



## **Chapter – 2**

### **Performance Audit**

#### **2.1 Social Audit of Schemes**

#### **2.2 Internal Control Mechanism in Panchayat Raj Institutions**



## Chapter – 2 : Performance Audit

### Panchayat and Rural Development Department

#### 2.1 Social Audit of Schemes

##### Executive Summary

Social Audit may be described as verification of the implementation of a programme/scheme and its results by the community with the active involvement of the primary stakeholders. Social Audit was brought into Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) through Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011. Subsequently, Government of Madhya Pradesh established Social Audit Unit "M.P. State Samajik Sampariksha Samiti" (MPSSSS).

MPSSSS was responsible to build capacities of Gram Sabhas for conducting Social Audit, prepare social audit reporting formats, create awareness amongst the labourers about their rights and entitlements under MGNREGA and facilitate verification of records by primary stakeholders.

Social Audits were conducted in 931 Gram Panchayats (GPs) of 15 Blocks in 14 Districts of the State during 2014-15. A compliance audit of implementation of 'Social Audit of Schemes' revealed the followings:

##### ***Financial Arrangement for social audit***

As per Ministry of Rural Development order (April 2013), one *per cent* of total annual expenditure under MGNREGS in the State/UTs was to be used for meeting the cost of establishment of a Social Audit Unit (SAU) and conducting Social Audit of MGNREGS works. However, as against ₹ 51.69 crore required to be earmarked for social audit under MGNREGS during 2013-14 to 2014-15, only ₹ 6.45 crore were released to MPSSSS. In addition to this, MPSSSS also received ₹ 5.18 crore from Directorate of Panchayat Raj during the year 2013-14 and 2014-15 for strengthening and conducting social audit.

MPSSSS could utilise only ₹ 0.47 crore during 2013-14 and 2014-15 for the purpose of social audit and it returned unutilised MGNREGS fund of ₹ 4.00 crore to MGNREGA Council in March 2014. The utilisation of fund was low due to non-availability of field level staff and shortfall in achieving Social Audit coverage.

**(Paragraph 2.1.6)**

##### ***Setting up of effective Social Audit Unit***

As per MGNREGA Operational Guidelines 2013, SAU shall identify appropriate number of resource persons at State/District/Block/Village levels to facilitate in conducting Social Audits. MPSSSS proposed (June 2013) for creation of 5,346 posts of resource persons. However, the proposal was still under consideration with the Finance Department. The non-availability of adequate manpower affected the coverage of social audit in the State.

**(Paragraph 2.1.7.1)**

***Conduct of Social Audit***

- Section 3(1) of Audit of Schemes Rules 2011 stipulates that the State Government shall facilitate conduct of social audit of the works taken up under MGNREGA in every Gram Panchayat at least once in six months. However, there was shortfall of 98 *per cent* in conducting Social Audits during 2012-13 to 2014-15, as only 2,674 Social Audits could be conducted against the requirement of 1,37,678.

**(Paragraph 2.1.8.2)**

- There were deficiencies in quality control of Social Audit Reports. MPSSSS had circulated Village Social Animators manual and social audit proforma for conduct of social audit. However, out of 50 test-checked GPs, the prescribed formats for social audit findings were filled properly in case of only two GPs, while in 48 other GPs the formats were either not properly filled or not filled at all. As a result, Social Audit Reports did not include findings on prescribed verification exercises included in the social audit proforma.

**(Paragraph 2.1.8.3)**

- As per MGNREGA Operational Guidelines 2013, the entire proceeding of Social Audit Gram Sabha shall be video recorded and uploaded on website [www.nrega.nic.in](http://www.nrega.nic.in) without editing. However, proceedings of Social Audit Gram Sabhas were not video recorded in 43 out of 50 test checked GPs. In seven GPs, video recording of the Gram Sabha proceedings were done, but the same were not uploaded on the website.

**(Paragraph 2.1.8.5)**

***Follow up of Social Audit Reports***

- Follow up action on Social Audit Report was either not being ensured or belatedly ensured by the Government as required under Audit of Schemes Rule 2011 and MGNREGA Operational Guidelines 2013.

