

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

For the year ended March 2017

Government of Karnataka
Report No. 9 of the year 2017

Table of contents		
Particulars	Paragraph number	Page number
Preface		iii
Overview		v
Chapter I		
Accountability framework and financial reporting in Panchayat Raj Institutions	1.1	1
Chapter II		
Results of audit of Panchayat Raj Institutions		
Compliance Audit		
Department of Primary and Secondary Education		
Inadmissible payment of special allowance	2.1	11
Unfruitful expenditure on construction of Block Education Officer's office building at Tumakuru	2.2	12
Rural Development and Panchayat Raj Department		
Unproductive investment on a water supply scheme	2.3	14
Unfruitful expenditure on a multi village water supply scheme	2.4	16
Tribal Welfare Department and Rural Development and Panchayat Raj Department		
Non-utilisation of funds for construction of pre-matric boys' hostel building for Scheduled Tribe students	2.5	17
Department of Women and Child Development		
Non-utilisation of funds for construction of anganwadi centres	2.6	19
Chapter III		
Accountability framework and financial reporting in Urban Local Bodies	3.1	21
Chapter IV		
Results of audit of Urban Local Bodies		
Section 'A' - Thematic Audit		
Urban Development Department		
Collection and Remittance of cesses in Urban Local Bodies	4.1	29
Section 'B' - Compliance Audit		
Urban Development Department and Revenue Department		
Avoidable payment of interest	4.2	38
Urban Development Department		
Loss of revenue due to non-collection of urban transport cess	4.3	40
Short levy of ground rent	4.4	41
Loss of revenue due to non-collection of enrolment fee	4.5	42
Avoidable payment due to non-reduction of contract demand and non-maintenance of power factor	4.6	43
Undue benefit to the contractor	4.7	45

List of Appendices		
Appendix number	Details	Page number
1.1	Organisational structure of Panchayat Raj Institutions	49
1.2	Statement showing Inspection Reports and Paragraphs outstanding up to the audit period 2015-16 - Panchayat Raj Institutions	50
1.3	Statement showing fund details of flagship schemes	51
1.4	Statement showing amount under 'II PWD cheques' and 'II Forest cheques' under Major Head 8782 for the year 2016-17	52
1.5	Statement showing balances under Taluk Panchayat and Gram Panchayat suspense accounts for the year 2016-17	53
2.1	Statement showing the payment of special allowance (district-wise) to teachers/lecturers appointed after 1.8.2008	54
3.1	Organisational structure with respect to functioning of ULBs in the State	55
3.2	Statement showing Inspection Reports and Paragraphs outstanding up to the audit period 2015-16 – Urban Local Bodies	56
4.1	List of test-checked Urban Local Bodies	57
4.2	Statement showing the variation between the data as furnished by the ULBs and data as furnished by DMA	58
4.3	Statement showing details of vehicles registered and non-realisation of infrastructure cess	59
4.4	Statement showing the details of interest of ₹12.26 crore paid on the land compensation amount of ₹142.56 crore	60
4.5	Statement showing short levy of ground rent	61

Preface

This Report for the year ended March 2017 has been prepared for submission to the Governor of Karnataka under CAG's DPC Act, 1971.

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

The issues noticed in the course of test audit for the period 2016-17 as well as those which came to notice in earlier years, but could not be dealt with in the previous Reports have also been included, wherever necessary.

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

Overview

Overview

This Report contains four chapters. The first and the third chapters contain a summary of accountability framework and financial reporting in Panchayat Raj Institutions and Urban Local Bodies respectively. The second chapter contains observations arising out of compliance audits of the Panchayat Raj Institutions. The fourth chapter contains one thematic audit and observations arising out of compliance audits of the Urban Local Bodies. A synopsis of the findings is presented in this overview.

1. Accountability framework and financial reporting in Panchayat Raj Institutions

The receipts of Zilla Panchayats and Taluk Panchayats increased by 13 per cent and the expenditure relating to State Grants and assigned revenue increased by 15 per cent during 2016-17 as compared to 2014-15. There was short receipt of Fourteenth Finance Commission grants by ₹23.10 crore. The Thirteenth Finance Commission grants of ₹13.92 crore, which included an interest of ₹7.66 crore and the Fourteenth Finance Commission grants of ₹55.84 lakh were not released to the Gram Panchayats but were invested in sweep-in deposit accounts. The Inspector General of Registration and Commissioner of Stamps had not transferred the required additional stamp duty for the year 2016-17 to Taluk Panchayats. There was a delay in submission of annual accounts for the year 2016-17 by the Zilla Panchayats (5 to 86 days) and Taluk Panchayats (5 to 110 days) to the Accountant General. As of March 2017, 1,735 Inspection Reports (46 per cent) containing 4,149 paragraphs (25 per cent) were pending for more than 10 years, which was indicative of inadequate action on the part of Chief Executive Officers.

(Chapter I)

2. Compliance Audit - Panchayat Raj Institutions

➤ *Inadmissible payment of special allowance*

Drawing and Disbursing Officers paid special allowance to teachers/lecturers appointed after 1st August 2008 in contravention of the Government's instructions, resulting in inadmissible payment of ₹8.33 crore.

(Paragraph 2.1)

➤ *Unfruitful expenditure on construction of Block Education Officer's office building at Tumakuru*

Insufficient release of funds by the Government resulted in non-completion of the Block Education Officer's office building at Tumakuru despite lapse of eight years and unfruitful expenditure of ₹50 lakh.

(Paragraph 2.2)

➤ **Unproductive investment on a water supply scheme**

A water supply scheme to Nagara and five other villages in Mudhol taluk, Bagalkot district, remained non-functional due to sub-standard execution and inordinate delays in taking up remedial measures. This resulted in unproductive investment of ₹9.70 crore, besides depriving the targeted population of safe drinking water supply even after 10 years of sanction of the scheme.

(Paragraph 2.3)

➤ **Unfruitful expenditure on a multi village water supply scheme**

The selection of a source that was not reliable and appropriate for a water supply scheme resulted in non-commissioning of the scheme for more than six years thereby rendering the expenditure of ₹3.98 crore incurred on the scheme unfruitful.

(Paragraph 2.4)

➤ **Non-utilisation of funds for construction of pre-matric boys' hostel building for Scheduled Tribe students**

Zilla Panchayat, Chitradurga released ₹30 lakh to Nirmithi Kendra, Chitradurga, without ensuring the availability of land. This contravened the codal provisions and resulted in funds remaining unutilised for more than seven years.

(Paragraph 2.5)

➤ **Non-utilisation of funds for construction of anganwadi centres**

Zilla Panchayat, Chitradurga violated the codal provisions of ensuring availability of land before entrusting the construction of anganwadi centres. This resulted in non-utilisation of ₹20 lakh for more than five years besides depriving the anganwadi children of intended benefits.

(Paragraph 2.6)

3. Accountability framework and financial reporting in Urban Local Bodies

Out of 18 functions to be devolved to the Urban Local Bodies, the State Government had devolved 17 functions. As of March 2017, 132 Inspection Reports containing 1,911 paragraphs were pending for more than three years, indicating inadequate action on the part of Urban Local Bodies. The State Government did not have an Internal Audit Wing to oversee the functions of Urban Local Bodies. The Karnataka State Audit and Accounts Department had not audited the accounts of Bruhat Bengaluru Mahanagara Palike for the years 2014-15 to 2016-17. Bruhat Bengaluru Mahanagara Palike had not remitted health cess and had short remitted library and beggary cess. The State Government released only 6.41 per cent of Non-Loan Net Own Revenue

Receipts as against the stipulated 10 per cent. The State Government did not release the interest amounting to ₹1.70 crore to Urban Local Bodies for delayed transfer of Fourteenth Finance Commission grants. Bruhat Bengaluru Mahanagara Palike, though ineligible, received ₹1.77 crore as performance grants during 2016-17.

(Chapter III)

4. Thematic Audit - Collection and Remittance of cesses in Urban Local Bodies

The thematic audit on Collection and remittance of cess in Urban Local Bodies showed that the growth rate of remittance of the cesses levied on property tax did not correspond with growth rate of their collection during the period 2012-13 to 2016-17. Non-adherence to the provisions of various Cess Acts led to non-levy of cesses. There were instances of non-remittance and short remittance of cess by the Urban Local Bodies. The percentage of remittance to departments with a monitoring mechanism was significantly higher than those without a monitoring mechanism. Library cess, beggary cess, urban transport cess and slum development cess were largely utilised for the intended purposes. The utilisation of labour cess was poor and needs examination by the Government. There was no evidence for utilisation of health cess by the department concerned.

(Paragraph 4.1)

5. Compliance Audit - Urban Local Bodies

> Avoidable payment of interest

Urban Development Department, Bruhat Bengaluru Mahanagara Palike and Special Land Acquisition Officer, Bengaluru, failed to ensure timely settlement of land compensation resulting in avoidable payment of interest of ₹12.26 crore.

(Paragraph 4.2)

> Loss of revenue due to non-collection of urban transport cess

Bruhat Bengaluru Mahanagara Palike lost revenue of ₹95.63 crore due to non-collection of urban transport cess during 2013-14 to 2016-17.

(Paragraph 4.3)

> Short levy of ground rent

Bruhat Bengaluru Mahanagara Palike failed to adopt the applicable rates of service tax resulting in short levy/realisation of ground rent aggregating ₹57.58 lakh.

(Paragraph 4.4)

➤ **Loss of revenue due to non-collection of enrolment fee**

Commissioner, Bruhat Bengaluru Mahanagara Palike failed to ensure enrolment of film theatre owners as commercial advertisers and consequently did not collect enrolment/renewal fee resulting in loss of revenue of ₹29.89 lakh.

(Paragraph 4.5)

➤ **Avoidable payment due to non-reduction of contract demand and non-maintenance of power factor**

City Corporation, Shivamogga, failed to initiate action to get the contract demand reduced in accordance with consumption and did not maintain power factor at the prescribed level resulting in avoidable payment of ₹46.32 lakh during 2013-14 to 2016-17.

(Paragraph 4.6)

➤ **Undue benefit to the contractor**

Chief Officer, Town Panchayat, Turuvekere, released mobilisation advance to the contractor in excess of the amount specified in the agreement leading to undue benefit to the contractor and resultant cost escalation of ₹43.13 lakh.

(Paragraph 4.7)

Chapter - I

Accountability framework and financial reporting in Panchayat Raj Institutions

Chapter-I

Rural Development and Panchayat Raj Department

Accountability framework and financial reporting in Panchayat Raj Institutions

1.1 Introduction

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

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

1.1.1 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1**. Population growth in Karnataka in the last decade was 15.60 *per cent*, which was less than the national average of 17.70 *per cent*.

The decadal growth rates of urban and rural population were 7.63 *per cent* and 31.27 *per cent* respectively. As per Census 2011, the population of the State was 6.11 crore, of which, women comprised 49.20 *per cent*. The State has 114 backward taluks, out of which, 39 taluks spread over 14 districts are the most backward.

Table 1.1: Important statistics of the State

Indicator	Unit	State	National
Population	1,000s	61,095	12,10,570
Population density	Persons per sq km	319	382
Urban population	Percentage	38.70	31.20
Number of PRIs	Numbers	6,228	2,40,540 (approx)
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (approx)
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (approx)
Number of Gram Panchayats (GPs)	Numbers	6,022	2,34,000 (approx)
Gender ratio (females per 1,000 males)	Numbers	973	943
Literacy Rate	Percentage	75.40	73.00

Source: Economic Survey Report 2016-17 and Census 2011

1.2 Organisational structure of Panchayat Raj Institutions

The Rural Development and Panchayat Raj Department (RDPR) is the nodal department for PRIs at the State level, headed by the Additional Chief Secretary and Development Commissioner, Government of Karnataka. The organisational structure with respect to functioning of PRIs in the State is given in **Appendix 1.1**.

1.2.1 Standing Committees

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

Table 1.2: Constitution of the Standing Committees

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

Source: KPR Act, 1993

1.3 Accountability framework

1.3.1 Ombudsman

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

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

1.3.2 Audit mandate

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

The status of audit conducted by KSAD, as of September 2017, in respect of GPs in the State is shown in **Table 1.3**:

Table 1.3: Status of audit of GPs by KSAD, as of September 2017

Year	Number of GPs	Number of GPs audited
2012-13	5,630	5,085
2013-14	5,629	5,105
2014-15	5,629	5,064
2015-16	6,022	5,267
2016-17	6,022	2,161

Source: Information furnished by KSAD

1.3.2.2 The Comptroller and Auditor General of India (CAG) audits and certifies the accounts of ZPs and TPs under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971. The audit of accounts of 196¹ units under PRIs up to the year 2016-17 had been completed as of March 2017.

The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) module to CAG by amending KPR Act, 1993. At the end of March 2017, 25 GPs were audited under TGS module for the year 2016-17.

1.3.2.3 Response to Inspection Reports

The Karnataka Zilla Panchayat (Finance & Accounting) Rules, 1996 [KZP (F&A) Rules, 1996], stipulate that the heads of the Departments/Drawing and Disbursing Officers of ZPs shall attend to the objections issued by the Accountant General promptly. It further stipulates that the ultimate responsibility for expeditious settlement of audit objections rest with the Chief Executive Officers (CEOs) of ZPs. As of March 2017, 3,783 Inspection Reports (IRs) consisting of 16,480 paragraphs were outstanding in various PRIs as detailed in **Table 1.4**.

Table 1.4: Statement showing the details of outstanding IRs and paragraphs up to the audit period 2015-16

Unit	More than 10 years (till 2006-07)		5 to 10 years (2007-08 to 2011-12)		3 to 5 years (2012-13 to 2013-14)		2014-15		2015-16		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
ZPs including TPs and line departments	1,735	4,149	1,193	5,668	385	2,608	177	1,440	167	1,539	3,657	15,404
GPs	0	0	27	204	65	508	32	337	2	27	126	1,076
Total	1,735	4,149	1,220	5,872	450	3,116	209	1,777	169	1,566	3,783	16,480

Source: Inspection Reports

Out of 3,783 IRs outstanding, 1,735 IRs (46 per cent) containing 4,149 paragraphs (25 per cent) were pending for more than 10 years, indicating inadequate action on the part of CEOs. The details of IRs and paragraphs outstanding are in **Appendix 1.2**.

¹ 68 units under RDPR and 128 units under 9 line departments.

1.4 Financial profile and reporting

1.4.1 Financial Profile

1.4.1.1 Resources of the Panchayat Raj Institutions

The resource base of PRIs consists of own revenue, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Government of India (GoI) grants for maintenance and development purposes. The fund details of flagship schemes are given in **Appendix 1.3**.

The trends of resources of PRIs for the period 2014-15 to 2016-17 are shown in **Table 1.5**:

Table 1.5: Trends and composition of resources of PRIs

(₹ in crore)

Source	2014-15	2015-16	2016-17
Zilla Panchayats			
State Grants/Assigned Revenue	9,031.34	7,586.51	9,912.95
Grants from GoI for Centrally Sponsored Scheme (CSS)	460.53	1,866.65	474.35
Central Finance Commission	109.14	22.60	0.00
Other Receipts	229.19	255.24 ^β	70.96 [¥]
Total	9,830.20	9,731.00	10,458.26
Taluk Panchayats			
State Grants/Assigned Revenue	11,967.50	11,868.60	14,950.80
Grants from GoI for CSS	523.25	1,682.62	80.89
Central Finance Commission	218.29	45.23	0.00
Other Receipt	22.80 [#]	20.61 ^β	8.98 [¥]
Total	12,731.80	13,617.01	15,040.68
Gram Panchayats			
Own Revenue ^Σ	333.23	330.53	331.67
State Grants/Assigned Revenue	1,889.53	2,486.16	2,900.40
Grants from GoI for CSS	24.30	4.19	0.00
Central Finance Commission	764.00	1,130.07	1,373.59
Total	3,011.06	3,950.95	4,605.66

Source: Finance Accounts

^β Figures in respect of 29 ZPs and 164 TPs

[¥] Figures in respect of 13 ZPs and 96 TPs

[#] Figures in respect of 172 TPs

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

1.4.1.2 Application of Resources

The trends of application of resources of ZPs and TPs for the period 2014-15 to 2016-17 are given in **Table 1.6**:

Table 1.6: Application of resources

(₹ in crore)			
Source	2014-15	2015-16	2016-17
Zilla Panchayats			
State Grants/Assigned Revenue	6,852.57	7,709.76	7,340.98
Grants from GoI for CSS [¥]	3,545.07	3,331.18	1,829.46
Central Finance Commission	118.54	102.28	6.98
Total	10,516.18	11,143.22	9,177.42
Taluk Panchayats			
State Grants/Assigned Revenue	11,430.95	11,605.30	13,616.67
Central Finance Commission	181.66	195.65	28.15
Total	11,612.61	11,800.95	13,644.82

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

Source: 2014-15 – Audited figures for 30 ZPs and 172 TPs

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

2016-17 – Figures as furnished by Treasury for State Grants/Assigned Revenue and annual accounts of 13 ZPs and 96 TPs for CSS/CFC

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

It can be seen from **Tables 1.5 and 1.6**, that the receipts of ZPs and TPs increased by 13 *per cent* and the expenditure relating to State Grants and assigned revenue increased by 15 *per cent* during 2016-17 as compared to 2014-15.

