CHAPTER-II

RESULTS OF AUDIT

CHAPTER II - RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE REVIEWS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.1 Implementation of developmental programmes and human resource management in selected departments of Zilla Panchayat, Mysore

Highlights

Under the jurisdictional control of Zilla Panchayat, Mysore, various centrally sponsored, central plan and state/district sector developmental programmes were implemented. A review on implementation of developmental programmes and human resource management in selected departments of Zilla Panchayat, Mysore during 2004-09 revealed, inter alia, that there were instances of financial irregularities, non-achievement of intended objectives of developmental programmes coupled with unfruitful outlay, avoidable cost, wasteful expenditure etc.

The functioning of the District Planning Committee during 2004-09 was ineffective and the Annual District Development Plans prepared were not in conformity with the Karnataka Panchayat Raj Act.

(Paragraph 2.1.5.1)

Chief Executive Officer, Zilla Panchayat, Mysore operated multiple master bank accounts in contravention of instructions issued by Government of India.

(Paragraph 2.1.6.2)

Scheme funds of Rs.2.13 crore remained unutilised depriving the beneficiaries of the intended objectives.

(Paragraph 2.1.6.3)

Pre-matric girl students were denied better hostel facilities due to operation of residential school in the hostel premises.

(Paragraph 2.1.7.1)

Laxity in implementation of Drought Prone Area Programme was noticed. None of the watershed projects taken up under Batches VI to X were completed. Moreover, preliminary activities such as survey, planning, formation of SHGs were not attempted in any of the batches.

(Paragraph 2.1.9.1)

Execution of drain works under Suvarna Gramodaya Yojana contrary to guidelines resulted in avoidable cost of Rs.71.53 lakh.

(Paragraph 2.1.10.1)

Roof top rain water harvesting structures in rural schools were not utilised for the intended purpose under Suvarnajala Scheme leading to wasteful expenditure of Rs.22.58 lakh.

(Paragraph 2.1.10.2)

Due to inadequate provision of funds, six building works taken up during 2005-08 remained incomplete resulting in unfruitful outlay of Rs.80.59 lakh.

(Paragraphs 2.1.11.1 and 2.1.11.2)

Essential posts forming integral part of service delivery system in the test-checked departments were vacant.

(Paragraph 2.1.13)

2.1.1 Introduction

Zilla Panchayat (ZP), Mysore consists of seven Taluk Panchayats (TPs) and 235 Grama Panchayats (GPs) having a geographical area of 6,269 sq.kms and a population of 26.41 lakh as per 2001 census, of which, the rural population constituted 16.59 lakh (63 *per cent*). ZP is obligated to carry out measures to promote health, safety, education, comfort, social, economic and cultural well-being of the inhabitants of the district. ZP, Mysore headed by Adyaksha and assisted by Upadyaksha, a team of 39 ZP elected members, MLAs, MLCs and MPs who are ex-officio members of ZP, take decisions regarding financial, social and developmental matters of the district. Chief Executive Officer (CEO), ZP supervises and controls the execution of all works and takes necessary measures for speedy execution of all developmental schemes.

2.1.2 Scope and Audit Methodology

Audit reviewed (May-December 2009) the implementation of developmental programmes and human resources management in selected departments of ZP, Mysore, covering the period from 2004-05 to 2008-09. The methodology adopted for the review included test-check of records of CEO, ZP; Panchayat Raj Engineering Divisions[9] (PREDs); two[10] TPs (out of seven) based on simple random sampling and three[11] line departments based on outlay. The entry conference for the review was held during May 2009 with the Secretary to Government, Rural Development and Panchayat Raj (RDPR) Department. The draft review was communicated (December 2009) to the State Government; CEO, ZP and administrative heads of test-checked departments. The exit conference was held (January 2010) with the Principal Secretary to Government, RDPR and the CEO, ZP, Mysore who generally accepted the observations of audit. Specific remarks of the Government are awaited (March 2010).

2.1.3 Audit objectives

The audit objectives of the review were to assess whether:

- ⇨ the District Planning Committee (DPC) was functioning as envisaged;
- ⇨ the funds released were utilised by CEO, ZP/selected departments/external agencies economically and efficiently;
- ⇨ the scheme accounts were maintained as per standing instructions;
- ⇨ the envisaged benefits of various developmental works/schemes implemented were reaching the targeted population; and
- ⇨ the human resources were adequate and their utilisation optimum.

2.1.4 Audit Criteria

The Audit criteria adopted for the review were:

- ⇨ The Karnataka Panchayat Raj (KPR)Act, 1993 and instructions issued by State Government
- ⇨ Guidelines/orders issued by Government of India (GOI) and State Government for implementation of schemes/works.

[9] KR Nagar and Mysore
[10] Hunsur and Nanjangud
[11] Agriculture (including Watershed Development Department), Health and Family Welfare and Social Welfare (including Integrated Tribal Development Project) Departments

Audit findings

The audit findings arising from the review are discussed below:

2.1.5 Planning process

2.1.5.1 Ineffective functioning of District Planning Committee

The State Government constituted (November 2001) and reconstituted (August 2008) DPC as per KPR Act. The DPC was required to meet once in a quarter to prepare development plans for the district, co-ordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. It was noticed that the DPC met only four times during 2004-09 (once each during 2004-05 and 2006-09) as against the requirement of 20 meetings, indicating ineffective functioning. The Chief Planning Officer (CPO), ZP, Mysore stated (May 2009) that the Chairman of the DPC did not convene meetings at prescribed intervals.

The ADDPs prepared were not in conformity with the KPR Act

The TPs were to prepare their plan proposals by consolidating the proposals received from GPs and transmit it to the DPC to prepare a comprehensive Annual District Development Plan (ADDP) as stipulated in the KPR Act. Audit observed that in the test-checked TPs, the plan proposals were not obtained from GPs by TPs and the plan proposals without GP plans forwarded by TPs were not considered while preparing the ADDPs by DPC during 2004-09. The ADDPs prepared and forwarded to Government were, thus, not in conformity with the KPR Act. The CPO, ZP, Mysore admitted the lapse and stated (November 2009) that action would be taken to incorporate the proposals of the TPs in the ensuing years.

2.1.5.2. District Planning Committee Fund

The DPC Fund was created (April 2001) to collect contributions from PRIs and urban local bodies in the district. The fund was to be utilised for payment of sitting fees to members, commissioning of studies *etc*. As against Rs.77.50 lakh to be collected towards DPC fund from PRIs[12] during 2004-09, only Rs. five lakh (six *per cent*) was collected. No expenditure was incurred out of the fund during the review period.

[12] At the rate of Rs. two lakh, Rs.25,000 and Rs.5,000 annually from ZP, TPs and GPs respectively

2.1.6 Fund Position

The position of fund availability and expenditure in the ZP and TPs during the period 2004-09 was as in Tables 2.1 and 2.2 below.

Table 2.1: Receipts and expenditure of ZP

(Rupees in crore)

Year	Receipts					Expenditure					Closing Balance
	Operated through	State/GOI grants®	Schemes® including CSS/CPS	Other receipts¥	DDR	Sector wise: General Services	Sector wise: Social Services	Sector wise: Economic Services	DDR	Others	
2004-05	Bank	-	58.53	1.28	-	-	6.34	37.62	-	-	15.85
	ZP fund	265.69			161.71β	3.65	52.47	36.80	152.73β	137.66μ	44.09
2005-06	Bank	-	46.03	2.34	-	-	7.27	27.11	-	-	13.99
	ZP fund	161.06	-	-	19.92	3.82	74.05	22.15	25.51	-	55.45
2006-07	Bank	-	50.84	4.11	-	-	7.80	25.01	-	-	22.14
	ZP fund	173.03	-	-	23.08	3.84	77.10	34.10	17.29	-	63.78
2007-08	Bank		79.50	3.75		-	12.42	44.63ê	-	-	26.20
	ZP fund	207.61	-	-	2.57	4.42	106.15	24.69	10.07	-	64.85
2008-09	Bank	-	93.88	2.16	-	-	9.10	34.17	-	-	52.77
	ZP fund	233.12	-	-	2.25	4.93	110.24	30.18	0.04	-	89.98

Source: Certified Annual Accounts of ZP. DDR: Debt, Deposits and Remittances;
CSS: Centrally Sponsored Scheme and CPS: Central Plan Schemes
® includes funds available with Bank /ZP fund as on 1st April
¥ other receipts includes interest received on schemes funds *etc*.
β includes amounts received and transferred to TPs/GPs fund. From 2005-06 onwards, the system of accounting TPs/GPs funds in ZP accounts were discontinued
μ amount transferred to TPs from state grants wherein sector-wise allocation could not be made
ê Includes amounts refunded to the State Government under "Namma Bhoomi Namma Thota" Scheme (Rs.1.13 crore)

Table 2.2: Receipts and Expenditure of TPs

(Rupees in crore)

Year	Operated through	Receipts			Expenditure			
		State/GOI grants Φ	Schemes including CSS/CPSΦ	DDR	Sector wise: Social services	Sector wise: Economic services	DDR	Closing Balance
2004-05	Bank	-		-	-	-	-	-
	TP fund	160.55	-	4.84	128.94	10.30	5.58	20.57
2005-06	Bank	-	-	-	-	-	-	-
	TP fund	170.45	-	6.59	138.32	9.67	7.86	21.19
2006-07	Bank	-	6.26	-	0.43	4.26	-	1.57
	TP fund	200.76	-	8.76	155.34	11.69	12.27	30.22
2007-08	Bank	-	9.99	-	0.34	7.24	-	2.41
	TP fund	233.89	-	0.36	181.76	15.43	3.18	33.88
2008-09	Bank	-	14.06	-	0.24	5.75	-	8.07
	TP fund	258.30	-	-	214.25	16.51	-	27.54

Source: Annual Accounts of TPs
Φ includes funds available with Bank /TP fund as on 1st April

- As per the State Government accounting arrangements (July 2005), the CEO, ZP / EO, TPs drew funds directly from treasury for the implementation of State sector schemes without routing through ZP/TP fund. Details of such drawals were not made available to Audit to arrive at the complete financial position of ZP/TPs.
- State Government instructed (September 2004) the CEO, ZPs, / EO, TPs to exhibit the receipts and expenditure by categorizing under

Funds I, II and III[13] in the annual accounts from 2005-06. However, Audit observed that the annual accounts of ZP for the years 2005-06 and 2006-07 and of TPs for the years up to 2008-09 were not prepared accordingly.

2.1.6.1 Non-recovery of tax revenue and water supply charges

Shortfall in recovery of tax revenue and water supply charges

The provisions of KPR Act empower GPs to collect tax and water supply charges to be utilised for developmental activities and maintenance of the water supply schemes respectively in their jurisdiction. Audit observed that an aggregate amount of Rs.12.38 crore was pending collection as of March 2009 towards taxes and water supply charges from the GPs as given in Table 2.3 below:

Table 2.3: Demand, collection and balance of tax and water charges

Year	Nature of revenue	Opening Balance	Demand for the year	Amount to be collected	Actually collected	Closing Balance	Shortfall (in Percentage)
	(Rupees in crore)						
2006-07	Tax	6.19	6.17	12.36	5.64	6.72	54
	Water charges	2.24	2.84	5.08	2.19	2.89	57
2007-08	Tax	6.58	6.51	13.09	6.86	6.23	48
	Water charges	2.88	2.90	5.78	2.45	3.33	58
2008-09	Tax	7.68	7.47	15.15	6.49	8.66	57
	Water charges	3.31	2.95	6.26	2.54	3.72	59

Source: As furnished by ZP and TPs
Note: The reasons for variation in carryover of CB as OB were not explained to Audit

In the two test-checked taluks, Rs.5.66 crore[14] towards taxes and Rs.1.18 crore[15] towards water supply charges were pending collection as of March 2009. The CEO, ZP replied (May 2009) that all the GPs were directed to collect the balance tax and water supply charges through a special collection drive.

2.1.6.2 Operation of multiple master bank accounts

Irregular operation of multiple master bank accounts and drawal of funds on self cheques

As per GOI instructions (2001), a 'Master bank Account' was to be maintained for crediting funds released for the implementation of various Centrally Sponsored Schemes (CSS)/Central Plan Schemes (CPS). Such funds were to be released later to the respective scheme bank accounts. Verification of records revealed that CEO, ZP maintained multiple master

[13] Fund I comprises of receipts and expenditure of CSS/CPS;
Fund II comprises of State plan schemes which would lapse to the consolidated fund of the State on the close of the financial year; and
Fund III comprises of own revenue, refundable deposits, *etc*.
[14] Hunsur – Rs.0.97 crore and Nanjangud – Rs.4.69 crore
[15] Hunsur – Rs.0.19 crore and Nanjangud – Rs.0.99 crore

bank accounts for crediting/releasing scheme funds. The following irregularities were noticed during test-check of records.

- ⇨ Records of transactions for the period from October 2005 to May 2006 were not available in respect of one bank account and hence could not be vouchsafed (balance as of October 2005 – Rs.4.88 crore and as of May 2006 – Rs.1.43 crore).
- ⇨ The CEO, ZP, Mysore opened a current account (April 2008) with a deposit of Rs.11.30 lakh and subsequently closed it in May 2008.
- ⇨ The CEO, ZP drew Rs.0.36 lakh on self-cheques out of a master bank account during the period from September 2008 to February 2009 towards tour advance, purchase of stationery and training expenses. Drawal of funds on self-cheques was irregular and fraught with the risk of misuse.

2.1.6.3 Non-utilisation of fund

Scheme funds of Rs.2.13 crore remained unutilised depriving the beneficiaries of the intended objectives.

(a) The CEO, ZP, Mysore received an amount of Rs.40.08 crore during 1999-2005 for the implementation of water supply works under community based Sector Reforms Project (SRP) of Rajiv Gandhi National Drinking Water Mission. The amount was deposited in a savings bank account operated for the scheme. The SRP was closed during April 2004 and the CEO, ZP utilised only Rs.38.05 crore leaving a balance of Rs.2.03 crore. The CEO, ZP, Mysore submitted (December 2008) a proposal to the State Government for utilisation of the balance amount on other water supply works after a lapse of more than four years indicating laxity in utilisation of funds by the ZP. The funds could have been gainfully utilised on other developmental schemes had the ZP initiated timely action.

