | **22** | 15 | 34.36 | 28.05 | 6.31 | **18** |
| 20 | Kolar | 2 | 1.55 | - | - | - | - | * | 12 | 57.40 | 45.31 | 12.09 | **21** |
| 21 | Koppal | - | 0 | 0 | 0 | 0 | 0 | **0** | 12 | 63.95 | 50.16 | 13.79 | **22** |
| 22 | Mandya | 5 | 3.07 | - | - | - | - | * | 9 | 64.90 | 55.33 | 9.57 | **15** |
| 23 | Mysore | 1 | 1.19 | 0 | 0 | 0 | 0 | **0** | 13 | 31.12 | 25.22 | 5.90 | **19** |
| 24 | Raichur | 3 | 2.35 | 11 | 20.89 | 32.77 | 11.88 | **57** | 11 | 44.43 | 32.50 | 11.93 | **27** |
| 25 | Ramanagara | 0 | 0 | 0 | 0 | 0 | 0 | * | 14 | 16.29 | 9.92 | 6.37 | **39** |
| 26 | Shimoga | 0 | 0 | 0 | 0 | 0 | 0 | * | 8 | 50.68 | 40.39 | 10.29 | **20** |
| 27 | Tumkur | - | 0 | 0 | 0 | 0 | 0 | * | 12 | 121.33 | 100.61 | 20.72 | **17** |
| 28 | Udupi | - | 0 | 0 | 0 | 0 | 0 | * | 11 | 43.88 | 37.94 | 5.94 | **14** |
| 29 | Uttara Kannada | - | 0 | 0 | 0 | 0 | --- | **---** | 14 | 137.34 | 103.75 | 33.59 | **24** |
| 30 | Yadgir | 4 | 1.54 | 6 | 2.41 | 2.75 | 0.34 | **14** | 13 | 50.68 | 28.26 | 22.42 | **44** |
| ***Total*** | | | **44.62** | | | | | | | | | | |

* Percentage less than 10 not indicated.

Note: ZP Gulbarga did not exhibit the budget provision in the annual accounts

Source: Annual accounts of ZPs

## Appendix 1.3

## Statement showing details of balances outstanding under Remittance Heads of Account for the year 2009-10

## (Reference: Paragraph 1.10.5/Page 14)

(₹ in crore)