1.4.1.3 Short receipt of Fourteenth Finance Commission grants

The Fourteenth Finance Commission (FFC) allocated grants of ₹8,359.79 crore towards basic grants for GPs² of the State for the period 2015-16 to 2019-20 and ₹928.87 crore towards performance grants for the period 2016-17 to 2019-20. GoI was to release the grants for each year in two instalments (June and October) every fiscal year. The release of second instalment was subject to receipt of Utilisation Certificate (UC) for the first instalment.

The allocation of basic grant to GPs in the State for the year 2016-17 was ₹1,388.62 crore. As against this, the State received ₹1,368.21 crore (₹684.16 crore as first instalment (July 2016) and ₹684.05 crore as second instalment (November 2016)). Similarly, as against the allocation of performance grant of ₹182.15 crore, the State received ₹179.46 crore. The release orders stated that the grants were released on 'pro-rata basis as per number of duly constituted Rural Local Bodies'. Thus, there was a short release of central grants of ₹23.10 crore for the year 2016-17. This was on account of the fact that duly elected bodies existed only in 5,932 GPs, against the existing 6,022 GPs.

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

1.4.1.4 Irregular release of basic grants to ineligible Gram Panchayats

FFC guidelines stipulated release of grants to duly constituted Panchayats³. As per UC submitted (May 2016 and May 2017) to GoI by the State Government, the elected bodies were in place only in 5,932 out of 6,022 GPs.

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

1.4.1.5 Non-transfer of Thirteenth/Fourteenth Finance Commission grants

- The Thirteenth Finance Commission (TFC) guidelines stipulated that all the funds received from GoI must be transferred to PRIs within five days of its receipt. Though the term of TFC concluded at the end of the year 2014-15, an amount of ₹13.92 crore was still retained by State Government in a bank account⁴ at the end of October 2017, which included ₹7.66 crore of interest earned. The State Government had not transferred ₹6.26 crore to PRIs as required. Further, out of ₹13.92 crore, an amount of ₹13.68 crore had been irregularly invested by the State Government in four Sweep-in⁵ deposit accounts in the same branch, which was against the spirit of TFC.
- The funds received from GoI under FFC were to be released to GPs within 15 days of receipt. However, an amount of ₹55.84 lakh received from GoI towards FFC grants had been irregularly invested by the State Government in three Sweep-in deposit accounts in the same branch. This resulted in irregular retention of funds besides violation of guidelines.

1.4.1.6 Pooling of funds

The State Government was operating a bank account at State Bank of India (erstwhile State Bank of Mysore), G-Seva Branch, for receipt and transfer of grants received under TFC. The account had substantial balances (₹173.58 crore as of March 2017) that included grants not transferred to PRIs as well as interest earned. We observed that the funds pertaining to SFC and the grants received under FFC were also operated through this account till November 2016.

Consequently, the department should ensure proper reconciliation of receipt and expenditure of funds received from these different sources. However, this had not been done. In the absence of reconciliation, we could not ensure the correctness of transfers of funds under FFC and the actual quantum of funds

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

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

⁵ A Sweep-in Account is a bank account that automatically transfers amounts that exceed, or fall short of, a certain level into a higher interest-earning investment option at the close of each business day.

pertaining to FFC remaining in the account. The absence of reconciliation would also impact proper accounting/reporting of 'interest earned' on TFC, FFC and SFC grants.

1.4.1.7 Absence of reconciliation

The State Government was operating a bank account for receipt and transfer of FFC grants from November 2016. The funds received from GoI were to be apportioned among eligible GPs for which appropriate account numbers were to be intimated to the bank for transfer of funds. The Department had not maintained proper database of account numbers of GPs and thus, substantial funds transferred by bank were rejected back repeatedly. This led to avoidable delay in transfer of funds to local bodies. Though department claimed to have re-transmitted the funds to GPs, the necessary reconciliation statement was not made available to audit.

Thus, in the absence of proper records and reconciliation statement, audit could not ensure and vouch transfer of grants in full to all GPs.

The contention of audit is also justified from the data hosted on www.panchatantra.kar.nic.in, a website of RDPR department, which exhibited non-receipt of FFC grants by many GPs.

1.4.1.8 Release of additional stamp duty

As per Section 205 of KPR Act, 1993, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of three *per cent* of the duty imposed by the Karnataka Stamp Act, 1957, on instruments of sale, gift, mortgage, exchange and lease in perpetuity, of immovable property situated within the limits of the area of a TP. The entire amount collected in respect of the lands and other properties situated in the taluk shall be passed on to TPs in the State, in proportion to the population of the taluk, by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 *per cent* towards collection charges.

The additional stamp duty of ₹46.78 crore for the year 2015-16 was released to TPs only during September 2017 and the additional stamp duty to TPs for the year 2016-17 was not transferred (October 2017). IGR stated (October 2017) that additional stamp duty would be transferred after receipt of complete information from all the District Registrars and necessary reconciliation.

1.4.2 Reporting framework

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

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

ZPs prepared the accounts in MPAS formats from 2011-12 onwards. However, many of TPs had not prepared the annual accounts in MPAS format and thus, defaulted in complying with the norms, as detailed in **Table 1.7**.

Table 1.7: Status of annual accounts of TPs in MPAS format

Year	Number of TPs which submitted annual accounts	Number of TPs not prepared accounts in MPAS format
2013-14	174	16
2014-15	172	7
2015-16	164	20
2016-17	96	13

Source: Annual accounts of TPs

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

1.4.2.3 Status of accounts in Zilla Panchayats and Taluk Panchayats

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

For the year 2016-17, while only two ZPs had submitted their annual accounts within the timeframe, 11 ZPs submitted the accounts with delays ranging from 5 days to 86 days. Seventeen ZPs had not submitted the accounts for the year 2016-17 to the Accountant General, even at the end of October 2017. Similarly, while 17 TPs had submitted their annual accounts for the year 2016-17 within the timeframe, the delays in submission of annual accounts by 79 TPs ranged from 5 days to 110 days. Eighty TPs had not submitted the annual accounts to the Accountant General, even at the end of October 2017.

The range of delay in submission of annual accounts by ZPs and TPs for the year 2016-17 is exhibited in **Table 1.8**.

Table 1.8: Delay in submission of annual accounts by ZPs and TPs (as of October 2017)

Delay	Number of ZPs	Number of TPs
No delay	2	17
1-30 days	6	40
31-60 days	3	14
61-100 days	2	20
More than 100 days	-	5
Total	13	96

Source: Compilation of receipt of annual accounts by this office

Further, two⁶ TPs had not submitted their annual accounts for the year 2013-14 and four⁷ TPs for the year 2014-15.

1.4.2.4 Deficiencies in accounts of Zilla Panchayat and Taluk Panchayat

Significant deficiencies noticed in the accounts of ZPs and TPs during 2016-17 are detailed below:

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREDEs). Consequently, both the divisions had stopped issuing cheques. However, the annual accounts of seven ZPs (out of 13 ZPs that submitted accounts) for the year 2016-17 continued to reflect huge balances relating to earlier period as detailed in **Appendix 1.4**. This indicated that ZPs had not reconciled the encashed cheques with treasuries, resulting in incorrect reporting of expenditure.
- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZPs. However, six ZPs (out of 13 ZPs that submitted accounts) had not taken any action to clear the suspense accounts. The balances outstanding as at the end of March 2017 are detailed in **Appendix 1.5**.

1.5 Conclusion

The receipts of ZPs and TPs increased by 13 *per cent* and the expenditure relating to State Grants and assigned revenue increased by 15 *per cent* during 2016-17 as compared to 2014-15. There was short receipt of FFC grants by ₹23.10 crore. TFC grants of ₹13.92 crore, which included an interest of ₹7.66 crore and FFC grants of ₹55.84 lakh were not released to GPs but were invested in sweep-in deposit accounts. IGR had not transferred the required additional stamp duty for the year 2016-17 to TPs. There was a delay in submission of annual accounts for the year 2016-17 by ZPs (5 to 86 days) and TPs (5 to 110 days) to the Accountant General. As of March 2017, 1,735 IRs (46 *per cent*) containing 4,149 paragraphs (25 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs.

⁶ TPs – Chintamani and Shahpur.

⁷ TPs – Afzalpur, Deodurg, Shahpur and Srinivasapura.

Chapter - II

Results of audit of Panchayat Raj Institutions

Chapter II – Compliance Audit

Department of Primary and Secondary Education

2.1 Inadmissible payment of special allowance

Drawing and Disbursing Officers paid special allowance to teachers/lecturers appointed after 1st August 2008 in contravention of the Government's instructions, resulting in inadmissible payment of ₹8.33 crore.

The Government of Karnataka sanctioned (March 2006) special allowance of ₹200 per month to primary school teachers with effect from April 2006. This was also extended to secondary school teachers and pre-university college lecturers *vide* Government order dated 12.5.2006. The State Government enhanced (May 2012) the rate of special allowance to ₹300 (primary school teachers), ₹400 (secondary school teachers) and ₹500 (pre-university college lecturers) with effect from May 2012. Further, the State Government, *vide* order dated 29.8.2008, stipulated that primary school teachers appointed on or after 1.8.2008 were not entitled for this special allowance. The Government issued a corrigendum on 28.7.2014, which specified that secondary school teachers and pre-university college lecturers appointed on or after 1.8.2008 were also not entitled for this special allowance.

Test-check of records (June and July 2016) in the offices of four⁸ Block Education Officers (BEOs) showed that teachers appointed after 1.8.2008 had been granted special allowance. In order to ascertain the status across all 30 districts of the State, Audit obtained (October 2017) the data from the Project Officer, Human Resource Management System⁹ (HRMS). Analysis of the data showed that 3,287 Drawing and Disbursing Officers¹⁰ (DDOs) in 30 districts had paid (August 2008 to September 2017) special allowance aggregating to ₹8.33 crore to 7,244 teachers/lecturers appointed after 1.8.2008 as shown in **Table 2.1:**

Table 2.1: Statement showing category-wise payment of special allowance to teachers/lecturers appointed after 1.8.2008

(₹ in crore)

Sl. No.	Number of districts	Primary school teachers		Secondary school teachers		Lecturers		Total	
		Numbers	Amount	Numbers	Amount	Numbers	Amount	Numbers	Amount
1	30	1,558	1.27	3,789	5.13	1,897	1.93	7,244	8.33

Source: Data furnished (October 2017) by Project Officer, HRMS

The district-wise details are given in **Appendix 2.1.**

Consequent upon the issuance of Government order dated 29.8.2008 and corrigendum dated 28.7.2014, which specified that teachers appointed on or after 1.8.2008 were not entitled for grant of the special allowance, DDOs should

⁸ Gauribidanur, Kunigal, Shahpur and Tumakuru.

⁹ HRMS, rolled out during February 2008, is an integrated system to capture service particulars of employees, generate monthly salary bills, *etc.*

¹⁰ Principals, Head Masters, BEOs, *etc.*

have initiated action to recover the amount paid earlier to such teachers/lecturers and stop the payment of special allowance henceforth.

Thus, payment of ₹8.33 crore as special allowance to teachers/lecturers appointed after 1.8.2008 was inadmissible.

The State Government accepted the audit observation and stated (9 November 2017) that the Department had already initiated action to recover the special allowance in respect of four test-checked BEOs. It further stated that the Commissioner, Department of Public Instruction had instructed (4 November 2017) all Deputy Directors of Public Instruction to recover the amount from primary and secondary school teachers concerned. The details regarding action initiated to recover the amount from pre-university college lecturers and status of recovery from primary and secondary school teachers were awaited.

2.2 Unfruitful expenditure on construction of Block Education Officer's office building at Tumakuru

Insufficient release of funds by the Government resulted in non-completion of the Block Education Officer's office building at Tumakuru despite lapse of eight years and unfruitful expenditure of ₹50 lakh.

Government of Karnataka accorded (June 2006) approval for construction of new office building for Block Education Officer (BEO), Tumakuru.

Audit scrutiny (June 2016) of the records in the Office of BEO, Tumakuru for the period 2007-08 to 2015-16 and subsequent information sought (August 2017) from BEO showed that the work of construction of BEO office building at Tumakuru comprising ground plus two floors was estimated to cost ₹61 lakh as per Public Works Department (PWD) Schedule of Rates (SR) of 2005-06. The work was entrusted to Nirmithi Kendra, Tumakuru (NK, Tumakuru). However, the Government released the funds for the above work in a staggered manner spread over seven years as detailed in **Table 2.2**:

Table 2.2: Details of release of funds in a staggered manner

							(₹ in lakh)
Sl. No.	Year	2006-07	2007-08	2010-11	2011-12	2012-13	Total
1	Releases	3.00	6.00	15.00	10.00	16.00	50.00

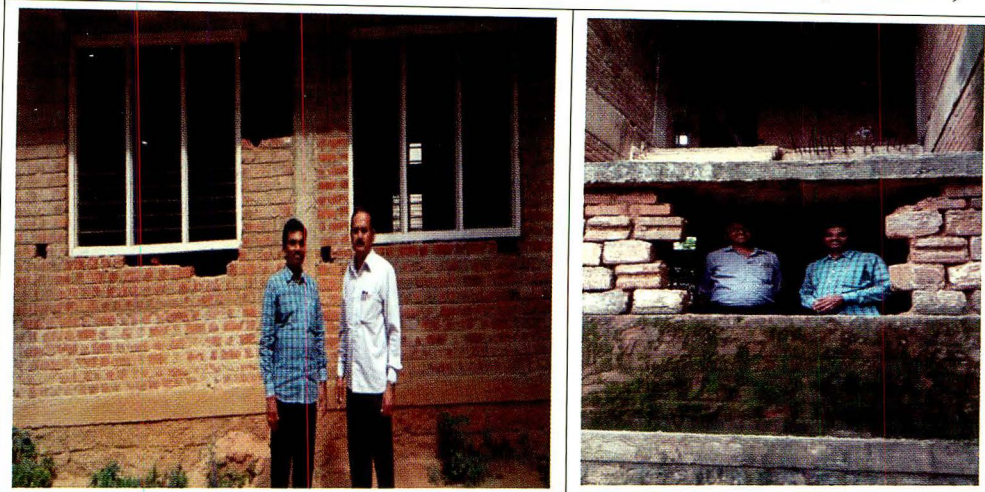
Source: Information furnished by BEO, Tumakuru

NK, Tumakuru, stated (August 2007) that the initial released amount of ₹3 lakh was insufficient to execute even the item of earthwork excavation and they took up the work only in May 2009. NK, Tumakuru, subsequently intimated (June 2009) its inability to complete the work as per the approved estimate and submitted (June 2009) a revised estimate for ₹65 lakh as per PWD SR of 2008-09 for construction of ground and first floor.

NK, Tumakuru, executed the work up to the roof level of the first floor and plastering of few walls. Thereafter, there was no progress in the work. BEO stated that the work was stopped since July 2012, as the balance amount was

yet to be released. The joint physical verification of the work during August 2017 by the Audit team along with the staff of BEO and NK, Tumakuru revealed that building was incomplete (as shown in photographs below) and most parts of the building were in a dilapidated condition.

Exhibit 1: Incomplete BEO Office building at Tumakuru (31.8.2017)



BEO repeatedly (November 2011 to May 2016) requested the Deputy Director of Public Instruction, Tumakuru (DDPI) and Commissioner for Public Instruction (CPI) for release of the balance funds. It was only during August 2016 that the Commissionerate sought the cost and details of the balance work to be done for which the revised estimate of ₹57 lakh based on SR of 2015-16 was prepared by NK, Tumakuru and submitted (January 2017) by BEO for approval. Further progress in this regard was awaited from CPI (October 2017).

Thus, staggered and insufficient release of funds resulted in non-completion of BEO office building at Tumakuru despite lapse of eight years. Consequently, expenditure of ₹50 lakh incurred on the work was rendered unfruitful. The delay in according sanction to the revised estimate for the balance works does not rule out the possibility of further cost escalation. It was further observed that the work order for execution of project was placed at NK, Tumakuru without any schedule of completion.

The State Government accepted the audit observation and stated (November 2017) that the stretched release of funds over a period of six years led to cost escalation and non-completion of the work. It further stated that the estimate of ₹57 lakh was not approved as the funds earmarked for a particular work could not be revised and earnest efforts would be made to resolve this issue.

Rural Development and Panchayat Raj Department

2.3 Unproductive investment on a water supply scheme

A water supply scheme to Nagara and five other villages in Mudhol taluk, Bagalkot district, remained non-functional due to sub-standard execution and inordinate delays in taking up remedial measures. This resulted in unproductive investment of ₹9.70 crore, besides depriving the targeted population of safe drinking water supply even after 10 years of sanction of the scheme.

With the objective of providing safe and dependable water supply to Nagara and five other villages in Mudhol taluk of Bagalkot district, the Government of Karnataka accorded (June 2007) administrative approval to a multi-village water supply scheme under sub-mission project of Rajiv Gandhi National Drinking Water Mission. The scheme envisaged drawing water from Ghataprabha Left Bank Canal. The work, estimated to cost ₹7.90 crore (revised to ₹8.82 crore in December 2007), was technically sanctioned during December 2007. The Executive Engineer, Panchayat Raj Engineering (PRE) division, Bagalkot awarded (March 2008) the work to M/s Sai Sudhir Infrastructures Limited (contractor) at the negotiated rate of ₹10.00 crore with the stipulation to complete it by June 2009.