(b) The CEO, ZP, Mysore released an amount of Rs.20.33 lakh to TP, Nanjangud for the implementation of a state sector scheme 'Namma Bhoomi Namma Thota' during the year 2005-06. It was noticed that Executive Officer (EO), TP, Nanjangud did not incur expenditure on purchase of land under the scheme due to non-availability of land at the prescribed cost. Instead of remitting back the entire available funds of Rs.21.04 lakh including interest, EO, TP returned (November 2007) only a sum of Rs.11.48 lakh. CEO, ZP also did not monitor the refund of unutilised funds. Hence, the balance of Rs.9.56 lakh remained parked in a savings bank account as of August 2009. Proper planning prior to release of fund would have ensured timely utilisation of funds and accrual of benefits to the beneficiaries.

2.1.6.4 Irregular transfer of funds to avoid lapse of grants

CEO, ZP irregularly transferred funds to avoid lapse of grants

The State Government allocated Rs.40 lakh during the year 2007-08 under RIDF-XII series for construction of a Primary Health Centre (PHC) at Rathnapuri of TP, Hunsur. The CEO, ZP issued release order (February 2008) to the Executive Engineer (EE), PRED, KR Nagara for drawal of funds from treasury towards execution of work. The EE, PRED did not commence the work within the financial year due to non-availability of site for construction. In order to avoid lapse of grants, the CEO, ZP entrusted the work to Karnataka Land Army Corporation (KLAC), Mysore and instructed (March 2008) the EE, PRED to transfer the funds to KLAC. Accordingly, the amount was drawn by EE, PRED, KR Nagar and transferred (March 2008) to KLAC. Scrutiny of records revealed that the District Health and Family Welfare Officer did not provide the site for the construction even as of June 2009. During Exit Conference (January 2010) the CEO, ZP merely stated that the work was under progress. Thus, transfer of funds to avoid lapse of grants led to blocking of Rs.40 lakh outside Government account besides undue benefit to KLAC for more than a year.

2.1.6.5 Irregular retention of Scheme funds

The National Rural Employment Guarantee (NREG) Act and guidelines stipulated transfer of unspent balances under the erstwhile Sampoorna Grameena Rozgar Yojana (SGRY) to NREG Scheme account. The CEO, ZP was to ensure completion of all on-going works under SGRY before the end of March 2008 and transfer the balance funds held as of 31 March 2008 to NREG Scheme account. Accordingly, CEO, ZP issued (December 2007) instructions to the implementing officers. It was, however, noticed that in PREDs, an amount of Rs.15.11 lakh[16] was still lying (October 2009) in the bank accounts of SGRY. Thus, laxity on the part of CEO, ZP in ensuring completion of on-going works within the stipulated period and transfer of unutilised funds resulted in irregular retention of funds. At the instance of audit, the EE, PREDs refunded (October – November 2009) the funds to CEO, ZP but did not explain the reasons for retention of Rs.15.11 lakh for more than 18 months.

2.1.6.6 Lapse of grants due to non/under-utilisation

The CEO, ZP was to account for all grants received and released during the year in the grants and outlay register. The said register for the years 2004-05 and 2008-09 were not furnished to audit for verification. The budgeted ZP

[16] KR Nagar – Rs.11.28 lakh and Mysore – Rs.3.83 lakh

grants not utilised within the closure of a financial year lapse to Government. It was noticed on scrutiny of the entries in the registers for 2005-08 that out of a total amount of Rs.7.29 crore released to CEO, ZP towards implementation of 'Plan' programmes, an amount of Rs.4.21 crore lapsed to the State Government due to non/under-utilisation under various heads of account as detailed in **Appendix 2.1**.

2.1.6.7 Absence of data on funds released to external agencies

Absence of data on funds released to external agencies to the extent of Rs.34.12 crore

The CEO, ZP released funds to external agencies[17] for implementation/execution of various programmes/works such as buildings, roads, drainages, water harvesting structures *etc.* During the period 2004-09, the CEO, ZP reported that a sum of Rs.34.12 crore was released to external agencies. It was noticed that the CEO, ZP did not possess any data on the release/utilisation of funds but furnished the information collected from those agencies, at the instance of audit. None of the agencies exhibited the quantum of expenditure incurred and the balance available with them in those statements. Failure to watch the release/utilisation of funds was fraught with the risk of funds being misused. CEO, ZP admitted the lapse and stated (December 2009) that the release and utilisation would be monitored in future.

2.1.6.8 Inadequate internal audit/controls

The Chief Accounts Officer (CAO), ZP was to conduct internal audit of all the offices under the jurisdiction of ZP and to audit all the transactions both centrally at the ZP and locally in respective offices. It was observed that during 2004-09, the CAO had not conducted audit centrally and there was shortfall ranging from 96 to 99 *per cent* of offices to be audited locally as detailed in Table 2.4 below:

Table 2.4: Shortfall in internal audit

Year	Number of offices to be audited	Actually audited	Shortfall (Percentage)
2004-05	559	8	551 (99)
2005-06	559	11	548 (98)
2006-07	559	7	552 (99)
2007-08	559	10	549 (98)
2008-09	559	20	539 (96)

Source : As furnished by the ZP

Inadequate coverage of internal audit resulted in financial irregularities as discussed in ***paragraphs 2.1.6.2 to 2.1.6.6 and 2.1.7.2***. The CAO, ZP stated (August 2009) that action would be taken to cover maximum offices in a phased manner with the available manpower.

[17] JSS Mahavidyapeetha, MYRADA–an NGO, KLAC, Nirmithi Kendra *etc.*

Developmental programmes implemented by selected departments

2.1.7 Social Welfare Department

2.1.7.1 Denial of better hostel facility to pre-matric girl students

Better hostel facility to pre-matric girl students was denied due to functioning of a residential school in the hostel building

The GOI approved (2003-04) the work of construction of pre-matric girls hostel at Sante Saraguru in Heggadadevana Kote (HD Kote) taluk under a centrally sponsored scheme on construction of ashram schools and hostels with funding pattern of 50:50 by GOI and the State Government. The work was entrusted (February 2004) to Nirmithi Kendra for an approved estimate costing Rs.29.68 lakh, which was later revised to Rs.42.60 lakh due to delay caused in handing over the site by the DSWO, Mysore. The work was completed and handed over during July 2009 after a delay of four years and six months from the stipulated date of completion.

During joint inspection of the building by Audit and DSWO (November 2009), it was observed that instead of accommodating 65 pre-matric girl students, a Morarji Desai Residential School was in operation with a strength of 150 students. The rooms available were utilised for conducting regular classes for students as well as hostel facility. On an enquiry by Audit, the DSWO stated that the residential school was sanctioned during 2007-08 at Antharasanthe village and due to non-availability of adequate land/building, the residential school was functioning instead of pre-matric girls hostel.

Thus, despite availability, the benefit of better hostel facilities for pre-matric girl students was not provided defeating the intended objectives. Besides, avoidable payment of Rs.3.29 lakh was also incurred towards rent for the hostel as of July 2009 and also recurring liability thereafter.

2.1.7.2 Integrated Tribal Development Project

The primary focus of the Integrated Tribal Development Project (ITDP) launched during January 1999 was to contribute to the sustainable development of the tribal communities by promoting their status in the areas of health, education, agriculture, income generation, community development and infrastructure within a participatory framework. The tribal population in the district was about 0.32 lakh, concentrated in HD Kote, Hunsur and Periyapatna taluks. The Project Co-ordinator (PCO), a district level officer, assisted by Taluk Social Welfare Officers (TSWO) at the taluk level

implemented the programme. GOI and State Government released funds for the implementation of developmental programmes.

During the period 2004-09, PCO, ITDP, Mysore received Rs.46.15 crore, of which, Rs.45.07 crore was spent. Test-check of records relating to implementation of the programme disclosed the following:

Haphazard operation of bank accounts led to financial irregularities by the PCO, ITDP, Mysore

- The PCO was to maintain a single savings bank account for accounting transactions of a scheme. It was, however, noticed that the PCO did not maintain a single bank account[18] for a scheme and funds released for the implementation of schemes were not deposited in the specified bank account. So also, the expenditure incurred did not pertain to the respective schemes bank accounts. The transactions/balances in the scheme accounts for the period 2004-05 to 2006-07 were not reconciled as required under codal provisions resulting in difference of Rs.61.56 lakh between the cash books and bank accounts. The position was intimated by the incumbent PCO to the Director, Tribal Welfare Department. No action was, however, initiated against the then PCO for haphazard operation of bank accounts. The incumbent PCO accepted (August 2009) the lapse and replied that reconciliation would be carried out and scheme-wise bank account would be operated. During Exit Conference (January 2010), the CEO stated that local audit of PCO by ZP would be conducted at the earliest.
- The PCO, Mysore released (June 2008) Rs.10 lakh to Dr. Ambedkar Development Corporation (Corporation), Mysore for purchase and distribution of land under Land Purchase Scheme for rehabilitation of tribal people of Bommalapura habitation of HD Kote taluk who were rendered shelterless due to a fire accident. Audit observed that a separate agency[19] was established (July 2006) for the welfare activities of STs. As a result, the Corporation had neither purchased land nor returned the funds. Irregular release of funds by PCO resulted in the amount remaining unutilised as of July 2009 with the Corporation.
- Similarly, the Director, Tribal Welfare Department (TWD), Bangalore, released Rs.20 lakh (May 2004) to PCO for providing land to landless tribal people of the district. The amount was credited in a savings bank account. The CEO, ZP was required to monitor the distribution of land to landless tribal people. Audit observed that the PCO did not

[18] Different schemes funds were operated in one account and multiple bank accounts were maintained for a scheme
[19] Karnataka Scheduled Tribe Development Corporation Ltd.

purchase/distribute land to tribal people even as of July 2009. In reply to audit (July 2009), the PCO stated that due to non-reconciliation of balances in bank accounts, the details of funds received could not be traced in the records. Thus, failure of the PCO to reconcile balances in bank accounts to ensure availability of funds and CEO, ZP to monitor the distribution of land to landless tribal people resulted in non-achievement of the objective.

- The PCO irregularly drew an amount of Rs.6.44 lakh on 'self-cheques' on nine occasions during the period from August 2004 to January 2007. At the instance of audit, the then PCO remitted back (December 2008 and August 2009) only an amount of Rs.3.98 lakh (including interest of Rs.0.08 lakh) to Government account which was drawn during 2005-07. PCO replied (July 2009) that the Director, TWD had been addressed to obtain clarifications from the then PCO in respect of the irregular drawal.

- The PCO entrusted 32 works such as improvement of roads, construction of community centres, minor irrigation *etc*. in cluster villages under ITDP programme costing Rs.88.84 lakh to the EE, PRED, KR Nagar during 2004-08. The PCO instructed (December 2007), EE, PRED, KR Nagar to divert Rs.29.73 lakh for executing works in unapproved cluster villages. As a result, 20 works taken up in cluster villages remained incomplete. On this being pointed out, EE accepted (December 2009) the diversion and stated that on receipt of funds for works to be executed in non-cluster villages, the incomplete works of selected cluster villages would be undertaken. However, necessity for diversion of funds for execution of works in unapproved cluster villages was not explained to audit.

- GOI released Rs.2.29 crore during 2004-06 to PCO towards community irrigation facilities by drilling borewells to selected tribal clusters in the district. During the said period, 178 borewells were drilled and 130 borewells were made operational as of July 2009 incurring Rs.96.81 lakh. Audit observed that the PCO diverted for other purpose[20] the amount of Rs.12 lakh allocated for energization of the remaining 48 borewells. As a result, these borewells were not functioning even as of December 2009 rendering the expenditure of Rs.19.17 lakh unfruitful.

- The State Government strictly prohibited deviations in the list of clusters/works already approved by GOI. Despite instructions, the

[20] Rehabilitation of Sollepura village inhabitants

PCO drilled 81 borewells incurring Rs.55.80 lakh in three clusters[21] which were not in the list of clusters approved depriving the intended beneficiaries of the facilities.

2.1.8 Health and Family Welfare Department

2.1.8.1 Non-adherence to norms in establishment of PHCs and CHCs

According to the norms of the Health and Family Welfare Department, each PHC and CHC was to cater to 30,000 and 1.20 lakh population respectively. Out of every four such PHCs, the State Government was to upgrade a PHC to CHC - the first referral hospital having specialised medical facilities. As of 2008-09, the position of existence of PHCs and CHCs in the taluks of the district was as shown in the Table 2.5 below:

Table 2.5: Position of existence of PHCs and CHCs

Name of the taluk	Total rural population (in lakh)	Number of centres to be established		Actually established	
		PHC	CHC	PHC	CHC
Mysore	2,39,262	8	2	34	-
Periyapatna	2,09,330	7	1	18	-
Nanjangud	3,11,991	10	2	19	-
KR Nagar	2,08,566	7	1	11	1
HD Kote	2,33,885	8	2	18	-
Hunsur	2,10,026	7	1	20	-
T Narasipura	2,45,839	8	2	15	2
TOTAL		**55**	**11**	**135**	**3**

It could be observed from the table above that though against the requirement of 55 PHCs, there were 135 PHCs, there were only three CHCs against the requirement of 11 functioning under ZP, Mysore.

Specialised medical facilities were deprived to rural population due to delay in establishment of adequate CHCs

Scrutiny revealed that the State Government accorded approval (1995-2007) for upgradation of seven PHCs under ZP, Mysore as CHCs and sanctioned the required staff. During Exit Conference, the CEO, ZP stated (January 2010) that two CHCs[22] would be constructed in the existing premises of PHCs. DH&FWO, Mysore had to identify the site for the construction of the third[23] CHC. The State Government entrusted (December 2006) other four[24] works to Karnataka Health Systems Development Reforms Project[25] (KHSDRP) which were under progress even after the stipulated month of completion

[21] Nagapura – III, IV and V clusters
[22] Hullalli CHC sanctioned during 1997 and Saragur CHC sanctioned during 2005
[23] Ashokapuram CHC sanctioned during 2007
[24] Sanctioned during 1995 (2), 1996 and 1998
[25] An agency established to provide infrastructure to the Health & Family Welfare Department

(August-December 2008). Reasons for the delay in establishment of CHCs were not forthcoming from the records made available to audit. Due to delay in establishment of CHCs, the intended objective of providing specialised medical facilities to the rural population within a short distance could not be achieved.

