

An Assessment of Criteria for Block Grants and Current Practices and Capacity of Gram Panchayats

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Abbreviations

AA	Second Division Accounts Assistant
ANSSIRD	Abdul Nasir Saab State Institute for Rural Development
BRS	Bank Reconciliation Statement
CDP	Comprehensive Development Plan
CAG	Comptroller and Auditor General
CA	Chartered Accountant
DHDR	District Human Development Report
DEAS	Double Entry Accounting System (DEAS)
DCB	Demand Collection Balance
DEO	Data Entry Operator
GP	Gram Panchayat
HPCRRI	High Power Committee for Redressal of Regional Imbalances
IMR	Infant Mortality Rate
KGSP	Karnataka Gram Swaraj Project
KSAD	Karnataka State Accounts Department
LAC	Local Audit Circle
MMR	Maternal Mortality Rate
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
OSR	Own Source Revenue
PDO	Panchayat Development Officer
RDPR	Rural Development and Panchayat Raj
RDO	Rural Development Officer
RFD	Results Framework Document
SATCOM	Satellite based Communication (SATCOM),
SGIKP	Strengthening Governance and Inclusion in Karnataka Panchayats
SBM	Swacch Bharat Mission
TRC	Taluk Resource Centres

An Assessment of Criteria for Block Grants and Current Practices and Capacity of Gram Panchayats

1. Background

Karnataka has been a pioneer in decentralisation. Despite many progressive measures, it is seen that the Gram Panchayats (GPs), which are in the forefront of local government, lack resources to deliver services of required quantity and quality. Not only is their capacity to raise revenues constrained by many factors, but also the few resources made available to them come in the form of tied transfers. As a result, local priorities and the local self governance are largely compromised. As it will be difficult for the Government of Karnataka to fully finance the needs of GPs, estimated at around 1 billion US dollars¹, there is an urgent need for the increasing OSR, better accounting and financial management as well as enhancing the capacities of elected representatives and officials of the GPs.

Karnataka Gram Swaraj Project² (KGSP) was initiated in 2006 to advance Government of Karnataka's initiative to strengthen the decentralisation process and to improve capacities of local governments to deliver services to the people. KGSP was the first pioneering decentralisation project in the entire South Asia. This was built upon the World Bank's India Country Strategy (2001-2004) which highlighted the need for improving effectiveness of government programmes through decentralisation and accelerating pro-poor rural development through more effective delivery mechanisms. The country strategy (2005-2008) envisaged increase in volume of lending for community driven rural programs.

KGSP's Project Development Objective (PDO) was to *'improve the effectiveness of the service delivery by Karnataka's Gram Panchayats particularly with respect to the management of public resources and the delivery of relevant services that rural people prioritize'*. The project was implemented in the 1341 GPs of the 39 most backward taluks of Karnataka. The project started in April 2006 and ended in March 2014³ with an investment of US \$ 133.33 million of which US \$ 120 million was assistance from World Bank and the rest by Government of Karnataka.

The project was implemented by way of providing

- a. Block grants to 1341 GPs for a period of 5 years;
- b. Building information systems for constituents (GPs);
- c. Building capacities of GPs; and

¹ Implementation and Completion Report of Karnataka Panchayat Strengthening Project - <http://www-wds.worldbank.org>

² Karnataka Gram Swaraj Project is the local name used for World Bank funded Karnataka Panchayat Strengthening Project

³ The project was intended to be 5 years but extended later by restructuring assistance.

d. Building capacities of State

While the block grants were released to GPs, funds for the other components like building information systems and capacity building were released to Abdul Nasir Sab State Institute for Rural Development (ANSSIRD) and other agencies. The capacity building at the state included the creation of Decentralisation Analysis Cell (DAC⁴). The capacity building was also attempted by way of construction of Taluk Resource Centres (TRC), establishment of satellite based communication facilities (SATCOM), and conducting capacity building programmes for officials, elected representatives and local civil society organisations in resource mobilisation, participatory planning, budgeting and financial management, Panchatantra (accounting and information system of GPs).

The block grants to GPs was decided to be based on the following criteria⁵

Year	Criteria
I year (2006-07)	Based on population, area, literacy and SC/ST population
II Year (2007-08)	60 percent of block grants were distributed equally to all GPs, while the remaining 40 percent was based on total population and SC/ST population with 50 percent weights for each.
III year onwards	Based on performance indicators decided by DAC (fiscal, institutional governance and social indicators with 25 percent, 49 percent and 26 percent weights respectively

However, the criterion for the third year onwards was not followed and the criteria for second year continued for the rest of project period.

The block grant for each GP was around Rs 8.5 lakhs per year and around Rs. 43.5 lakhs for a period of over 5 year period⁶. The block grants were provided with the objective of enabling GPs to incur expenditure on areas reserved for GPs under activity mapping, through participatory planning and budgeting. The financial management of the GPs was also to be improved by adoption of improved accounting practices and, timely audit and preparation of reports. The block grant was also subject to adherence to criteria⁷ that demonstrated participative planning and better financial management.

Important outputs expected of the project were higher investments to improve delivery of services and social indicators. The key outcomes were related to improvement in local planning and financial management practices; increase in the OSR generation; improved

⁴ DAC- Decentralisation Analysis Cell- created under the KGSP within the Department of Rural Development and Panchayat Raj, Government of Karnataka

⁵ CAG report local bodies(2010), Karnataka

⁶ Report on outcome indicator of GSP 30th June 2012- a DAC study

⁷ Eligibility criteria for the releases of block grant to GPs under GSP: - 1) 70% & above expenditure made against the previous releases and furnished UCs, 2) Audit for the fiscal year, 3) All accounts of GPs completed by CA firm, 4) Internal audit compliance, 5) followed GoKs planning guidelines, 6) continuously gram sabha held with open participation and 7) publicly displayed FM and Procurement information.

participatory planning and better targeting of poor; and improved monitoring and delivery of key services to the people.

It was observed that implementation of KGSP resulted in preparation of perspective plans of GPs, improved financial management and auditing practices, enhanced OSR and disclosure of financial of information to ward/gram sabhas and at GP offices⁸.

Encouraged by the successes of the KGSP, the Government of Karnataka with the assistance of World Bank is initiating the second phase of the KGSP which is Strengthening Governance and Inclusion in Karnataka Panchayats (SGIKP) at a cost of US \$ 318 million over a period of 6 years starting from January 2016. The loan component of the project amounts to US \$ 223 million while the borrower's (Government of Karnataka) share is \$95 million. The PDO of SGIKP is to '*improve the inclusiveness of management of public resources and delivery of priority services to rural citizens in targeted areas*'. In this project too, the provision of providing the block grant to target GPs (2585 GPs in 79 taluks covering 25 districts –of which 1341 GPs in 39 *most backward taluks* and 1244 GPs in 40 *more backward taluks*) is envisaged. However, the criteria for providing the grant to GPs has been changed from formula driven basic grant alone to basic grant and an incentive/ performance grant with weights of 80 percent and 20 percent respectively.

The first objective of the SGKIP is to improve the targeting of GP expenditure by providing block grant to activities and services listed in GP Comprehensive Development Plan (CDP) and budget which is developed in a participatory process. The other objective is to strengthen the capacities of PRIs by effectively using the SATCOM studios. The project also intends to strengthen the monitoring system for participatory planning; help GPs to prepare perspective plans; strengthen Panchatantra for better monitoring of finances and audit; and improve information system, asset mapping and decision support system. Incorporation of DAC into RDPR and introduction of Rural Development Officers (RDOs) who can be link between GPs and Taluk Panchayats are other institutional changes proposed under the project.

The SGIKP imposes the following Minimum Mandatory Conditions (MMCs) as eligibility criteria for providing block grant to GP:

- a. GPs to utilise at least 70 percent of the project grants;
- b. report at least 50 percent of the grants on Panchatantra;
- c. revise Annual Action Plans (AAPs) based on discussions in ward sabha and approved by Gram Sabha.

The performance grant under the project is to be based on fiscal performance, governance and social performance indicators.

⁸ Implementation and Completion Report of Karnataka Panchayat Strengthening Project. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/10/03/000470435_20141003095332/Rendered/INDEX/ICR31800P0788320Box385328B00OUO090.txt

In this connection, the World Bank has invited Centre for Budget and Policy Studies (CBPS), Bengaluru to do an assessment of current practices and capacities of Gram Panchayats in Karnataka.

2. Objectives of the Study

The objectives of the study are

- a) To assess the appropriateness of using the 3rd SFC formula (or the latest SFC) for providing block grants under the project.
- b) To propose what should be the parameters of the block grant formula for the Second Gram Swaraj project. How it should be measured and monitored under the proposed second loan? How often the formula should change/revised and develop some indicators for monitoring the block grant disbursement and use (as Minimum Mandatory Conditions)?
- c) To assess the impact of recent announcement of 14th FC award on the most and more backward taluks or project GPs
- d) To assess the current status of budgetary reforms (existence of budget manuals, operational manuals, etc.) and financial management reforms at the GP level keeping in mind the project GPs.
- e) To assess in a sample of GPs what is the current capacity in accounting and auditing. How has Panchatantra helped in this regard? What are the gaps that need to be filled?
- f) To assess the frequency of data compilation and reporting and the lags as per the KN PRI ACT in fulfilling /reaching the norms in producing the financial data
- g) To develop a format of an Annual Financial Statement that can be provided to the GPs at the time of developing participatory plans under the project.