Scrutiny of records (May 2017) in the office of the Executive Engineer, Rural Drinking Water Supply and Sanitation (RDW&S) division¹¹, Bagalkot, showed that the progress of work was slow as the achievement within the stipulated date of completion (June 2009) was only 33 per cent (₹3.32 crore). It was seen that the division had issued notices (December 2008 to April 2010) to the contractor for the delay but it did not levy any fine/penalty for slow progress of work despite enabling provisions in the contract. The divisional authorities made payments (August 2009 to March 2012) to the contractor for subsequent work done (worth ₹6.38 crore) without granting any extension of time. By the end of March 2012, the contractor had completed major components of work, for which ₹9.70 crore had been paid (15th and part Running Account bill). The balance works, costing ₹29.80 lakh, included providing turfing¹² to Impounding Reservoir¹³ (IR), fixing gate to water treatment plant area, other minor works, etc., have not been completed even as of September 2017.

Subsequently, on the basis of proposals/justifications submitted (May 2013 to October 2015) by the division, the Chief Engineer, RDW&S Department (CE) instructed (December 2015) the Superintending Engineer, RDW&S Department, Belagavi Circle (SE) to forfeit Earnest Money Deposit (EMD) of ₹7.90 lakh and Further Security Deposit (FSD) of ₹63.07 lakh and to rescind the work at the risk and cost of the contractor. This was not done as of September

¹¹ A separate Rural Drinking Water Supply and Sanitation Department was created *vide* Government Order dated 4.3.2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by PRE Department.

¹² Turfing is provided to safeguard against erosion effects of rain.

¹³ An IR is a structure for the purpose of storing/holding water so that it could be used when supply is insufficient. For this scheme, an IR was proposed in Government land near Mugalkhod village for storing water during the canal closure period of seven months.

2017. Delay on the part of SE was unexplained as CE, PRED had recommended (February 2014) blacklisting of this contractor due to deficiencies in execution of another work (water supply scheme to Islampur and 60 other villages).

During the inspections, SE and CE noted (January 2015 and June 2016) that there were leakages in the pipes laid and water could not be impounded in IR due to seepages. Therefore, trial run could not be conducted. Evidently, there was lack of monitoring and quality check by the division and payments were made for sub-standard execution.

CE requested (January 2017) a consultant to visit the work site and suggest suitable measures for repairing/arresting leakages; the consultant's report was still awaited (October 2017). It was also seen that IR, pipelines, valve chambers, etc., were further damaged as there was no progress since March 2012 and watch and ward had not been deployed at the worksite. This necessitated rectification works including strengthening of IR, for which the Executive Engineer, RDW&S Division, Bagalkot prepared (March 2017) an estimate costing ₹4.90 crore. The State Level Scheme Sanctioning Committee approved (July 2017) this estimate with instructions for investigation of scheme by experts. Accordingly, CE directed (August 2017) SE to submit a detailed report on technical/financial aspects of this defunct scheme along with experts' analysis, which was awaited (November 2017). As a result of inordinate delays, the efforts of division for taking up remedial measures have been inconclusive.

Failure of PRE/RDW&S departments in ensuring quality in execution of work, inordinate delay in completion of work and non-enforcement of contractual provisions against the contractor were indicative of ineffective monitoring and oversight. As a result, the scheme remained non-functional even after 10 years of its sanction and the investment of ₹9.70 crore was rendered unproductive, besides depriving the targeted population (32,194) of safe drinking water supply. Payment of ₹6.38 crore without granting any extension of time and preparation of the estimate for balance works without the consultant's report were also not justifiable. There would also be additional financial burden on the State Government due to cost overrun as EMD/FSD, if forfeited, and cost of work not done by the contractor would amount to ₹1.01 crore¹⁴ only, whereas the balance/rectification works had been estimated to cost ₹4.90 crore.

The State Government accepted the audit observation and stated (October 2017) that the contractor's progress was slow and his response to division's notices was poor. It further stated that after obtaining the suggestions from experts and approval of balance works, the extra cost would be calculated and recovered from the contractor. However, no action was initiated against the officials who had failed to ensure due diligence in execution of this work. The possibility of further cost and time overrun could not be ruled out.

¹⁴ EMD-₹7.90 lakh, FSD-₹63.07 lakh and cost of work not done by the contractor-₹29.80 lakh.

2.4 Unfruitful expenditure on a multi village water supply scheme

The selection of a source that was not reliable and appropriate for a water supply scheme resulted in non-commissioning of the scheme for more than six years thereby rendering the expenditure of ₹3.98 crore incurred on the scheme unfruitful.

The Government of Karnataka approved (July 2006) a multi village water supply scheme for Metagudda and seven other villages of Mudhol Taluk in Bagalkot district at a cost of ₹4.25 crore. The source identified for water supply was an existing Minor Irrigation (MI) tank at Metagudda village. The scheme was approved (December 2007) by the State Level Empowered Committee for a revised cost of ₹4.63 crore and was technically sanctioned (February 2008) by the Chief Engineer (CE), Panchayat Raj Engineering Department (PRED) for ₹4.63 crore. The work was awarded (June 2008) to the lowest contractor for ₹4.65 crore with the stipulation to complete it by November 2009 and it was reported to have been completed during November 2011. An amount of ₹3.98 crore was paid to the contractor as of June 2011 (13th and part Running Account Bill) and the final measurements were yet to be recorded (November 2017). The contractor could not conduct the trial run of the scheme due to non-availability of water at the proposed source.

Scrutiny of the records (June 2017) in the office of the Executive Engineer, Rural Drinking Water Supply and Sanitation (RDW&S) division¹⁵, Bagalkot, showed that the yield in the identified source was assessed at 0.1509 million cubic metre (M cum) which was not sufficient to meet the demand and hence it was proposed to feed the tank from Ghataprabha Right Bank (GRB) canal through an open channel. The Detailed Project Report (DPR) also stated that "As per the proposal, it is learnt that 0.886 cum of water will be let out from GRB canal to MI tank from 15th July to 15th February every year. If this much quantity of water is released every year, there will be no problem for meeting the water supply needs of Metagudda and other seven villages". Hence the supply of water to the proposed villages was dependent on release of water to the tank from GRB canal. DPR, however, did not mention whether the required permission of MI authorities was sought for and assurance obtained for the release of water every year as envisaged.

The Executive Engineer, Panchayat Raj Engineering Division, Bagalkot requested MI authorities only during July 2011 for release of water to the tank at Metagudda through the Metagudda minor canal which opens at 1+600 chainage of Gulagala Jambagi minor canal. MI authorities expressed (January 2012) their inability to provide water to the tank as the Metagudda minor canal was constructed only from chainage 0+00 to 0+800 metres and it was required to be extended to 2+000 kilometre for providing water to the tank. MI authorities also stated that water was presently being let out into the canals only for 20 days in a month for irrigation purposes and this would be stopped after

¹⁵ A separate Rural Drinking Water Supply and Sanitation Department was created *vide* Government Order dated 4.3.2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by PRE Department.

15th of February and hence did not ensure continuous supply of the water to the tank.

Thereafter, CE, PRED submitted (September 2012) a proposal to the Government to draw the required water from Ghataprabha river at a cost of ₹4.65 crore by considering the Metagudda tank as impounding reservoir. The approval of the Government to the proposal was awaited (October 2017). On the recommendations of the State Level Scheme Sanctioning Committee (July 2017), CE, RDW&S Department directed (August 2017) the Superintending Engineer, RDW&S Department, Belagavi Circle to submit a detailed report on technical/financial aspects of this defunct scheme along with experts' analysis, which was also awaited (October 2017).

It was observed that a few components of the scheme like pipeline and valve chambers had already been damaged/stolen (April 2012) on many stretches. Evidently, there was no proper watch and ward. This issue was also not addressed in the proposal submitted to the Government. The Joint physical inspection conducted (June 2017) by audit along with the Assistant Engineer, RDW&S, Bagalkot, also showed that the scheme was not yet commissioned.

Thus, identification of a source that was not reliable and appropriate for a water supply scheme intended for eight villages resulted in non-commissioning of the scheme for more than six years thereby rendering the expenditure of ₹3.98 crore incurred on the scheme unfruitful.

The State Government accepted the audit observation and stated (October 2017) that action would be taken to execute the work immediately on receipt of the approval and funds for balance works. No accountability, however, was fixed against the officials who were responsible for taking up the work without ascertaining reliable/appropriate source of water.

Tribal Welfare Department and Rural Development and Panchayat Raj Department

2.5 Non-utilisation of funds for construction of pre-matric boys' hostel building for Scheduled Tribe students

Zilla Panchayat, Chitradurga released ₹30 lakh to Nirmithi Kendra, Chitradurga, without ensuring the availability of land. This contravened the codal provisions and resulted in funds remaining unutilised for more than seven years.

The provisions of Karnataka Public Works Departmental Code stipulate that no work should be entrusted for execution without ensuring the availability of the entire land required for the work.

The Government of Karnataka approved (September 2008) establishment of pre-matric boys' hostel for Scheduled Tribe (ST) students at Hampanur village of Chitradurga district.

Audit scrutiny of the records of Nirmithi Kendra, Chitradurga, (NK, Chitradurga) (July 2015); Zilla Panchayat, Chitradurga (ZP) (September 2017); and District Tribal Welfare Office (September 2017) showed that the hostel at Hampanur was functioning in a rented building and ZP included the work of construction of hostel building at Hampanur in the Action Plan for the year 2009-10 citing the availability of funds. The construction of the hostel building was entrusted to NK, Chitradurga and an amount of ₹30 lakh was released (January 2010) by ZP without ascertaining the availability of land.

Subsequently, the elected representative and Chairman, Welfare of Scheduled Castes (SC)/ST Legislative Committee requested (February 2010) the Government for shifting the existing hostel at Hampanur village to Kolahal village as the number of ST students at Hampanur was decreasing and also ST population was less in Hampanur compared with Kolahal. The above proposal was forwarded (April 2010) by the Director of Tribal Welfare Department, Government of Karnataka to the Chief Executive Officer, ZP (CEO), Chitradurga. The matter was discussed (June 2010) in the Karnataka Development Programme (KDP) Review meeting, wherein, it was decided to conduct a survey of the villages where ST population was more. Subsequently, it was decided (July 2010) in KDP meeting to shift the hostel to Alagawadi village as there were about 82 ST students admitted in the schools in and around that village. It was also decided to recommend the proposal for change in location to the Government. The proposal was referred to the Government in August 2010. The Government, however, approved (June 2012) the shifting of hostel from Hampanur to Holalkere Town with effect from the academic year 2013-14.

ZP, despite being aware of the shifting of the hostel, failed to initiate any action to get back the amount released to NK, Chitradurga and remit the amount to the Government account. After being pointed out (July 2015) by Audit, NK, Chitradurga refunded (August 2015) the amount of ₹30 lakh along with interest of ₹4.22 lakh to ZP citing non-availability of land and the entire amount of ₹34.22 lakh continued to remain in the bank account of ZP (September 2017).

Thus, the action of ZP in releasing the amount of ₹30 lakh to NK, Chitradurga without ensuring the availability of land was incorrect since it resulted in funds remaining unutilised for more than seven years.

The State Government (Rural Development and Panchayat Raj Department) stated (October 2017) that action would be taken to either refund ₹30 lakh along with interest to the Director of Tribal Welfare Department or remit it to the receipt head concerned. The State Government (Department of Social Welfare) stated (October 2017) that the hostel at Holalkere Town was presently functioning in a rented building and the construction of own building, costing ₹3.19 crore, was under progress. It further stated that CEO, ZP, Chitradurga had been instructed (October 2017) to remit ₹34.22 lakh along with interest thereon to Deputy Commissioner, Chitradurga for utilising the amount towards the on-going work at Holalkere Town. The status of remittance was awaited (November 2017).

Department of Women and Child Development

2.6 Non-utilisation of funds for construction of anganwadi centres

Zilla Panchayat, Chitradurga violated the codal provisions of ensuring availability of land before entrusting the construction of anganwadi centres. This resulted in non-utilisation of ₹20 lakh for more than five years besides depriving the anganwadi children of intended benefits.

Government of India launched (February 2007) the Backward Regions Grant Fund (BRGF) programme for development of backward areas and to provide resources for supplementing and converging existing development inflows to selected backward districts. The objective was to mitigate the regional imbalances and speed up development thereby contributing towards poverty alleviation.

Construction of 36 anganwadi centres in various Gram Panchayats (GPs) of Chitradurga taluk was taken up during 2011-12. The cost of each anganwadi centre was ₹4.50 lakh, of which, ₹2.40 lakh was the Zilla Panchayat (ZP) contribution and ₹2.10 lakh was GP contribution. ZP, Chitradurga entrusted (January 2012) the work of construction of 20 centres to Nirmithi Kendra, Chitradurga (NK, Chitradurga) and the balance 16 centres were entrusted to Panchayat Raj Engineering Department (PRED), Chitradurga. Further, as per the provisions of Karnataka Public Works Departmental Code, no work should be entrusted for execution without ensuring the availability of the entire land required for the work.

Audit scrutiny of the records of the NK, Chitradurga (July 2015); Deputy Director, Department of Women and Child Development, Chitradurga (August 2017); and ZP, Chitradurga (September 2017) showed that ZP released (December 2012) an amount of ₹48 lakh, being its share of the contribution to NK, Chitradurga. In respect of five GPs, the construction did not commence as the land for construction of the centres was not handed over by the Department of Women and Child Development. In two cases, GPs¹⁶ had released their share of ₹2.10 lakh each, whereas, in the other three, GPs¹⁷ did not release their share of ₹6.30 lakh.

Since the land was not handed over, NK, Chitradurga refunded (August 2015) ₹12.96 lakh to ZP and ₹4.77 lakh to the two GPs with interest as per the decision of the Executive Committee of NK, Chitradurga. ZP again released (September 2016) the amount of ₹12 lakh to NK, Chitradurga as the Child Development Project Officer, Chitradurga (CDPO) stated (August 2016) in the progress review meeting that sites were now available for construction of anganwadi centres. However, barely one month later, the Project Director, NK, Chitradurga, observed (September 2016) that the lands were not available except in the case of GP, Chologatta. NK, Chitradurga took up the construction of the anganwadi centre at Chologatta and an expenditure of ₹2.50 lakh was incurred (September 2017). The building was partially complete as GP's share

¹⁶ Chikkagondanahalli and Chologatta.

¹⁷ Gonur, Madakaripura and Sirigere.

of ₹2.10 lakh was not released to NK, Chitradurga. The other GPs also did not release their share of the contribution despite the fact that BRGF had placed (2011-12) an amount of ₹10.50 lakh with the GPs for this purpose. Consequently, the funds released for the construction of anganwadi centres remained unutilised.

Thus, the failure of ZP to entrust the work without ensuring the availability of land resulted in non-utilisation of ₹20 lakh¹⁸ even after a lapse of five years besides depriving the anganwadi children of intended benefits.

The State Government accepted the audit observation and stated (October 2017) that GPs would be instructed to release their contribution and action would be taken to complete the works through NK, Chitradurga. The reply did not address the audit observation regarding entrustment of work without ensuring availability of requisite land.

¹⁸ ₹12 lakh (ZP contribution) + ₹10.50 lakh (GP contribution) - ₹2.50 lakh spent by NK, Chitradurga.

Chapter - III

Accountability framework and financial reporting in Urban Local Bodies

Chapter-III

Urban Development Department

Accountability framework and financial reporting in Urban Local Bodies

3.1 Introduction

The 74th Constitutional amendment enacted in 1992 envisaged creation of local self-governments for the urban population and the municipalities had been accorded constitutional status for governance. The amendment sought to empower Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the Twelfth Schedule of the Constitution. The category-wise ULBs in the State are shown in **Table 3.1**.

Table 3.1: Category-wise ULBs in Karnataka State

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

Source: Information furnished by the Department

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

3.2 Organisational structure

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

All ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While ULBs other than BBMP have four Standing Committees, BBMP has 12 Standing Committees. The Commissioner/Chief Officer is the executive head of ULBs. The organisational structure with respect to functioning of ULBs in the State is given in **Appendix 3.1**.

3.3 Devolution of Functions

The 74th Constitutional amendment envisaged devolution of 18 functions listed in the Twelfth Schedule of the Constitution to ULBs. As of March 2017, the State Government had transferred 17 functions to ULBs. Fire Services function had not been transferred to ULBs.

3.4 Accountability framework

3.4.1 Powers of the State Government

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

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

3.4.2 Vigilance mechanism

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

3.4.3 Audit mandate

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

The status of audit by KSAD during the period 2012-13 to 2016-17 in respect of ULBs is shown in **Table 3.2**.

Table 3.2: Statement showing the details of audit of ULBs by KSAD as of September 2017

Year	CC		CMC		TMC/TP/NAC	
	Total	Audited	Total	Audited	Total	Audited
2012-13	7	5	44	42	168	167
2013-14	7	6	44	41	168	167
2014-15	7	4	44	37	168	163
2015-16	10	6	56	43	208	176
2016-17	11	1	56	10	208	52

Source: Information furnished by KSAD

3.4.4 Response to Inspection Reports

As of March 2017, 302 Inspection reports (IRs) consisting of 5,127 paragraphs were outstanding in various ULBs as detailed in **Table 3.3**.