2.1.8.2 Idle X-ray machine

The PHC at Saragur village in HD Kote taluk was upgraded to CHC during June 2005. The DH&FWO, Mysore was to identify/acquire suitable land for construction of the CHC building and ensure proper infrastructure for CHC. However, without ensuring proper building/infrastructure for CHC, the DH&FWO accepted (June 2007) an X-ray machine from the State Government costing Rs.4.28 lakh and stored it at the existing PHC. Audit observed that due to non-availability of proper electrification at the PHC, the X-ray machine has been lying idle without being used for more than two years. The supplier [26] opined (January 2008) that the X-ray tube which is vaccumatic had a lower shelf life if not energized within 60 days. Thus, failure of DH&FWO to ensure proper infrastructure before accepting X-ray machine resulted in unfruitful expenditure of Rs.4.28 lakh for more than two years and the machine outliving its shelf-life without being put to use.

2.1.9 Agriculture Department

2.1.9.1 Tardy implementation of Drought Prone Area Programme

The Drought Prone Area Programme (Programme), a centrally sponsored scheme envisaged soil and water conservation through water harvesting structures[27] to promote overall economic development and improve the socio-economic conditions of the poor and the disadvantaged inhabitants.

The funding pattern for the Programme was in the ratio of 75:25 between GOI and the State Government. Each watershed project was to cover 500 hectares of agricultural land at an estimated cost of Rs.30 lakh and was to be developed over a period of five years. The District Watershed Development Officer (DWDO), Mysore, implemented the Programme in three[28] taluks of the district and 80 projects were taken up during the period 2000-07. The batch-wise details of requirement/receipt of funds, expenditure incurred, area proposed, actually treated and targets *vis-à-vis* the achievements are detailed in **Appendices 2.2 and 2.3**.

[26] SIEMENS
[27] Check dams, Nala bunds *etc*.
[28] Hunsur, Mysore and Periyapatna

Non-submission of proposals for funds on time resulted in tardy implementation of DPAP

It was observed that 60 watershed projects taken up under the Batches VI to X for development were to be completed by March 2009. As against Rs.18 crore required to be received for implementation of the Programme in five instalments under Batches VI to X, GOI/State Government released only a sum of Rs.5.54 crore (31 *per cent*), of which an expenditure of Rs.5.41 crore was incurred. Out of 0.30 lakh hectares proposed to be treated under Batches VI to X by March 2009, only 0.09 lakh hectares (30 *per cent*) were treated. As a result, these watershed projects remained incomplete and were running behind their scheduled date of completion by 9 to 57 months as of December 2009 as detailed in **Appendix 2.2.** Scrutiny of records revealed that though only one to three instalments were received (2000-07), the DWDO, Mysore submitted proposals for Rs.7.61 crore for subsequent instalments during August 2009 after Audit pointed it out. As against these proposals, a sum of Rs.80.97 lakh was released for Batch VII during December 2009. Hence, due to delay in submission of proposals, the implementation of the Programme was tardy.

It could be observed from **Appendix 2.3** that the percentage of achievement in key components like soil and moisture conservation structures and water harvesting structures ranged between 2 to 53 and 3 to 70 respectively. It was also noticed that afforestation works were taken up only in private land and targets were not fixed, though envisaged, to treat community/forest land in the Programme area.

Similarly, it was observed that preliminary activities such as surveying and planning, entry point activities, formation of self help groups/watershed associations *etc*. were not attempted under any of the batches and no expenditure had been incurred on these activities. This was indicative of the laxity of the authorities in implementation of the Programme as envisaged. During Exit Conference (January 2010), DWDO replied that non-completion of works was due to non-receipt of sufficient funds on time for execution. The reply, however, did not explain the reasons for abnormal delay in submission of proposals to GOI.

2.1.9.2 Undue benefit to KLAC

The CEO, ZP, Mysore entrusted (March 2003) the work of construction of an office building for Agriculture Department in Nanjangud taluk to KLAC. Funds for the construction were provided in the budget commencing from the financial year 2002-03 onwards. Without identification of a site for construction, based on the resolution of the ZP Standing Committee, the CEO, ZP released (March 2003-January 2009) a sum of Rs.15.10 lakh to KLAC,

Mysore in a staggered manner in order to avoid lapse of grants. An estimate for Rs. 29.50 lakh (SR 2009-10) was prepared (October 2009) by KLAC after a lapse of more than six years. The administrative approval and technical sanction were not made available to audit (October 2009). Thus, irregular release of funds by CEO, ZP in order to avoid lapse of grants resulted in undue benefit to KLAC. During Exit Conference (January 2010), the Joint Director of Agriculture (JDA), Mysore clarified that a site had been identified and construction was in progress. However, the reason for release of funds to KLAC as early as March 2003, which led to undue benefit, was not explained.

2.1.9.3 Soil testing laboratories

Non-provision of adequate staff and equipment resulted in under-utilisation of soil testing laboratories

The district had two soil testing laboratories, of which one was a mobile laboratory. The soil testing laboratories were at Nanjangud and were to cater to the needs of both Mysore and Chamarajanagar districts. The soil testing laboratories were to test the fertility of the soil considering the moisture contents, micro nutrients *etc*. which helps to decide on cropping pattern to be adopted.

Scrutiny of records revealed that the mobile soil testing laboratory which was equipped at a cost of Rs.9.63 lakh during August 1995 remained non-functional since May 2004. The other soil testing laboratory was under-equipped and thus, under-utilised as detailed in Table 2.6 below:

Table 2.6: Status of soil testing laboratories

Soil testing laboratory	Mobile soil testing laboratory
➢ Of the five posts of Agricultural Officers, only two were in position ➢ There was huge shortfall ranging between 30 and 44 *per cent* in conducting tests for micro nutrients ➢ More than 45 *per cent* of the equipment were declared obsolete/unserviceable	➢ Remained non-functional since May 2004 ➢ The post of Agricultural Officer had not been filled up from the year 2004-05 ➢ Though laboratory remained non-functional, the staff continued to be on rolls rendering the expenditure on their pay and allowances nugatory.

Thus, negligence of the authorities in providing adequate staff and equipment resulted in under-utilisation of laboratories besides depriving the rural population of the intended facilities. The JDA, Mysore stated (January 2010) that the staff was re-deployed to other needy offices but did not assure revival of these soil testing laboratories.

2.1.10 Implementation of schemes

2.1.10. 1 Suvarna Gramodaya Yojana

The primary objective of Suvarna Gramodaya Yojana (Scheme) was to improve the quality of life in the villages and increase the productive capacity of the economic activities of rural communities. The Scheme envisaged comprehensive development of a village in a year. The State Government released Rs.38.13 crore to CEO, ZP, of which Rs.34.11 crore was spent on the Scheme as of September 2009. The PREDs and KLAC executed the works in the district since 2006-07 in 46 villages at an estimated cost of Rs.47.30 crore. The following irregularities were noticed during the test-check of records:

- The Scheme envisaged developmental activities in a village at an average estimated cost of Rs.3.29 crore, of which, rupees one crore was to be released under the Scheme for execution of a few components of works such as roads, drains, Anganwadi, community centre *etc*. Execution of other components was to be carried out from the ongoing sector programmes. Development plans prepared by Non-Governmental Organisations (NGOs) and Action Plans (APs) prepared by CEO, ZP and approved by the State Government under the Scheme in 13 test-checked villages, revealed that the required number of anganwadi and community centres proposed for construction/repairs as per development plans were not included in the APs. The works executed in respect of those components were only about one *per cent* of the approved APs indicating that the approval and execution of works were not need-based as shown in Table 2.7 below:

Table 2.7: Execution of works *vis-á-vis* development/action plan

(Rupees in lakh)

Components	As per development plan		As per Action Plan		Actual execution	
	Nos.	Amount	Nos.	Amount	Nos.	Amount
Anganwadi	31	71.50	15	59.00	2	1.60
Community hall	14	218.50	13	79.00	1	0.90
Total	**45**	**290.00**	**28**	**138.00**	**3**	**2.50**

Deviation from Scheme guidelines led to avoidable cost of Rs.71.53 lakh

- The Scheme guidelines provided for 'U' shaped non-reinforced concrete drains along both sides of the road in the villages. It was observed that in respect of three[29] villages, KLAC executed box type size-stone masonry drains for a total length of 4,933 meters (mtr) at Rs.1,796 per mtr instead of Rs.346 per mtr for 'U' shaped drains executed by the same agency in other stretches of these villages. Deviation from the guidelines resulted in avoidable extra cost of

[29] Bannikoppa – 1,514 mtrs, Billikere – 2,234 mtrs and Gavadagere – 1,185 mtrs

Rs.71.53 lakh in execution of box type drains. The CEO accepted (January 2010) the lapse and stated that by execution of 'U' shaped drains substantial savings could have been achieved. Audit observed that other components of the Scheme could have been executed as per the APs, had CEO, ZP monitored the works.

Joint inspection (October 2009) conducted in four[30] villages with the authorities concerned for the implementation of the Scheme further revealed that



- the drains were not provided in full stretches leading to stagnation of drain water on roads;
- though the guidelines provided for drains on both sides of roads, the drains were not interlinked and gradient ensured which resulted in blocking of drains;
- major cracks were noticed on concrete roads;
- deck slabs on the cross drainages were not synchronized with concrete road executed in Heggadalli village blocking vehicular movement.



[30] Dodda Kavalande, Hediyala, Heggadalli and Hullalli

2.1.10.2 'Suvarnajala' – roof top rain water harvesting in rural schools

Non-utilisation of rain water harvesting structures for the intended purpose led to wasteful expenditure of Rs.22.58 lakh

(a) The State Government launched (June 2005) Suvarnajala Scheme (Scheme) to provide safe drinking water through roof top rain water harvesting in rural schools which were not covered under regular water supply schemes. The Scheme was implemented in 408 schools of ZP, Mysore during 2005-08 at a total cost of Rs.2.10 crore. PREDs/external agencies[31] executed the works under the Scheme. In test-checked taluks, out of 141 rain water harvesting structures completed, audit observed that while 43 structures were not put to use due to non-existence of connecting pipe from roof top to surface tank, 20 structures were utilised for purposes other than drinking due to non-testing of water for potability. Thus, the expenditure of Rs. 22.58 lakh[32] incurred on construction of rain water harvesting structures largely remained wasteful.

(b) In disregard of the objective of providing safe drinking water through roof top rain water harvesting, it was observed that an expenditure of Rs.44.89 lakh (March 2009) was incurred by EE, PREDs towards drilling borewells, purchase of motors/pumps, laying of pipes *etc*. in respect of 75 schools in the district. CEO replied (November 2009) that on the instructions of State Government (October 2007), these works were executed and expenditure incurred. However, the fact remained that these instructions deviated from the Scheme guidelines and did not achieve the desired objectives.

2.1.11 Unfruitful outlay on incomplete works

2.1.11.1 Samarthya Soudhas

Non-provision of adequate funds resulted in unfruitful expenditure of Rs. 72.66 lakh

The State Government accorded (February 2007) approval for construction of a 'Samarthya Soudha'[33] in each taluk under World Bank assisted Gram Swaraj Yojana (Scheme). A sum of Rs.16 lakh was provided under the Scheme against the estimated cost of the building. The TPs were required to incur extra expenditure, if any, from their own source. Accordingly, funds of Rs.16 lakh each were released to five TPs of ZP, Mysore. EO, TPs entrusted the works to respective PREDs and released funds provided under the Scheme as detailed in Table 2.8 below:

[31] Nirmithi Kendra and MYRADA
[32] Expenditure details were furnished in respect of 49 test-checked cases only
[33] Taluk Resource Centre established to impart training and upgrade skills to the elected representatives, members of the SHG, NGOs and other stake holders

Table 2.8: Status of work of Samarthya Soudhas

(Rupees in lakh)

Taluk Panchayats	Estimated cost	Tendered cost	Date of commencement	Due date of completion	Expenditure as of September 2009	Status as of September 2009
K.R.Nagar	22.00	28.34	05.01.08	04.7.08	11.65	Roof level
Periyapatna	15.85	20.56	26.11.07	28.8.08	14.01	Roof level
HD Kote	17.75	21.00	11.12.07	10.9.08	15.00	Under progress
Hunsur	25.00	28.54	12.12.07	11.06.08	16.00	Completed but not handed over
T.Narasipura	22.00	25.10	06.12.07	05.12.08	16.00	-do-
Total					**72.66**	

Source: Progress report furnished by CEO, ZP and records of EE, PREDs

Scrutiny of records disclosed the following:

⇒ three works remained incomplete with delays ranging from 9 to 14 months incurring an expenditure of Rs.40.66 lakh against the release of Rs.48 lakh. The EE, PREDs merely stated (December 2009) that notices were issued to the contractors for the delay and penalty would be levied.

⇒ though the buildings taken up at Hunsur and T.Narasipura were reportedly completed, the contractor did not hand over the buildings to the TP/PRED due to non-settlement of claims. Payments were made to the extent of funds released (Rs.16 lakh each) and further grants from EO of TPs have not been released for final payment.

Thus, failure of EO of TPs to comply with the instructions of the State Government and to ensure adequate provision of funds for construction of the buildings rendered the expenditure of Rs.72.66 lakh unfruitful. During Exit Conference, the CEO, ZP replied (January 2010) that action had been initiated to hand over the completed buildings and provide further funds under Twelfth Finance Commission (TFC) grants to complete the remaining works.

2.1.11.2 Sabha Bhavana

The EO, TP, Nanjangud accorded administrative approval (February 2006) for the work of construction of a Sabha Bhavana in the premises of the TP office, Nanjangud and EE, PRED, Mysore technically sanctioned (February 2006), the work for an estimated cost of Rs.14.05 lakh. EO, TP did not possess the required funds



for the construction and therefore the estimate was restricted to Rs.7.97 lakh (Rs. five lakh out of SGRY Scheme and Rs.2.97 lakh out of development grants). The work was executed departmentally (Rs.4.97 lakh) and through a contractor (Rs.2.96 lakh) during 2005-06. A revised estimate was prepared (October 2009) for Rs.12.08 lakh for the balance works and submitted to CEO, ZP, which was yet to be approved (December 2009). The EO, TP proposed (October 2009) to meet the balance cost out of TFC grants for maintenance of buildings (Rs.9.11 lakh) and development grants (Rs.2.97 lakh). However, the building remained incomplete after a total investment of Rs.7.93 lakh as of December 2009.