| Sl. No. | Name of Zilla Panchayat | Balances under 8670 cheques and bills – 103 Departmental cheques | | | Balances under 8782 cash remittances and adjustments between officers rendering accounts to the same accounts officers | | |
|---|---|---|---|---|---|---|---|
| | | Social Welfare | Backward Classes and Minorities | Remarks | 102 Public works Remittance - II cheques | 103 Forest Remittance -II cheques | Remarks |
| 1 | Bagalkot | 8.81 Dr* | - | | 12.02 Cr** | 0.05 Cr | ₹12.02 crore clearance details not indicated in 2010-11 accounts |
| 2 | Bangalore(R) | 1.58 Dr | 0.74 Dr | | 7.04 Dr | 0.41 Dr | |
| 3 | Bangalore(U) | 5.03 Cr | 0.34 Dr | | 5.14 Cr | 0.04 Cr | |
| 4 | Belgaum | - | - | | 17.38 Cr | 0.79 Cr | |
| 5 | Bellary | 1.34 Dr | 3.99 Dr | | 9.81 Cr | 0.66 Dr | |
| 6 | Bidar | 0.30 Cr | - | | 0.54 Dr | 0.25 Cr | |
| 7 | Bijapur | 0.01 Cr | - | | 6.82 Cr | 0.01 Cr | |
| 8 | Chamarajanagar | 0.11 Cr | 0.05 Cr | | 2.49 Cr | - | |
| 9 | Chikmagalur | - | 0.23 Dr | Clearance details not indicated in 2010-11 accounts | - | - | |
| 10 | Chitradurga | 0.62 Cr | 0.45 Cr | Clearance details not indicated in 2010-11 accounts | 3.11 Cr | 0.01 Cr | Clearance details not indicated in 2010-11 accounts |
| 11 | Dharwad | 0.55 Dr | 0.08 Dr | | 36.25 Dr | 2.77 Cr | |
| 12 | Davanagere | 0.88 Cr | 0.21 Dr | Clearance details not indicated in 2010-11 accounts | 4.32 Dr | 7.34 Dr | Erroneously exhibited under deposits and advances |
| 13 | Gadag | 0.94 Dr | 0.31 Cr | | 3.68 Cr | 0.05 Dr | |
| 14 | Gulbarga | 3.91 Dr | 0.34 Cr | | 30.03 Dr | 0.49 Cr | Clearance details not indicated in 2010-11 accounts |
| 15 | Hassan | - | - | | 23.39 Cr | 0.59 Cr | Clearance details not indicated in 2010-11 accounts |
| 16 | Haveri | 0.78 Cr | 0.26 Cr | | 0.02 Cr | 6.34 Cr | |
| 17 | Kodagu | 0.04 Cr | 0.03 Cr | | 13.03 Dr | 2.64 Cr | |
| 18 | Kolar | 8.58 Dr | 0.08 Dr | | 2.71 Cr | 0.90 Cr | |
| 19 | Koppal | 0.09 Dr | 0.50 Cr | | 0.69 Dr | 0.18 Cr | |
| 20 | Mandya | 0.08 Cr | - | | 1.98 Cr | - | |
| 21 | Mysore | 0.69 Cr | 0.41 Dr | | 21.67 Cr | 3.30 Cr | |
| 22 | Raichur | 1.96 Cr | 0.15 Cr | | 27.32 Dr | 0.20 Cr | |
| 23 | Tumkur | 0.90 Dr | 4.48 Cr | | 26.02 Cr | - | |
| 24 | Udupi | 0.01 Cr | - | Clearance details not indicated in 2010-11 accounts | 0.03 Cr | - | |
| 25 | Uttara Kannada | - | - | | 10.15 Dr | 2.55 Dr | |
| **Total** | | **10.51 Cr** | **6.57 Cr** | | **136.27 Cr** | **18.56 Cr** | |
| | | **26.70 Dr** | **6.08 Dr** | | **129.37 Dr** | **11.01 Dr** | |

* Dr indicates debit balance

** Cr indicates credit balance

Source: Certified annual accounts of ZPs

## Appendix 1.4

### A. Statement showing TP/GP suspense outstanding in ZP accounts

**(Reference: Paragraph 1.10.5/Page 15)**

(₹ in crore)

| Sl. No. | Name of Zilla Panchayat | Taluk Panchayat Suspense | Grama Panchayat Suspense |
|---|---|---|---|
| 1 | Bangalore (Rural) | 19.50 | - |
| 2 | Bangalore (Urban) | 11.36 | - |
| 3 | Bidar | 4.86 | 1.27 |
| 4 | Chamarajanagar | - | 0.25 |
| 5 | Dharwad | 1.04 | 1.34 |
| 6 | Gadag | 5.22 | 2.28 |
| 7 | Gulbarga | 1.96 | - |
| 8 | Hassan | 9.18 | 0.03 |
| 9 | Haveri | 37.31 | 1.19 |
| 10 | Kodagu | - | 0.33 |
| 11 | Koppal | 59.83 | - |
| 12 | Mandya | 1.99 | - |
| 13 | Mysore | 5.07 | - |
| 14 | Raichur | - | 0.02 |
| 15 | Tumkur | 0.04 | - |
| 16 | Udupi | - | 0.01 |
| **Total** | | **157.36** | **6.72** |

### B. Statement showing adverse balances in TP/GP Suspense in ZP accounts

(₹ in crore)

| Sl. No. | Name of Zilla Panchayat | Taluk Panchayat Suspense | Grama Panchayat Suspense |
|---|---|---|---|
| 1 | Bangalore (Rural) | - | 7.05 |
| 2 | Bangalore (Urban) | - | 0.67 |
| 3 | Chamarajanagar | 20.78 | - |
| 4 | Davanagere | 0.84 | - |
| 5 | Kolar | 0.22 | |
| 6 | Mandya | - | 7.22 |
| 7 | Mysore | - | 5.94 |
| 8 | Raichur | 0.80 | - |
| **Total** | | **22.64** | **20.88** |