Table 3.3: Statement showing the details of outstanding IRs and paragraphs up to the audit period 2015-16

Units	5 to 10 years (2007-08 to 2011-12)		3 to 5 years (2012-13 to 2013-14)		2014-15		2015-16		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
ULBs other than BBMP	58	549	44	914	33	848	65	1,545	200	3,856
BBMP	6	208	24	240	48	567	24	256	102	1,271
Total	64	757	68	1,154	81	1,415	89	1,801	302	5,127

Source: Inspection Reports

Out of 302 IRs outstanding, 132 IRs (44 *per cent*) containing 1,911 paragraphs (37 *per cent*) were pending for more than three years, indicating inadequate action on the part of ULBs. The details about IRs and paragraphs outstanding are in **Appendix 3.2**.

3.4.5 Internal Audit

The State Government did not have an Internal Audit Wing to oversee the functions of ULBs. A proposal was forwarded (July 2017) by DMA to the Government for establishment of an Internal Audit Wing as part of the upgradation of the Directorate to the Commissionerate.

3.4.6 Property Tax Board

The Thirteenth Finance Commission recommended that State Governments must put in place a state level Property Tax Board, which would assist all municipalities and municipal corporations in the State to put in place an independent and transparent procedure for assessing property tax. Further, Sections 102A to 102Y under Chapter IX-A of KMC Act provides for establishment of the Karnataka Property Tax Board by the State Government.

The Property Tax Board was not yet established in the State (November 2017).

3.5 Financial profile and reporting framework

3.5.1 Financial profile

3.5.1.1 Resources of Urban Local Bodies

The finances of ULBs include receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans from financial institutions or nationalised banks as the State Government may approve. ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. While the authority to collect

certain taxes is vested with ULBs, authority pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, etc., is vested with the State Government. The own non-tax revenue of ULBs comprises fee for sanction of plans/mutations, water charges, etc.

3.5.1.2 Release of grants to Urban Local Bodies

The details of grants¹⁹ released by the State Government to ULBs during the period 2012-13 to 2016-17 are shown in **Table 3.4**.

Table 3.4: Statement showing release of grants

(₹ in crore)

ULBs	2012-13		2013-14		2014-15		2015-16		2016-17	
	Budget	Grants released	Budget	Grants released	Budget	Grants released	Budget	Grants released	Budget	Grants released
CCs	3,544	2,669	4,348	3,632	4,956	4,372	4,435	4,307	4,233	4,099
CMCs/TMCs	1,513	1,126	1,629	1,139	1,589	1,365	1,644	1,555	1,488	1,368
TPs/NACs	290	214	344	248	312	273	233	214	259	219
Total	5,347	4,009	6,321	5,019	6,857	6,010	6,312	6,076	5,980	5,686

Source: State Budget Estimates and Finance Accounts

It can be observed from the table that the allocated quantum of funds were not released to ULBs during any of the years from 2012-13 to 2016-17. While actual releases to ULBs showed an increasing trend during the years 2012-13 to 2015-16, the releases decreased by six *per cent* during 2016-17 compared to 2015-16. The releases to CCs and CMCs/TMCs were reduced by 5 and 12 *per cent* respectively during 2016-17 and increased by 2 *per cent* to TPs/NACs.

3.5.1.3 Short release of funds

As per recommendations (December 2008) of the Third State Finance Commission and decision of the State Government (October 2011), 10 *per cent* (₹8,875.07 crore) of Non-Loan Net Own Revenue Receipts (NLNORR) was to be released to ULBs during 2016-17. As against this, the State Government had only released 6.41 *per cent* (₹5,685.58 crore) of NLNORR (₹88,750.66 crore), resulting in short release of ₹3,189.49 crore to ULBs during 2016-17.

3.5.1.4 Delayed release of Fourteenth Finance Commission grants

GoI released total basic grants of ₹778.29 crore, in two equal instalments, and ₹229.70 crore as performance grants to ULBs during the year 2016-17.

FFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within 15 days from the date of receipt of grant from GoI, failing which, the State Government would be liable to release the instalment with interest at the Reserve Bank of India (RBI) rate for the delayed period. GoI released the instalments during June 2016 and December 2016.

There were substantial delays ranging from 26 to 34 days in transfer of first instalment of basic grants to ULBs. The consequent interest payable amounting to ₹1.70 crore was not released to ULBs by State Government. There were

¹⁹ Grants include State Finance Commission grants, Fourteenth Finance Commission grants, grants released for Centrally sponsored schemes and State schemes.

delays of one to five days in release of other two instalments of funds, which needs to be curtailed. Government should ensure timely transfer of funds to avoid extra burden on the exchequer.

3.5.1.5 Release of performance grants to ineligible Urban Local Body

FFC recommended performance grant for duly constituted ULBs. To be eligible, ULB was required to submit audited annual accounts that would relate to a year not earlier than two years preceding the year in which it sought to claim the performance grant.

The performance grants of ₹229.70 crore released during 2016-17 was distributed to 191 ULBs in the State. Scrutiny of records revealed that ₹81.77 crore was irregularly released to BBMP towards performance grants though the accounts of BBMP for the year 2014-15 was not audited by KSAD.

3.5.1.6 Status of collection of Property Tax

The State Government had introduced the Self-assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax²⁰ demanded, collected and outstanding at the end of March 2017 in respect of all ULBs (except BBMP) and targets fixed and collections against targets in respect of BBMP are shown in **Tables 3.5 and 3.6** respectively.

Table 3.5: Position of demand, collection and balance of Property Tax in ULBs

(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2012-13	62.19	342.00	404.19	284.18	120.01	70
2013-14	75.84	387.48	463.32	371.56	91.76	80
2014-15	83.47	433.35	516.82	369.63	147.19	72
2015-16	98.20	504.05	602.25	508.54	93.71	84
2016-17	105.80	666.80	772.60	563.19	209.41	73

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹93.71 crore in 2015-16 to ₹209.41 crore in 2016-17. Further, the closing balances of previous years had not been adopted as opening balances during the subsequent years. The reasons thereof were not furnished by DMA.

²⁰ The figures for the years 2012-13 to 2015-16 furnished (October 2017) by DMA and BBMP varied with the information furnished during January 2017 for the same period, which needs reconciliation.

Table 3.6: Position of target and collection of property tax in BBMP
(₹ in crore)

Year	Budget estimate	Actual collection	Percentage of collection
2012-13	2,000.00	936.76	47
2013-14	3,200.00	908.06	28
2014-15	2,135.00	1,176.01	55
2015-16	1,900.00	1,244.98	66
2016-17	2,300.00	1,452.57	63

Source: Budget and details furnished by BBMP

BBMP did not achieve the targets for collection of property tax during the period 2012-13 to 2016-17 and the collection ranged from 28 to 66 per cent of the budget estimates.

3.5.1.7 Non/short remittance of cess by Bruhat Bengaluru Mahanagara Palike

Section 108A of KMC Act provides for levy and collection of Property Tax along with the applicable cess such as health, library and beggary cess in respect of City Corporations including BBMP. Further, Section 4A of the Health Cess Act, 1962, Section 30 (4) of the Karnataka Public Libraries Act, 1965 and Section 31 of the Karnataka Prohibition of Beggary Act, 1975 state that the cess²¹ collected by the local authorities as per the respective Cess Acts shall be remitted to the departments concerned and the local bodies are entitled to deduct 10 per cent of cess collected and retain as collection charges.

Test-check of records in the office of Chief Accounts Officer, BBMP showed that huge balances of cess collected during the period 2012-13 to 2016-17 were not remitted to the departments concerned as detailed in the **Table 3.7**:

Table 3.7: Details of Collection, remittance and balance of cesses

Year	Health cess			Library cess			Beggary cess		
	Collected	Remitted	Balance	Collected	Remitted	Balance	Collected	Remitted	Balance
2012-13	140.51	0	140.51	56.20	25.15	31.05	28.10	9.00	19.10
2013-14	136.20	0	136.20	54.48	18.50	35.98	27.24	15.00	12.24
2014-15	176.40	0	176.40	70.56	8.00	62.56	35.28	5.00	30.28
2015-16	186.74	0	186.74	74.69	58.08	16.61	37.34	12.67	24.67
2016-17	217.88	0	217.88	87.15	50.00	37.15	43.57	20.00	23.57
Total	857.73	0	857.73	343.08	159.73	183.35	171.53	61.67	109.86

Source: Information furnished by BBMP

While BBMP had not remitted the entire health cess of ₹857.73 crore collected to the State Government, the balance of library cess (₹183.35 crore) and beggary cess (₹109.86 crore) were not remitted to the departments concerned.

²¹ Health cess: 15 per cent on the property tax collected; Library cess: six per cent on the property tax collected and Beggary cess: three per cent on the property tax collected.

3.5.2 Reporting framework

Financial reporting in the public sector is a key element of accountability. On the recommendations of Eleventh Finance Commission, GoI had entrusted the responsibility of prescribing appropriate accounting formats for ULBs to CAG.

The Ministry of Urban Development, GoI had developed the National Municipal Accounts Manual (NMAM) as recommended by CAG's Task Force. The State Government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), based on NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all ULBs except BBMP. As of 31 March 2017, all ULBs were preparing fund-based accounts in double entry system. BBMP was maintaining Fund Based Accounting System (FBAS) based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001.

3.5.2.1 Preparation and certification of accounts of Urban Local Bodies

According to KMABR, ULBs shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet and Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the auditor appointed by the State Government, within two months from the end of the financial year.

The auditor should complete the audit within four months (July) from the date of closure of financial year (31st March) and after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. The audited accounts should be adopted by the Council within five months from the end of the financial year.

For the year 2016-17, audit of 46 out of 270 ULBs were completed (October 2017).

3.5.2.2 Preparation and certification of accounts of Bruhat Bengaluru Mahanagara Palike

In terms of Provision 9(2) of part II of Schedule IX to KMC Act, the Commissioner, BBMP is required to prepare annual accounts every year and produce the accounts along with relevant records to the Chief Auditor for scrutiny not later than the first day of October every year.

However, the Principal Director, KSAD, who is the Statutory Auditor for BBMP, had not audited the accounts of BBMP for the years 2014-15 to 2016-17.

3.6 Conclusion

Out of 18 functions to be devolved to ULBs, the State Government had devolved 17 functions. As of March 2017, 132 IRs containing 1,911 paragraphs were pending for more than three years, indicating inadequate action on the part of ULBs. The State Government did not have an Internal Audit Wing to oversee

the functions of ULBs. KSAD had not audited the accounts of BBMP for the years 2014-15 to 2016-17. BBMP had not remitted health cess and had short remitted library and beggary cess. The State Government released only 6.41 *per cent* of NLNORR as against the stipulated 10 *per cent*. The State Government did not release interest amounting to ₹1.70 crore to ULBs for delayed transfer of FFC grants. BBMP, though ineligible, received ₹81.77 crore as performance grants during 2016-17.

Chapter - IV

Results of audit of Urban Local Bodies

Chapter IV – Results of audit

Section ‘A’ - Thematic Audit

Urban Development Department

4.1 Collection and Remittance of cesses in Urban Local Bodies

4.1.1 Introduction

Cess is an additional tax levied by the Government to raise funds for a specific purpose. The State Government enacted various Cess Acts mandating the levy of cess, elaborating on the rates of cess to be levied and the method of levy. The cesses under consideration in this report are to be collected by the Urban Local Bodies (ULBs) and remitted to the respective heads of account/institutions.

The Additional Chief Secretary to Government, Urban Development Department (UDD), Government of Karnataka (ACS) is responsible for overall supervision of the activities of ULBs at the State Government level and is assisted by the Secretary to Government (UDD) and Director of Municipal Administration, Government of Karnataka (DMA). ULBs are headed by a Commissioner/Municipal Commissioner/Chief Officer and assisted by the Revenue Officers, Revenue Inspectors and Bill Collectors.

Audit test-checked (April to July 2017) the records of Directorate of Municipal Administration, 2 City Corporations (CCs), 11 City Municipal Councils (CMCs), 12 Town Municipal Councils (TMCs) and 7 Town Panchayats (TPs), selected through Simple Random selection method and covering the period from 2012-13 to 2016-17, with the objective of ascertaining the compliance with provisions of the different cess acts and rules and other instructions issued by the State Government. Information was also obtained from the Departments of Health, Labour and Library, the Central Relief Committee (CRC) and Regional Transport Offices (RTOs) of Ballari and Belagavi. The list of selected ULBs is given in **Appendix 4.1**. An entry conference was held (May 2017) with ACS to discuss the audit objectives, scope and methodology and exit conference was held (October 2017) to discuss the audit findings.

4.1.2 Authority to levy cess and types of cess

The Authority mandating the levy of cess, the rates of cess and the head of account/institution to which the cess is to be remitted are indicated in **Table 4.1**:

Table 4.1: Statement showing the details of cesses to be levied on property tax by ULBs

Sl. No.	Type of cess	Authority mandating levy of cess	Effective from	Rate	Purpose	Remitted to
1	Health cess ²²	The Karnataka Health Cess Act, 1962	September 1962	15%	Improve primary /basic healthcare infrastructure	0045-00-109-0-01 (State Fund)
2	Library cess	The Karnataka Public Libraries Act, 1965	April 1966	6%	Improvement and development of library services	District Central / City Library

²² Apart from property tax, health cess is also levied on advertisement tax.

Sl. No.	Type of cess	Authority mandating levy of cess	Effective from	Rate	Purpose	Remitted to
3	Beggary cess	The Karnataka Prohibition of Beggary Act, 1975	April 1976	3%	Providing relief and rehabilitation to the beggars	Central Relief Fund
4	Urban transport cess (UTC)	The Karnataka Municipalities (Urban Transport Fund) Rules, 2013	April 2013	2%	Infrastructure development	0217-60-800-0-08 (State Fund)

Apart from the above four cesses, which are levied on property tax, ULBs are also mandated to collect slum development cess²³, infrastructure cess²⁴, and labour cess²⁵.

ULBs are permitted to retain 10 *per cent* of the cess collection in respect of health cess, beggary cess and library cess and one *per cent* in respect of labour cess as collection charges as prescribed under the respective Cess Acts.

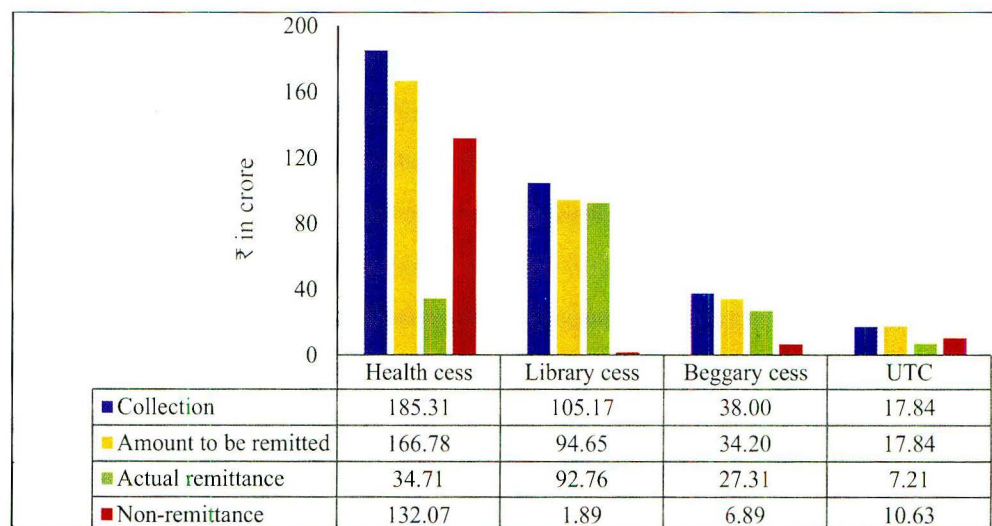
Audit findings

The findings noticed during audit in the test-checked ULBs are discussed in the succeeding paragraphs.

4.1.3 Status of cess collection and remittance

The status of collection and remittance of various cesses leviable on property tax, in the State as a whole, for the period 2012-13 to 2016-17, is depicted in **Chart 4.1**. Out of 270 ULBs (excluding Bruhat Bengaluru Mahanagara Palike and four Notified Area Committees), DMA furnished the information of health and beggary cess for 225 ULBs and library cess and UTC for 250 ULBs.

Chart 4.1: Collection and remittance of cesses levied on property tax by ULBs during the period 2012-13 to 2016-17



Source: Information furnished (August 2017) by DMA

²³ Order No. HUD 180 MIB 94 dated 29.03.1994 and effective from March 1994. Levied only by CCs/CMCs while according approvals to layout plans/building licences.

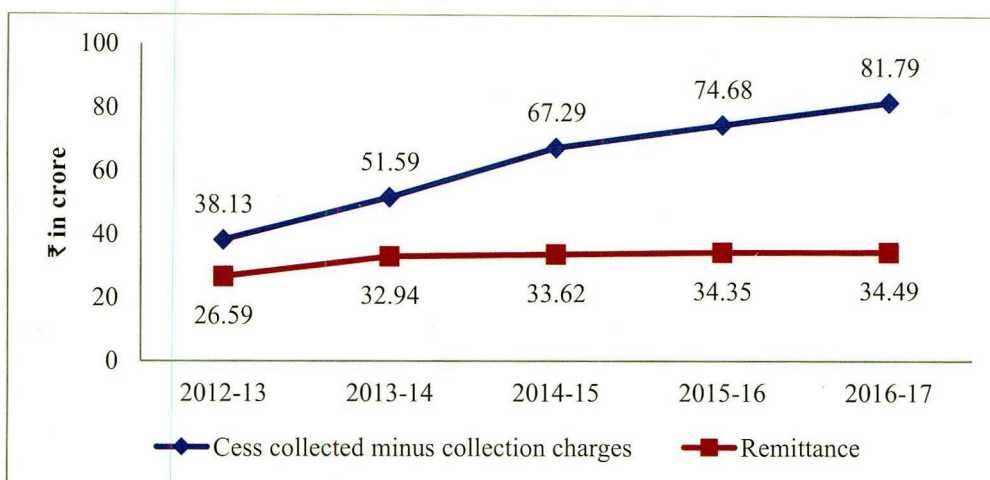
²⁴ Government notification no. UDD 65 MNU 2002 dated 27.02.2004 and effective from March 2004. The cess is levied on different classes of motor vehicles and is to be utilised by the CCs for development of infrastructure in cities.