**(Paragraphs 2.1.9.1 and 2.1.9.2)**

**2.1.1 Introduction**

Social Audit may be described as verification of the implementation of a programme/scheme and its results by the community with the active involvement of the primary stakeholders. The objectives of Social Audit include promoting transparency and accountability in the implementation of a programme, providing a collective platform such as Social Audit Gram Sabha for people to express their needs and grievances, and strengthening the scheme by deterring corruption and improving implementation.

Social Audit was brought into Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) through Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011 notified by Government of India. State Governments are required to establish an independent organisation, Social Audit Unit (SAU), under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) to facilitate conduct of Social Audit by Gram Sabhas. SAU is responsible to build

capacities of Gram Sabhas for conducting social audit, prepare social audit reporting formats, create awareness amongst the labourers about their rights and entitlements under MGNREGA and facilitate verification of records by primary stakeholders. District Programme Coordinator (DPC) of MGNREGA ensures that all records for conduct of social audit are furnished to the SAU by implementing agencies.

To conclude the social audit process, a Gram Sabha is required to be convened to discuss the findings of the verification exercise. The Gram Sabha is also required to review the compliance with principles of transparency and accountability in the execution of MGNREGA, fulfillment of the rights and entitlements of labourers and proper utilisation of funds. The Gram Sabha has to deliberate on the findings and the implementing agencies have to respond to the report presented in the Gram Sabha. DPC ensures that time bound corrective action is taken on the social audit report.

### **2.1.2 Organisational set up**

At State level, Panchayat and Rural Development Department, headed by the Additional Chief Secretary, is responsible for implementation of various schemes for rural development, including MGNREGS. Madhya Pradesh State Employment Guarantee Council (also known as MGNREGA Council) is responsible for regular monitoring and reviewing the implementation of MGNREGA at the State level. The District Programme Coordinator is responsible for the implementation of MGNREGS in the district in accordance with the provisions of MGNREGA and the rules made thereunder.

An independent Social Audit Unit "M.P. State Samajik Sampariksha Samiti" (MPSSSS) has been established (January 2013) in the State, which was registered under M.P. State Society Registration Act 1973. MPSSSS is headed by a Director, who is responsible for its overall functioning.

### **2.1.3 Audit objectives**

Audit objectives were to ascertain whether:

- an effective and independent SAU existed within the State,
- SAU provided adequate support mechanism like planning, availability of records, reporting and follow-up, for Social Audit within the State, and,
- Social Audits executed during 2014-15 were adequate and effective as per rules and regulations, and these actively supported and helped by District Programme Coordinator and other government functionaries.

### **2.1.4 Audit criteria**

The Audit findings were based on the following criteria:

- Relevant provisions of MGNREGA 2005, MGNREGA Operational Guidelines 2013;
- Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011, Social Audit Manual issued by Ministry of Rural Development (MoRD), instructions issued by MoRD; and,

- Relevant rules, regulations, circulars, manuals issued by the State Government and MPSSSS.

### **2.1.5 Audit Coverage and Methodology**

Social Audits were conducted in 931 Gram Panchayats (GPs) of 15 Blocks in 14 Districts of the State during 2014-15. Out of these, 50 GPs falling in eight Blocks of eight Districts were selected by using Simple Random Sampling Without Replacement method for conducting the compliance audit, as detailed in **Appendix 2.1**.

An entry conference was held on 3<sup>rd</sup> June 2015 with the Additional Chief Secretary (ACS), Panchayat Raj and Development Department (PRDD), Government of Madhya Pradesh wherein audit objectives, audit criteria, scope and methodology of audit were discussed. Records of the sampled eight districts, eight Blocks and 50 GPs were test-checked for the compliance audit during May 2015 to July 2015.