3. Methodology of the Study

The study involved desk review of the existing literature with respect to finances of Gram Panchayats (GPs) in Karnataka. The desk review was undertaken for assessment of the appropriateness of the 3rd SFC formula, assessing the likely impact of 14th FC award on GPs and also to understand the accounting and budgeting practices to be followed at GP level. The assessment of current status of budgetary reforms, capacities in accounting and auditing, use of Panchatantra, frequency of data compilation and reporting as per Karnataka Panchayat Raj Act were done by visiting five Gram Panchayats(GPs) each in the districts of Udipi and Bidar.

Udipi and Bidar districts represent two different scenarios in terms of the economy. While Udipi is progressive district with higher degree of service sector, Bidar is far behind Udipi being largely agriculture oriented. This also gets reflected in the development schemes being implemented in each of these places and collection of own

source revenue (OSR) by GPs which have an impact on the functioning and accounting of the GPs.

After reviewing the GP budgeting and accounting rules 2006 and Panchatantra manual, the instruments for field survey was developed and piloted in a GP in Bengaluru Rural district. The finalized survey instruments were used in visits to five GPs each in the districts of Udupi and Bidar districts. The survey instruments were filled by conducting personal interviews with the Panchayat Development Officer (PDO), Secretary, Accounts Assistant /Data entry operators and clerks.

The field visits also covered the visit to Taluk Panchayat and Assistant Controller's (Local Audit Circle) office to understand their role in supervising the GP accounting and budgeting practices. Audit reports of GP (audited by Local Audit Circle (LAC)) were also used for the understanding of the accounting and budgeting practices at GP.

4. Findings of the Study

4.1 Decentralisation in India and Karnataka

Decentralisation experiments which started during the British period reached culmination with the creation of third tier governments in free India. The Royal Commission on Decentralisation made important recommendations in 1905⁹, and some of them were implemented, bringing into existence 'local self government' in many parts of India. This was not a democratically body, but nevertheless brought into focus the notion of self governance¹⁰.

Improving the conditions of life in rural India was a priority from the 1950s, when a newly independent nation set itself ambitious goals. One of the important initiatives in this context was the Community Development Programme, led by S.K De. It was under this programme that development administrative machinery was set up across the country, with offices like the Block Development Officer, village worker, etc, being put in place. The focus of local administration, under the District Collector [later Deputy Commissioner] changed from revenue collection, dispute resolution and maintenance of law and order to implementing development works in irrigation, roads, etc. This was reviewed in 1957 by the Balwant Rai Mehta Committee, which made far reaching recommendations for a tiered electoral form of local self governance. At the village level panchayats were to be elected. The head of the village panchayat was to be part of the higher level block/taluk panchayat, from among whom representatives would be sent to the district panchayat. This was adopted in many states of India.

⁹ <http://www.worldbank.org/publicsector/civilservice/june2004seminar/RuralDecent.pdf>

¹⁰ Vinod Vyasulu, Panchayats, Democracy and Development Rawat, Jaipur, 2000

This was not implemented for the lack of the political consensus. Again in 1980s, convinced that local government was essential for the effective implementation of rural development schemes, an attempt was made under Prime Minister Rajiv Gandhi to provide statutory status to the local governments through 67th Constitutional Amendment which was defeated in Rajya Sabha. In 1993, the 73rd and 74th Amendments to the Constitution were finally passed which led to creation of PRIs (three tiers) and Urban Local Bodies (ULBs) across the country which added the third tier of government to the existing Union and State governments. All the states were required to pass the legislation in the state in accordance with the Constitutional Amendment within one year of Amendment.

Constitutional Amendments, however, left the scope of decentralisation to state government in so far as devolution of funds and functionaries were concerned. The important features of the Amendment included holding of elections to PRIs and ULBs every five years, reservation for women and SC/ST and constitution of State Finance Commission to recommend the share of PRIs and ULBs in the revenues of the state. The Constitutional Amendments listed 29 functions to be devolved to PRIs and 18 functions to be devolved to ULBs by the state governments. While the Amendment listed the functions to be devolved to the third tier governments (PRIs and ULBs), the sources of funds and the functionaries for these governments were not similarly detailed. Thus the Constitutional Amendments left the scope of decentralisation to the state governments to suit their needs. It also gave the framework to determine the functions that can be performed best at each level so that the devolution can be effective and also to decide upon devolution of suitable tax bases to PRIs.

Karnataka pioneered the decentralisation efforts in the country during 1980s by creating two tier PRIs and devolving funds for them by creating a separate window in the state budgets. Karnataka passed Panchayats Act in 1983 much before the Constitutional Amendments mandated it. The Act provided for an elected ‘Mandal’ panchayat which had a population of around 20,000 and was considered to be large enough to be viable, raise resources, and yet be close to the people. It was at this level that development schemes were implemented. Above this was the Zilla Parishad, an elected body, in which the elected President was the Executive head with minister of state rank. This law made a provision of 25 percent reservation for women—the first ever such in India. To assist the ZP President in administration, provision was made for a Chief Secretary of the ZP, an officer of the IAS senior to the Deputy Commissioner. The ACR of this officer was to be written by the ZP President. Financial powers were devolved to the Zilla Parishad, and it was at this time that the budgetary innovation of the ‘link documents’ was brought in to provide clarity about allocations to the district. The manner in which the State’s resources were to be shared was determined by the Finance Commission chaired by Dr R.M Honnavar.

Karnataka amended the Act in conformity with the Constitutional Amendment and created PRIs (3 tier) and devolved all 29 functions. Again after the 73rd and 74th Constitutional Amendments in the year 1993, Karnataka was the first state that amended the Act in conformity with the Constitutional Amendment and it has passed on all the 29 functions in the 11th Schedule to PRIs. Karnataka has also undertaken the activity mapping of these functions of PRIs which indicate what level of PRI can perform which function/part of function listed in 11th schedule.

However, while passing legislation in compliance with the CAs, Karnataka Government chose to abandon this two tier system and opt for the three tier system proposed by the CAs. Compared to the earlier experiment, while it met constitutional requirements, it made local self governments considerably weaker. It took away the powers of the ZP President and vested them in an officer designated as Chief Executive Officer. It continued to use the fund flow system designed earlier, but now without a local voice. It made the gram panchayats smaller in size than the erstwhile Mandal Panchayat, roughly of about a population of 5000 per GP.

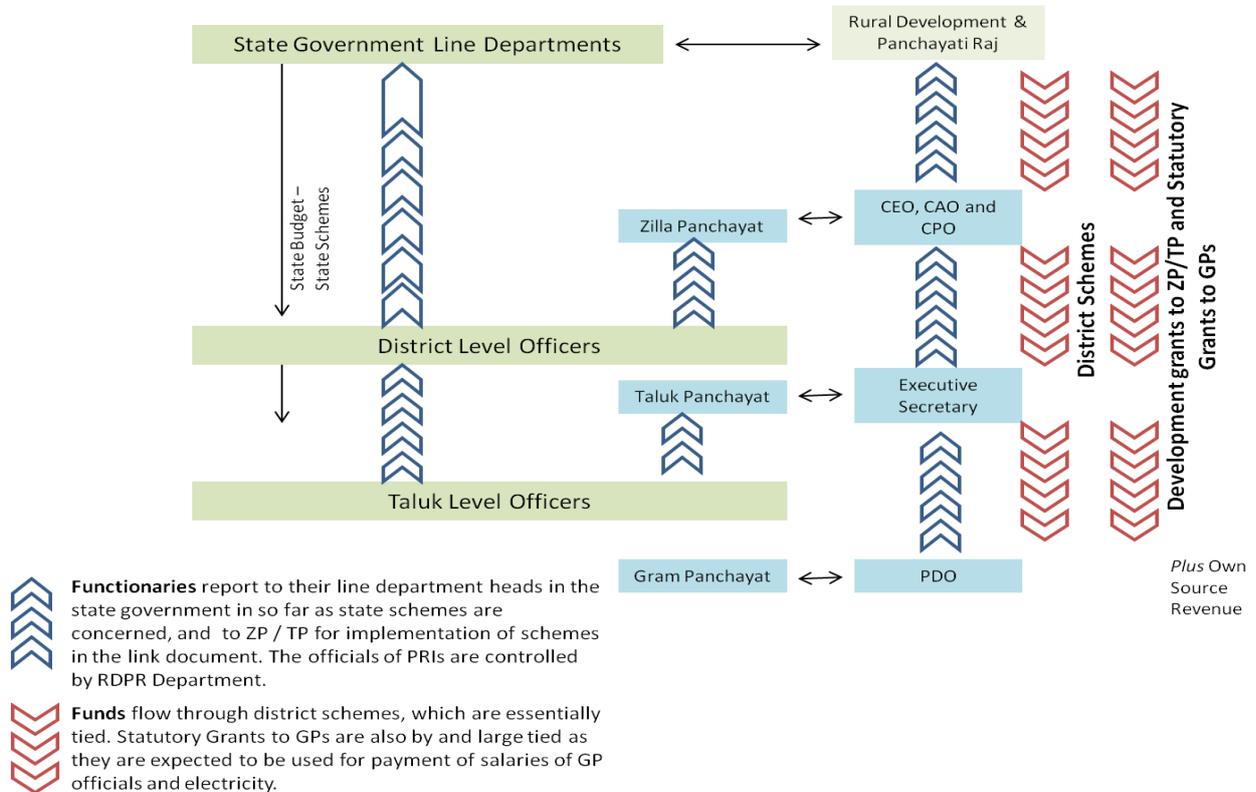
4.2 Devolution of Funds to PRIs in Karnataka

Statutory status of PRIs emphasised the devolution of funds by way of grants and taxation powers as their due to perform their functions by functionaries. With the statutory status to PRIs, the devolution of functions, functionaries and funds or popularly referred to as 3Fs attained more significance. The devolution concept emphasised that the funds to perform functions at different PRI levels by the functionaries were due to them and utilizing the funds to meet local needs was their responsibility. The funds to PRIs are devolved by way of grants as well as powers of taxation; the latter is mostly at the lowest level of PRIs i.e. gram panchayats.