²⁵ @ One *per cent* of the actual expenditure of the work bill / estimated cost of building at the time of building plan approval as per the Building and Other Construction Workers Welfare Cess Act, 1996. The levy of this cess was effective from January 2007.

We could not correlate the collection of the cesses depicted above with the collection of property tax as DMA furnished the data on property tax for 217 ULBs for the period 2012-13 to 2015-16 and for 254 ULBs for the year 2016-17. Further, the data was also inconsistent as the figures of property tax included cess component in respect of a few ULBs and excluded the cess component in a few ULBs.

We observed that the growth rate of remittance of the above cesses did not correspond with growth rate of collection during the period 2012-13 to 2016-17 as depicted in **Chart 4.2**:

Chart 4.2: Trend of collection and remittance of cesses levied on property tax during 2012-13 to 2016-17



Source: Information furnished by DMA

Further, comparison between the figures furnished by the test-checked ULBs with the figures furnished by DMA for these ULBs showed that DMA figures reflected:

- excess receipts of ₹1.50 crore and excess remittances of ₹1.06 crore under beggary cess;
- short receipts of ₹4.32 crore and short remittance of ₹96 lakh under health cess;
- short receipts of ₹1.56 crore and short remittance of ₹7 lakh under library cess; and
- short receipts of ₹28 lakh and short remittance of ₹32 lakh under UTC.

The details of variation are shown in **Appendix 4.2**.

Evidently, the figures of DMA were not reliable indicating that the figures furnished by ULBs were not subject to any verification for their correctness.

DMA cited (October 2017) inadequate manpower as one of the reasons for not establishing a monitoring mechanism and stated that implementation of Consultancy services for Accounting System Review and Validation in ULBs by deploying Accounting Consultants would improve the quality of accounting in ULBs through mentoring and validating the accounting process along with continuous internal audit.

The State Government further replied (December 2017) that efforts would be made to ensure correctness of the figures furnished by ULBs. It also stated that circulars were issued during January 2014 and June 2017 to all ULBs to remit all the cess collected (excluding collection charges) to the respective heads of account.

4.1.4 Non/short levy of cess

4.1.4.1 Health cess on advertisement tax

The provisions²⁶ of Karnataka Municipalities Act, 1964 (KM Act, 1964) and Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) stipulate imposing of a tax on advertisement. In order to bring all the advertisement hoardings under the tax net, a reliable and complete database of all advertisement hoardings needs to be prepared, maintained and regularly updated by ULBs through periodical surveys. Further, as per provision²⁷ of the Karnataka Health Cess Act, 1962, health cess may be levied and collected at the rate of 15 paise in the rupee on taxes on advertisements.

We observed that seven²⁸ out of 32 ULBs test-checked had not conducted any survey of hoardings/advertisements displayed in their respective jurisdiction and the other 25 ULBs did not furnish the information regarding the survey.

We also noticed that 17 out of 32 test-checked ULBs had failed to levy and collect ₹53.85 lakh as health cess on ₹3.59 crore collected as advertisement tax for the period 2012-13 to 2016-17. The data was not available in respect of other 15 ULBs. Non-adherence to provisions of the above Act resulted in loss of revenue to the Government.

The State Government replied (December 2017) that instructions would be issued to all ULBs to maintain up to date database of advertisement hoardings by conducting periodical survey and to realise advertisement tax and health cess.

4.1.4.2 Urban transport cess (2013-14)

The State Government notified²⁹ (August 2013) the Karnataka Municipalities (Urban Transport Fund) Rules, 2013 which provided for levy of UTC on property tax. These rules stipulated that all demands raised from the date of these rules coming into effect should include two *per cent* cess on the property tax, so levied. It also stipulated that in case, the property tax on any property had already been collected for the year 2013-14, a supplementary demand of two *per cent* towards UTC was to be raised and collected.

We noticed that 21 out of 32 ULBs had not levied UTC of ₹69.28 lakh on property tax of ₹34.64 crore collected for the year 2013-14. The details of levy

²⁶ Section 94 of KM Act, 1964 and Section 103 of KMC Act, 1976.

²⁷ Item 3 of Schedule-B referred to in Section 3 (iii).

²⁸ CC, Ballari; CMC, Kolar; TMCs – Bailahongal, Bangarpet and Kadur; TPs – Kottur and Mallapura.

²⁹ No. UDD 99 PRJ2013 (II) dated 20 August 2013.

of UTC could not be assessed in the remaining 11 ULBs, as the details of property tax were not furnished.

The State Government stated (December 2017) that the order was received during August 2013 and there was delay in implementing it. It also stated that ULBs were directed to raise the supplementary demand, realise the amount and remit it to the concerned head of account.

4.1.4.3 Infrastructure cess

Section 103B of KMC Act, 1976 and Government of Karnataka notification (February 2004) stipulated levy and collection of infrastructure cess by CCs, at such rate not exceeding five hundred rupees³⁰ per annum as may be prescribed on every motor vehicle suitable for the use on roads within the city. This was in addition to the cess levied under the Karnataka Motor Vehicles Taxation Act 1957 (Karnataka Act 35 of 1957). The infrastructure cess imposed on motor vehicles is leviable primarily on the registered owner or person in possession or control of a motor vehicle, which was the subject of a hire purchase agreement, or an agreement of lease or agreement of hypothecation. The cess was to be utilised by CCs for the development of infrastructure in cities.

We observed that 2,31,609 two-wheelers, 12,636 three-wheelers, 41,434 four-wheelers, 183 passenger vehicles and 2,508 goods carriage vehicles were registered under the jurisdiction of RTOs, Ballari and Belagavi during the period 2012-13 to 2016-17. However, the respective CCs had not collected the infrastructure cess resulting in loss of revenue to an extent of ₹2.66 crore as detailed in **Appendix 4.3**.

We also observed that neither DMA nor UDD had prescribed any modalities for levy and collection of the infrastructure cess despite the Government having issued the notification in February 2004. CCs also had not devised any modalities for the levy and collection of this cess. Thus, failure to prescribe the modalities for levy and collection of infrastructure cess resulted in revenue loss to the Corporations besides defeating the purpose for which the cess was to be utilised.

The State Government stated (December 2017) that as per the notification (February 2004), RTO would levy and collect the infrastructure cess which would be remitted to concerned CC later on. It further stated that instructions were issued to CCs to coordinate with district transport office to collect the cess. In view of the reply, audit is of the opinion that the State Government should revisit the notification as it stipulated that CC was to levy and collect infrastructure cess.

³⁰ @ ₹50 for two-wheelers, ₹100 for three-wheelers, ₹300 for four-wheelers, ₹400 for passenger vehicles and ₹500 for goods carriage vehicle.

4.1.5 Remittance of cess

4.1.5.1 Non/short remittance of cess

The provisions of various Cess Acts stipulate collection of cesses by ULBs and their remittance after retaining a prescribed percentage of collection. The Acts, however, do not specify the period within which the remittances have to be made. We observed from the scrutiny of the records that there were instances of non-remittance and short remittance of various cesses levied and collected by the test-checked ULBs as indicated in **Table 4.2**.

Table 4.2: Statement showing the details of non/short remittance of cesses in test-checked ULBs for the period 2012-13 to 2016-17

(₹ in crore)

Sl. No.	Types of cess	Amount collected prior to 2012-13 which was not remitted	Cess collected during 2012-17	Cess collected minus collection charges	Remittance (Percentage)	Non-remittance		Short remittance		Excess remittance		NF
						No. of ULBs	Amount	No. of ULBs	Amount	No. of ULBs	Amount	
1	Health cess	22.98	40.87	36.79	7.86 (21)	15	15.12	12	14.17	5	0.36	
2	Library cess	3.68	16.34	14.71	12.36 (84)	4	0.10	18	2.71	10	0.46	
3	Beggary cess	1.78	8.16	7.34	5.84 (80)	6	0.43	14	1.48	12	0.41	
4	UTC ³¹	-	3.34	3.34	1.32 (40)	6	0.17	14	1.86	3	0.01	4
5	Labour cess	0.91	26.62	26.35	8.97 (34)	6	16.03	12	1.53	11	0.18	3
Total		29.35	95.33	88.53	36.35 (41)		31.85		21.75		1.42	

Source: Information furnished by test-checked ULBs

NF – Not furnished

The non/short remittance of cesses collected by ULBs resulted in irregular retention of the amounts collected besides defeating the objective of levy of these cesses.

We further observed that ₹25.25 crore retained by six³² test-checked ULBs was utilised towards payment of wages, administrative expenses, payment of work bills for water supply works and for miscellaneous works, resulting in diversion of cess amount.

The State Government replied (December 2017) that all ULBs were directed to remit the cess collected to the respective State Government account. The reply was silent about the diversion of cess amount by the test-checked ULBs.

4.1.5.2 Non-remittance of slum development cess

The State Government issued (March 1994) orders for levy of slum development cess which was to be utilised for comprehensive development of slum areas by providing good roads, sanitation, underground drainage system, water supply, garbage removal, electricity and education, health, women and

³¹ Five ULBs remitted the entire collection of UTC in full.

³² CCs – Ballari and Belagavi; CMCs – Chikkamagaluru and Kolar; TMCs – Bailahongal and Bangarapet.

child development programme, social welfare activities, housing and prevention of accidents in slum areas. The cess is to be collected while according approval to layout plans/building licenses by the concerned Municipal Bodies (CCs and CMCs)/Development Authorities at the notified rates. A Joint account was to be opened in the name of Chief Officer/Commissioner of ULB concerned and the Assistant Executive Engineer of the Karnataka Slum Development Board in the respective jurisdiction to which remittance had to be made after retaining 10 per cent of total cess collected as collection charges/administrative charges.

We observed that out of 13 CCs/CMCs test-checked, there was a short remittance of ₹11.12 lakh in five³³ ULBs, excess remittance of ₹9.28 lakh in two³⁴ ULBs and full remittance in one ULB (CMC, Nippani) during the period 2012-13 to 2016-17. Five³⁵ ULBs did not furnish the requisite information.

We also observed from the information furnished (August 2017) by DMA for 61 ULBs that, as against ₹2.69 crore to be remitted, only ₹96 lakh had been remitted during the period 2012-13 to 2016-17. The percentage of remittance decreased from 69 per cent in 2012-13 to 17 per cent in 2016-17 as shown in **Table 4.3**.

Table 4.3: Statement showing the status of remittance of slum development cess by ULBs during the period 2012-13 to 2016-17

(₹ in crore)

Year	Collection	Amount to be remitted	Actual remittance	Short remittance	Percentage of remittance
2012-13	0.71	0.64	0.44	0.20	69
2013-14	0.40	0.36	0.09	0.27	25
2014-15	0.40	0.36	0.13	0.23	36
2015-16	0.76	0.68	0.19	0.49	28
2016-17	0.72	0.65	0.11	0.54	17
Total	2.99	2.69	0.96	1.73	

Source: Information furnished by DMA for 61 ULBs

Further analysis of the information revealed that ₹59.04 lakh (the opening balance as on 1st April 2012 excluding collection charges) was yet to be remitted by these 61 ULBs and 40 out of 61 ULBs had not remitted the entire collection of ₹1.73 crore during the audit period.

Thus, failure to adhere to the above provisions resulted in irregular retention of cess by ULBs defeating the objective of the creation of slum development fund.

The State Government replied (December 2017) that instructions were issued to the concerned ULBs to remit the amount to the slum development fund.

³³ CC, Ballari; CMCs – Bagalkot, Gokak, Ramanagara and Robertsonpet (KGF).

³⁴ CC, Belagavi and CMC, Mandya.

³⁵ CMCs – Chikkamagaluru, Doddaballapura, Gangavathi, Hosakote and Kolar.

4.1.6 Monitoring and utilisation of cess by the receiving departments

4.1.6.1 Department of Libraries

The Chief Librarian of the District/City Library monitors the receipt of library cess from ULBs. Hence, the percentage of remittance of library cess by the test-checked ULBs was high (84 *per cent*) in comparison to the other cesses.

We observed that the cess received by the District/City libraries of Ballari, Belagavi, Chikkamagaluru and Kolar was largely utilised (94 to 100 *per cent*) towards purchase of reference books, magazines, furniture and equipment in accordance with the provisions of the Act.

4.1.6.2 Central Relief Committee, Social Welfare Department

The Central Relief Committee (CRC) collects the data regarding the collection of beggary cess from the Municipal Reforms Cell of DMA and forwards it to its district authorities for watching the progress of remittance of the cess by various ULBs. This mechanism resulted in remittance of 80 *per cent* of the collection by the test-checked ULBs.

CRC utilised the cess towards providing food, uniforms, winter clothing, medical facilities to beggars, training of beggars, *etc.*, as mandated besides the administrative and operative expenses. The utilisation ranged from 16 *per cent* during 2012-13 to 27 *per cent* during 2015-16 and stood at 84 *per cent* during 2016-17. The increase in utilisation during 2016-17 was due to the work of construction of dormitories and other works for the beggars in all the existing 14 rehabilitation centres.

4.1.6.3 Urban Land Transport

The State Government addressed (November 2013) all ULBs to submit a quarterly statement of urban transport cess (UTC) collected to the Commissioner, Urban Land Transport. We observed that none of the test-checked ULBs had submitted the quarterly statement of UTC during each financial year. Hence, the Commissioner, ULT was not aware of the amount of UTC collected and due to be remitted.

The Department of Urban Land Transport (DULT) did not have a monitoring mechanism to track the collection and remittance of cess. However, it had established a system for utilisation of the amount in the Urban Transport Fund through an operating account and the utilisation ranged from 94 to 100 *per cent*. UTC was utilised for improvements of the transport system and providing better facilities to the passengers.

The State Government replied (December 2017) that instructions would be issued to ULBs to submit quarterly progress returns to DULT and to remit UTC to the concerned head of account.

4.1.6.4 Department of Health and Family Welfare

The State Government or the Department had not prescribed any mechanism for monitoring the receipt and utilisation of the health cess. As a result, the remittance of the health cess by the test-checked ULBs was very poor (21 *per cent*). We also observed from the data furnished (August 2017) by DMA that 98 out of 225 ULBs had not remitted any amount during the review period and the non-remittance was to the extent of ₹108.76 crore.

The Department also stated that they had not received any amount towards health cess during the audit period. Evidently, the objective of collection of health cess remained defeated.

The State Government stated (December 2017) that directions were issued to all ULBs to remit the health cess to the concerned head of account.

4.1.6.5 Department of Labour

The Karnataka Building and Other Construction Workers Board had received an amount of ₹2,994.25 crore towards labour cess during the period 2012-13 to 2016-17 from various departments/local bodies/autonomous institutions involved with construction activities. The utilisation, however, ranged from three to fourteen *per cent* during the above period. The Department utilised ₹223.39 crore during the audit period for providing medical/financial/educational assistance and pension to the labourers as stipulated in the Act besides administrative and capital expenditure. An amount of ₹65.02 crore was utilised towards purchase of land from Karnataka Industrial Areas Development Board for construction of temporary residential accommodation, *Koushalya* Academy, school and *Kalyana Bhavan*.

4.1.6.6 Karnataka Slum Development Board

The authority mandating the levy of slum development cess provided for reconciliation of accounts and submission of quarterly report to the Government by the Karnataka Slum Development Board. We observed that the necessary reconciliation was not being conducted and in the absence of reconciliation, the Board could not ensure the complete receipt of the cess collected by ULBs. During the period 2012-13 to 2016-17, the Board received ₹20.73 crore, of which, ₹15.85 crore was utilised for providing infrastructure works in slums.

4.1.7 Conclusion

The thematic audit showed that the growth rate of remittance of the cesses levied on property tax did not correspond with growth rate of their collection during the period 2012-13 to 2016-17. Non-adherence to the provisions of various Cess Acts led to non-levy of cesses. There were instances of non-remittance and short remittance of cesses by ULBs. The percentage of remittance to departments with a monitoring mechanism was significantly higher than those without a monitoring mechanism. Library cess, beggary cess, UTC and slum development cess were largely utilised for the intended purposes. The utilisation of labour cess was poor and needs examination by the Government. There was no evidence for utilisation of health cess by the department concerned.

Section 'B' - Compliance Audit

Urban Development Department and Revenue Department

4.2 Avoidable payment of interest

Urban Development Department, Bruhat Bengaluru Mahanagara Palike and Special Land Acquisition Officer, Bengaluru, failed to ensure timely settlement of land compensation resulting in avoidable payment of interest of ₹12.26 crore.