Source: Annual accounts of ZPs

## Appendix 1.5

### Non-submission of accounts for amounts drawn on AC bills as of November 2011

### (Reference: Paragraph 1.10.12/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 | Bidar | 2 | 11 | 0.40 | 2010-11 |
| 3 | Chikmagalur | 1 | 14 | 0.12 | 2010-11 |
| 4 | Dakshina Kannada | 1 | 5 | 0.01 | 2000-01 |
| 5 | Hassan | 2 | 2 | 0.04 | 2004-05 |
| 6 | Kolar | 3 | - | 0.03 | 2006-07 |
| 7 | Mysore | 22 | - | 2.97 | 1996-97 |
| **Total** | | **32** | **106** | **3.58** | |

Note : In respect of nine ZPs pending NDC bills are Nil and 14 ZPs did not furnish the information
Source: As furnished by ZPs

## Appendix 1.6
## Cases of misappropriation/defalcation
## (Reference: Paragraph 1.10.13/Page 18)

(₹ in crore)

| Sl. No. | Zilla Panchayat | Under investigation | | Pending in court | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| 1 | Bangalore (Rural) | - | - | - | - | 5 | 0.06 | 5 | 0.06 |
| 2 | Belgaum | 8 | 0.86 | - | - | - | - | 8 | 0.86 |
| 3 | Chikmagalur | 14 | 0.05 | - | - | - | - | 14 | 0.05 |
| 4 | Dakshina Kannada | 30 | 3.03 | 1 | 0.01 | - | - | 31 | 3.04 |
| 5 | Dharwad | 7 | 0.60 | 2 | 0.06 | 5 | 0.21 | 14 | 0.87 |
| 6 | Gadag | 2 | 0.10 | 1 | 0.18 | 10 | 0.33 | 13 | 0.61 |
| 7 | Kodagu | - | - | 5 | 0.70 | 1 | 0.04 | 6 | 0.74 |
| 8 | Kolar | - | - | 1 | 2.06 | 4 | 0.02 | 5 | 2.08 |
| 9 | Mysore | 36 | 5.29 | 3 | 0.75 | - | - | 39 | 6.04 |
| 10 | Shimoga | 2 | 0.05 | 2 | 0.05 | - | - | 4 | 0.10 |
| 11 | Tumkur | - | - | 1 | 0.05 | - | - | 1 | 0.05 |
| 12 | Uttara Kannada | 9 | 0.70 | 1 | 0.05 | - | - | 10 | 0.75 |
| | **Total** | **108** | **10.68** | **17** | **3.91** | **25** | **0.66** | **150** | **15.25** |

Source: As furnished by ZPs. 15 ZPs did not furnish the information

## Appendix 1.7

### Statement showing the outstanding Inspection Reports and Paragraphs as at the end of 31.03.2011
### (Reference: Paragraph 1.11/Page 18)