Thus, failure of the EO, TP, Nanjangud to ensure adequate funds for construction prior to entrustment of work rendered the expenditure of Rs.7.93 lakh unfruitful for more than three years besides cost escalation of Rs.5.96 lakh.

2.1.12 Water testing laboratory, Mysore

The EE, PRED, Mysore had the executive control of the water testing laboratory at Mysore. Scrutiny of records revealed that the water testing laboratory was under-utilised as detailed below:

- required staff was not sanctioned for the lab in the district;
- crucial post of lab technician was vacant since inception;
- only 2,972 samples were tested as against the requirement of testing 1.02 lakh samples during 2004-09; and
- only 25 *per cent* of the equipment were operational.

During Exit Conference (January 2010) the CEO, ZP instructed the EO, TPs to arrange for mandatory water quality test in future.

2.1.13 Human resource management

Essential posts forming integral part of the service delivery system were vacant

2.1.13.1 A strategic and coherent approach to the management of personnel plays an important role in achievement of intended objectives of various scheme/programmes implemented through CEO, ZP and other line departments. As of March 2009, the details of sanctioned strength, men-in-position and vacancy in CEO, ZP; EO, TP; EEs, PREDs and test-checked departments were as detailed in **Appendix 2.4.**

While the vacancy in CEO, ZP; EO, TP and EEs, PREDs was very minimal, in other selected departments the percentage of vacancy ranged from 26 (Health and Family Welfare Department) to 46 (Social Welfare Department – Office of the PCO, ITDP). It was noticed that the crucial posts of Specialists, Medical Officers and Para-medical staff were vacant in large numbers in Health and Family Welfare Department. Denial of benefits to the rural population due to vacant posts forming integral part of the service delivery system in these departments could not be ruled out.

2.1.13.2 Laxity in taking appropriate action

The PHC at Hunsur under the ZP Sector was upgraded as a 50 bedded hospital during March 1986. The State Government enhanced the bed capacity of the hospital to 100 and transferred (December 2001) the hospital from ZP Sector to State Sector besides sanctioning necessary staff. Consequently, the 23 staff members of PHC/hospital had to be shifted to other needy PHCs. It was observed that the staff of PHC was working in the General Hospital, Hunsur indiscriminately. Administrative Officer of the General Hospital requested (February 2002) and subsequently reminded (October 2006) DH&FWO for shifting the PHC staff. Accordingly, DH&FWO instructed (October 2006) the Taluk Health Officer (THO) for identifying the needy places for shifting the staff. Even though the THO identified (September 2007) the places for shifting the PHC staff, DH&FWO, Mysore did not order transfer of PHC staff working in the General Hospital, Hunsur even as of December 2009. The DH&FWO continued supply of medicines to the upgraded PHC which was utilised in the General Hospital. Thus, laxity of DH&FWO, Mysore in taking necessary and appropriate action resulted in retention of PHC staff even after eight years of upgradation of PHC to 100 bedded hospital.

On being pointed out by Audit (December 2009), the DH&FWO agreed to shift the staff of PHC to needy places and stop supply of drugs and chemicals from the year 2010-11 onwards.

2.1.14 Conclusion

The performance review revealed that the functioning of the DPC was ineffective and the ADDPs prepared were not in conformity with the KPR Act. Financial irregularities such as operation of multiple master bank accounts, transfer of funds to avoid lapse of grants and drawal of funds on self-cheques were observed. Coverage of internal audit by the CAO was inadequate.

Denial of better hostel facilities to pre-matric girl students, community irrigation for tribal population, specialised medical facilities to rural

inhabitants and safe drinking water through rain water harvesting structures to school children indicated non-achievement of desired objectives in implementation of developmental works and schemes in the test-checked departments.

Non-provision of adequate funds led to unfruitful outlay on incomplete buildings. Denial of envisaged benefits to the rural population due to non-filling of essential posts forming integral part of the service delivery system could not be ruled out.

2.1.15 Recommendations

- Preparation of ADDP should be in accordance with the provision of KPR Act and functioning of DPC should be made effective.
- Operation of multiple master bank accounts and transfer of funds to avoid lapse of grants should be avoided.
- Achievement of desired objectives of developmental works and schemes needs to be ensured by the implementing officers/agencies.
- Provision of adequate source of funds should be made before commencement of works in order to avoid abnormal delay in completion.
- Essential vacancies need to be filled up in the departments to ensure prompt service delivery to the rural population.

2.2 Swarnajayanthi Gram Swarozgar Yojana

Highlights

The Panchayat Raj Institutions under the overall supervision of Rural Development and Panchayat Raj Department, Government of Karnataka, with the active participation of village level self help groups and individual swarozgaris are implementing the self employment scheme of Swarnajayanthi Gram Swarozgar Yojana (Scheme). A review on implementation of the Scheme revealed inter-alia non-preparation of perspective plan, inadequate coverage of Scheduled Caste/Scheduled Tribe and disabled beneficiaries, denial of infrastructure facilities, execution of ineligible works, non-imparting of training to beneficiaries, ineffective monitoring mechanism, inadequate evaluation and absence of impact assessment etc.

Perspective plan indicating the key activities, method of selection of eligible beneficiaries was not drawn up under the Scheme.

(Paragraph 2.2.6.1)

Non-utilisation of grant in time resulted in loss of assistance of Rs.1.99 crore.

(Paragraph 2.2.7.3)

Scheduled Caste/Scheduled Tribe and disabled beneficiaries were not adequately covered.

(Paragraph 2.2.8.1)

There were instances of advance release of subsidy (Rs.5 lakh), non-utilisation and consequent return of subsidy (Rs.32 lakh).

(Paragraphs 2.2.8.3 and 2.2.8.4)

Ineligible works costing Rs.19 lakh were executed under infrastructure grant.

(Paragraph 2.2.8.6)

There was blocking up of infrastructure grants (Rs.75 lakh) and unfruitful expenditure (Rs.22 lakh) on infrastructure created.

(Paragraphs 2.2.8.8 and 2.2.8.9)

Infrastructure for training costing Rs.31 lakh was created without assessing requirements.

(Paragraph 2.2.8.10)

There was no effective monitoring mechanism and adequate evaluation. Impact assessment of the Scheme was also not done.

(Paragraphs 2.2.9.1 and 2.2.9.2)

2.2.1 Introduction

An integrated centrally sponsored self employment scheme with 75:25 funding between Government of India (GOI) and the State Government, namely, Swarnajayanthi Gram Swarozgar Yojana (SGSY) was launched in April 1999. The objective of the Scheme is to bring the assisted poor rural families above the poverty line and to ensure sustainable level of income by organising them into Self Help Groups (SHGs) through a process of social mobilisation, training, capacity building and provision of income generating assets with bank credit and Government subsidy. The programme aims to establish large number of micro enterprises through cluster approach of identified key activities in the rural areas by providing appropriate skill, technology, infrastructure and marketing facilities.

It is a holistic Scheme wherein financial institutions, Panchayat Raj Institutions (PRIs), District Rural Development Agencies (DRDA), Non-Governmental Organisations (NGOs) and technical institutions[34] were actively involved in planning, implementation, monitoring and evaluation. Dairy farming was the most preferred activity under the Scheme in view of easy marketing accessibility of the product. Women oriented SHGs were given preference due to prompt repayment of loans. This also ensured social security to the society as a whole, besides enhancing the social empowerment of the women.

[34] (i) Krishi Vigyan Kendra (KVK), Hulikoti, Gadag district, (ii) RUDSETIs – Rural Development and Self Employment and Training Institutes and (iii) ATDCs – Apparel Training and Design Centres

2.2.2 Organisational Structure:

Functionary	Organisation/Agency	Responsibility
Principal Secretary/Director, Self Employment Programme	Department of Rural Development and Panchayat Raj	Nodal officer for planning, coordination, over all monitoring, evaluation at the State level and liaisoning with Government of India, on matters of physical and financial progress
Additional Chief Secretary to Government of Karnataka	State level SGSY committee	Provide guidance in planning, implementation and monitoring of the Scheme
Chief Executive Officer, Zilla Panchayat/ Project Director/District Rural Development Agencies	District level SGSY Committee	Overall supervision of the implementation at the district level including creation of infrastructure for the key activities under sector programmes
Project Director/District Rural Development Agencies, Executive Officer, Taluk Panchayat, Secretary, Grama Panchayat, Branch Manager of participating banks	Block level SGSY Committee	Formation of the self help groups, identification of beneficiaries and key activities, coordination with the bank, disbursement of subsidies, monitoring the implementation of Scheme *etc*.

The overall responsibility of policy formulation, monitoring and evaluation of the programme and for release of central share of funds rests with Ministry of Rural Development, GOI through a Central Level Co-ordination Committee constituted to assist the Department.

The Scheme is continuously monitored at the GOI level based on the monthly progress reports furnished by the Rural Development and Panchayat Raj (RDPR) Department of the State Government.

2.2.3 Scope of Audit and methodology

Audit reviewed (May–October 2009) the implementation of the Scheme by test-check of records in ten[35] Zilla Panchayats (ZPs) adopting monetary unit sampling without replacement method besides 21 Taluk Panchayats (TPs) and 397 SHGs. The audit objectives and criteria adopted for conducting performance review of the Scheme were discussed during the Entry Conference (June 2009) with the Secretary, RDPR Department. The draft report was forwarded (November 2009) to the Principal Secretary to Government of Karnataka, RDPR Department. The Exit Conference was held during January 2010 wherein the Principal Secretary to RDPR Department generally accepted the audit observations.

A review of the Scheme was conducted earlier during 2001-02 and findings were reported in the Audit Report of the Comptroller and Auditor General of India (Zilla Panchayats) for the year ended 31 March 2002. Audit observed that findings such as loss of assistance, non-preparation of project reports,

[35] Bangalore (Urban), Chamarajanagara, Chitradurga, Gadag, Gulbarga, Haveri, Koppal, Shimoga, Tumkur and Udupi

shortfall in coverage of beneficiaries *etc.*, still continued indicating lack of corrective measures.

Audit is thankful for the cooperation extended by the officers and staff of the PRIs in the conduct of the review.

2.2.4 Audit Objectives

Performance review of the Scheme was conducted to verify whether:

- the planning process was in conformity with the Scheme objectives,
- the financial management was effective,
- programme implementation was efficient and the objectives achieved, and
- monitoring and evaluation at all levels was in place.

2.2.5 Audit criteria

The criteria adopted for performance review of the Scheme were as follows:

- Guidelines issued for implementation of the Scheme by the Ministry of Rural Development, GOI and amendments thereon.
- Government orders, circulars, action plans *etc*.

Audit Findings

The findings of the performance review are narrated in the succeeding paragraphs:

2.2.6 Planning

2.2.6.1 Non-preparation of perspective plan

No perspective plan was prepared

A five year perspective plan indicating the key activities, list of eligible beneficiaries selected from the Below Poverty Line (BPL) list approved by the Grama Sabha *etc*., would enable uniform implementation of the Scheme at the district level. However, none of the test-checked ZPs had prepared the perspective plan. It was noticed that no perspective plan was drawn up at the State level also. In the absence of perspective plan and also due to non-production of approved BPL list, the basis for selection of eligible beneficiaries could not be verified in Audit. Similarly, identification of key activities for prioritisation by block level committee was also not furnished to Audit. During Exit Conference, the Principal Secretary, RDPR Department agreed to prepare perspective plan for five years in future.

2.2.6.2 Non-preparation of project report

Project report was absent

Scheme guidelines prescribed preparation of project report indicating elements such as training, credit, technology, infrastructure and marketing for each key activity to determine the number of people who could be covered economically. However, the project report in none of the test-checked ZPs was made available to Audit. In the absence of the project report, the viability of activities implemented could also not be verified in audit.

2.2.7 Funding

2.2.7.1 The funding pattern of the Scheme was 75:25 between the GOI and the State Government. Sixty *per cent* of the allocation was for providing subsidy, 20 *per cent* for infrastructure development and 10 *per cent* each for revolving fund and capacity building. The GOI share of the fund was released directly to the ZPs and the State share was drawn through the district treasuries. The allocation was made by the GOI based on the incidence of poverty. The position of budget estimate, allocation, availability of funds and expenditure in the State for the years 2004-05 to 2008-09 were as given in Table 2.9 below:

Table 2.9: Fund position of the Scheme in the State

(Rupees in crore)

Year	Budget Estimate#	Allocation		OB as on 01 April	Funds released		Miscella-neous receipts	Availa-bility of funds	Expen-diture	CB	Percentage of expenditure to available funds
		GOI	GOK		GOI	GOK					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2004-05	24.71	40.07	13.36	6.30	37.36	16.37	0.60	60.63	54.88	5.75	91
2005-06	58.21	40.07	13.36	10.31	35.79	11.93	0.56	58.59	55.90	2.69	95
2006-07	55.02	44.45	14.82	10.83	39.10	13.01	0.20	63.14	57.23	5.91	91
2007-08	56.07	67.81	22.60	13.87	66.21	22.85	1.53	104.46	98.80	5.66	95
2008-09	66.85	80.17	26.72	19.11	80.03	24.31	0.66	124.11	107.50	16.61	87
TOTAL	**260.86**	**272.57**	**90.86**	**--**	**258.49**	**88.47**	**3.55**	**410.93**	**374.31**	**---**	

Source: Progress Reports of RDPR Department
Note: OB - Opening balance, CB - Closing balance
#Budget estimate includes both central and state share

The details of allocation, actual releases and expenditure in test-checked ZPs as per the progress reports furnished to RDPR Department and as per the certified accounts of Chartered Accountant (CA) were as given in Tables 2.10 and 2.11 below:

Table 2.10: Details of fund position in test-checked ZPs as per progress reports

(Rupees in crore)

Year	Alloca-tion	Opening Balance	Actual releases	Miscellane-ous receipt	Total amount available	Expenditure	Closing Balance	Percentage
2004-05	20.71	1.09	22.20	0.21	**23.50**	21.85	1.65	93
2005-06	20.71	3.22	19.71	0.06	22.99	21.87	1.12	95
2006-07	22.97	2.77	20.91	0.04	23.72	21.74	1.98	92
2007-08	35.04	5.19	35.73	0.98	41.90	40.60	1.30	97
2008-09	41.43	6.68	40.74	0.21	47.63	41.74	5.89	88

Source: Progress reports of CEO of ZPs furnished to RDPR Department

Table 2.11: Details of fund position in test-checked ZPs as per certified accounts of CA

(Rupees in crore)

Year	Opening Balance	Actual releases	Miscellaneo-us receipt	Total amount available	Expenditure	Closing Balance	Percentage
2004-05	1.05	22.20	0.53	23.78	20.49	3.29	86
2005-06	3.29	19.72	0.86	23.87	21.27	2.60	89
2006-07	2.60	21.34	0.62	24.56	19.54	5.02	80
2007-08	5.02	35.70	1.55	42.27	35.65	6.62	84
2008-09	6.62	40.15	1.09	47.86	38.56	9.30	81

Source: Certified accounts of CAs

The RDPR Department was compiling the accounts of the Scheme from the monthly online progress reports furnished by the CEOs of ZPs in the format prescribed by the Ministry of Rural Development, GOI. The CEOs of ZPs treat the entire funds released to the implementing agencies as expenditure. The CAs audit the Scheme accounts after a gap of 6 to 7 months from closure of the accounts and exhibit the unutilised amount lying with the implementing agencies as closing balance. Audit observed that the CEOs of seven test-checked ZPs[36] did not adopt the rectified CB figures of CAs as OB while preparing the progress reports for the ensuing year. Hence, there were differences in figures with regard to the progress reports furnished by the RDPR Department. The RDPR Department stated (April 2010) that since progress reports were submitted to GOI on-line, changes after CA audit could not be effected. Thus, the expenditure figures furnished by the RDPR Department to the GOI were also unaudited.