Acquisition of land for public purpose by the State Government is regulated under the Land Acquisition Act, 1894 (applicable till 31.12.2013) and the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LA Act, 2013) with effect from 1.1.2014. Section 80 of LA Act, 2013 stipulates that in case the amount of compensation is not paid or deposited on or before taking possession of the land, interest is payable at the rate of nine *per cent* per annum for the first year and at the rate of fifteen *per cent* per annum thereafter. Further, as per Section 96 of LA Act, 2013, income tax was not be levied on any award made under the Act.

Audit scrutiny of records (January 2016) in the office of the Deputy Commissioner, Land Acquisition, Bruhat Bengaluru Mahanagara Palike (BBMP) showed that the State Government had accorded (February 2011) administrative approval for 'Construction of eight lane signal free corridor from Okalipuram Junction to Fountain Circle in Bengaluru City' with BBMP as the implementing agency. This work required 12,818 square metre (sqm) of land belonging to South Western Railways (SWR). SWR agreed (November 2012) to hand over the above land subject to transfer of equal area of Binny Mill land belonging to M/s S V Global Mills Limited (SVG) which was essential for its operational convenience.

The State Government accorded (January 2013) approval for acquisition of 3 acre 16 guntas³⁶ of land belonging to SVG under the emergency clause (Section 17(1)(4)) of the Land Acquisition Act, 1894 and instructed (September 2013) BBMP to utilise the funds available under *Mukhya Mantri Nagarothana* Scheme. Accordingly, BBMP deposited (October 2013) ₹70.13 crore with the Special Land Acquisition Officer, Bengaluru (SLAO) towards the cost of land acquisition. SLAO took over possession of the land on 16.1.2014 by which time LA Act, 2013 had come into effect. The land was handed over to SWR on 21.3.2014.

Consequent upon the enactment of LA Act, 2013, the compensation amount payable to SVG increased to ₹142.56 crore and ₹15.68 crore was also payable to SLAO towards establishment/administrative charges (at the rate of 11 *per cent*). As on the date of taking possession of land, no amount was paid to SVG and hence interest as prescribed under Section 80 of LA Act, 2013 was payable. Reiterating the escalation of interest liability for each day of delay, the Revenue Department instructed (16.4.2014) SLAO to pay the available

³⁶ One acre is 4,046.86 sqm and 40 guntas is one acre.

amount of ₹70.13 crore to SVG and also requested the Urban Development Department (UDD) to deposit the balance of ₹88.11 crore with SLAO. Accordingly, SLAO paid (30.4.2014) ₹70.13 crore to SVG. The balance amount of ₹72.43 crore payable to SVG (₹142.56 crore – ₹70.13 crore) and the interest of ₹12.26 crore (calculated up to 15.12.2015) was paid to SVG in three instalments (detailed in **Appendix 4.4**).

We observed that timeliness in payment of compensation was not ensured which reflected laxity on the parts of UDD, BBMP and SLAO as detailed below:

- Delay by UDD in releasing funds to BBMP: For releasing balance of ₹88.11 crore, UDD had accorded sanction only on 1.10.2014 *i.e.* after a delay of 258 days from the date of taking possession of the land (16.1.2014). UDD released the amount to BBMP on 12.2.2015, resulting in further delay of 134 days. The delays by UDD in according sanction and in releasing the funds to BBMP created interest liability of ₹7.63 crore for the period from 16.1.2014 to 12.2.2015.
- Erroneous deduction of income tax and delay by BBMP in depositing the amount with SLAO: Out of ₹158.24 crore (₹70.13 crore + ₹88.11 crore) received from UDD, BBMP had erroneously deducted the income tax of ₹15.87 crore (at the rate of 10.03 *per cent*). The deduction of income tax was in contravention of the Section 96 of LA Act, 2013. It was also seen that BBMP deposited the part amount of ₹72.24 crore (₹88.11 crore – ₹15.87 crore) with SLAO on 9.3.2015, after a delay of 25 days. The withheld amount of ₹15.87 crore was released to SLAO on 1.10.2015, after a further delay of 205 days. This resulted in total interest liability of ₹1.64 crore.
- Delay by SLAO in disbursing the amount to SVG: BBMP had deposited ₹70.13 crore with SLAO on 24.10.2013. Despite availability of this amount on the date of taking possession, SLAO paid ₹70.13 crore (first instalment) to SVG on 30.4.2014, after a delay of 105 days from the date of possession. Similarly, SLAO paid the second instalment of ₹72.24 crore to SVG on 6.4.2015 *i.e.* after a delay of 27 days from the date of its receipt (9.3.2015). It was also seen that though BBMP had deposited the withheld amount of ₹15.87 crore with SLAO on 1.10.2015, SLAO delayed the payment of third instalment (₹19 lakh) and fourth instalment (₹12.26 crore) by 46 days (1.10.2015 to 15.11.2015) and 76 days (1.10.2015 to 15.12.2015) respectively. The delays by SLAO in disbursing the amounts to SVG resulted in payment of interest of ₹2.99 crore.

Thus, delays on the part of UDD, BBMP and SLAO in releasing the land compensation amount and erroneous deduction of income tax by BBMP resulted in payment of interest of ₹12.26 crore, which was avoidable.

The State Government (UDD) stated (November 2017) that delay on the part of BBMP was due to release of funds by UDD in two instalments. The reply does not address the audit observation regarding delay by UDD in releasing funds to BBMP and erroneous deduction of income tax by BBMP. The reply from the Revenue Department was awaited (November 2017).

Urban Development Department

4.3 Loss of revenue due to non-collection of urban transport cess

Bruhat Bengaluru Mahanagara Palike lost revenue of ₹95.63 crore due to non-collection of urban transport cess during 2013-14 to 2016-17.

The State Government constituted (August 2012) an Urban Transport Fund to finance initiatives and build capacity for urban transport, with budgetary support and revenue realised through cess on property tax. For this purpose, the State Government amended the Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) and notified (20 August 2013) the Karnataka Municipal Corporations (Urban Transport Fund) Rules, 2013 (UTF Rules, 2013), which provided for levy of urban transport cess on property tax. These rules stipulated that all demands raised on property tax from the date of these rules coming into effect, should include two *per cent* cess on the property tax so levied. It also stipulated that in case the property tax on any property had already been collected for the year 2013-14, a supplementary demand of two *per cent* towards urban transport cess was to be raised and collected.

Scrutiny of records (December 2016) in the office of the Chief Accounts Officer (CAO), Bruhat Bengaluru Mahanagara Palike (BBMP) and further information collected during August 2017 showed that BBMP had collected property tax of ₹4,781.62 crore during the years 2013-14 to 2016-17 (as of July 2017). However, BBMP had not collected the urban transport cess. We observed that the Council of BBMP had taken a decision (May 2014) to request the Government to withdraw the order that mandated levy of urban transport cess. Such a decision was taken citing that the rates of property tax in BBMP had not been revised since 2008-09 and levy of urban transport cess would lead to additional burden on the property taxpayers. The Government informed (August 2014) BBMP that their request could not be considered in view of the amendments to KMC Act, 1976 and instructed them to collect the urban transport cess. Despite this, BBMP had not initiated any action to collect the urban transport cess (July 2017).

Thus, failure of BBMP to comply with the Government's instructions resulted in loss of revenue of ₹95.63 crore³⁷ (@ two *per cent*) in respect of property tax of ₹4,781.62 crore collected during the years 2013-14 to 2016-17 (as of July 2017).

The State Government, in its reply, reiterated (November 2017) that BBMP had not collected urban transport cess in view of the Council's resolution (May 2014). The reply is not justified as such a resolution was contrary to the provisions of KMC Act, 1976 and reasons for non-compliance with the Government's instructions were not furnished.

³⁷ Urban transport cess was leviable from the year 2013-14 onwards. As BBMP did not furnish the details of arrears of property tax, loss of revenue had been worked out on the property tax collected during the years 2013-14 to 2016-17, which may include arrears, if any, pertaining to period prior to 2013-14.

4.4 Short levy of ground rent

Bruhat Bengaluru Mahanagara Palike failed to adopt the applicable rates of service tax resulting in short levy/realisation of ground rent aggregating ₹57.58 lakh.

The provisions of Karnataka Municipal Corporations Act, 1976, empower Bruhat Bengaluru Mahanagara Palike (BBMP) to levy license fee (ground rent) in consideration of the license to construct bus shelters within its jurisdictional area and utilisation of advertisement space for appropriating advertising revenue. Further, as per Section 66B read with Section 65B (44) of Chapter V of the Finance Act, 1994, such renting of immovable property for commercial purposes is liable to service tax.

Scrutiny of records (January 2017) in the office of the Assistant Commissioner (Advertisement), BBMP, revealed that BBMP had invited (March and October 2009) tenders on Design, Build, Own, Operate and Transfer basis for removing existing bus shelters and development and maintenance of 288 new kiosk type bus shelters and allowing commercial advertisements for a period of five years. BBMP grouped the works into 11 packages³⁸ and awarded (August and December 2009) them to five³⁹ agencies. As per the agreements, these agencies were liable to pay ground rent along with service tax thereon for a period of five years (1.8.2010 to 31.7.2015). As stated above, service tax at applicable rates⁴⁰ was leviable on the ground rent.

Scrutiny of demand notices in respect of seven⁴¹ (Packages 1, 2, 3, 5, 6, 7 and 11) of these packages revealed that there was no uniformity in applicability of service tax. As a result, against the ground rent of ₹11.20 crore due from the agencies, BBMP raised (January 2016) the demands for only ₹10.62 crore. This was attributable to the fact that BBMP had failed to either levy service tax or consider revisions in rates of service tax while raising demands as detailed in **Appendix 4.5**.

In all these cases, the ground rent was leviable along with the service tax at applicable rates and BBMP, being the service provider, was liable to collect the service tax and remit it to the Government account. It was the responsibility of BBMP to make the payment of service tax even if the amount was not collected from the agencies. Thus, failure of BBMP to adopt the applicable rates of service tax resulted in short levy/realisation of ground rent aggregating to ₹57.58 lakh.

The State Government accepted the audit observation and stated (November 2017) that service tax and penalty would be recovered from the agencies and remitted to the Service Tax Department.

³⁸ 25 bus shelters each in Packages 1, 3, 4, 5, 6, 7, 8, 9 and 10; 26 bus shelters in Package 2; and 37 bus shelters in Package 11.

³⁹ M/s Vantage Advertising Private Ltd. (Packages 1,7 and 8); M/s Movva Associates (Packages 2 and 9); M/s Ripple Media (Packages 3 and 6); M/s Skyline Advertising Private Ltd. (Packages 4 and 5); and M/s OOH Advertising Private Ltd. (Packages 10 and 11).

⁴⁰ @ 10.30 per cent from 1.8.2010 to 31.3.2012; @ 12.36 per cent from 1.4.2012 to 31.5.2015; and @ 14 per cent from 1.6.2015 to 31.7.2015.

⁴¹ Clarification in respect of four other packages (4, 8, 9 and 10) were awaited from BBMP.

4.5 Loss of revenue due to non-collection of enrolment fee

Commissioner, Bruhat Bengaluru Mahanagara Palike failed to ensure enrolment of film theatre owners as commercial advertisers and consequently did not collect enrolment/renewal fee resulting in loss of revenue of ₹29.89 lakh.

The provisions of Karnataka Municipal Corporations Act, 1976 (KMC Act, 1976) and the Bangalore Mahanagara Palike Advertisement Bye-laws, 2006 (Bye-laws⁴²) mandated that any agency, individual or company which undertake the display of commercial outdoor advertisements by erecting commercial hoardings for a commercial purpose should enrol themselves with Bruhat Bengaluru Mahanagara Palike (BBMP) on payment of enrolment fee of ₹5,000/-. These advertisers were to renew their advertisement agency once every three years after paying renewal fee of ₹2,000/- on or before 31 May of the year in which the permission expires. The Bye-laws also stipulated that outdoor film advertisement and film slides⁴³ should be treated as commercial advertisement and film theatre owners should also enrol with BBMP as commercial advertisers. Accordingly, film theatre owners were required to pay enrolment/renewal fee as per the prescribed norms. The rates of enrolment fee and renewal fee were enhanced⁴⁴ (January 2016) to ₹50,000/- and ₹15,000/- respectively.

Test-check of records (January 2017) in the office of the Assistant Commissioner (Advertisement), BBMP showed that none of the film theatre owners in Bengaluru had enrolled themselves with BBMP. We also observed that BBMP made no efforts to conduct a survey of movie theatres operating in the City and ensure payment of requisite enrolment fee.

As per the information available on the website of Commercial Taxes Department, Government of Karnataka, there were 246 film theatres in Bengaluru as on 31 March 2017 which were owned by 161 proprietors. The loss of revenue due to non-collection of enrolment/renewal fee from these 161 film theatre owners worked out to ₹29.89 lakh, as detailed in **Table 4.4**:

Table 4.4: Loss of revenue due to non-collection of enrolment/renewal fee by BBMP as on 31 March 2017

(Amount in ₹)

Commenced operations during the year ⁴²	Number of film theatre owners ⁴³	Amount payable per theatre owner			Total loss of revenue
		Enrolment fee	Renewal fee (once every three years)	Total	
Up to 2007-08	94	5,000	19,000	24,000	22,56,000
2008-09	26	5,000	4,000	9,000	2,34,000
2009-10	17	5,000	4,000	9,000	1,53,000
2010-11	11	5,000	17,000	22,000	2,42,000

⁴² Bye-laws came into effect from 12 January 2007.

⁴³ Advertisement slides shown in movie theatres.

⁴⁴ Rates were enhanced *vide* Advertisement Bye-laws Amendment, 2012 notified in Gazette on 16 January 2016.

Commenced operations during the year [¥]	Number of film theatre owners [¥]	Amount payable per theatre owner			Total loss of revenue
		Enrolment fee	Renewal fee (once every three years)	Total	
2011-12	8	5,000	2,000	7,000	56,000
2012-13	4	5,000	2,000	7,000	28,000
2013-14	1	5,000	15,000	20,000	20,000
Total	161				29,89,000

[¥] In the absence of details of film theatres with BBMP, the data available on the website of Commercial Taxes Department has been adopted.

Renewal fee for 2016-17 has been considered at the enhanced rate of ₹15,000/-.

Source: Information available on the website of Commercial Taxes Department and Bye-laws

Thus, despite the availability of enabling provisions for enrolling film theatre owners as commercial advertisers and collecting enrolment/renewal fee from them, BBMP failed in revenue generation to augment their resources. This resulted in non-realisation of revenue aggregating ₹29.89 lakh as on 31 March 2017.

The State Government stated (November 2017) that details of cinema theatres would be obtained from the Commissioner, Entertainment Tax Department and action would be taken to levy advertisement tax and penalty.

4.6 Avoidable payment due to non-reduction of contract demand and non-maintenance of power factor

City Corporation, Shivamogga, failed to initiate action to get the contract demand reduced in accordance with consumption and did not maintain power factor at the prescribed level resulting in avoidable payment of ₹46.32 lakh during 2013-14 to 2016-17.

The Karnataka Electricity Reforms Act, 1999 and tariff for power supply effective during the period 2013-14 to 2016-17 stipulated that the billing demand for High Tension⁴⁵ (HT) lines would be the maximum demand recorded during the month or 75 per cent of the contract demand, whichever was higher. HT consumer was entitled to get his contract demand reduced, according to his requirements, as per clause 34.02 of 'Conditions of supply of electricity of the Distribution Licensees in the State of Karnataka'. Further, as per the tariff policy, HT consumer was to maintain an average power factor⁴⁶ (PF) of not less than 0.90. For this purpose, HT consumer was required to install and maintain power capacitor (PF correction apparatus) of adequate capacity in their installations. If PF recorded was below 0.90 lag, a surcharge (penalty) of three paise per unit of power consumed was leviable for every reduction of PF by 0.01 below 0.90 lag.

Scrutiny (October 2016) of electricity bills of two⁴⁷ HT installations of City Corporation, Shivamogga (CC) and further information collected during August 2017 showed that the contract demand was 1,100 kilo volt-amperes

⁴⁵ High Tension lines mean supply of electricity at voltage higher than 650 volts and up to 33,000 volts.

⁴⁶ Power factor is the ratio of useful (real) power (KW) to total (apparent) power (KVA). It is a measure of how efficiently electric power is converted into useful work output.

⁴⁷ GJHT-2 (Gajanoor water supply works) and HT-26 (Sharavathi booster pump house).

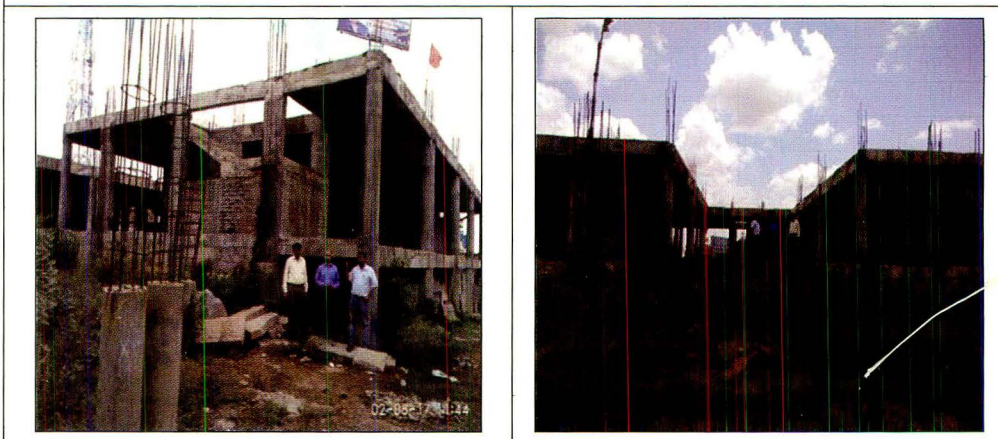
including BG furnished for the security deposit amounting to ₹13.57 lakh, as BGs were not renewed by the bank. The contractor furnished (July 2013) a fresh BG only for ₹13.57 lakh from a different bank⁵⁰ towards further security deposit and sought for (September 2013) extension of time and payment for the work done.