| Sl. No. | Zilla Panchayat | More than 10 years (till 2000-2001) | | 05 to 10 years (2001-2006) | | 03 to 05 years (2006-2008) | | 2008-2009 | | 2009-10 | | 2010-11 | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | IRs | Paras | IRs | Paras | IRs | Paras | IRs | Paras | IRs | Paras | IRs | Paras | IRs | Paras |
| 1 | Bagalkot | 9 | 22 | 11 | 14 | 10 | 23 | 8 | 26 | 5 | 46 | 8 | 80 | 51 | 211 |
| 2 | Bangalore (Rural) | 3 | 4 | 9 | 14 | 13 | 26 | 9 | 24 | 15 | 55 | 6 | 32 | 55 | 155 |
| 3 | Bangalore (Urban) | 34 | 38 | 71 | 94 | 28 | 62 | 40 | 88 | 94 | 337 | 22 | 144 | 289 | 763 |
| 4 | Belgaum | 155 | 455 | 50 | 176 | 21 | 87 | 10 | 39 | 23 | 184 | 13 | 130 | 272 | 1071 |
| 5 | Bellary | 92 | 236 | 29 | 116 | 15 | 70 | 14 | 117 | 7 | 57 | 10 | 100 | 167 | 696 |
| 6 | Bidar | 39 | 100 | 23 | 84 | 8 | 48 | 7 | 82 | 7 | 81 | 4 | 31 | 88 | 426 |
| 7 | Bijapur | 94 | 220 | 24 | 76 | 30 | 170 | 11 | 58 | 4 | 38 | 5 | 42 | 168 | 604 |
| 8 | Chamarajanagar | 2 | 2 | 4 | 12 | 17 | 57 | 18 | 58 | 12 | 48 | 5 | 29 | 58 | 206 |
| 9 | Chikmagalur | 19 | 23 | 16 | 31 | 17 | 35 | 7 | 27 | 24 | 154 | 12 | 65 | 95 | 335 |
| 10 | Chikkaballapur | 21 | 40 | 12 | 39 | 20 | 79 | 13 | 66 | 13 | 75 | 18 | 128 | 97 | 427 |
| 11 | Chitradurga | 9 | 13 | 4 | 22 | 5 | 12 | 1 | 2 | 22 | 128 | 12 | 117 | 53 | 294 |
| 12 | Dakshina Kannada | 14 | 20 | 7 | 13 | 12 | 35 | 5 | 10 | 6 | 33 | 8 | 54 | 52 | 165 |
| 13 | Davanagere | 28 | 48 | 17 | 35 | 15 | 37 | 10 | 25 | 9 | 27 | 12 | 60 | 91 | 232 |
| 14 | Dharwad | 52 | 104 | 41 | 100 | 28 | 49 | 27 | 97 | 16 | 93 | 22 | 159 | 186 | 602 |
| 15 | Gadag | 72 | 185 | 30 | 89 | 13 | 51 | 11 | 73 | 8 | 35 | 9 | 96 | 143 | 529 |
| 16 | Gulbarga | 65 | 170 | 28 | 93 | 9 | 24 | 10 | 36 | 7 | 40 | 10 | 74 | 129 | 437 |
| 17 | Hassan | 28 | 47 | 22 | 32 | 18 | 48 | 11 | 62 | 17 | 89 | 12 | 85 | 108 | 363 |
| 18 | Haveri | 21 | 37 | 14 | 21 | 18 | 34 | 13 | 45 | 13 | 80 | 17 | 148 | 96 | 365 |
| 19 | Kodagu | 11 | 16 | 5 | 9 | 7 | 32 | 7 | 29 | 7 | 58 | 8 | 54 | 45 | 198 |
| 20 | Kolar | 51 | 98 | 34 | 128 | 22 | 78 | 12 | 65 | 23 | 147 | 15 | 65 | 157 | 581 |
| 21 | Koppal | 12 | 26 | 8 | 21 | 14 | 58 | 12 | 86 | 10 | 75 | 8 | 79 | 64 | 345 |
| 22 | Mandya | 52 | 93 | 28 | 82 | 28 | 132 | 17 | 75 | 16 | 80 | 12 | 94 | 153 | 556 |
| 23 | Mysore | 3 | 8 | 3 | 13 | 13 | 41 | 27 | 105 | 16 | 91 | 16 | 99 | 78 | 357 |
| 24 | Raichur | 50 | 132 | 20 | 83 | 7 | 49 | 11 | 95 | 8 | 66 | 5 | 46 | 101 | 471 |
| 25 | Ramanagara | 31 | 68 | 20 | 44 | 8 | 26 | 10 | 19 | 19 | 73 | 6 | 38 | 94 | 268 |
| 26 | Shimoga | 41 | 66 | 22 | 68 | 19 | 89 | 13 | 34 | 11 | 62 | 13 | 111 | 119 | 430 |
| 27 | Tumkur | 29 | 40 | 33 | 57 | 22 | 76 | 22 | 90 | 37 | 204 | 13 | 50 | 156 | 517 |
| 28 | Udupi | 3 | 6 | 4 | 7 | 10 | 38 | 5 | 21 | 10 | 43 | 8 | 55 | 40 | 170 |
| 29 | Uttara Kannada | 92 | 252 | 17 | 50 | 27 | 95 | 7 | 39 | 11 | 80 | 13 | 84 | 167 | 600 |
| 30 | Yadgir | 31 | 113 | 11 | 52 | 4 | 27 | 5 | 40 | 2 | 17 | 2 | 16 | 55 | 265 |
| | **Total** | **1,163** | **2,682** | **617** | **1,675** | **478** | **1,688** | **373** | **1,633** | **472** | **2,596** | **324** | **2,365** | **3,427** | **12,639** |