2.2.7.2 The details of component-wise expenditure for the years 2004-05 to 2008-09 were as given in Table 2.12 below:

Table 2.12: Details of component-wise expenditure

(Rupees in crore)

Year	Total Expenditure	Component-wise expenditure			
		Subsidy	Revolving fund	Infrastructure Development	Training / NGO Facilitators
2004-05	54.88	40.98 (75)	3.05 (5)	8.25 (15)	2.60 (5)
2005-06	55.90	40.48 (73)	3.00 (5)	9.02 (16)	3.40 (6)
2006-07	57.23	39.21 (69)	3.37 (6)	10.26 (18)	4.39 (7)
2007-08	98.80	67.20 (68)	7.10 (7)	18.20 (19)	6.30 (6)
2008-09	107.50	72.50 (67)	8.02 (7)	18.90 (18)	8.08 (8)
Total	**374.31**	**260.37 (70)**	**24.54 (7)**	**64.63 (17)**	**24.77 (6)**

Source: Progress Reports of RDPR Department
Note: Figures in brackets indicate percentage

GOI assistance was lost due to non-utilisation of grant in time

2.2.7.3 Scheme guidelines prescribed that the aggregate of balance amount available with CEOs of ZPs at the commencement of the financial year should not exceed 10 *per cent* of the allocation for the district in the previous year. In case it exceeds the limit, the central share of the amount by which it exceeds

[36] Chamarajanagara, Chitradurga, Gadag, Gulbarga, Koppal, Tumkur and Udupi

this limit will be deducted at the time of release of second instalment. Audit observed that in eight out of ten test-checked ZPs, the availability of opening balance in excess of the prescribed percentage resulted in loss of central assistance of Rs.1.49 crore as indicated in Table 2.13 below:

Table 2.13: Details of loss of GOI assistance

(Rupees in crore)

Test-checked ZPs	Years in which central assistance was lost	Grant due	Grant released	Loss of assistance
Bangalore(U)	2004-05 & 2005-06	0.41	0.38	0.03
Chitradurga	2006-07	0.88	0.70	0.18
Gadag	2005-06 & 2007-08	1.73	1.42	0.31
Gulbarga	2006-07	1.28	0.98	0.30
Haveri	2005-06 & 2006-07	1.49	1.35	0.14
Shimoga	2005-06 & 2006-07	1.71	1.32	0.39
Tumkur	2005-06	2.36	2.24	0.12
Udupi	2007-08	0.59	0.57	0.02
Total				**1.49**

The State Government share was released based on the quantum of release by the GOI. As there was short release of Rs.1.49 crore by GOI, the State Government did not release their 1/3rd share. Hence, there was shortfall of Rs.1.99 crore in Scheme funding in the test-checked ZPs during the years 2004-05 to 2008-09 thereby denying benefit to 159 SHGs (subsidy calculated at Rs.1.25 lakh per SHG).

2.2.8 Implementation of the programme

The audit observations on implementation of the Scheme are narrated in the succeeding paragraphs:

2.2.8.1 Physical achievement

As per the BPL census of 2002, there were 19.19 lakh BPL families in the State. The physical achievement of assisted families under the Scheme in respect of all components of the Scheme varied from 9 to 41 *per cent* in the test-checked ZPs as detailed in Table 2.14 below:

Table 2.14: Physical achievement of assisted families

Test-checked ZPs	Total Number of BPL families	Number of BPL families assisted	Percentage
Bangalore(U)	41,444	3,929	9
Chamarajnagara	72,381	17,984	25
Chitradurga	47,102	10,575	22
Gadag	21,157	8,571	41
Gulbarga	1,94,238	19,206	10
Haveri	84,743	10,773	13
Koppal	61,498	15,118	25
Shimoga	36,498	14,729	40
Tumkur	86,897	16,191	19
Udupi	40,297	5,655	14

Source: Progress report of RDPR Department

SC/ST and disabled were not adequately covered

In order to safeguard the interest of the weaker sections especially the vulnerable groups among the rural poor, the scheme guidelines stipulated that 50 *per cent* of the total assisted Swarozgaris were to be from Scheduled Caste (SC)/Scheduled Tribe (ST), 40 *per cent* women and 3 *per cent* disabled. It was observed that though the representation of women was more in all the

test-checked ZPs, the coverage of SC/ST was 27 to 55 *per cent* and disabled 0.17 to 2.97 *per cent*. Thus, the vulnerable poor were not adequately covered in some of the test-checked districts under the scheme. The details were as given in Table 2.15 below:

Table 2.15: Category-wise assisted swarozgaris

Test-checked ZPs	Total number of Swarozgaris assisted	Number of SC/ST	Number of Women	Number of Disabled
Prescribed coverage (Percentage)		50	40	3
Bangalore(Urban)	3,929	1,357(35)	3,827(97)	28(0.71)
Chamarajnagara	17,984	9,916(55)	16,957(94)	192(1.07)
Chitradurga	10,575	5,636(53)	9,339(88)	107(1.01)
Gadag	8,571	3,752(44)	6,775(79)	179(2.09)
Gulbarga	19,206	10,314(54)	18,846(98)	512(2.67)
Haveri	10,773	2,868(27)	9,737(90)	18(0.17)
Koppal	15,118	7,571(50)	14,536(96)	217(1.44)
Shimoga	14,729	6,835(46)	14,153(96)	91(0.62)
Tumkur	16,191	8,167(50)	7,999(49)	481(2.97)
Udupi	5,655	2,053(36)	4,392(78)	31(0.55)

Source: Progress Reports of RDPR Department and test-checked ZPs

The target and achievement both financial and physical coverage of swarozgaris were as given in Table 2.16 below:

Table 2.16: Financial and physical target and achievement

(Figures in numbers)

Year	Financial (Rupees in crore)			Physical					
				SHGs			Individuals		
	Target	Achieve-ment	Percen-tage	Target (number of SHGs required to be assisted as per the action plan)	Achievement		Target (number of individuals, other than SHGs, required to be assisted as per the action plan)	Achievement	
					Number of SHGs assisted during the year	Percen-tage		Number of individuals assisted during the year	Percen-tage
2004-05	53.42	54.88	103	2,908	3,940	135	3,663	4,502	123
2005-06	53.42	55.90	105	2,908	4,019	138	3,663	3,172	87
2006-07	59.26	57.23	97	3,567	7,271	204	2,143	2,711	127
2007-08	90.41	98.80	109	5,316	7,226	136	1,240	1,624	131
2008-09	106.89	107.50	101	6,349	7,691	121	641	635	99
Total	**363.40**	**374.31**	**103**	**21,048**	**30,147**	**143**	**11,350**	**12,644**	**111**

Source: Progress reports of RDPR Department and reply to audit enquiries

It was noticed that the State achieved 143 and 111 *per cent* performance against the target in terms of formation of SHGs and assistance given to individual swarozgaris respectively. In terms of financial achievement also, the performance of the State was an average 103 *per cent* of the target. This was on account of savings [37] on subsidy payable to the targeted groups.

2.2.8.2 Non-usage of subsidy for the Scheme

End use of subsidy not ensured

The CEO, ZP, Chitradurga released subsidy amount of Rs.20 lakh during 2008-09 to D.Devaraj Urs Backward Classes Development Corporation and Rs.23 lakh to Karnataka SC/ST Development Corporation during 2004-05 to 2006-07 without selection of beneficiaries and without ensuring sanction of

[37] The project cost being less, the subsidy payable was less than the minimum. The savings were utilised for funding additional SHGs/individual swarozgaris

loan by banks. Consequently, the amount of Rs.20 lakh was not utilised and Rs.23 lakh was utilised for schemes other than SGSY.

2.2.8.3 Advance release of subsidy

Subsidy was released in advance

As per the Scheme guidelines, subsidy was to be released on receipt of confirmation of the bank sanctioning the loan to the beneficiaries. However, in three[38] tests-checked TPs, subsidy amount of Rs.5 lakh[39] was released between December 2006 and March 2009 to the banks before receipt of confirmation of sanction of loan and to GP, Yalwar before selection of beneficiaries. As the banks did not sanction the loan, the amount of subsidy released in advance was with the banks. This resulted in unintended benefit to the banks for periods ranging from seven to thirty months.

2.2.8.4 Non-utilisation of subsidy amount

Subsidy amount was not utilised

The Executive Officers, TPs were to select the beneficiaries at the block level and forward the list to the District SGSY Committee for approval. After approval, the beneficiary list was to be sent to the respective banks for sanction of loan and on confirmation of loan sanction by the banks, the subsidy amounts were to be released to the banks for adjustment of loan. Audit scrutiny, however, revealed that banks/GP refunded (between July 2004 and February 2009) an amount of Rs.32 lakh in three[40] test-checked ZPs. Thus, release of subsidy without confirmation of loan sanction by banks resulted in denial of benefit to other eligible beneficiaries. The CEO, ZP, Gadag replied (August 2009) that due to improper/non-selection of beneficiaries and lack of co-ordination with the banks, the subsidy amount could not be utilised. The CEOs, ZP, Chitradurga and Gulbarga did not furnish reply.

2.2.8.5 Absence of subsidy details

As per the Scheme guidelines, the participating banks were required to furnish to the implementing agencies at the block and district level, the details of disbursement of loan to the Swarozgaris/SHGs and the amount of subsidy adjusted towards the loan. However, in none of the test-checked ZPs, the details of adjustment of subsidy were obtained from the bank and kept on record.

[38] Jewargi (Gulbarga district), Kunigal (Tumkur district), Udupi (Udupi district)
[39] Rs.3.75 lakh to the banks, Rs.1.25 lakh to the GP, Yalwar of TP, Jewargi
[40] Chitradurga, Gadag and Gulbarga

2.2.8.6 Execution of ineligible works out of infrastructure grant

Infrastructure grant was utilised for execution of ineligible works

Scheme guidelines provided for creation of an infrastructure development fund with 20 *per cent* of the allocation to meet the gap of critical infrastructure needs of the swarozgaris. Scrutiny of records revealed that in five[41] test-checked ZPs, the CEOs sanctioned infrastructure funds of Rs.19 lakh between December 2004 and March 2009 for utilisation on ineligible items such as construction of sub centre of Nirmithi Kendra, purchase of office furniture, "Dasara Jumbo savari" *etc*., in violation of Scheme guidelines. Despite being commented upon in the Audit Report (ZPs) 2002 of the Comptroller and Auditor General of India on inadmissible/unauthorised expenditure on infrastructure created, the irregularities persisted in the test-checked ZP, Tumkur.

2.2.8.7 Denial of infrastructure facilities to SGSY beneficiaries

Infrastructure created were utilised by persons other than SGSY beneficiaries

The CEOs of three test-checked ZPs[42] accorded administrative approval between May 2002 and January 2008 for construction of shopping complexes at a cost of Rs.25 lakh. The Panchayat Raj Engineering Division in Tumkur and Haveri districts and Nirmithi Kendra in Chitradurga district completed the construction of the shopping complexes between June 2004 and January 2009 and handed over to the respective TPs. It was, however, noticed that the shopping complexes were rented out to persons other than SGSY beneficiaries. Thus, the investment of Rs.25 lakh on shopping complexes to help the SGSY beneficiaries in marketing their product did not serve the purpose and they were denied the intended benefits.

2.2.8.8 Blocking up of infrastructure grants

Infrastructure facilities were not created due to blocking up of funds

The CEOs of six[43] ZPs released (between August 2005 and February 2009) an amount of Rs.75 lakh to various implementing agencies[44] in advance for creation of infrastructure facilities to the SGSY beneficiaries. The infrastructure grant was released before completion of the necessary formalities. Audit observed that there were site problems in Chamarajnagara and Tumkur districts for constructing the shopping complexes. Non-release of the assured amount by the Indian Council for Agricultural Research and the National Horticulture Mission led to non-commencement of the work of tissue culture laboratory in Gadag district. In Haveri district, the CEO, ZP did not accord administrative approval for purchase of the equipments. The reason for

[41] Chamarajanagara, Chitradurga, Gadag, Gulbarga and Tumkur
[42] Chitradurga, Haveri and Tumkur
[43] Chamarajnagara, Gadag, Gulbarga, Haveri, Tumkur and Udupi
[44] Assistant Director, Animal Husbandry and Veterinary Services, Haveri; Nirmithi Kendras, Gulbarga and Tumkur; PRED, Udupi; Krishi Vigyan Kendra, Hulikoti, Gadag; Kuderu GP and KLAC, Chamarajanagara

non-utilisation of the grants in the districts of Gulbarga and Udupi was not forthcoming in the records. This resulted in blocking of infrastructure grants besides denial of infrastructure facilities.