Funds to PRIs are largely tied either by schemes or by prescribed end use such as payment of salaries and establishment costs while the statutory grants and central finance commission grants are untied in nature. The devolution to PRIs is separately indicated in the state budget which is popularly referred to as the 'Link Document'. The allocations are indicated under each of the budget head as well as under the different tiers of PRIs. The Zilla Panchayat (ZP), Taluk Panchayat (TP) and Gram Panchayat (GP) are given grants for carrying out the functions through the functionaries devolved to them. The expenditure through link documents is referred as district sector schemes while the schemes/funds that are spent in the district and are managed directly by the state government are referred as state sector schemes.

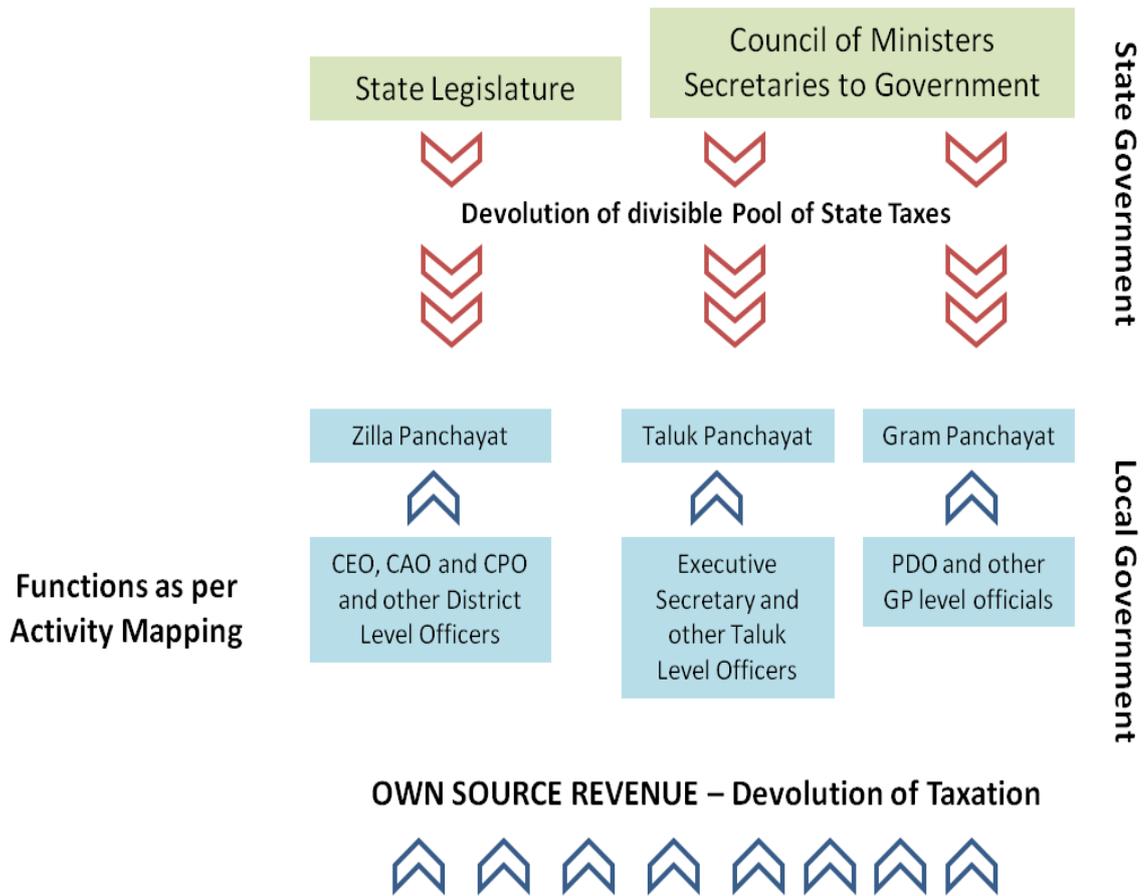
The grants from the state also cover the cost of salaries of functionaries of various development departments under PRIs. Most of the grants to PRIs are tied to prescribed purposes. Apart from these tied grants the development grants/statutory grants are given to PRIs which are untied in nature to be used for developmental purposes as deemed fit

by the respective local government. The ZP and TP do not have any tax bases and only GP is given the powers of taxation for its suitability in levying and collection of local taxes. The grants from Government of India are through schemes, salaries (DRDA establishment charges) and finance commission grants which are untied in nature.



Although the 73rd and 74th Constitutional Amendments envisaged ushering in a local government at the third tier, the ‘government’ at the third level is a shadow of the state government. Firstly, as shown in diagram above, there are no independent PRI functionaries as the state government functionaries also carry out PRI function. Even those working with PRIs such as CEO, CAO, Taluk Panchayat Executive Secretary and GP PDO are controlled by RDPR Department as far as their postings and transfers are concerned. Secondly, the devolution of funds is mostly tied with PRIs having no control over their application.

The third tier of government to be effective should have complete control over their resources – both funds and functionaries with clear cut responsibilities for delivery of public services with no overlaps across any of the Fs – functions, functionaries and funds as shown in diagram below.



4.3 State Finance Commission and Central Finance Commission grants

Karnataka SFC recommended the sharing of revenue receipts of the state with PRI and ULBs considering the revenue buoyancy of the state while the sharing between PRIs and ULBs was based on criteria. As mentioned above, funds to PRIs flow through two main channels viz. the district schemes and grants. The former are basically tied to the scheme guidelines. The grants, commonly known as block grants, come in two forms – *development grants* to ZPs and TPs and *statutory grants* to GPs. The development grants for ZP and TP as well as the statutory grants to GP are decided by the state government based on the recommendations of the State Finance Commission (SFC). Karnataka had constituted three SFCs till date and the last one submitted the report in December 2008. The SFC looks into the revenues of the state and recommends the state for sharing its revenues - Non Loan Net Revenue Receipts (NLNRR) with the PRIs and ULBs of the state. The share of PRIs has been around 29-30 percent of the NLNRR of the state while that of ULBs in the range of 6 - 6.5 percent of NLNRR. While the SFC considers the functions of PRIs and as well as the buoyancy of state revenue to recommend the share of NLNRR to PRIs and ULBs, the distribution between the PRIs and ULBs is decided by following certain criteria (Table 1).

Table 1: Criteria adopted by SFCs to indicate share of state resources between PRIs and ULBs

First SFC	Second SFC	Third SFC
Population	Population	Population
Area	Area	Geographical Area
Illiteracy	Illiteracy	Illiteracy
No. of persons/hospital bed	No. of persons/hospital bed	No. of persons/hospital bed
Road Length	SC and ST Population	SCs and STs Population
		Density of Population

The criteria adopted by CFCs starting from Tenth Finance Commission for sharing the funds recommended for PRIs and ULBs across states was largely based on population and area while the sharing among PRIs and ULBs within a state was to be determined based on SFC recommendations. The CFC starting from Tenth Finance Commission has been devolving the funds from the divisible pool to PRIs and ULBs across different states of the country based on certain criteria. While the Tenth Finance Commission used only population as criterion for devolution, subsequent CFCs used other parameters as well (Table 2). Population and area have had higher weights while the others have had fewer weights. The Fourteenth Finance Commission has used only population and area as the criteria for the devolution to PRIs and ULBs across the states with 90 percent and 10 percent weights respectively. All CFCs arrived at a calculated sum of devolution recommended for PRIs and ULBs to be distributed across the states. Performance grants were introduced under Thirteenth CFC and Fourteenth CFC while the previous CFCs stipulated schemes and improvement of service delivery as the conditions.