CO lodged (July 2013) a complaint with the Sub-Inspector of Police, Turuvekere Police Station against the contractor for furnishing fake BGs. Thereafter, the contractor abandoned the work (March 2014). CO adjusted an amount of ₹1.21 crore claimed by the contractor vide Running Account Bills Part 1 to 6 (January 2011 to April 2014) towards mobilisation advance of ₹1.25 crore paid to the contractor. This included an amount of ₹9.44 lakh recovered towards the statutory deductions such as income tax, labour cess, royalty *etc.* The genuineness of the payments could also not be vouched in audit as the corresponding entries relating to these payments could not be traced in the Cash Book and subsidiary records. CO encashed (May 2015) BG of ₹13.57 lakh and deposited the amount in further security deposit account.

The Deputy Commissioner, Tumakuru District terminated the contract (November 2016) without penalty, risk and cost to the contractor. This was, however, in violation of clause 49.1⁵¹ of the terms and agreement of the contract.

CO replied (September 2017) that 46 *per cent* of physical and financial progress had been achieved in construction of the building and the balance work had been estimated to cost ₹1.90 crore (as per Schedule of Rates of 2016-17). He further stated that the estimate was under approval and tenders would be invited soon after the estimate was approved. The joint physical verification conducted (August 2017) revealed that the work was executed up to the roof level of ground floor as shown below:

Exhibit 2: Incomplete commercial complex at Town Panchayat, Turuvekere (2.8.2017)



⁵⁰ Karnataka Bank, Malleswaram Branch, Bengaluru.


⁵¹ If the contract is terminated because of a fundamental breach of contract by the contractor, the employer shall prepare bill for the value of the work done less advance payments received up to the date of the bill, less other recoveries due in terms of the contract, less taxes due to be deducted at source as per applicable law and less the percentage (30 *per cent*) to apply to the work not completed as indicated in the contract data.

Thus, the failure of CO, to get confirmation from the issuing bank regarding BGs furnished by the contractor resulted in TP having no security to effect recoveries from the contractor for having abandoned the work from March 2014. This also resulted in additional burden of ₹43.13 lakh⁵² to TP due to cost escalation besides inordinate delay in completion of work by almost five years defeating the objective of having a commercial complex at Turuvekere Bus Stand. The release of mobilisation advance by CO, to the contractor in excess of the amount specified in the agreement also led to undue benefit to the contractor and consequent loss of interest of ₹8.14 lakh⁵³ to TP.

The State Government accepted the audit observation and stated (October 2017) that action had been initiated against the officials concerned and also to blacklist the contractor. It further stated that the Council of TP, Turuvekere has passed a resolution in April 2017 to initiate suitable legal action against the contractor for recovering all the losses/additional cost.

Bengaluru

The 31 JAN 2018



(E P Nivedita)

Accountant General
(General and Social Sector Audit)
Karnataka

Countersigned



(Rajiv Mehrishi)

New Delhi

The 01 FEB 2018

Comptroller and Auditor General of India

⁵² ₹121.37 lakh (cost of work done) + ₹190.34 lakh (revised cost of balance work) – ₹268.58 lakh (original cost of the work) = ₹43.13 lakh.

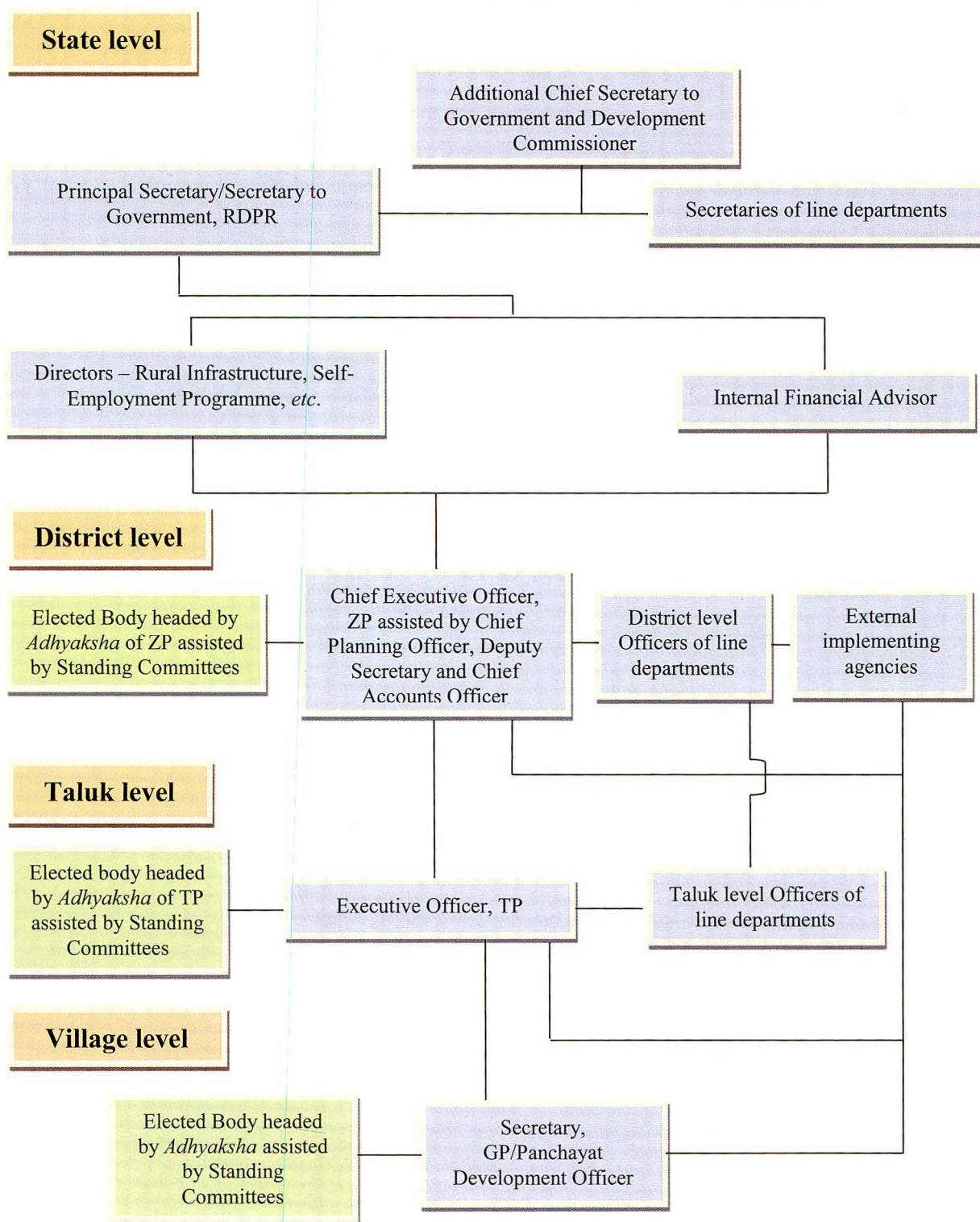
⁵³ Interest calculated for the period 8.12.2010 to 16.5.2015 @ four per cent on the excess payments made after adjusting the payments against the Running Account bills.

Appendices

Appendix 1.1

(Reference: Paragraph 1.2/Page 1)

Organisational structure of Panchayat Raj Institutions



Appendix 1.2
(Reference: Paragraph 1.3.2.3/Page 3)

Statement showing Inspection Reports and Paragraphs outstanding up to the audit period 2015-16 - Panchayat Raj Institutions

Sl. No.	Zilla Panchayat	More than 10 years (till 2006-07)		5 to 10 years (2007-08 to 2011-12)		3 to 5 years (2012-13 to 2013-14)		2014-15		2015-16		Total	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1	Bagalkot	25	46	27	168	15	111	9	75	8	104	84	504
2	Ballari	83	219	39	273	9	78	7	72	9	72	147	714
3	Belagavi	157	359	36	184	17	76	8	68	8	141	226	828
4	Bengaluru (Rural)	25	43	36	130	2	28	1	6	5	51	69	258
5	Bengaluru (Urban)	103	159	160	549	11	59	4	36	2	25	280	828
6	Bidar	60	158	22	211	11	102	7	85	6	51	106	607
7	Chamarajanagara	11	38	25	79	11	58	8	43	0	0	55	218
8	Chikkaballapura	51	150	43	248	13	88	3	16	7	56	117	558
9	Chikkamagaluru	39	65	47	210	20	80	4	26	4	36	114	417
10	Chitradurga	18	47	43	273	12	83	4	29	4	72	81	504
11	Dakshina Kannada	29	51	23	80	17	106	6	53	3	14	78	304
12	Davanagere	27	38	22	56	17	66	5	24	7	70	78	254
13	Dharwad	104	200	67	237	9	92	3	18	3	9	186	556
14	Gadag	89	237	32	189	11	83	5	42	1	21	138	572
15	Hassan	36	57	39	173	14	141	4	33	5	50	98	454
16	Haveri	44	74	46	275	10	61	4	28	3	17	107	455
17	Kalaburagi	90	238	30	137	16	124	10	87	7	56	153	642
18	Kodagu	19	38	20	78	11	64	4	31	1	11	55	222
19	Kolar	105	289	54	298	19	113	0	0	8	52	186	752
20	Koppal	29	75	39	239	19	161	3	24	2	11	92	510
21	Mandya	87	185	41	185	6	47	10	62	4	41	148	520
22	Mysuru	14	44	58	234	23	85	3	13	10	75	108	451
23	Raichur	70	248	27	229	20	179	4	35	1	18	122	709
24	Ramanagara	57	133	39	140	9	79	8	76	7	53	120	481
25	Shivamogga	47	104	36	143	5	69	14	127	7	76	109	519
26	Tumakuru	49	112	60	287	7	40	7	52	7	55	130	546
27	Udupi	5	8	15	21	10	22	11	91	4	45	45	187
28	Uttara Kannada	110	290	38	197	26	179	5	36	16	98	195	800
29	Vijayapura	106	258	20	79	11	95	4	36	10	87	151	555
30	Yadgir	46	186	9	66	4	39	12	116	8	72	79	479
Total		1,735	4,149	1,193	5,668	385	2,608	177	1,440	167	1,539	3,657	15,404
Gram Panchayats		0	0	27	204	65	508	32	337	2	27	126	1,076
Grand Total		1,735	4,149	1,220	5,872	450	3,116	209	1,777	169	1,566	3,783	16,480

Source: Inspection Reports

Appendix 1.3

(Reference: Paragraph 1.4.1.1/Page 4)

Statement showing fund details of flagship schemes

(₹ in crore)

Sl. No.	Scheme	Opening balance	Releases	Total fund available	Expenditure	Percentage of expenditure
1	Mahatma Gandhi National Rural Employment Guarantee Scheme	101.02	3,237.93	3,338.95	3,317.10	99
2	National Rural Drinking Water Programme	212.70	3,049.72	3,262.42	2,497.87	77
3	Pradhan Mantri Gram Sadak Yojana	11.79	462.10	473.89	343.11	72
4	Swachh Bharat Mission	111.21	720.55	831.76	783.52	94
5	Suvarna Gramodaya Yojana/ Gram Vikasa Scheme	10.28	440.00	450.28	438.74	97

Source: Annual Report of RDPR (2016-17)

Appendix 1.4

(Reference: Paragraph 1.4.2.4/Page 9)

Statement showing amount under 'II PWD cheques' and 'II Forest cheques' under Major Head 8782 for the year 2016-17

(₹ in crore)

Sl. No.	Name of the District	PWD cheques	Forest cheques
1	Ballari	9.809	(-) 0.664
2	Chamarajanagara	2.489	0.004
3	Dharwad	36.255	2.766
4	Haveri	0.022	0.000
5	Kodagu	(-) 13.033	2.642
6	Raichur	(-) 27.321	0.197
7	Uttara Kannada	(-) 10.146	(-) 2.551

Source: Annual Accounts submitted by 13 ZPs

Appendix 1.5

(Reference: Paragraph 1.4.2.4/Page 9)

Statement showing balances under Taluk Panchayat and Gram Panchayat suspense accounts for the year 2016-17

(₹ in crore)

Sl. No.	Name of the District	TP Suspense account	GP Suspense account
1	Chamarajanagara	(-) 20.783	0.251
2	Davanagere	(-) 0.837	0
3	Dharwad	1.036	1.336
4	Haveri	37.312	1.195
5	Kodagu	0.000	0.330
6	Raichur	(-) 0.787	0.017

Source: Annual Accounts submitted by 13 ZPs

Appendix 2.1

(Reference: Paragraph 2.1/Page 11)

Statement showing the payment of special allowance (district-wise) to teachers/lecturers appointed after 1.8.2008

(₹ in lakh)

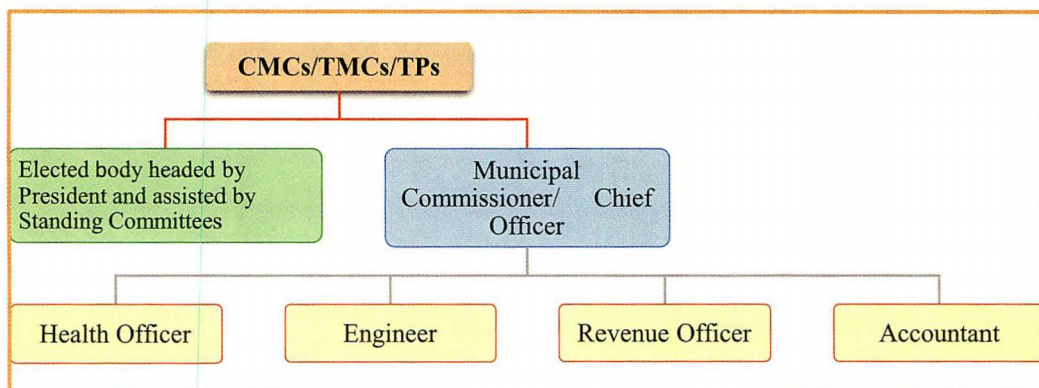
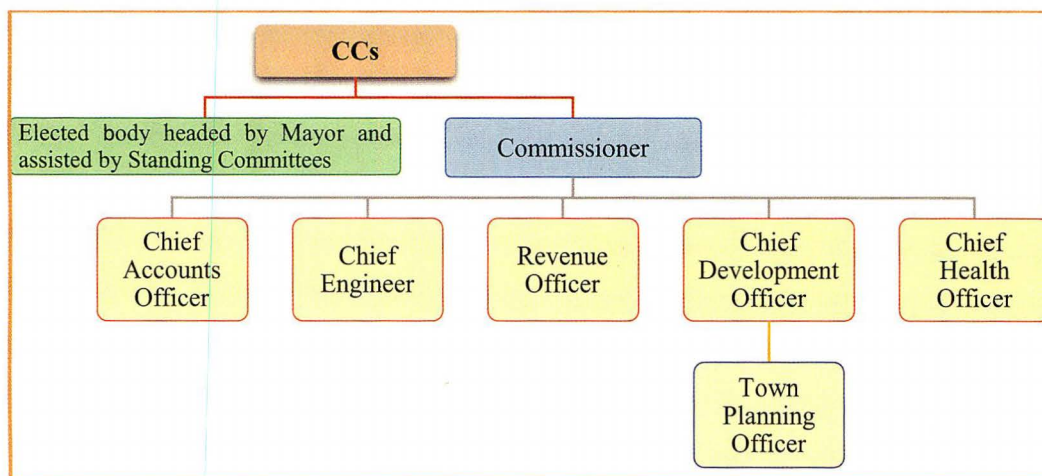
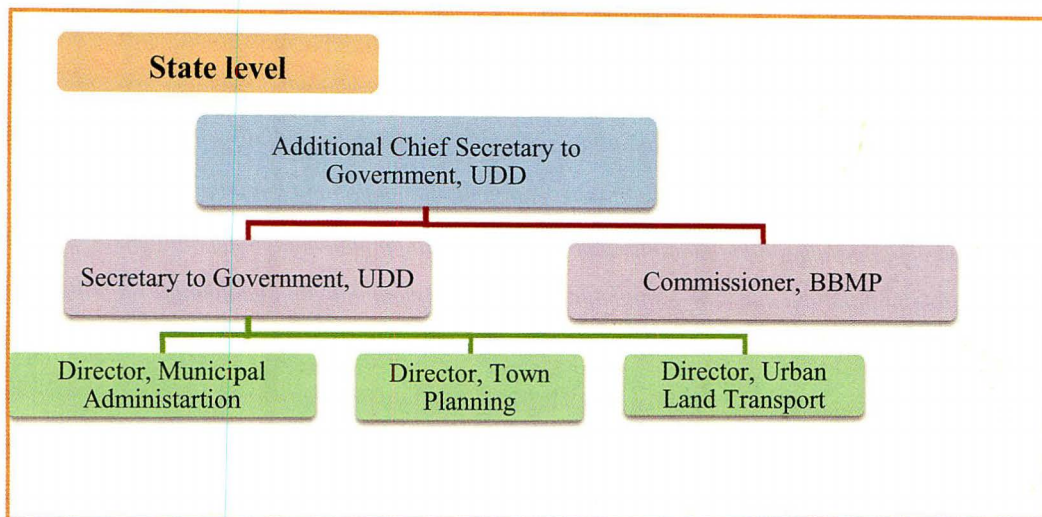
Sl. No.	District name	Number of DDOs	Primary school teachers		Secondary school teachers		Lecturers		Total	
			Numbers	Amount	Numbers	Amount	Numbers	Amount	Numbers	Amount
1	Bagalkot	111	48	3.01	123	19.18	31	3.88	202	26.07
2	Ballari	117	121	5.88	132	18.92	37	4.50	290	29.30
3	Belagavi	222	146	11.45	285	35.48	98	8.52	529	55.45
4	Bengaluru Rural	48	22	1.68	42	3.29	54	4.65	118	9.62
5	Bengaluru Urban	79	48	4.13	74	8.98	44	5.37	166	18.48
6	Bidar	129	109	16.66	202	34.41	26	2.60	337	53.67
7	Chamarajanagara	65	13	1.19	74	6.46	37	4.11	124	11.76
8	Chikkaballapura	80	24	1.58	93	13.45	55	4.94	172	19.97
9	Chikkamagaluru	78	46	4.60	63	8.31	61	9.19	170	22.10
10	Chitradurga	74	72	4.59	66	9.12	50	5.74	188	19.45
11	Dakshina Kannada	98	18	1.08	74	10.26	115	7.23	207	18.57
12	Davanagere	111	58	4.41	113	15.24	55	4.07	226	23.72
13	Dharwad	68	18	1.37	62	6.82	35	3.01	115	11.20
14	Gadag	58	9	1.02	74	5.74	14	0.90	97	7.66
15	Hassan	221	59	5.88	230	29.76	173	20.96	462	56.60
16	Haveri	102	57	4.44	115	9.74	51	5.03	223	19.21
17	Kalaburagi	208	97	10.81	294	35.13	91	9.04	482	54.98
18	Kodagu	26	2	0.44	19	2.51	16	1.20	37	4.15
19	Kolar	101	38	3.57	153	28.08	70	9.47	261	41.12
20	Koppal	105	88	4.88	127	14.39	34	2.42	249	21.69
21	Mandya	151	45	3.52	140	17.53	116	9.07	301	30.12
22	Mysuru	153	63	4.13	154	17.98	99	10.00	316	32.11
23	Raichur	166	5	0.55	318	52.16	66	8.08	389	60.79
24	Ramanagara	81	0	0.00	69	9.48	83	8.65	152	18.13
25	Shivamogga	113	63	5.61	115	13.67	64	6.35	242	25.63
26	Tumakuru	211	61	4.82	230	40.54	174	22.12	465	67.48
27	Udupi	58	2	0.06	25	2.34	74	5.25	101	7.65
28	Uttara Kannada	73	17	1.81	83	6.51	27	1.28	127	9.60
29	Vijayapura	93	116	7.04	124	21.13	28	3.48	268	31.65
30	Yadgir	87	93	7.17	116	15.88	19	2.14	228	25.19
Total		3,287	1,558	127.38	3,789	512.49	1,897	193.25	7,244	833.12