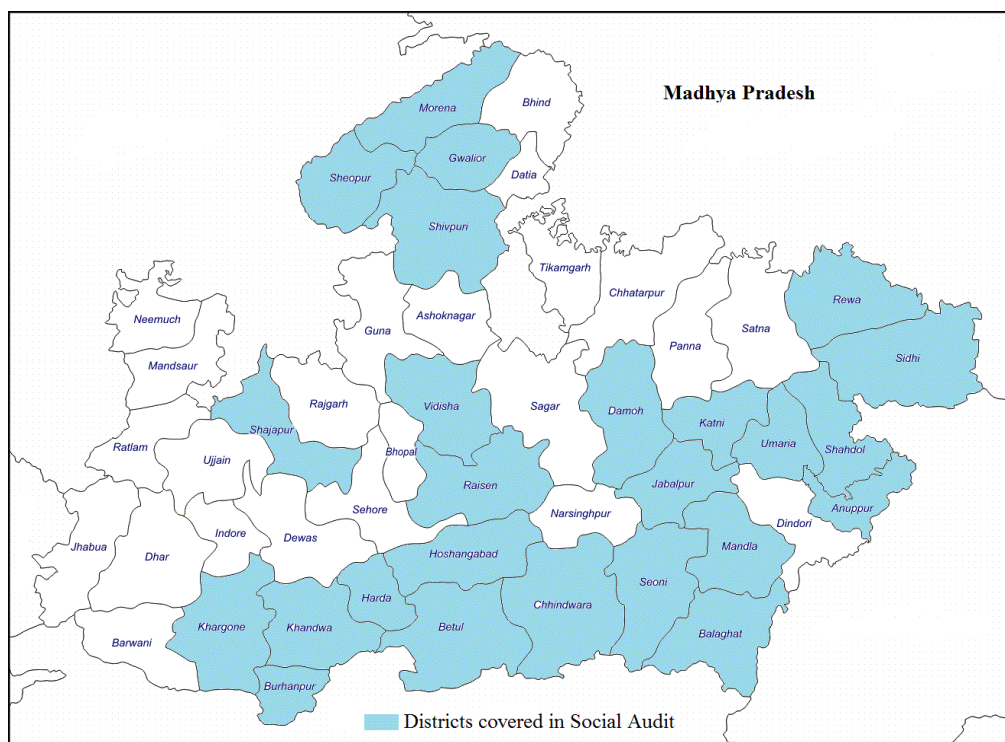
The exit conference was held with ACS, PRDD on 8<sup>th</sup> September 2015 to discuss the audit findings. The replies of MPSSSS have been suitably incorporated in the report.

### **Audit findings**

Audit of Schemes Rules 2011 stipulates that the SAU shall, at the beginning of the year, frame an annual calendar to conduct social audit in Gram Panchayat and a copy of the calendar shall be sent to all the District Programme Coordinators for making necessary arrangements. SAU is also responsible to identify, train and deploy suitable resource persons at Village, Block, District and State level to facilitate conduct of social audit.

Panchayat and Rural Development Department, Government of Madhya Pradesh issued instructions (January 2014) for setting up of seven member *Gram Sampriksha Samiti* (GSS), which would be responsible for conducting Social Audit in Gram Panchayat. Village Social Animators, who are identified by District Resource Persons, assist GSS in carrying out social audit. Every District Programme Coordinator or any official on his behalf, is responsible to ensure that all records for conduct of Social Audit are furnished to the SAU by the implementing agencies.

Social Audit was conducted in 2,674 Gram Panchayats on one occasion in 40 Blocks of 25 districts of the State during 2012-13 to 2014-15 and annual coverage ranged between 0.18 *per cent* and 3.6 *per cent*, as detailed in the map:



## 2.1.6 Financial Arrangement for Social Audit

As per MoRD order (April 2013), one *per cent* of total annual expenditure under MGNREGS in the State/UTs was to be used for meeting the cost of establishment of SAU and conducting Social Audit of MGNREGS works.

We noticed that ₹ 51.69 crore, being one *per cent* of expenditure under MGNREGS, was to be earmarked during the year 2013-14 and 2014-15 for social audit. Against this, MGNREGA Council released ₹ 6.45 crore of MGNREGS fund to MPSSSS. In addition to this, MPSSSS received ₹ 5.18 crore from Directorate of Panchayat Raj during the year 2013-14 and 2014-15 for strengthening and conducting social audit. Thus, the funds earmarked for social audit under MGNREGS were not released to MPSSSS.