2.2.8.9 Unfruitful expenditure on purchase of Hydraulic Paver Machines

Machineries installed were lying idle



With a view to providing training in masonry works to BPL beneficiaries, CEOs of two[45] test-checked ZPs entrusted (between December 2006 and February 2008) purchase of Hydraulic Paver Machines to Nirmithi Kendra at a cost of Rs.22 lakh. The machines were installed at the workshops of the Nirmithi Kendra. However, training was not imparted to the beneficiaries. The CEO, ZP, Haveri replied (July 2009) that the beneficiaries would be selected and training imparted to them. Thus, even after incurring Rs.22 lakh, the beneficiaries were denied the training facilities rendering the expenditure unfruitful.

2.2.8.10 Non-imparting of training to SGSY beneficiaries

Non-imparting of training due to non-availability of candidates

The CEOs of two[46] test-checked ZPs released (October 2007-February 2008) an amount of Rs. 31 lakh to two NGOs[47] for installation of tailoring machines at the Apparel Training Centres run by them for imparting training to SGSY beneficiaries in apparel making. Accordingly, the NGOs purchased the machines and installed at the training centres. However, no training programmes were conducted at the training centres since installation of the machines. The CEO, ZP, Chitradurga stated (December 2009) that as the duration of the training was one month, no swarozgaris were willing to participate in such training. The CEO, ZP, Koppal stated (January 2010) that action would be taken to sponsor candidates for the training. Thus, creation of infrastructure for training without identifying beneficiaries resulted in unfruitful expenditure of Rs.31 lakh.

[45] Chitradurga – Rs.12 lakh and Haveri – Rs.10 lakh
[46] Chitradurga and Koppal
[47] M/s. RUDSETI, Chitradurga and RISET, Koppal

2.2.9 Monitoring and evaluation

2.2.9.1 Ineffective monitoring mechanism

No effective monitoring mechanism existed as envisaged

As per the SGSY guidelines, the block and district level SGSY monitoring committees were to closely monitor the Scheme as prescribed[48] by visiting the site and physically ensuring that the necessary assets were created by the swarozgaris. Based on the observations of the monitoring committees, the monitoring wing was to prepare a consolidated report for discussion in the governing bodies of the ZPs. However, in the test-checked ZPs there was no record to prove that physical verification of assets was conducted. Evidently, no effective monitoring mechanism existed at the block and district level under the Scheme as envisaged.

2.2.9.2 Inadequate evaluation and non-assessment of the impact of the Scheme

Evaluation of the scheme was not adequate and impact assessment of the scheme was not done

SGSY guidelines stipulated periodical evaluation of the Scheme by a third party to find out the deficiencies in the implementation and, based on the studies, the RDPR department was to take corrective measures. It was, however, noticed that only in two[49] test-checked ZPs the evaluation studies were conducted. Even in these ZPs, the evaluation study was conducted only up to 2004-05 and no corrective action was taken to rectify the defects observed. Assessment of assisted families raised above poverty line, which was the main objective of the Scheme, was also not done.

During exit conference, the Principal Secretary, RDPR Department assured that a survey of families assisted under the Scheme from 01 April 1999 would be conducted through the Institute for Social and Economic Changes, Bangalore in Bangalore district on an experimental basis to assess the increase in the income level of swarozgaris and achievement of objective.

2.2.9.3 Non-maintenance of "vikas patrikas"

"Vikas patrikas" were not maintained

To keep a continuous watch on the health of the project activities of SHGs, the Scheme guideline stipulated maintenance of "vikas patrika" for each SHG. The "vikas patrika" was to be prepared in duplicate, one copy with the SHG and the other with the block headquarters and were to be updated continuously. However, in none of the test-checked ZPs the "vikas patrikas" were maintained indicating lack of proper monitoring of the health of the project activities of such SHGs.

[48] Field visits – 10 per month by CEO, ZP, 20 per month each by Project Director, DRDA and EO, TP

[49] Chamarajnagara and Tumkur

2.2.10 Other points of interest

2.2.10.1 Inadmissible expenditure of Rs.13 lakh towards rejuvenation of SHGs formed for schemes other than SGSY

Scheme funds utilised for rejuvenation of SHGs formed for schemes other than SGSY

Based on the proposal of the Pragathi Grameena Bank, Koppal to rejuvenate 5,775 defunct SHGs formed under schemes other than SGSY, District Level Review Committee of ZP, Koppal in its meeting accorded (July 2008) approval for contribution of Rs.13 lakh from the Scheme. It was noticed that the funds were utilised for payment of honorarium to the NGOs which were entrusted with the task of survey, training and education of the members. As these defunct SHGs were not formed under the Scheme, the contribution from Scheme without the approval of State Government was not admissible.

2.2.10.2 Diversion of Rs.1.30 crore of SGSY funds to conduct exhibition

Diversion of Scheme funds in violation of GOI instruction

GOI, Ministry of Rural Development (Marketing Cell) while releasing the amount of Rs.20 lakh for the years 2005-09 for conducting the Sale of Articles of Rural Artisans Societies exhibition stipulated that excess expenditure on the exhibition would be met by the State Government from out of their own resources. It was, however, noticed that the extra expenditure for all the years was met by collection of contribution from ZPs/TPs out of SGSY infrastructure fund as per approval accorded by the State Government periodically. The year-wise details were as given in Table 2.17 below:

Table 2.17: Details of diversion of Scheme fund

(Rupees in crore)

Year	Expenditure	Contribution by GOI	Diversion from SGSY*
2005-06	0.57	0.20	0.25
2006-07	0.26	0.20	0.14
2007-08	0.31	0.20	0.35
2008-09	1.42	0.20	0.56
Total	**2.56**	**0.80**	**1.30**

* Balance of Rs.54 lakh (April 2005) available with State Government was utilised to meet the excess expenditure for subsequent years

Contribution from the SGSY infrastructure fund to conduct an exhibition was against the instructions of GOI.

2.2.11 Conclusion

Review on implementation of the Scheme revealed that no perspective plan on key activities, selection of beneficiaries *etc*., was drawn-up. There was loss of assistance from GOI due to non-utilisation of grants in time. The SC/ST and the disabled beneficiaries were not adequately covered in some of the test-checked districts under the Scheme. While advance release of subsidy was observed, there was no follow-up to ensure end use of subsidy released. Blocking of funds led to non-creation of infrastructure facilities. Diversion of

Scheme funds to SHGs formed under schemes other than SGSY was observed. Ineffective monitoring mechanism, inadequate evaluation and absence of impact assessment of the Scheme were noticed.

2.2.12 Recommendations

- Perspective plan should be prepared indicating key activities of the Scheme and list of eligible beneficiaries to enable uniform implementation of the Scheme.
- Utilisation of grants in time needs to be ensured to avoid loss of assistance.
- Release of subsidy should be based on receipt of confirmation from the banks.
- There should be proper follow-up action after release of the subsidy to ensure utilisation of the amount for income generating activities.
- The selected beneficiaries should be provided with proper training in spells of shorter duration on skill development.
- Monitoring and evaluation of the Scheme needs to be strengthened.

SECTION 'B'- PARAGRAPHS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.3 Unfruitful expenditure on a water supply scheme

Failure to acquire land for a water supply scheme for Gotegali and nine other villages by the Executive Engineer, Panchayat Raj Engineering Division, Karwar before commencement of work resulted in unfruitful expenditure of Rs.7.13 crore besides cost escalation and denying safe drinking water facility to the population of these villages

With a view to providing safe drinking water facility to Gotegali and nine other villages of Karwar taluk, Uttara Kannada district affected by salinity due to ingress of sea water, the State Government administratively approved (June 2003) a comprehensive water supply scheme (Scheme) under Sub-mission project with perennial water source from River Kali. The Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore technically sanctioned (March 2005) the estimate for Rs.6.85 crore (Schedule of Rates (SR) 2002-03). The project cost was shared between Government of India (GOI) and the State Government in the ratio of 75:25. The work was awarded (October 2006) to a contractor on turnkey basis for the negotiated rate of Rs.8.59 crore based on SR 2006-07 with a stipulation to complete the work by March 2008.

The work components of the Scheme *inter-alia* included intake well, jack well, raw water and pure water raising mains, balancing tank, settling tank, slow sand filter, pure water sump, ground level and elevated service reservoirs, pump houses with pumping machinery *etc.* The mark out of the Scheme was given (November 2006) to the contractor to commence the work pending transfer of forest land and acquisition of private land. This was in contravention of the codal provisions which stipulated that no work should be commenced on land which had not been duly handed over by the responsible officer. The contractor commenced partial execution of the work on Government as well as on private land where no objection was raised by the land owners. However, due to delay in handing over of the entire site, the contractor requested (September 2008) revision of rates as per the prevailing SR (2008-09) for the balance items of work which worked out to Rs. 2.82 crore. After achieving a financial progress of Rs. 7.13 crore, the contractor stopped the work (May 2009) due to objection raised by Forest Department and also non-availability of land required for further execution of the Scheme.

Scrutiny of records revealed that before according technical sanction, the CE, PRE Department, Bangalore had visited (March 2004) the site of the Scheme and anticipating delays in obtaining clearance for forest land as well as private

land, had suggested an alternative alignment. An alternative alignment was finalised (March 2005), but was found to be uneconomical due to high maintenance cost. The approved original alignment required clearance from Forest Department and acquisition of private land by the Deputy Commissioner (DC), Karwar. Executive Engineer (EE), PRE Division (PRED), Karwar, however, did not initiate immediate action and the proposal for the land requirement to the Forest Department and the DC, Karwar was sent only during December 2006 and March 2007 respectively. While the notification under 6(1) of Land Acquisition Act, 1894 for acquisition of private land was issued during June 2009, final approval for transfer of forest land from GOI was awaited (September 2009).

The EE, PRED, Karwar stated (September 2009) that the GOI had accorded approval in-principle for diversion of forest land after payment of net present value of diverted forest land and cost of compensatory afforestation. The cost of raising compensatory plantation in lieu of forest land was yet to be arrived at. Hence, the probable date of completion of the Scheme could not be assessed.

Thus, failure of the EE, PRED, Karwar to acquire land for the water supply scheme for Gotegali and nine other villages before commencement of work resulted in unfruitful expenditure of Rs.7.13 crore so far besides cost escalation and denying safe drinking water facility to the population of these villages.

The State Government endorsed (February 2010) the reply of EE, PRED, Karwar who stated that after obtaining possession of required land, the Scheme would be completed.

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

2.4 Fraudulent medical reimbursement claims

Failure of internal control mechanism at Primary Health Centre, Kadugondanahalli, Bangalore (Urban) district led to fraudulent medical reimbursement of Rs. 84.17 lakh

Department of Health and Family Welfare of State Government requested (April 2009) for special audit of medical reimbursement (MR) claims of the employees of the Primary Health Centres (PHCs), General Hospitals (GHs) and the staff of the District Health and Family Welfare Officer (DH&FWO), Bangalore (Urban) district. Based on the quantum of expenditure on MR, 37 out of 76 institutions were selected for detailed

audit, of which 22 institutions did not produce relevant records. During the course of audit, MR claims of the PHC, Kadugondanahalli covering the period 2007-08 and 2008-09 were scrutinised in August-October 2009 and the findings are as follows:

As per rules[50] the employees of PHC and their dependants were to consult a doctor for treatment in the Out Patient Department (OPD) and obtain the prescription for medicines not available in the PHC. The bills for the prescribed medicines procured from other pharmacies should be submitted to the Medical Officer (MO), PHC along with the application and essentiality certificate for claiming reimbursement. Further, as per the instructions (March 2004) circulated by the Commissioner, Health and Family Welfare Services, MR claims exceeding Rs.5,000 in each case or an aggregate of Rs.10,000 in a year required scrutiny by the District level committee constituted for the purpose and approval from the Directorate of Health and Family Welfare Services, Bangalore. It was observed in audit that

(i) in disregard to the said instructions, sanctions for all MR bills preferred during 2007-09 were obtained from the DH&FWO even though every case was in excess of Rs.5,000 and yearly aggregate of Rs.10,000. MR claims for all 32 employees and their dependents varied from Rs.10,974 to Rs.49,799;

(ii) the MO diagonised all the 32 patients with lower respiratory infection and prescribed the same two medicines[51] for all cases;

(iii) medicines worth Rs.70.08 lakh were procured from medical shops[52] which were not in existence while another two shops[53] denied having issued bills worth Rs.14.09 lakh;

(iv) quantity of medicines dispensed was not mentioned in cash bills worth Rs.14.09 lakh; and

(v) the amount of MR claims shown as per the records of PHC and DH&FWO differed.

Further scrutiny revealed that the following internal control lapses by MO facilitated the fraudulent transactions:

(a) Inward/outward register recording receipt of MR claims and transmitting the bills to higher authorities for sanction was not maintained.

[50] Karnataka Government Servants' (Medical Attendance) Rules, 1963
[51] Tab. Ceftam 500mg and Inj. Fortan
[52] M/s.Ravine Pharma & General Stores and M/s.Rajalaxmi Medicals
[53] M/s.Guru Medicals & Surgicals and M/s. Ramdev Medical Centre

(b) Scrutiny files for MR claims indicating deficiencies, if any, noticed in the claims were not maintained.

(c) Copies of the vouchers along with other supporting documents were not preserved by the MO.

(d) The Gazetted Assistant (GA) of DH&FWO posted against sanctioned strength was to countersign the MR bills. However, the MO, PHC, Kadugondanahalli obtained the countersignature of GA posted as an additional hand even though only one sanctioned post was available which already had a functional incumbent. The Office Superintendent while holding additional charge as GA countersigned the MR bills during April 2007 to January 2008.

Thus, failure of internal control procedure at PHC, Kadugondanahalli and lack of supervisory control by the DH&FWO, resulted in fraudulent drawal of Rs.84.17 lakh by the employees of the PHC. Based on a preliminary investigation report submitted (August 2008) by the Chief Accounts Officer, Directorate of Health and Family Welfare Services, three officials/officers of the DH&FWO were placed (August 2008) under suspension by the State Government. Thereafter, the State Government revoked (July 2009) the suspension pending departmental enquiry. Neither any action has been taken against the employees of the PHC, Kadugondanahalli nor any recovery effected till date.

The matter was reported to Government (January 2010); reply is awaited (March 2010).