Table 2: Criteria adopted by CFCs to indicate share of GOI resources (fixed) across states (for PRIs and ULBs)

Eleventh FC	Twelfth FC	Thirteenth FC
Population	Population	Population
Area	Area	Area
Distance from highest Percapita income	Distance from highest Percapita income	Distance from highest Percapita income
Revenue effort	Revenue effort	Index of decentralisation
Index of decentralisation	Index of deprivation	Local body grant utilisation index
SC/ST Population		
Local body grant utilisation index		

4.4. Examination of criteria for devolution of Block Grants to GPs

4.4.1 Block Grants and their Criteria

Block (untied) grant is a means to augment resources of gram panchayats to address their developmental needs. Finding fair and practical criteria for devolving block grants to GPs is a key challenge. Need and performance are the two major criteria for devolving block grants. The ‘need’ has many dimensions; it could be based on deficit in service provision i.e. number of households without piped treated water supply; number of

streets without lights; It could be deficit in social development – low literacy, high out-of-school children, poor health, etc. or deficit in economic development – poor income earning opportunities, poor agricultural productivity, etc. Some of these needs are met by centrally sponsored and state schemes, and a small portion from GP's own source revenue. Others are met by block grants.

Statutory or block grant is an untied grant for Gram Panchayats to address their local developmental needs. The criteria should take care of the needs of the GPs as well as the activities undertaken by the GPs. This should also be easy to determine and use.

Fourteenth Finance Commission used only population and area as the criteria for giving basic grants (90 percent) and submission of audit reports to GOI as the criterion for performance grants (10 percent). The Karnataka SFC used criteria of population and backwardness of the taluk for recommending the statutory grants and additional statutory grants respectively. The statutory grant was recommended based on *population* as criteria. The GPs with population below 4000, 4000-8000 and more than 8000 were to receive statutory grants of Rs 9 lakh, Rs 12 lakh and Rs 15 lakh per year respectively. The additional statutory grant was recommended based on *backwardness of the taluk* as the criteria. The GPs of backward, more backward and most backward were recommended to be given Rs. 1 lakh, Rs. 2 lakh and Rs. 3 lakh per year respectively.

An incentive grant to GP (Rs 3 lakh per year) was based on *annual performance with respect to 5 parameters* with equal weights (20 percent) which included own tax mobilisation (>75 percent collection against demand), collection of water charges (>75 percent collection against demand), listing of properties and providing satisfactory civic amenities, extent of coverage of sanitary facilities (10 percent of individual households provided with sanitary latrines) and computerisation leading to website. Thus the criteria adopted for recommending grants to GP include population of GP, backwardness of taluk and performance with respect to 5 parameters.

4.4.2. Issues with the criteria

By and large, finance commissions (both the central and the state) have used population, area and backwardness (some proxy indicators such as proportion of SC/ST population, literacy, road length, etc.). Even KGSP used population, area, literacy and SC/ST population as criteria for distributing block grants under the project. Since it was not spread across all GPs, selection of GPs was based on backwardness – 1341 GPs of the 39 most backward taluks of Karnataka. In Phase II of GSP also it is proposed to provide block grants to GPs (2585 GPs in 79 taluks covering 25 districts – of which 1341 GPs in 39 *most backward taluks* and 1244 GPs in 40 *more backward taluks*). The question is - are these criteria satisfactory?

Population and Area: Population and area are relevant criteria as they indicate the requirement – larger the area or / and population greater the need for resources.

However, using the population range that has been used by 3rd SFC in 2007-08 (based on 2001 census based projections for 2007-08) would be inappropriate now. After the census 2011 and before the elections for GPs during May 2015, many GPs have been reconstituted owing to upgradation of few GP headquarters into Town Panchayats. The number of GPs as on today stands at 5837 as per the records of the Karnataka State Election Commission¹¹. The population ranges used for recommending statutory grants also needs a re-examination. The use of area is similarly very important and does signify the scale of needs of the GP. However, core village (Grama Tana) become more important for services in the GPs rather than the entire area of GP.

Backwardness of the taluk: Backwardness of taluk was estimated by HPCRRI in 2002 using 35 indicators which are largely influenced by interventions of State government at taluk level. The indicators were broadly divided into 5 categories viz., Agricultural and Allied, Industry, Trade and Finance, Infrastructure (economic), Infrastructure (social) and Population characteristics. This was meant to be guide policy decisions taking *taluk as a basic unit*. Considering taluk as a unit for planning is justified given that data on backwardness is available only at that level and not disaggregated to level below. However, this leads to two problems: a) it ignores intra-Taluk differences in backwardness; that is, there could be relatively developed GPs within a backward taluk; b) determining the grants on the basis of backwardness makes little sense when the GPs have very little or no influence over changing their backwardness. To illustrate, a GP cannot influence any of the social development indicators such as literacy, IMR, MMR, number of hospital beds, number of doctors, number of teachers and economic development indicators such as post offices, road length, banks, railway track, etc which indicate level of development (or conversely backwardness) *simply because they do not fall under its remit*.

Using ‘backwardness’ as a criterion assumes that a backward GP is also otherwise poor in respect of delivery of public services which it is supposed to deliver. For instance such a GP would have poor street lighting, poor drinking water supply, etc. This may be largely true, but should the basis on which the grant is given and its application not be related in some way so that over a period of time one could see a change in the base line status? If the funds are provided based on state of services for which GP is responsible, it would be possible to see a possible positive change in them over years. When funds are provided on status of services which GP does not control, it is possible that the GP would continue to be ‘backward’, while provision of its own services might have improved.

Understanding the functioning of GP is important to identify parameters that can be influenced by expenditures incurred by them. While it is important to taluk level backwardness for initial filtering of GPs, it is equally important that the role and

¹¹ <http://karsec.gov.in/gram%20panchayat/Grama%20Panchayat-2015/Result.pdf>

responsibilities of GP are taken into account while deciding the block grant. For instance, the SDMC, VHSC/VHSNC and anganwadi are largely run by the departments. The coordination of these parallel bodies with GP is yet to happen. GPs without any clear role in education and health (other than coordinating with parallel structures) are left with roads within GP, street lighting and water supply as their main work given that the creation of economic opportunities, formation of connecting roads to GP from taluk and transport is not in their ambit.

Our studies at GP level indicate the critical input of roads and transport by the state that has a strong influence on socio economic infrastructure and socio economic indicators. Our studies at GP level (OSR and other studies) indicate that access to healthcare (reaching hospital by patients as well as the doctors/health service personnel) and education (reaching the school by teachers/students) is influenced by availability of all-weather roads and reliable transport. The number of vacant posts is a good indicator of the same- remote places have more vacancies. Even the economic activity (including job market) at GP is significantly influenced by access to market (taluk level/sub taluk-hobli level) which is again dependent on roads and transport. The roads and transport has significant bearing on the functioning of GP¹² by way of the ease for officials and elected representatives to reach the office. This assumes even greater significance with more women in GPs as elected representative and as officials than ever before. Thus, it is imperative that the role of State government in providing all weather roads to GP and improving transport facilities are crucial to improvement of many socio economic indicators at GP level (apart from filling up of vacant posts). This can complement the GP development grants and increase the efficacy of GP development grants.

Learnings from KGSP

Review of project by DAC indicated that the increase in tax revenue was due to better audit compliance and monitoring and not by way of increasing in tax rates. The same is also observed by the CAG in its report in 2010. In terms of improving social indicators like enrolment ratio, the funds had no effect. More than 80 percent of the expenditure was done on roads and water supply which indicates the existing gap of basic infrastructure and the demand for the same.

4.5. Impact of Fourteenth Finance Commission (FFC) Recommendations

FFC has recommended for Grants only to GPs and Municipalities starting from the year 2014-15. The Zilla Panchayats and the Taluk Panchayats are kept out of the FFC grants. The grants to GPs and Municipalities are to be given as basic grants and performance grants. Basic grants constituting 90 percent of the grant would be based on area and

¹² CBPS study of OSR found that a GP in Gangavathi Taluk of Koppal district was functioning to the timings of the bus transport as the PDO would travel from the taluk every day

population while the 10 percent performance grant is based on production of audited accounts and increase in own source revenues. The performance grants will be from 2016-17 for which audited accounts of the year 2014-15 have to be sent before March 2016 to GOI. The grants to be released in 2 instalments in June and October months with 50 percent of basic grant released in June and remaining 50 percent of basic grant along with performance grant in October. FFC also clearly stipulates that the grants be spent on basic services only. Thus the 14th FC recommendations do not consider the backwardness of taluk and is only dependent on area and population of GP based on 2011 census.

There is a big quantum jump in the grants to GPs (PRIs) awarded by 14th FC. The grants increased from Rs. 63,051 crore to Rs. 200,292 crore¹³ recording an increase of 217 percent over the grants recommended by 13th FC. This would translate into an annual grant of Rs 5 lakh to 25 lakh depending upon the population and size of the GP.