Source: Data furnished (October 2017) by Project Officer, HRMS

Appendix 3.1

(Reference: Paragraph 3.2/Page 21)

Organisational structure with respect to functioning of ULBs in the State



Appendix 3.2

(Reference: Paragraph 3.4.4/Page 23)

Statement showing Inspection Reports and Paragraphs outstanding up to the audit period 2015-16 – Urban Local Bodies

Sl. No.	District	5 to 10 years (2007-08 to 2011-12)		3 to 5 years (2012-13 to 2013-14)		2014-15		2015-16		Total	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1	Bagalkot	1	28	4	67	3	68	3	75	11	238
2	Ballari	2	25	4	64	1	26	4	91	11	206
3	Belagavi	1	4	2	37	4	60	4	115	11	216
4	Bengaluru (Rural)	2	17	2	42	1	21	1	15	6	95
5	Bengaluru (Urban)	1	6	0	0	0	0	0	0	1	6
6	Bidar	6	82	0	0	0	0	0	0	6	82
7	Chamarajanagara	0	0	2	42	1	21	1	23	4	86
8	Chikkaballapura	1	15	2	42	2	38	2	63	7	158
9	Chikkamagaluru	3	32	2	20	2	50	3	46	10	148
10	Chitradurga	1	6	3	55	0	0	1	25	5	86
11	Dakshina Kannada	9	97	0	0	1	80	1	16	11	193
12	Davanagere	1	6	0	0	0	0	2	59	3	65
13	Dharwad	2	28	2	51	1	13	1	57	6	149
14	Gadag	2	13	1	22	1	18	1	33	5	86
15	Hassan	4	32	1	22	0	0	6	142	11	196
16	Haveri	0	0	2	57	1	13	0	0	3	70
17	Kalaburagi	2	10	5	90	1	22	2	50	10	172
18	Kodagu	0	0	0	0	1	37	3	49	4	86
19	Kolar	2	11	2	64	0	0	3	82	7	157
20	Koppal	2	16	1	49	0	0	0	0	3	65
21	Mandya	2	19	1	29	0	0	2	58	5	106
22	Mysuru	1	12	1	10	2	52	1	39	5	113
23	Raichur	0	0	1	28	2	54	1	36	4	118
24	Ramanagara	2	24	0	0	1	12	2	47	5	83
25	Shivamogga	3	15	1	22	3	89	5	82	12	208
26	Tumakuru	0	0	0	0	1	37	6	153	7	190
27	Udupi	1	4	0	0	0	0	4	60	5	64
28	Uttara Kannada	4	25	2	45	1	16	5	87	12	173
29	Vijayapura	1	3	2	37	2	83	0	0	5	123
30	Yadgir	2	19	1	19	1	38	1	42	5	118
Total		58	549	44	914	33	848	65	1,545	200	3,856
BBMP		6	208	24	240	48	567	24	256	102	1,271
Grand Total		64	757	68	1,154	81	1,415	89	1,801	302	5,127

Source: Inspection Reports

Appendix 4.1

(Reference: Paragraph 4.1.1/Page 29)

List of test-checked Urban Local Bodies

Sl. No.	Name of the ULB
City Corporations	
1	Ballari
2	Belagavi
City Municipal Councils	
3	Bagalkot
4	Chikkamagaluru
5	Doddaballapura
6	Gangavathi
7	Gokak
8	Hosakote
9	Kolar
10	Mandya
11	Nippani
12	Ramanagara
13	Robertsonpet (KGF)
Town Municipal Councils	
14	Bailahongal
15	Bangarapet
16	Hagaribommanahalli
17	Kadur
18	Konnur
19	Kudachi
20	Mudalgi
21	Munavalli
22	Pandavapura
23	Sadalga
24	Sankeshwar
25	Srinivasapura
Town Panchayats	
26	Arabhavi
27	Kabbur
28	Khanapura
29	Koppa
30	Kottur
31	Mallapur PG
32	Naganur

Appendix 4.2

(Reference: Paragraph 4.1.3/Page 31)

Statement showing the variation between the data as furnished by the ULBs and data as furnished by DMA

(₹ in lakh)

Sl. No.	Name of ULB	Health cess				Library cess				Beggary cess				UTC			
		Receipts		Remittance		Receipts		Remittance		Receipts		Remittance		Receipts		Remittance	
		ULB	DMA	ULB	DMA	ULB	DMA	ULB	DMA	ULB	DMA	ULB	DMA	ULB	DMA	ULB	DMA
1	CC Ballari	906	810	0	0	362	309	225	235	181	206	85	0	76	76	14	14
2	CC Belagavi	1,129	969	51	0	482	409	409	409	241	217	206	0	105	88	30	8
3	CMC Bagalkot	173	156	168	163	69	62	67	61	35	63	34	163	15	13	14	13
4	CMC Chikkamagaluru	280	272	71	79	112	109	82	89	56	43	51	79	23	24	6	5
5	CMC Doddaballapura	110	110	50	50	45	45	52	52	24	12	27	50	9	9	8	8
6	CMC Gangavathi	113	103	53	53	45	45	43	43	23	21	24	53	7	8	2	2
7	CMC Gokak	129	129	119	68	52	52	61	52	26	3	30	68	11	11	11	11
8	CMC Hosakote	94	94	78	78	38	38	36	36	19	13	11	78	8	8	8	8
9	CMC Kolar	180	162	0	0	72	65	43	43	36	2	18	0	10	10	2	2
10	CMC Mandya	210	210	0	0	84	84	54	54	42	7	0	0	17	17	4	4
11	CMC Nippani	80	80	60	60	32	32	24	24	16	33	28	60	6	6	6	6
12	CMC Ramanagara	94	75	0	20	32	27	23	21	16	36	17	20	8	2	6	6
13	CMC Robertsonpet (KGF)	113	113	0	0	46	46	8	8	22	30	1	0	9	9	0	0
14	TMC Bailahongal	31	43	4	4	11	16	5	5	6	30	4	4	3	3	1	0
15	TMC Bangarapet	79	71	0	0	32	29	13	13	16	21	1	0	4	3	0	1
16	TMC Hagaribommanahalli	22	17	12	12	9	7	7	7	4	41	3	12	3	0	2	0
17	TMC Kadur	112	35	1	0	17	17	9	8	9	68	6	0	5	3	5	2
18	TMC Konnur	18	18	18	18	7	7	7	7	4	28	4	18	2	2	2	2
19	TMC Kudachi	11	10	0	0	7	5	7	6	2	7	3	0	2	1	2	1
20	TMC Mudalgi	18	18	23	9	1	7	0	4	4	26	2	9	0	2	0	0
21	TMC Munavalli	3	0	0	0	7	NF	4	NF	1	3	0	0	2	NF	0	NF
22	TMC Pandavapura	17	16	0	0	5	6	0	5	3	4	2	0	1	2	0	0
23	TMC Sadalga	13	13	0	0	14	5	11	0	3	5	0	0	3	1	3	0
24	TMC Sankeshwar	35	35	25	25	14	14	11	11	7	10	6	25	3	3	3	2
25	TMC Srinivasapura	34	35	0	0	5	14	6	11	7	3	7	0	0	3	0	3
26	TP Arabhavi	3	0	0	0	1	NF	0	NF	1	0	0	0	2	NF	2	NF
27	TP Kabbur	28	0	38	0	11	NF	15	NF	6	0	7	0	0	NF	1	NF
28	TP Khanapur	2	28	0	30	0	11	3	10	0	28	2	30	1	3	0	2
29	TP Koppa	5	4	0	4	2	4	0	4	0	6	0	4	0	1	0	1
30	TP Kottur	35	30	16	18	15	13	13	13	8	4	6	18	1	0	1	0
31	TP Mallapura	9	0	0	0	4	NF	0	NF	2	0	0	0	0	NF	0	NF
32	TP Naganur	2	0	0	0	1	NF	0	NF	0	0	0	0	0	NF	0	NF
	Total	4,088	3,656	787	691	1,634	1,478	1,238	1,231	820	970	585	691	336	308	133	101

Source: Information furnished by ULBs and DMA

Appendix 4.3

(Reference: Paragraph 4.1.4.3/Page 33)

Statement showing details of vehicles registered and non-realisation of infrastructure cess

Year	Consolidated statement of vehicles registered at Ballari and Belagavi (number of vehicles)					
	2-wheeler	3-wheeler	4-wheeler	Passenger vehicles	Goods carriage vehicles	Total
2012-13	39,905	1,537	5,719	42	237	47,440
2013-14	39,967	1,293	5,328	38	185	46,811
2014-15	47,662	1,836	8,001	19	330	57,848
2015-16	49,734	2,468	10,011	33	536	62,782
2016-17	54,341	5,502	12,375	51	1,220	73,489
Total	2,31,609	12,636	41,434	183	2,508	2,88,370
Computation of cost calculated at the prescribed rates (₹ in lakh)						
2012-13	19.95	1.54	17.16	0.17	1.19	40.01
2013-14	19.98	1.29	15.98	0.15	0.93	38.33
2014-15	23.83	1.84	24.00	0.08	1.65	51.40
2015-16	24.87	2.47	30.03	0.13	2.68	60.18
2016-17	27.17	5.50	37.13	0.20	6.10	76.10
Total	115.80	12.64	124.30	0.73	12.55	266.02

Source: Information furnished by Regional Transport Offices of Ballari and Belagavi

Appendix 4.4

(Reference: Paragraph 4.2/Page 39)

Statement showing the details of interest of ₹12.26 crore paid on the land compensation amount of ₹142.56 crore (₹ in crore)

Particulars	Principal	Interest	Liability for interest lies with		Reasons therefor
			Authority	Amount	
Compensation amount payable to SVG	142.56	-			
Interest on ₹142.56 crore @ 9% from 16.1.2014 to 30.4.2014 (105 days)		3.69	SLAO	1.82	Delay in releasing the amount of ₹70.13 crore by SLAO though it was available with him since October 2013.
			UDD	1.87	Out of the full compensation amount of ₹142.56 crore, only the part amount (₹70.13 crore) was released by UDD, leaving a balance of ₹72.43 crore.
<i>Amount of ₹70.13 crore paid on 30.4.2014</i>	66.44	3.69			
Balance payable as on 30.4.2014	76.12	-			
Interest on ₹76.12 crore @ 9% from 1.5.2014 to 15.1.2015 (260 days)		4.88	UDD	4.88	Out of the full compensation amount of ₹142.56 crore, only the part amount (₹70.13 crore) was released by UDD.
Interest on ₹76.12 crore @ 15% from 16.1.2015 to 5.4.2015 (80 days)		2.50	UDD	0.88	Interest rate after one year from the date of possession was 15% and there was delay of 28 days (16.1.2015 to 12.2.2015) by UDD in releasing ₹88.11 crore.
			BBMP	0.78	Delay of 25 days (13.2.2015 to 9.3.2015) by BBMP in releasing the amount to SLAO.
			BBMP	0.04	Interest on ₹3.88 crore @ 15% from 10.3.2015 to 5.4.2015 (27 days). There was shortfall of ₹3.88 crore (₹76.12 crore-₹72.24 crore) due to erroneous deduction of income tax of ₹15.87 crore by BBMP.
			SLAO	0.80	Delay of 27 days (10.3.2015 to 5.4.2015) by SLAO in releasing the amount (₹72.24 crore) to SVG.
Balance payable on 5.4.2015	76.12	7.38			
<i>Amount of ₹72.24 crore paid on 6.4.2015</i>	64.86	7.38			
Balance payable on 6.4.2015	11.26	-			
Interest on ₹11.26 crore @ 15% from 6.4.2015 to 15.11.2015 (224 days)		1.04	BBMP	0.82	Delay of 178 days (6.4.2015 to 30.9.2015) by BBMP in releasing the withheld amount of ₹15.87 crore to SLAO.
			SLAO	0.22	Delay of 46 days (1.10.2015 to 15.11.2015) by SLAO in releasing the amount to SVG.
<i>Amount of ₹0.19 crore paid on 16.11.2015</i>		0.19			
Balance payable on 16.11.2015	11.26	0.85			
Interest on ₹12.11 crore @ 15% from 16.11.2015 to 15.12.2015 (30 days)		0.15	SLAO	0.15	Delay of 30 days (16.11.2015 to 15.12.2015) by SLAO in settling the compensation amount.
<i>Amount of ₹12.26 crore paid on 16.12.2015</i>	11.26	1.00			
Total				12.26	

Source: Records furnished by BBMP

Appendix 4.5

(Reference: Paragraph 4.4/Page 41)

Statement showing short levy of ground rent

(₹ in lakh)

Sl. No.	Agency (Package No.)	Ground rent including service tax leviable	Ground rent including service tax levied as per demand notices	Short levy of rent	Remarks
1	M/s Vantage Advertising Private Ltd. (Package 1)	159.57	151.65	7.92	Service tax was levied @ 10.30 per cent from 1.8.2010 to 31.7.2013 without considering revision in rates.
2	M/s Movva Associates (Package 2)	104.55	99.97	4.58	Service tax not levied from 1.8.2014 to 31.7.2015.
3	M/s Ripple Media (Package 3)	91.18	90.02	1.16	Service tax was levied @ 10.30 per cent from 1.8.2010 to 31.7.2015 without considering revision in rates.
4	M/s Skyline Advertising Private Ltd. (Package 5)	180.17	161.26	18.91	Service tax not levied from 1.8.2010 to 31.7.2015.
5	M/s Ripple Media (Package 6)	91.18	90.02	1.16	Service tax was levied @ 10.30 per cent from 1.8.2010 to 31.7.2015 without considering revision in rates.
6	M/s Vantage Advertising Private Ltd. (Package 7)	175.57	173.33	2.24	Service tax was levied @ 10.30 per cent from 1.8.2010 to 31.7.2015 without considering revision in rates.
7	M/s OOH Advertising Private Ltd. (Package 11)	317.36	295.75	21.61	Service tax not levied from 1.8.2010 to 31.7.2011 and from 1.8.2013 to 31.7.2015. Service tax was levied @ 10.30 per cent from 1.8.2011 to 31.7.2013 without considering revision in rates.
Total		1,119.58	1,062.00	57.58	

Source: Demand notices issued (January 2016) by BBMP and agreements