We further noticed that MPSSSS could utilise only ₹ 0.47 crore during 2013-14 and 2014-15 for the purpose of social audit and it returned unutilised fund of ₹ 4.00 crore in March 2014 to MGNREGA Council.

MPSSSS replied (September 2015) that the utilisation of fund was low as the Social Audit was conducted in only selected blocks due to unavailability of field level staff. It further added that the expenditure on Social Audit would increase after recruitment of key personnels.

## 2.1.7 Setting up of Effective Social Audit Unit

### 2.1.7.1 Non-availability of adequate manpower for Social Audit

Para 13.2.2 of Operational Guidelines of MGNREGA 2013 stipulates that SAU shall identify appropriate number of resource persons at State/District/Block/Village levels to facilitate in conducting Social Audits.

We noticed that the Director, MPSSSS proposed (June 2013) for creation of 14 posts of various categories for its functioning. Further, the requirement of

20 posts of State Resource Persons, 100 District Resource Persons, 626 Block Resource Persons and 4,600 Village Social Animators (VSA) was also proposed at field level.

In order to support the States to conduct the Social Audit, Ministry of Rural Development (MoRD) decided (June 2014) to provide technical assistance under a special project that would be in operation till 2017. Under this, the cost of engaging social audit resource persons at the State and District levels would be reimbursed to the State. MoRD communicated the provision for 11 posts (one Director and ten Social Audit Experts) at State level and 82 posts for District Resource Persons for Madhya Pradesh under the special project. The recruitment against these posts was to be completed in a time bound manner by September 2014.

We noticed that recruitment against the post of social audit resource persons at State/District level were not done (September 2015). Further, the proposed 14 posts for MPSSSS were also not created, as the proposal was pending with Finance Department. We, however, noticed that 666 VSAs were deployed during 2012-13 to 2014-15 for facilitating Social Audit on honorarium basis.

Thus, adequate manpower for SAU was not recruited/deployed, which affected the coverage of social audit in the State as discussed in Paragraph 2.1.8.2.

MPSSSS replied (September 2015) that the proposal for sanction of posts was under consideration with Finance Department. It further accepted that Social Audit could not be conducted as per the provisions of operational guidelines of MGNREGA 2013 in the absence of State and field level functionaries.

The facts remains that time bound recruitment of personnel was not done for smooth functioning of the SAU.

### **Recommendation**

State Government may recruit adequate resource persons at various levels for effective functioning of SAU.

#### **2.1.7.2 Full time Director at SAU not appointed**

In order to ensure independence of SAU from the Department implementing MGNREGA, Para 1(c) of Chapter III of Social Audit Manual stipulates that the Director of SAU should have full charge as Director, SAU and should not be a Government Officer involved in the implementation of MGNREGA in the State.

Scrutiny of records at MPSSSS (June 2015) revealed that there was one full time Director from July 2012 to November 2014. However, during December 2014 to February 2015, Chief Executive Officer (CEO) MGNREGA was holding additional charge of Director, MPSSSS. Since then, the Director, State Institute of Rural Development was looking after the additional charge of vacant post of Director, MPSSSS.

MPSSSS replied (September 2015) that an advertisement for recruitment of full time Director of SAU was published in Newspapers (April 2015), but candidates who applied were not found eligible. Therefore, an advertisement was again published in August 2015.



The reply was not acceptable as the appointment of full time Director, SAU was an essential requisite for its independent functioning, and the posting of CEO of MGNREGA as Director of SAU was in violation of provisions of Social Audit Manual. It also violated the basic principle of independence of audit from the executive.

### 2.1.7.3 Capacity building of Gram Sabha

Para 13.4.3(i) of MGNREGA Operational Guidelines 2013 stipulates that SAU shall be responsible for building capacities of Gram Sabha for conducting Social Audit by identifying, training and deploying suitable resource persons at Village, Block, District and State level. As per VSA Manual issued by MPSSSS, VSAs were required to impart training to GSS and provide them assistance in filling up prescribed formats for summarising findings of Social Audit.