Table 3: Proposed devolutions to PRIs and ULBs in 2015-16 (Rs. in Crore)¹⁴

	2013-14 AE		2014-15 RE		2015-16 BE	
	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
ULBs	2150.39	2870.05	2665.70	4201.98	2398.57	4150.35
PRIs	7169.41	13340.77	10624.65	16510.31	11327.71	15248.10
Total	9319.80	16210.82	13290.25	20712.28	13726.28	19398.45
Total		25530.62		34002.63		33124.73

The FFC grants to ULBs for the year 2015-16 is 562.08 crore and that of the GPs (since only GPs are being awarded with grants and not TPs and ZPs) is Rs.1002.2 crore. **However the examination of the state budget documents indicates that the FFC grants of Rs. 100.28 crore, Rs. 200.57 crore and Rs. 702 crore are distributed to ZP, TP and GP respectively instead of entire Rs 1002.2 crore to GPs.** The decrease in the allocation to GPs will result in lower funds for developmental expenditure. The performance grants which require the auditing of the accounts for the year 2014-15 would be missed by those GPs which do not get their accounts audited and send it to GOI by March 2016.

4.6. Budgetary reforms and financial management reforms at GP level

4.6.1 General Characteristics of the Sample GPs

The general characteristics of the GPs provide the necessary background for interpreting the financial management and accounting practices in a better manner. This includes the presence of officials (like PDO, Secretary, Second Division Accounts Assistant and Data Entry Operator), roads and transport facilities, availability of computers and internet connectivity, important schemes and focus of GP, wage rates in agriculture and non

¹³ Fourteenth Finance Commission Report

¹⁴ Government of Karnataka budget –AFS and overview of Budget 2015-16

agricultural activity which in turn influences the implementation of schemes like MGNREGA, prevalence of audit and payment to the GP employees.

Bidar

The sample GPs were away from the taluk head quarters (12-23 km). While roads are present, transport facilities are inadequate (2-3 trips/day). PDOs depend on the two wheelers to get to office from the taluk place. All the GPs had Panchayat Development Officers (PDO) in place. Computers were present with power back up and internet connectivity though there was complaint about the insufficient power back up in the light of severe power cuts (6 hrs power cut which was intermittent). The GP activities are largely dependent on PDO and data entry operator (DEO). The elected members were not aware of the financial processes like the budget. The second division accounts assistant (AA) were found to be less informed on accounts and budgets. The audit of GPs by chartered accountant (concurrent audit) once in 3 months as well as the regular audit by a chartered accountant firm (@ Rs2000/month) has been stopped from the current year¹⁵. The audit is conducted only by LAC. The GP employees were paid an average monthly remuneration of Rs 3000. The own source revenue (OSR) generation is not given its due priority. The property tax rates are charged on the basis of area while the water rates are uniform for all connections. The housing schemes (Basava Vasathi, Indira Awas Yojna), Swacch Bharat Mission (toilet construction) and MGNREGA (employment guarantee scheme) were the main focus of the GPs. Providing ration cards through online registering is another important activity that was under process in the sample GPs. Given that the wage rates under MGNREGA is Rs 204 per head, the labour budget of the scheme is used in convergence with the housing scheme and Swacch Bharat Mission (SBM) to achieve both the targets. The chief crops in the region was pulses (Tur, Bengal gram green gram, black gram), Jowar and Sugarcane (subject to ground water availability). The average agricultural wage was around Rs. 250 while the non- agricultural wage was around Rs. 300 to 350 depending upon the proximity to taluk.

Table 1: General characteristics of the Bidar GPs

Sl. No.	BIDAR	Popu lation	Dist	Comp	Internet	Power back up	Officers at GP			
							PDO	SECY	AA	DEO
1	Chintaki	10739	15	2+1	Yes	No	yes	No	yes	yes
2	Kamthana	11179	17	3+1	Yes	Yes	yes	Yes**	No	yes
3	Nittur B	6800	23	3+1	Yes	Yes	yes	Yes**	Yes**	yes
4	Santhpur	8500	10	2+1	yes	yes	Yes*	Yes**	No	yes
5	Telgoan	6053	12	2+1	yes	yes	yes	No	No	yes

**promoted from the post of clerk/bill collector *incharge for 2 GPs

¹⁵ as informed by the Accounts Officer at ZP , Bidar

Udupi

The sample GPs visited were little closer to taluk head quarter except for one GP. All GPs had PDO and DEO in place. Computers were present with good power back up systems. Relatively higher numbers of people were employed in shops and establishments in Udupi and Manipal areas which fetched them a consistent income and little higher wages than that of the non agricultural wage. The focus of GP was found to be providing drinking water, housing scheme and OSR collection. The property tax rates are fixed based on property dimension, location and type of building and use while the water was charged on volumetric basis (connections are metered). As the wage rate was higher than the MGNREGA wages, very little focus was on the scheme (only in convergence with housing and toilet schemes for BPL). The elected members were found to be very active and were aware of the financial position of the GPs including the demand of OSR. The GP employees were paid a monthly remuneration of around Rs. 8000 to 10000 depending upon their responsibilities. The monthly audit and concurrent audit were in place apart from the audit by LAC. Paddy and coconut were the chief crops. The agricultural wage rate was Rs.400 to Rs. 450 and was equal to non agricultural labour.

Table 2 : General characteristics of Udupi GPs

Sl. No.	UDUPI	Popula tion	Dist km	Comp	Internet	Power back up	Officers at GP			
							PDO	SECY	AA	DEO
1	Badagabettu	9309	8	4+1	Yes	Yes	yes	yes	yes	yes
2	Athradi	5482	20	3+1	Yes	Yes	yes	yes	yes	yes
3	Kota	5914	7	4+1	Yes	Yes	Yes*	Yes*	No	yes
4	Katpaadi	10035	6	4+1	yes	yes	Yes	No	yes	yes
5	Kurkalu	5286	9	4+1	yes	yes	yes	yes*	No	yes

*incharge for 2 GPs

4.6.2 Financial overview of the sample GPs

An overview of the finances of sample GPs is provided in the Table 4. The resource envelope provides the flow of funds from different sources along with its estimated quantum.

Table 3: Resource envelope for the sample GPs for the year 2015-16

Name of the District	GP	14th FC grants	OSR Demand 2015-16	Statutory Grant (SFC Grant)	MGNREGS (Labour Budget)	RWS (Maintenance Grants)	SBM	Total Funds
BIDAR	Chintaki	20.72	1.09	10.00	61.76	1.14	8.75	103.46
	Santhpur	21.64	2.94	12.00	72.45	1.23	8.75	119.02
	Nittur B	16.86	1.17	10.00	101.26	0.97	8.75	139.01
	Telegaon	17.09	3.05	10.00	61.72	0.94	8.75	101.55
	Kamthana	28.03	5.01	15.00	23.69	1.66	8.75	82.14
UDUPI	Badagabettu	22.85	26.00	13.00	21.62	1.39	0.85	85.71
	Athradi	13.89	9.99	10.00	21.62	0.82	0.85	57.17
	Kota	24.24	10.40	13.00	22.13	1.47	0.85	72.08
	Katpaadi	24.52	19.34	14.00	21.62	1.49	0.85	81.83
	kurkalu	13.22	13.60	10.00	21.62	0.79	0.85	60.07

Source: <http://rdpr.kar.nic.in/english/dac.asp>

This facilitates the understanding of size of finances of these sample GPs and the nature of revenues and expenditures which influence the activities, accounting and budgeting practices in the GPs. The table clearly indicates the focus of activities in Bidar and Udupi GPs. The size of finances is significantly higher in Bidar GPs than in Udupi GPs. While the share of OSR in Bidar ranges from one to six percent of the total funds, its share in Udupi GPs ranges from 14 to 30 percent which indicate the higher focus on schemes in Bidar. This also reflects even in the review of progress done at taluk level every month. While the focus of taluk level review meetings in Bidar is largely the target and progress on schemes, the progress on OSR collection finds place taluk level meetings in Udupi.

4.6.3 Budgetary practices and Financial Management at GP level

The Karnataka Panchayat Raj (Gram Panchayat Budgeting and Accounting) Rules 2006 came into force from 1st of April 2007 which marked the beginning of the accrual system of double entry accounting in GPs. As per section 241 of the Act, rule 11 indicate that the PDO/Secretary has to prepare and lay before the panchayat meeting between 1st February and 10th March a budget estimate of income and expenditure of the gram panchayat for the official year commencing on the 1st April. The Rule 11(2) indicates the manner in which the budget forms have to be prepared along with the supporting subsidiary statements while Rule 12 indicates the manner in which estimates of receipts and expenditure have to be prepared. This budget has to be approved and sent to Taluk Panchayat for the approval before 30th of March. The Rule 13 specifies the manner in which revision of budget has to be done if required during the course of the year. The Rule 14 indicates that no expenditure shall be incurred out of GP fund unless the same is covered by a budget grant. Budget control register has to be maintained to avoid expenditure in excess of budget provision during the year.

Budget copy for the year 2015-16 was available at GPs in Udupi district while it was not prepared in GPs of Bidar district. The budget copies of 2015-16 were evidenced during the field visit. The observations indicated that while all sample GPs prepared the budget for the year 2015-16 in Udupi district, none of the sample GPs had prepared the budget for the year 2015-16. (While one PDO admitted that he had not done it in past three years, the other PDO informed that none of the GPs in the taluk (Aurad) had prepared the budget). PDOs in Bidar sample GPs acknowledged that they were unaware of the need of the budget, budget control or the legality of the expenditures¹⁶. The audit reports also indicated that the budget was not produced for the audit purposes.