Source: Progress reports of Inspection Reports

## Appendix 2.1

**Statement showing the expenditure reported in MIS and actually incurred under MGNREGS during 2010-11**

**(Reference: Paragraph 2.1.9.1(II)(a)/Page 28)**

**(₹ in lakh)**

| Name of the TP | Name of the GP | Expenditure as per MIS | Expenditure as per bank pass sheets |
|---|---|---|---|
| Madhugiri | Kavanadala | 53.06 | 46.37 |
| Pavagada | Vallur | 254.80 | 159.45 |
| | Thirumani | 158.81 | 132.97 |

Source: MIS and bank pass sheets

## Appendix 2.2

### List of 36 test-checked schools

### (Reference: Paragraph 2.3.1/Page 58)

| Sl. No. | Name of the school |
|---|---|
| | **Bagalkot district** |
| 1 | Srimathi Baalamma Yellamma Shikkeri Government High School, Neeralkere |
| 2 | Sri Hema Reddy Mallambambe High School, Benakatti |
| 3 | Government High School, Vidyagiri |
| 4 | Anjuman Kannada Medium High School, Navanagar |
| 5 | Anjuman Boys High School, Navanagar |
| 6 | Siddanagowda Baramagowda Patil (Shiraguppi) Composite Pre-University College, Navanagar |
| 7 | Shri Malliyappiahswamy Composite Pre-University College, Gaddanakere Cross |
| 8 | Shri Akhandeshwar High School, Murnal |
| 9 | Shri Ha. Hu. Poojar Government High School, Thulasigere |
| 10 | Government High School, Chikshelkere |
| 11 | Shri Vijay Mahantesh High School, Ilkal |
| 12 | Siddarth High School, Ilkal |
| 13 | Girls High School, Ilkal |
| 14 | Government High School (High School ), Ilkal |
| 15 | Government High School, Ingalagi |
| 16 | Government High School, Hirekodagalli |
| | **Hassan district** |
| 17 | Government High School , Devihalli, Shanthigrama Hobli |
| 18 | Government Girls Pre-University College (Bifurcated) High School Division, Hassan |
| 19 | Government Urdu High School, Hassan |
| 20 | Government High School, Gopanahalli, Kamarigekoda |
| 21 | St Philomena's Girls High School, Hassan |
| 22 | Government Girls Pre-University College (High School division), Dudda. R.S |
| 23 | Government High School, Cheekanahalli |
| 24 | Government Pre-University College (High School Division), Arehalli |
| | **Udupi district** |
| 25 | Government Pre-University College (High School Division), Hiriadka |
| 26 | Government Composite High School, Valekadu |
| 27 | Government High School, Rajeevnagar |
| 28 | Government High School, Basrur |
| 29 | Ramson Government High School, Kandlur |
| 30 | Sanjay Gandhi High School, Ampar |
| 31 | Government High School, Siddapura |
| 32 | K.G.Jagannath Rao ,Government High School, Kone |
| 33 | Arbertu Vaman Kamath Foundation Government High School, Santhekatte Kalathur |
| 34 | Government Pre-University College (High School Division), Karje |
| 35 | V.K.R.Acharya Memorial High School-Kunjalu |
| 36 | Vivek Pre-University College (High School Division), Kota |

Source: As furnished by the Department