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.5 Unfruitful outlay on a special project

Failure of the Chief Executive Officer, Zilla Panchayat, Bagalkot to incorporate condition in Memorandum of Understanding on continuance of the special project on vermiculture in the event of any change in management of Non-Governmental Organisation resulted in unfruitful outlay of Rs.71.45 lakh

Government of India (GOI) sanctioned (June 2006) a Special Project (Project) under Swarnajayanti Gram Swarozgar Yojana (SGSY) for sustainable agricultural development by creating infrastructure for Vermiculture[54] in Bagalkot district at a total cost of Rs.6.12 crore. The main objectives of the Project were to generate employment opportunities, increase profitability to

[54] Is a mixed culture which contains one specific culture of soil bacteria with an effective strain of earthworms

farmers and improve biological health of the soil. The Project envisaged release of funds in three instalments in the ratio of 40:40:20. Apart from GOI share of Rs.3.24 crore, there were State Government share and beneficiary contribution of Rs.1.08 crore and Rs.1.80 crore respectively. GOI approved (June 2006) the Project proposal submitted by a Non-Governmental Organisation (NGO)[55] for adoption of vermiculture with a condition to complete the Project within three years from the date of sanction. The Joint Director of Agriculture, Bagalkot confirmed (September 2006) the viability of the Project for implementation. The Chief Executive Officer (CEO), ZP, Bagalkot and the Chairman of NGO entered into (July 2007) a Memorandum of Understanding (MOU).

GOI released first instalment of Rs.1.30 crore (June 2006) and the State Government released its share of Rs.43.24 lakh (December 2007) to ZP, Bagalkot, of which Rs.1.19 crore was released (July 2007) to the NGO. The NGO stopped (January 2008) the work due to change in management after incurring an expenditure of Rs.71.45 lakh towards construction of buildings, advance for machineries, purchase of vehicles *etc.*

During review (January 2009) of the Project, the Director, Self Employment Projects, opined that the progress was not satisfactory and not as per the approved Project. The NGO submitted (March 2009) a revised Project proposal due to non-viability of the proposal mooted by the previous management. The project co-ordinator, Krishi Vigyan Kendra, Bagalkot expressed (April 2009) uncertainty about achievement of the proposed Project objectives and accrual of benefits to the farmers. Approval for the revised proposal was awaited (October 2009).

Scrutiny of records revealed that the Additional Resident Commissioner, New Delhi had observed as early as in August 2006 that the Project report was not very specific about the bye-laws of the NGO and its decision-making matrix. CEO, ZP, Bagalkot was, therefore, instructed to look into those aspects. However, it was noticed that in spite of clear instructions, the MOU did not contain a condition on continuance of the Project in the event of any change in management of the NGO.

Audit scrutiny further revealed that

- the NGO had to transfer land free of cost to the Self Help Group (SHG) as per the conditions of Project Approval Committee and MOU. However, the NGO under the new management refused allotment of land on the pretext that land had to be utilised for educational purposes only. The

[55] Vijay Mahantesh Vidyavardhak Sangha, Hungund

revised Project proposal envisaged purchase of 4 acres of land at a cost of Rs.10 lakh;

- as per the condition of sanction, the SHG federation should take up the activities from the date of commencement of the project. Hence, the land for the project had to be made available to the SHG federation. However, this condition was not fulfilled. Expenditure of Rs.18.74 lakh on construction of buildings on the land owned by NGO, therefore remained wasteful;
- purchase of vehicles (Rs.17.41 lakh) and advance made for machinery procurement (Rs.25 lakh) before construction of production unit, laboratory, training centre *etc.,* was contrary to the implementation schedule;
- unutilised Government funds of Rs. 47.05 lakh remained with the NGO for more than 19 months (October 2009).

On this being pointed out, the Project Director (DRDA), ZP, Bagalkot endorsed (November 2009) the clarifications of NGO that the building, vehicles and advance made to the supplier would be utilised in the revised project. The reply is contrary to the revised project proposals wherein the NGO had envisaged purchase of land and uncertainty in usage of the machinery for which advance had been paid, due to reduction in capacity of the production of vermiculture.

Thus, failure of CEO, ZP, Bagalkot to incorporate a condition in MOU on continuance of the special project on vermiculture in the event of any change in management of NGO resulted in unfruitful outlay of Rs.71.45 lakh besides depriving the rural poor of income generation and improvement in biological health of the soil.

The matter was referred to Government (July 2009); reply is awaited (March 2010).

2.6 Unfruitful expenditure on water supply works under task force

Defective preparation of action plans and failure to prioritise and monitor execution of works by Executive Officer, Taluk Panchayat, Gubbi resulted in unfruitful expenditure of Rs.35.50 lakh besides creating liability of Rs.95.27 lakh and denial of drinking water facility to the rural population of Gubbi taluk for more than two years

The State Government constituted (March 2006) a task force under the Chairmanship of the Member of the Legislative Assembly to find a solution to the drinking water problem of Gubbi taluk, Tumkur district. Water supply works which required immediate attention such as repair of hand pumps, rejuvenation and hydrofracturing of existing bore wells *etc.* were to be given priority and thereafter digging of bore wells and connected works undertaken,

if necessitated. The Executive Officer (EO), Taluk Panchayat (TP), Gubbi prepared (April/May 2006) the Action Plans (APs) for the works indentified by the task force. The Chief Executive Officer (CEO), Zilla Panchayat (ZP), Tumkur approved the APs for execution of 307 water supply works at an estimated cost of Rs.3.82 crore. The CEO, ZP, Tumkur released funds of Rs.1.22 crore during 2006-07 allocated by State Government. However, funds were not released subsequently for execution of these approved works. EO, TP, Gubbi was to make payments for the works executed by the Assistant Executive Engineer (AEE), Panchayat Raj Engineering (PRE) Sub-division, Gubbi and was also responsible for co-ordinating and monitoring the execution of works as per the approved APs. Approved works *vis-à-vis* the works executed were as given in Table 2.18 below:

Table 2.18: Statement showing approved works *vis-à-vis* works executed

(Rupees in lakh)

Sl. No.	Approved works	Estimated cost	Works executed	Expendi-ture
01	Digging of 83 bore wells	66.40	Digging of 80 bore wells	54.26
02	Execution of water supply components	315.82	Purchase of PVC pipes and fittings	45.32
03			Procurement of Pumps and motors	18.30
Total		**382.22**		**117.88**

Scrutiny of records relating to digging of borewells and connected works revealed that the APs prepared by EO, TP, Gubbi were defective as 16 existing borewells were not provided with pumps and motors, even though pipelines had been laid at a cost of Rs.5.56 lakh. Similarly, APs covering all components of works were not prepared for 30 new borewells. As a result, these borewells dug at a cost of Rs.29.94 lakh were not provided with pipelines, pumping machinery and power supply. Thus, 46 water supply works could not be put to use resulting in unfruitful expenditure of Rs.35.50 lakh.

It was further observed that even though the remaining 50 new borewells dug were put to operation, the sub-division resorted to laying of pipes on Nominal Muster Rolls (NMRs) without actual payment of wages in violation to codal provisions and Payment of Wages Act. This was due to utilisation of available funds for purchase of pipes, pumping machinery and digging of borewells, as detailed in Table 2.18 above. This had created a liability of Rs.95.27 lakh on the TP.

Thus, defective preparation of APs and failure to prioritise and monitor execution of works by EO, TP, Gubbi resulted in unfruitful expenditure of Rs.35.50 lakh besides creating liability of Rs. 95.27 lakh and denial of drinking water to the rural population of Gubbi taluk for more than two years.

On this being pointed out, the State Government endorsed (March 2010) the reply of EO, TP, Gubbi which stated that after release of further funds the works would be completed.

2.7 Avoidable payment of rent

Failure of the Chief Engineer, Panchayat Raj Engineering Department, Bangalore to ensure the actual requirements of the Zilla Panchayat administrative office building for Bangalore (Urban) before commencement of the work resulted in delay in completion and consequent avoidable payment of rent of Rs.32 lakh

With a view to having own Zilla Panchayat (ZP) administrative office building for Bangalore (Urban) and to avoid payment of rent, the State Government accorded (March 2006) administrative approval for construction of a building at an estimated cost of Rs.4.40 crore. The Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore technically sanctioned (July 2006) the estimate (SR 2006-07). The tendered work of Rs.3.61 crore was entrusted (August 2006) to a contractor at the negotiated rate of Rs.3.93 crore with a stipulation to complete by August 2008. The work was commenced (August 2006) based on the design and drawings approved[56] (November 2000) by the Chief Architect (CA) of State Government.

During execution of work, the CE, PRE Department, Bangalore visited (December 2006) the site and instructions were given to provide a cellar floor on the sloping lower ground level with additional works to beautify the interiors and exteriors of the building. The approved design and plan of the proposed building had undergone change and the CA of State Government was requested to revise the design and plan of the building. The CA submitted (November 2007) the revised plan and design to the Assistant Executive Engineer, PRE Sub-Division, Bangalore South, almost a year after the site visit by the CE, PRE Department. Accordingly, the Executive Engineer (EE), Panchayat Raj Engineering Division (PRED), Bangalore (Urban) revised (April 2008) the estimate to Rs.8.90 crore incorporating the additional works costing Rs.2.51 crore based on SR 2007-08. The revised estimate is yet to be sanctioned (December 2009). Meanwhile, the civil works of the building were completed (November 2009) excluding interior and external works incurring an expenditure of Rs.6.29 crore. The ZP administrative office is functioning presently in a rented building on a monthly rent of Rs. two lakh. Hence, the delay of 16 months as of December 2009 in completion of the building from

[56] Though ZP approved (September 2000) construction of own building for Rs.3.56 crore, due to insufficient allocation (Rs. 30 lakh), the work was not commenced

the stipulated date of completion resulted in payment of avoidable rent of Rs.32 lakh.

Audit observed that since the design and plan of the building was prepared and approved as early as in 2000 by the CA; the CE/PRE Department could have considered the proposed revision of plan and design before commencement of the building work.

On this being pointed out, the EE, PRED, Bangalore (Urban) accepted (December 2009) that the revision in design of the structure incorporating additional works led to delay in completion of the work.

Thus, failure of the CE, PRE Department, Bangalore to ensure the actual requirements of the ZP administrative office building for Bangalore (Urban) before commencement of the work resulted in delay in completion and consequent avoidable payment of rent of Rs.32 lakh.

The matter was referred to Government (January 2010); reply is awaited (March 2010).

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

2.8 Unfruitful expenditure on construction of a blood storage unit

Failure of Chief Medical Officer, Taluk General Hospital, Basavakalyan in obtaining licence on time to start a blood storage unit at Basavakalyan resulted in unfruitful expenditure of Rs.28.99 lakh besides depriving blood storage facilities to the rural poor

In order to cater to blood bank facilities for patients as well as accident victims in Basavakalyan taluk, Bidar district, the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Bidar proposed (August 2002) establishment of a blood bank. The Health and Education Standing Committee of ZP had approved (December 2002) construction of a blood bank at Taluk General Hospital (TGH), Basavakalyan pending sanction from the State Government. The Executive Engineer, Panchayat Raj Engineering Division, Bidar entrusted (March 2004) the work to Karnataka Land Army Corporation (KLAC) at an estimated cost of Rs.16 lakh. The building was completed incurring an expenditure of Rs.16 lakh and handed over to the Taluk Health Officer, Basavakalyan during September 2006. Necessary equipment for the blood bank was also procured (March 2007) for an amount of Rs.12.99 lakh, thereby incurring a total expenditure of Rs.28.99 lakh.

The Drugs and Cosmetics Rules, 1945 stipulated *inter alia*, obtaining license from the licensing authority before functioning and operation of a blood bank/blood storage unit. The nodal officer for monitoring KSAPS[57] activities of Bidar district opined that establishment of a blood bank for the district and a blood storage unit for a taluk was prescribed as per the guidelines. Accordingly, the Chief Medical Officer (CMO), TGH, Basavakalyan had sought a license to operate a blood storage unit instead of a blood bank.

Scrutiny of records revealed that even though the infrastructure was available as of March 2007, the license for operating the blood storage unit was sought only during February 2009 after a delay of 28 months of taking possession of the building. This was due to delay in seeking and obtaining consent (February 2009) from the mother blood bank for supply of blood for storage, delay in installation of equipment and imparting training to available staff. As a result, 184 cases were referred to other hospitals during 2007-09 due to non-availability of blood. The District Health and Family Welfare Officer, Bidar confirmed (October 2009) that the building and equipment procured were not put to use.

Thus, failure of the CMO, TGH, Basavakalyan in obtaining the licence on time for commencement of the blood storage unit resulted in unfruitful expenditure of Rs.28.99 lakh on construction of a blood storage unit besides depriving blood storage facilities to the rural poor for more than two years.

The matter was referred to Government (October 2009); reply is awaited (March 2010).

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.9 Undue payment of salary arrears

Irregular re-fixation of pay by Chief Executive Officer, Zilla Panchayat, Chikmagalur resulted in undue payment of salary arrears for Balawadi teachers/Aayahs of erstwhile Taluk Development Board/District Rural Development Society amounting to Rs.21.87 lakh

Karnataka State Civil Services (Special Recruitment of local candidates) Rules, 1986 specified the manner of regularisation of local candidates to the posts held by them as per Government Order (GO) issued during November 1977. It was clarified (March 1987) that the officials so regularised were eligible to draw arrears of salary with effect from 1 April 1986.

[57] Karnataka State Aids Prevention Society

Subsequently, the State Government also issued orders (August 1990) for regularising with effect from 1 January 1990 the services of all daily wage employees who joined service prior to 1 July 1984 and continued in service on the date of the order as Monthly Rated Establishments (MREs). The services of these MREs were to be regularised on completion of 10 years of continuous service. They were eligible to draw pay at the minimum of the time scale of pay applicable to the post which they were holding on regularisation or Rs.780, whichever was more without any allowance.

Scrutiny of records of the Chief Executive Officer (CEO), Zilla Panchayat (ZP), Chikmagalur revealed that the State Government directed (September 1992) the ZP, Chikmagalur for regularisation/absorption of services of 73 Balawadi teachers/aayahs of erstwhile Taluk Development Board (TDB)/District Rural Development Society (DRDS) of Chikmagalur district considering the services rendered by them subject to fulfilment of the conditions of GO issued during August 1990.

Accordingly, the CEO of ZP regularised (December 1992) the services of 10 Balawadi teachers/Aayahs by applying the conditions of the GO issued during August 1990 and their pay was fixed at the minimum of the time scale of pay with effect from 1 January 1990 or on completion of 10 years of continuous service as MRE whichever was applicable.