Budget preparation was made easier by efforts of Udupi Taluk Panchayat. In Udupi taluk, the Taluk Panchayat had shared an excel sheet (which had linked the sheets with formulae) so that the budget statements I, II and III are generated automatically once they enter the raw numbers of the various receipt and expenditure heads. This was an

¹⁶ One PDO obtained a copy of budget prepared by a GP in Udupi (shared by field investigator) to understand the preparation of budget

attempt to ensure that the budgets were close to reality which also eased the efforts of the PDO/secretary in preparing the budget¹⁷. The budget estimation forms especially for receipts 1A, 1B and 1C were used in all panchayats in the estimation process. However the estimation forms for expenditure (1D, 1E, 1F and 1G) were not used. The estimation of the OSR was found to be more realistic than the grants.

Awareness about the formulation of budget exists but not of its necessity and budget control. The PDOs were aware of the formulation of the budget for the coming year and its approval before the month of March. Even the elected members acknowledged the preparation and approval of budget. The approval of budget by TP extends up to the month of July- August¹⁸. However, they seemed to be ignorant of the importance of budget and budget control. It was found that the receipts and expenditures were higher than the budget in 2 sample GPs of Udupi where in the required revision of budget was not done which was also mentioned in the audit report.

The Results Framework Document (RFD) is being prepared every month by the GPs and discussed at TP level. This covers information on the number of Gramasabha meetings, wardsabha meetings, applications received and attended to under SAKALA, progress on different schemes, Demand Collection Balance (DCB) of property tax and water rates and whether GP council has increased the rates of property tax and water rates (once in 4 years) and the next due date for the same. This is being closely monitored by the TP on a regular basis in Udupi while the focus in Bidar is largely on schemes with a little discussion on DCB. The Jamabandi focus is largely on schemes in Bidar district while it also looks into the issues of OSR collections in Udupi district.

Gandhi Sakshi Kayaka (GSK)¹⁹ a web based application to monitor works undertaken at GP level has improved the transparency in implementation of projects by putting the details (including finances) in public domain. The GSK enables the monitoring of the works at different stages with built in business rules of work execution and system controls. It is being use for GP projects undertaken by Karnataka Rural Road Development Agency, Karnataka Rural Infrastructure Development Limited and the Panchayat Raj Engineering Department at GP level.

The electricity bill payment by the GP for providing electricity to streetlights and public water supply system is improved through an escrow account model. The electricity bill payment was an important issue that has created problems at the GP level accounting and budgeting. Earlier, ESCOMs (Electricity Supply Companies) used to get paid at state level on behalf of GPs. This amount was deducted by the state government

¹⁷ PDO informed that this has also helped them to resist the political pressures to inflate budget

¹⁸ Kota GP approved the budget 2015-16 on 10th March 2015 while the TP has approved it on 2nd July 2015
http://www.saiindia.gov.in/english/home/our_products/Audit_Report/Government_Wise/state_audit/recent_reports/Karnataka/2014/5of2014.pdf

¹⁹ <http://gsk.kar.nic.in/>

in their statutory grant. The GPs were not in a position to account this expenditure properly. The new approach has been the creation of escrow account (by transferring 25 percent of the statutory grants as well as the 14th Finance commission grants) at the GP level to pay the electricity bill of the GP. The earlier approach of deducting the grants at source has been replaced with this system. This has resulted in GPs taking a new look at the electricity bills, questioning the ESCOMs on the method of billing (as there are meters). The problems of pending overdue and reconciliation still persists.

The Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003 though enacted is yet to be operationalized. This Act which covers PRIs as well as ULBs if operationalized would pave way for improving the financial management at GPs. Operational manuals do not exist at GP level. Only training and reading material prepared by ANSSIRD available on their website can be referred if needed.

4.7 Accounting, Auditing, Reporting and role of Panchatantra in sample GPs

The introduction of double entry accrual system of accounting together with the stipulation of production of monthly accounts, half yearly accounts and annual accounts of GP are aimed at improving the accounting and financial management in significant manner. The double entry system of book keeping was introduced from 2007-08 replacing the single entry system which was followed earlier in accordance with the section 243 of the Act to present balanced and accurate picture of financial position of Gram Panchayat. The Rules numbering from 101 to 115 specifies the maintenance of accounts on accrual basis, books of accounts (cash book, journal book and general ledger), reconciliation of cash book with bank balance, preparation, approval and submission of monthly accounts (before 20th of subsequent month), Half-yearly Accounts(before 20th October) and Annual Accounts (before 30th June of next financial year) to LAC and CAO (ZP), Audit of Accounts, formation of Audit committee by GP and compliance report on Audit observations and payment of Audit fee. The Annual accounts of GP should comprise of Receipts and Expenditure statement (Form 53), Income and Expenditure (Form 55) and Balance Sheet (Form 56) and has to be prepared and has to be placed before the GP for approval before 30th of June and has to be sent to LAC and Chief Accounts Officer, Zilla Panchayat. Rule 112 stipulates the audit of accounts by LAC and also indicates that state government may withhold the release of funds to GPs in the event of not furnishing the accounts to LAC in the prescribed time period.

Panchatantra has made possible for the GPs the maintenance of double entry accounting system even without understanding the principles behind it and to prepare the financial statements and various other reports. The receipts and payments are entered in Panchatantra software by Data Entry Operator. Bank Reconciliation Statements (BRS) are prepared for different accounts maintained by GP

every month. The Panchatantra statistics²⁰ provides the details in public of various reports including the BRS, DCB, financial statements (income and expenditure, Balance sheet), e- attendance (module for monitoring attendance of officials which is GPS enabled) Gandhi Sakshi Kayaka (GSK)²¹ which is GPS enabled and provide complete details of implementation of works in the GP with its finances and photographs.

While Panchatantra has enabled to understand the finances of GPs in a more accurate manner by higher authorities, the GPs are not using the system to generate reports and to improve governance. GPs are entering the receipts and payments into Panchatantra, completing BRS, GSK and others but have not generated reports and used it for discussions at GP monthly meetings and other decision making process. Officials of sample GPs were clear that Panchatantra has added more work to them and were not clear as to how it benefits GPs in their day to day governance and administration. Thus it has been reduced to a monitoring tool.

Maintenance of Cash book, DCB register and entering of all receipts and payments in Panchatantra as well as preparation of BRS has been seen across the sample GPs. All receipts were banked on the same day or the next day in Udupi while in Bidar it is once in 2/3 days. Maintenance of Cash book, Journal book and general ledger manually were found in 3 sample GPs in Udupi district, while only Cash book was present in all other sample GPs in both the districts. The Bank Reconciliation Statement (BRS) was done in all the sample GPs (up to October 2015) in Udupi for all the accounts while in Bidar district it was done for all the accounts (up to October 2015) only in one sample GP and for few accounts in others. One of the sample GPs had not prepared Bank Reconciliation Statement (BRS) for any of the accounts since April in Bidar district. Assessment list, DCB registers for property tax, water rate, panchayat property and licenses were available in GPs of Udupi district while only cash book and DCB registers were available in sample GPs of Bidar district.

Preparation and reporting of monthly accounts was absent in GPs. Only Annual Accounts were prepared. Monthly Accounts and Half-Yearly Accounts were not prepared and sent to LAC and ZP as prescribed in the rules. Only Annual Accounts were prepared and sent to LAC and ZP. The RFD and DCB reports are being sent to Taluk Panchayat every month. The accounts are prepared quarterly by the chartered accountants (concurrent audit) in Udupi districts while in Bidar it was absent.

Audit reports of GP by the Local Audit Circle (LAC) in Udupi district was very detailed and looked into the issues of updation of registers, budget approval, and deductions. Reports of Bidar district GPs indicated that budget was not produced for audit, non maintenance of registers and maintenance of accounts in single entry

²⁰ <http://panchatantra.kar.nic.in/stat/>

²¹ <http://gsk.kar.nic.in/>

system. Audit by the LAC was completed up to 2014-15 in sample GPs in both the districts. However, in Udupi the office of LAC confirmed that only 25% of GPs were audited up to 2014-15 and 50% up to 2013-14. The LAC reports were more detailed in Udupi such as indicating about the higher revenues and expenditure than indicated in the budget which necessitates the supplementary budget approval, not updating registers and of not paying the arrears with respect to deductions made by GP such as royalty, sales tax etc. It was also noticed in one sample GP that the audit for previous 3 years was done in this year. The LAC reports of sample GPs in Bidar indicated that the budgets are not produced for audit, non-maintenance of several registers, maintaining of accounts in single entry system, not producing the approved annual accounts in time, huge arrears in payment of cess and various deductions to the state government departments. The reports also indicate the non payment of the audit fees to LAC (since 8-9 years). Action on Audit report seems to be totally absent in Bidar district while it is being acted upon by PDO on some specific cases in Udupi district. Though there is a provision for the formation of audit committee under 61A of the Karnataka Panchayat Raj Act, this is not done in sample GPs of both the districts.

CAG²² report²³ also indicates that the non maintenance of Journal book and General ledger in GPs which made it difficult to ascertain financial position of GPs. It also highlights that annual accounts of GPs were not before elected bodies being not done at GPs. As of March 2013, 29 GPs were audited under TGS module. Under double entry accounting system (DEAS), the GPs have to record both the cash and credit transactions in the books of accounts – Cash Book, Journal Book and General Ledger. Of the selected GPs, 17 GPs had not maintained journal book and general which rendered accurate assessment of GP finances impossible. Of the selected GPs, 13 GPs had not placed the annual accounts before the GP elected body.

CAG report also highlights that Chartered Accountant firms which conducted concurrent audit did not the conduct training of GP staff in the process. The GP staffs were expected to be trained by CA firms along with the process of preparation of accounts. This did not happen and accounts were prepared with the assistance of CAs in the 11 select GPs. The same was found in the sample GPs of Udupi.

²² The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Supervision (TGS) Module to the CAG up to the year 2014-15 by amending the KPR Act, 1993.

²³ http://www.saiindia.gov.in/english/home/our_products/Audit_Report/Government_Wise/state_audit/recent_reports/Karnataka/2014/5of2014.pdf

4.8 Issues of Audit and capacities of Karnataka State Accounts

Department²⁴

Constraints in capacities of Karnataka State Accounts Department (KSAD) staff to suit to changes in GP level through DEAS and use of computers for accounting has created hollow in the financial oversight of GPs. While GPs have migrated to DEAS, the KSAD staff which had worked on single entry system is facing capacity constraints to audit and prepare accounts in double entry accrual system. The capacities of the KSAD staff are limited especially in the use of computers to audit. KSAD which has been doing the compliance and transaction audit has not carried out financial attest audit despite GPs producing financial statements. The financial attest audits by CA firms are not used by KSAD.

The staff strength and capacity of KSAD has not increased in proportion to the changes in the finances of GP and this has contributed to backlog of audit. GP finances have increased manifold and many reforms and reporting systems have been introduced. The carrying out 100 % transaction audit together with manual audit and limited staff has contributed to backlog of audit. KSAD has not been able to place the required consolidated report on audit of PRIs and ULBs to legislature in a time bound manner. The number of audit reports to be completed as on 31st March 2014 was 1319 (Annexure 2) KSAD is also not empowered with the responsibility of acting on non compliance of audit findings.

4.9 Issues related to Supervision, Monitoring and Facilitation

Taluk Panchayat supervision on GPs is reduced to oversee progress on schemes, DCB progress and RFD reporting with no focus on the accounting and Panchatantra usage. TPs are severely understaffed and the supervising does not focus on the maintenance of accounts, preparation of financial statements, using of the same in improving the governance at GPs. In Udupi one PDO is in-charge as Additional Director with no supporting staff. DEOs complained of not getting any support from TP regarding issues related to changes made in Panchatantra and changed formats of reporting. TP does not have a technical person who can supervise, assist and facilitate capacity building in the area of maintenance of accounts, book keeping and budget making.

The concurrent audit by CA firms has not improved the capacities of GP Staff. The LAC audit has not resulted in improvement of accounting and financial management as it is not complied with owing to delay. The concurrent audit by chartered accountant firms have not facilitated in improving the capacities of the GP on accounting and reporting practices since improving the capacities works against their interest and affects extending of their consultancy period. There is no link between the concurrent audit and the LAC

²⁴ From the report "Government of Karnataka-Public Financial Management Reform Action Plan-2014 –Appendix

audit. The LAC does not know the terms of reference in hiring the chartered accountants for auditing purposes.

Newly recruited second division accounts assistants (AA) and AAs promoted from the post of bill collector/clerk are facing difficulties in making use of Panchatantra.

While a few AAs promoted from the position of clerk/bill collector who are comfortable with the manual book keeping are not comfortable with the use of computers and have to rely on DEOs to update accounts in Panchatantra. Few promote AAs have no knowledge of DEAS rely on DEOs for accounting as well. DEOs who have no idea of accounting process and report generation regularly upload the receipts and payments are also in charge of several other tasks such as Gandhi Sakshi Kayaka, NREGS, ration card, and other reporting tasks. Newly appointed Account Assistants are having difficult time as the locally appointed clerks and DEO are not allowing them to perform their role using computers and to take charge of accounts both manually and through Panchatantra.

5 Conclusion and Recommendations of the Study

5.1 Conclusion

In respect of capacities, it seems that they vary depending upon the GP. As seen from the study, capacities of GPs in finance and accounting in Bidar were far less adequate as compared to those in Udipi. Relative emphasis on schemes as against OSR and services to citizens in case of former also impacts their focus on budgeting and finances.

The budgetary, accounting and auditing systems are in place in the form of Rules and software like Panchatantra. What makes a difference in their effective implementation (apart from the above) is: a) vacancies; b) poor training of those in position; c) poor ownership at supervisory levels; and d) artificial division of work between accountant and data entry operators. The last one is an important factor affecting the transition to professional accounting at GP level. DEOs were relevant when personal computers were newly introduced and staff was not familiar with operating them. It was to be a temporary phase. The accountant must combine the knowledge of accounting with the skill of operating computer to be able to function effectively. The division of responsibility between accountant and DEO unduly complicates the process. Similarly, the role of CAs, who many a time end up compiling accounts as well, weakens institutionalization and grounding of accounting in GPs. It encourages out-sourced mode.

5.2 Recommended methodology for providing block grants to GPs

Having examined the criteria of SFC and CFCs, we propose the two stage process for providing the block grants to GPs. The first one would be to select GPs based on backwardness of the taluks; the second is to decide on the quantum of grants for GPs in each of the selected taluks based on set criteria relevant to functioning of GPs.

Use of taluk level data collected for preparation of District Human Development Reports (DHDR) to select the backward taluks. As mentioned the categorization of Taluks based on backwardness by HPCRRI is 13 years old and these backward taluks have been subject to grants and other development efforts by state government. There is a need to reassess the backwardness of the blocks. Classifying the taluks after 13 years and after being subjected to special treatment in terms of resources under same categories *assumes that their ranks among the taluks of the state has not changed* despite improvements/special investments.

Karnataka embarked on yet another remarkable step towards addressing the developmental needs by way of preparing the District Human Development Reports (DHDR) for all the 30 districts of the state. This exercise used about 126 different indicators reflecting the various facets of human development at the taluk level and taluk level indices (Human Development Index, Gender Inequality Index, Child Development Index, Food Security Index, Composite Taluk Development Index etc) are developed in the process. This enables the easy ranking of taluks with respect to each of the indicators as well as the indices developed. Thus, there is readily available data that is more comprehensive and updated than the HPCRRI report of 2002 that merits its use in selecting the taluks for the block grants under SGIKP. This would give rise to new set of backward taluks. This exercise would help target the resources to the more needy taluks.

Development of a comprehensive taluk level index using the parameters that can be influenced by GP expenditure to rank and select taluks. It is possible to develop a comprehensive index based on parameters that are relevant to GP's expenditure to rank taluks - such as number of individual water connections, number of individual household latrines, number of households having pucca houses, BPL card holders, women headed households, houseless/site less households, etc. In other words, instead of ranking taluks based on criteria of backwardness, it is proposed that ranking be done on the basis of criteria which relate to GPs' functioning.

Grants to GPs within a taluk should be based on the prominent criteria such as population and area. Grants for GPs within the taluk demands different criteria which is simple and easy to administer. The grants for GPs within the block have to be based on different criteria such as area (Grama Tana), population, SC/ST population and number of villages in the GP which has a bearing on the expenditure to be incurred. A composite index can be prepared using suitable weights to arrive at an index value.

Performance grants should focus on the improvement of processes of GP with buy-in by political executive. Performance grant has to have a clear stake for the GPs. The elected body should come to know about the incentive grant and should be able to monitor which is a feature that is lacking in the present. For this to happen the performance grant should be disbursed after assessing the performance of all GPs in a taluk which is followed by a meeting of all GP presidents. The incentive grants to GPs in

a taluk should be fixed while poor performer should lose out to the better performer and this has to be made known to the political executives. The incentive grant also needs to take care of the activities of GP as well as its pathway in the progress. Focusing on the processes such as GP monthly meetings, special meetings, budget, Jamabandi and developing minimum mandatory conditions for improving its quality can yield higher dividends. This can in turn influence Gramasabha and planning.

Processes of GP should consider the growth of GP into an urban area. A GP would grow into an urban area (GP head quarter in the first place) which would require the smooth transition. For this to happen property tax records (ownership records), village maps indicating roads, water lines, streetlights and public places, village wise/ward wise infrastructure details, maintenance and updating of GP level data becomes important (BPL, houseless, site less, etc)..