The CEO, ZP, Chikmagalur, based on the representation of the Balwadi teachers/aayahs for refixation of pay, irregularly advanced (February–September 2009) the date of fixation to 1 April 1986/20 May 1989 of these officials at the minimum of the time scale of pay as per the clarification (March 1987) issued by the State Government. Accordingly, the pay was re-fixed notionally from the date of entry into service by granting monetary benefit with effect from 1 April 1986/ 20 May 1989.

Since the services of these employees were regularised based on the Government order issued during August 1990, fixation of pay from April 1986/May 1989 and application of GO issued (March 1987) for drawal of arrears of salary from ZP fund was irregular. This resulted in undue payment of salary arrears to 10 Balawadi teachers/Aayahs of erstwhile TDB/DRDS of Chikmagalur district amounting to Rs.21.87 lakh.

On this being pointed out, the State Government endorsed (March 2010) the reply of CEO, ZP, Chikmagalur who accepted the lapse and stated that action has been initiated for recovery of the amount from the concerned officials.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT AND SOCIAL WELFARE DEPARTMENT

2.10 Fraudulent drawal of scholarship amount

Scholarship amount of Rs.17.45 lakh was fraudulently drawn on self cheques allegedly under forged signature of the Taluk Social Welfare Officer, Kolar

Funds for scholarships to students provided by the State Government in the annual budget are released to the Zilla Panchayat (ZP) and Taluk Panchayat (TP), who in turn allocate them to the Taluk Social Welfare Officer (TSWO). The TSWO was responsible for scrutiny of applications, sanction and disbursement of scholarships to the heads of the educational institutions. The scholarship was payable through treasury cheque for a consolidated amount drawn in favour of the head of the institution. The head master on encashment disburses the amount to the students and forwards the acknowledgement to the TSWO.

Audit unearthed (July 2009) on scrutiny of records[58] of TSWO, Kolar for the years 2000-01 to 2008-09 that the TSWO had unauthorisedly opened three[59] bank accounts with State Bank of Mysore and transferred scholarship amount of Rs.19.49 lakh drawn (September 2006 to March 2007) on self cheques from the Personal Deposit Account in the treasury. Subsequently, an amount of Rs.17.45 lakh was drawn on self cheques from these accounts during the period from February 2007 to February 2008, under the signature of the TSWOs. No details of utilisation of these amounts were made available to audit. During the period of the alleged drawal, the post of TSWO was occupied by four incumbents. On enquiry by Audit, these incumbents disowned the signatures in the cheques and also denied their involvement in the matter.

It was further observed in audit that:

(i) even though the cash book is the basic record, all transactions were not routed through it, as required;

(ii) in disregard to the codal provisions, cheque books were not kept in the safe custody of the Drawing and Disbursing Officer (DDO) which enabled alleged misuse of cheques;

[58] Cash Book, Bank Pass books, Treasury payment schedule, copy of bank cheques and treasury paid cheques

[59] Bank Account Numbers 54042369400, 54042369466, 54042369422

(iii) no monitoring of expenditure and reconciliation of the balances as per cash book and bank accounts as well as with treasury figures was being done;

(iv) there were no acknowledgements or other relevant records to prove disbursal of scholarship amount to the beneficiaries.

Thus, unauthorised transfer of scholarship amount to bank accounts, failure to keep the cheque books in safe custody coupled with non-monitoring of the progress of expenditure and reconciliation of balances resulted in fraudulent drawal of Rs.17.45 lakh on self cheques allegedly under forged signatures.

The State Government confirmed (March 2010) the fraudulent drawal and agreed to initiate action against the delinquent officials.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.11 Avoidable cost on water supply schemes

Failure of the Executive Engineer, Panchayat Raj Engineering Division, Gadag to consider benefit of central excise duty exemption during preparation of estimates for pipes used in water supply schemes and consequent tender approval by Chief Engineer, Panchayat Raj Engineering Department, Bangalore resulted in avoidable cost of Rs.12.29 lakh

With a view to providing safe drinking water to rural habitations of Zilla Panchayat, Gadag, the following water supply schemes (WSS) were taken up under Rajiv Gandhi National Drinking Water Supply Mission (Sub-mission programme) by the Executive Engineer (EE), Panchayat Raj Engineering Division (PRED), Gadag during 2007-09.

Table 2.19: Details of water supply works executed

(Rupees in lakh)

Sl. No.	Name of the work	Administrative/ Technical sanction	Estimated cost	Negotiated cost	Expenditure[60]
1	WSS to Hirewadatti & four other villages	22.05.2007/ 10.01.2008	272.00	335.20	237.38 (3/09)
2	WSS to Asundi and three other villages	16.07.2008/ 09.09.2008	320.94	369.30	99.07 (8/09)
3	WSS to Hadli village	11.03.2008/ 24.05.2008	149.72	151.45	102.33 (9/09)
4	WSS to Kakkur and four other villages	22.05.2007/ 18.01.2008	138.00	133.16	86.82 (3/09)
5	WSS to Yavagal and three other villages	11.03.2008/ 04.06.2008	364.30	403.05	375.09 (7/09)

Note: Figures in brackets indicate month of payments made

[60] As per latest Running Account bills

The Government of India (GOI) extended (March 2007) Central Excise (CEx) duty exemption for pipes used in water supply works for delivery of water from source to clear water treatment plant and to the first storage point.

Scrutiny of records revealed that the EE, PRED, Gadag, while preparing the estimates for the above water supply schemes, did not consider the CEx duty exemption available on pipes to be utilised in these water supply works. The rate adopted as per the SRs of PRED for the cost of pipes included taxes and duties leviable. The Chief Engineer (CE), Panchayat Raj Engineering (PRE) Department, Bangalore also approved the tenders without considering this aspect. This led to avoidable cost of Rs.12.29 lakh equivalent to the CEx exemption benefit as detailed in Table 2.20 below:

Table 2.20: Details of water supply pipes procured

Name of the work	Dia of pipes	Quantity[61] procured Rmt	Data Rate (in Rupees)	Avoidable Cost - CEx & Cess # (in Rupees)	Remarks
WSS to Hirewadatti & four other villages	140mm/6kg. 75mm/10kg. 63mm/6kg.	8,375 3,700 2,400	268.50 126.11 55.51	1,85,292.00 38,448.00 10,978.00	Contractor did not avail CEx benefit.
WSS to Asundi and three other villages	150mm/6kg. DI pipes	1,000	NA	Contractor availed the benefit and did not pass the benefit of Rs.0.97 lakh to the PRED	
WSS to Hadli village	200mm/6kg. 140mm/6kg. 110mm/6kg. 75mm/6kg.	7,200 680 180 860	602.70 268.50 159.19 80.37	3,57,570.00 15,045.00 2,361.00 5,695.00	Contractor did not avail the CEx benefit.
WSS to Kakkur and four other villages	200mm/6kg. 140mm/6kg. 110mm/6kg. 90mm/6kg. 75mm/6kg.	2,250 400 2,000 5,500 2,790	602.70 268.50 159.19 110.22 80.37	1,11,741.00 8,850.00 26,235.00 49,952.00 18,477.00	- do-
WSS to Yavagal and three other villages	200mm/6kg. 160mm/6kg. 140mm/10kg. 110mm/10kg. 110mm/6kg. 90mm/6kg. 75mm/6kg.	105 350 4,710 2,475 1,460 180 5,936	602.70 348.55 437.21 274.13 159.19 110.22 80.37	5,215.00 10,052.00 1,69,683.00 55,906.00 19,151.00 1,635.00 39,311.00	-do-
Total				**12,28,597.00**	

NA – Not available Rmt – Running meter

CEx has been calculated at the lowest rate of 8% and Education Cess @ 2+1=3% thereon.

CEx exemption certificates were issued to the contractors by the Deputy Commissioner, Gadag enabling them to procure pipes from the manufacturer free of CEx. However, the contractors (except one) did not avail of the benefit of CEx duty exemption. EE, PRED, Gadag also did not get the refund of exemption of Rs.0.97 lakh availed of by one contractor.

Thus, failure of the EE, PRED, Gadag to consider the benefit of CEx duty exemption during preparation of estimates for pipes used in water supply schemes and consequent tender approval by CE, PRE Department, Bangalore resulted in avoidable cost of Rs.12.29 lakh.

[61] Quantity of pipes procured and utilised from source to first storage point

On this being pointed out, the EE, PRED, Gadag replied (November 2009) that the contractors (except one) have not availed of the exemption benefit but did not explain the reason for not considering the benefit during preparation of the estimate which led to avoidable cost on these water supply schemes.

The matter was referred to State Government (October 2009); reply is awaited (March 2010).

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

2.12 Embezzlement of Government funds

Failure of internal control mechanism by the Medical Officer, Primary Health Centre, Bangalore City Civil Court, Bangalore (Urban) district led to embezzlement of Government funds of Rs.1.02 lakh

According to Rule 118A of Karnataka Civil Services Rules, the authority competent to grant leave shall *suo-motu* issue an order granting cash equivalent to leave salary for the earned leave at credit of the government servant on attaining the age of retirement. The Medical Officer (MO) being the Drawing and Disbursing Officer (DDO) shall submit a bill to the treasury enclosing the said order for obtaining a cheque for disbursement to the retired official. The DDO should ensure disbursement to the official after obtaining dated acknowledgement as stipulated in Article 52 of Karnataka Financial Code (KFC). Audit Scrutiny (May 2009) revealed that a Group 'D' employee retired from service (February 2008) and the MO, Primary Health Centre (PHC), Bangalore City Civil Court, Bangalore (Urban) district preferred leave encashment claim of Rs.0.85 lakh in March 2008. The Pharmacist (in-charge Cashier) of the PHC did not disburse the amount to the retired official and embezzled the amount drawn. Later, the claim was again preferred in September 2008 for Rs.0.89 lakh of which only Rs.0.72 lakh was disbursed to the official. Audit observed that MO failed to exercise the following internal control mechanism leading to embezzlement of government funds of Rs. 1.02 lakh.

- **Day to-day receipts and expenditure were not watched and MO did not attest entries in the cash book daily as required under Article 329(ii) of KFC;**

- **Disbursements were made without obtaining dated acknowledgement;**
- **Cash Book entries were not reconciled with treasury schedules;**
- **Certificate to the effect that the claims were not drawn earlier was issued in a routine manner without any verification;**
- **Sanction orders of leave encashment were not watched due to which sanction for leave encashment benefit was accorded on both the occasions by the MO.**

On being pointed out by Audit, the balance amount of Rs.0.13 lakh was disbursed (May 2009) and the funds drawn (Rs.0.89 lakh) were remitted back (May 2009) to Government Account. The State Government confirmed (September 2009) the embezzlement of Government funds by the official.

GENERAL

2.13 Double Entry Accounting System in Grama Panchayats

The State Government enacted the Karnataka Panchayat Raj (KPR) (Grama Panchayats (GPs) Budgeting and Accounting) Rules, 2006 which provided for mandatory preparation of accounts based on the Double Entry Accounting System (DEAS) in GPs on accrual basis with effect from April 2007. The State Government decided (July 2007) to avail of the services of Chartered Accountant (CA) firms to introduce DEAS in GPs. These CA firms were accordingly engaged (October-December 2007) in all the districts for a remuneration of about Rs.2,000 per month per GP. Payments to CA firms were to be made from GP's development grants/twelfth finance commission grants/GP's own funds. The CA firms were required to undergo training to enable preparation of accounts in the prescribed formats of KPR Rules. The State Government was to develop the accounting software by December 2007 so that the GPs shift from single entry system to DEAS. The CAs were to train the GP staff in the software developed and ensure preparation of the accounts in DEAS for the year 2008-09 with the assistance of CAs and independently from 2009-10 onwards. However, the State Government is yet (December 2009) to develop suitable accounting software enabling GPs to prepare accounts in DEAS uniformly.

2.14 Follow-up action on Audit Reports

According to the Hand Book of Instructions for speedy settlement of audit observations *etc*., issued by the Finance Department and the Rules of Procedure (Internal Working) of the Public Accounts Committee, the departments of State Government should prepare and forward to Karnataka Legislative Assembly Secretariat, detailed explanations in the form of Action Taken Notes (ATNs) on the paragraphs/reviews featured in the Reports of the Comptroller and Auditor General of India within four months of the presentation of the Reports in the Legislature, duly getting the ATNs vetted by Audit.

ATNs have, however, not been received by Audit for 43 paragraphs even as of January 2010. The department-wise position of pendency is furnished in **Appendix 2.5.** The details of presentation of the Reports of the Comptroller and Auditor General of India (Panchayat Raj Institutions) to the State Legislature and ATNs due are given in Table 2.21 below:

Table 2.21: Details of presentation of Reports to State Legislature

Audit Report for the year ending	Month and year of presentation to the Legislature	Number of ATNs due
2006	July 2007	14
2007	July 2008	15
2008	July 2009	14

While the above Reports presented to the State Legislature featured audit comments noticed during the review of implementation of various schemes and serious irregularities like misappropriation of funds/stores, delay in completion of schemes/buildings leading to idle investments, unfruitful/irregular/wasteful expenditure *etc*., the State Government had not communicated (January 2010) details of action taken to plug the loop holes in the system that led to these financial improprieties. The departments concerned need to be instructed to forward the ATNs on the paragraphs/reviews featured in these Audit Reports to the Karnataka Legislature without undue delay.

2.15 Poor response to Inspection Reports

The Karnataka Zilla Panchayat (Finance and Accounts) Rules stipulate that Head of the Departments/Drawing and Disbursing Officers of the Zilla Panchayat (ZPs) shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for

expeditious settlement of audit objections lies with Chief Executive Officer of ZPs. Despite Ad-hoc Committee meetings being held regularly, 4,042 Inspection Reports consisting of 15,295 paragraphs were outstanding in various ZPs, as of March 2009. During the year 2008-09, 3,294 paragraphs were cleared in 25 Ad-hoc Committee meetings held. Year-wise details of reports and paragraphs outstanding in respect of all the ZPs are detailed in **Appendix 2.6**. Out of the Inspection Reports outstanding, 2,429 (60 *per cent*) reports containing 6,958 (45 *per cent*) paragraphs were pending for more than five years, indicating that the action taken by the CEOs for settlement of objections was not adequate.

BANGALORE **(D.J. BHADRA)**
The **Principal Accountant General**
(Civil and Commercial Audit)

COUNTERSIGNED

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**