5.3 Recommendations for bridging the gaps in the capacities at GP level

- Bridging the gap in technical supervision of GPs (with respect to accounting, auditing and Panchatantra) by TPs in coordination with the KSAD and Chartered Accountants is an immediate requirement.
- An Operation manual which indicates the books and ledgers to be maintained, reports to be generated along with their timelines, reports to be generated through Panchatantra, and timelines of budget process has to be provided to GPs and should be revised periodically. The manual should indicate the calendar of activities month wise and also indicate the reports to be placed before the elected body in the meetings. This has to be uploaded on to RDPR website.
- Training of the newly recruited AAs in book keeping, accounts management and Panchatantra should be done in great detail. AAs should be trained and made responsible to maintain accounts in Panchatantra. Training of PDOs, Presidents and Vice Presidents also need to be done to make use of reports from Panchatantra as well as to hold them responsible on the financial management issues.
- Improving the capacities of KSAD in auditing the GPs to conduct audit through Panchatantra can help for completing the audit process in a time bound manner. Access to Panchatantra can be provided to LAC to get the GP accounts periodically.
- Improving the IT infrastructure in LAC offices and conducting an audit of software can help in devising the strategies for improving the capacities of GP as well as defining the roles and responsibilities of TP and LAC in accounting and auditing processes in long run.
- Using of budgets, various reporting formats, financial statements and basic data on population and infrastructure for the preparation of participatory plans needs to be demonstrated to the GP with examples and reinforce by TPs through supervision.

As mentioned under paragraph 4.7 above, Rules provide forms for Annual Financial Statements and therefore the need for providing a fresh set is not considered necessary.

References

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- Vyasulu, Vinod, Panchayats, Democracy and Development Rawat publications, Jaipur, 2000
- World Bank Report “*Government of Karnataka-Public Financial Management Reform Action Plan 2014-Appendix*”
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Annexure 1

Annexure Error! Main Document Only.: List of Sample Gram Panchayats of the study

Sl.No.	BIDAR	UDUPI
1	Chintaki (Aurad Taluk)	80 Badagabettu (Udupi Taluk)
2	Kamthana (Bidar Taluk)	Athradi (Udupi Taluk)
3	Nittur B (Bhalki Taluk)	Kota (Udupi Taluk)
4	Santhpur (Aurad Taluk)	Katpaadi (Udupi Taluk)
5	Telgoan (Bhalki Taluk)	Kurkalu (Udupi Taluk)

Annexure 2: Audit of GPs by KSAD as on 31-3-2014

No of Gram Panchayats	5630
Audit completed	5168
Number of institutions not audited	462
Not audited Due to Non production of reasons	220
Not audited Due to shortage of staff	242
Number of audit reports to be completed	1319

Annexure 3 Survey Instrument for Assessing Budget and Accounting Practices in Gram Panchayats

Date of interview		d	d	m	m	y	Y
Name of the interviewer							
Name of the Gram Panchayat							
Name of the Sub Taluk(Hobli)							
Name of the Taluk							
Name of the District							

Instructions:

- a. Investigator may use separate sheet of paper to record detailed answers where required.

Schedule 1: General Information about the Gram Panchayat (Key informant: PDO)

Q No.	Question	Response	Code	Skip
1	How many villages are there in the GP			
2	How far is the GP from Taluk headquarters (in Km)			
3	What is the distance to the nearest highway (NH or SH) in KM			
4	What is the total population of the GP? (2011 Census)			
5	What is the literacy rate in the GP (2011 census)			
6	What type of road connects your GP to Taluk headquarter	Kuccha Road	1	
		Tar Road,	2	
		Metallic Road	3	
		Water bound macadam	4	
7	What is the frequency of bus service to the GP (both public and private)	No bus service	1	
		Once a day	2	
		Twice a day	3	
		Thrice a day	4	
		Four times or more	5	

12. Give details of GP Staff (including officials)

Name of GP Staff	Designation	Date/Year of Joining	Experience in Years (Total and in this GP)	Responsibilities

Schedule 2: Physical Computer Infrastructure and Capacities for O&M
(Key informant: PDO)

Q No.	Question	Response	Code	Skip
1	Is there a computer in the GP?	Yes	1	
		No	2	
2	If yes, details of			
	Make of the PC			
	Month / Year of purchase			
	For what purposes is it used			
3	On an average power is available for how many hours between 9 am and 6 pm			
4	Do you have a UPS for power back up?	Yes	1	
		No	2	

5	Do you have internet facility?	Yes	1	Skip to 6	
		No	2		
	If yes, it is:				
	Broadband				
	USB Based (Dongle)				
6	Do you have a stock of consumable e.g.				
	CDs	Yes	1		
		No	2		
	Printing Paper	Yes	1		
		No	2		
	Cartridges	Yes	1		
No		2			
7	Who maintains the Computer?				
8	Is Panchatantra software loaded in the computer?	Yes	1		
		No	2		
9	Who are trained to use				
	a. Computer?				
	b. Panchatantra?				

Schedule 3: Budgeting at GP (Key informant: PDO)

Q No.	Question	Response	Code	Skip
1	Who prepares the GP budget?			
2.	When is it prepared?			
3.	When did the GP council pass the last budget?			
4.	Who approved the last budget?			
5.	Have the following budget documents been prepared (2015-16 budget)? (Pl tick)			
	Form I			
	Statement I			

	Statement II			
	Statement III			
6	How are receipts of GP estimated?			
7	What forms are used for estimation? (Pl tick)			
	1A			
	1B			
	1C			
8	How is the expenditure of GP estimated? (Pl tick)			
	1D			
	1E			
	1F			
	1G			
	Seems the KI does not know about these forms			
9	Is there a manual for guidance in preparing the budget?	Yes		
		No		
10	Have you undergone any training in budget preparation?	Yes		
		No		Skip to 12
11	If yes,			
	When?			
	Where?			
	What aspects were covered in the training?			
12	Have you received any guidance from Taluk for preparing budget?			

Schedule 4: Accounting of Expenditure and Revenues at GP (Key informant: PDO)

Q No.	Question	Response	Code	Skip
1	When expenditure is incurred (e.g. payment of salary, purchase of stationery, etc.)			
	Is a bill prepared?	Yes	1	
		No	2	Skip to 2
	If yes, who prepares it?			
	Who approves it?			
When is it entered in the Panchatantra?				
2	If no, what process is followed?			
3.	Is there a delegation of financial powers?	Yes	1	
		No	2	Skip to 4
	If yes, what are the limits up to which expenditure can be incurred at different levels?			
	PDO / Secretary			
	GP President			
	GP Council			
	Executive Secretary, TP			
4	Is there a cash book maintained?	Yes	1	
		No	2	Skip to 7
5	Who maintains the cash book?			
6	Who checks the cash book? And what interval?			
7	How are revenues collected? (PI tick)			
		By Bill Collector		
		Paid at the GP office and received by the Accountant		
8	Are the receipts banked?	Yes	1	
		No	2	Skip to 10
9	If yes, how often?			
10	Is a receipt voucher prepared for different class of receipts?	Yes	1	
		No	2	

11	What registers / books are maintained for own source revenue? (Pl tick)			
	Form 9			
	Form 10			
	Form 11			
	Form 12			
	Form 13			
	Form 14			
	Form 15			
	Form 16			
	Form 17			
	Form 18			
12	When are the receipts entered into Panchatantra?			
13	Are the following books maintained			
a	Collection Register (Form 7)	Manually	1	
		In Panchatantra	2	
		Both	3	
b	Cash Book (Form 49)	Manually	1	
		In Panchatantra	2	
		Both	3	
c	Journal Book (Form 50)	Manually	1	
		In Panchatantra	2	
		Both	3	
d	Ledger Book (Form 52)	Manually	1	
		In Panchatantra	2	
		Both	3	
14				

**Schedule 5: Reporting of Expenditure and Revenues and Auditing of GP
(Key informant: PDO)**

Q No.	Question	Response	Code	Skip
1	How frequently are the GP accounts prepared? (Pl tick)			
	Monthly			
	Quarterly			
	Half Yearly			
	Annually			
2.	To who the accounts are submitted?			
3.	What Financial Statements are prepared? (Pl tick)			
	Form 53			

	Form 54			
	Form 55			
	Form 56			
	Form 57			
4	Are the Accounts / Financial Statements prepared			
	Manually			
	Generated through Panchatantra			
5.	When were the Annual Accounts for the last year prepared? Month / Year			
6.	Have the Accounts for 2014-15 audited?	Yes	1	Skip to 8
		No	2	
7	If no, what is the last year for which accounts have been audited and certified?			
8.	When was the last Jamabandi conducted?			

Schedule 6: Use of Panchatantra software (To be assessed by CBPS Investigator)

1. Who operates the panchatantra Software
2. Please verify for the maintenance of forms that supports the Budget, Accounts and Audit

Form	Maintained (Yes/No)	Date of last update	Panchatantra/Manual/Both
1A			
1B			
1C			
1D			
1E			
1F			
1G			
3			
7			
9			
10			
11			
12			
13			
14			

15			
16			
17			
18			
20			
22			
23			
24			
27			
28			
29			
30			
31			

3. Please verify for the maintenance of forms that supports the Budget, Accounts and Audit

Form	Maintained (Yes/No)	Date of last update	Panchatantra/Manual/Both
49			
50			
52			
53			
54			
55			
56			
57			
58			

4. Is the Jamabandi reporting format filled in using Panchatantra?

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