We noticed that 245 VSAs were trained during 2014-15 for conducting Social Audits in 15 Blocks (931 GPs). However, scrutiny of Social Audit Reports of 50 test-checked GPs revealed that the prescribed formats for social audit findings were filled properly in case of two GPs (Khulsan and Chopna) only, while in 48 other GPs the formats were either not properly filled or not filled at all. Thus, MPSSSS could not ensure adequate capacity building at field level which affected the quality of Social Audit.

MPSSSS replied (September 2015) that detailed information regarding filling up of formats were provided to VSAs during training programme. It further added that extra effort would be made to impart complete information regarding filling up of formats.

#### Recommendation

MPSSSS may ensure adequate capacity building of Gram Sabha for conducting social audit by imparting suitable training to various resource persons.

## 2.1.8 Conduct of Social Audit

### 2.1.8.1 Annual Planning for social audit

Para 13.3.1 of MGNREGA Operational Guidelines 2013 stipulates that the SAU shall at the beginning of the year, frame an annual calendar to conduct at least one Social Audit, in each Gram Panchayat, every six months. The copy of the calendar shall be sent to all DPCs for making necessary arrangements.

We noticed that Director, MPSSSS did not prepare annual calendar during 2014-15. However, Director MPSSSS through various communications to DPCs intimated the time periods during which Social Audits were to be conducted during 2014-15.

MPSSSS replied (September 2015) that it did not prepare an annual calendar as Social Audits were conducted in selected blocks only.

The reply was not acceptable as MPSSSS was required to prepare the annual calendar as per provisions of MGNREGA Operational Guidelines 2013 and the calendar could have been prepared at least for the selected blocks.

MPSSSS did not prepare annual calendar for social audit

### 2.1.8.2 Shortfalls in achieving Social Audit coverage

Section 3(1) of Audit of schemes Rules 2011 stipulates that the State Government shall facilitate conduct of social audit of the works taken up under MGNREGA in every Gram Panchayat at least once in six months.

Scrutiny of data of Social Audit conducted by MPSSSS revealed that the Social Audits were not conducted in the State with the prescribed frequencies during 2012-13 to 2014-15, as detailed in **Table 2.1:**

**Table-2.1: Year wise status of Social Audit**

Sl. No	Year	Total No of GPs	Total No Social Audit to be conducted twice in a year	Coverage of Social Audit (per cent with reference to no. of Social audit to be conducted)	Shortfall in Social Audit and per cent of shortfall in compare to total GPs to be audited
1	2012-13	23,010	46,020	81(0.18)	45,939 (99.82)
2	2013-14	23,006	46,012	1,662 (3.6)	44,350 (96.40)
3	2014-15	22,823	45,646	931 (2.04)	44,715 (97.96)
	<b>Total</b>	<b>68,839</b>	<b>1,37,678</b>	<b>2,674</b>	<b>1,35,004 (98.06)</b>

(Source: Information provided by Director, MPSSSS)

**There was 98 per cent shortfall in coverage of Social Audits during 2012-13 to 2014-15**

As evident from table 2.1, the coverage of Social Audit ranged between 0.18 per cent and 3.6 per cent of the required number of Social Audits to be conducted during 2012-13 to 2014-15. Further, Social Audits were conducted in 1,662 GPs in 2013-14, which decreased to 931 GPs during 2014-15.

We further noticed that only one Social Audit was conducted in the GPs instead of two in a year, which was not in accordance with the provisions of Audit of Schemes Rules 2011.

On this being pointed out, Director MPSSSS (June 2015) stated that less number of GPs were covered in Social Audit during year 2014-15, due to unavailability of required resource persons and Panchayat election. MPSSSS further replied (September 2015) that serious efforts were being made to get the posts approved.

The Director was, however, silent about what it was planning to do to improve the frequency of audit, which was pathetically poor.

### 2.1.8.3 Quality Control of Social Audit Report

**There were deficiencies in quality control of Social Audit Reports**

Audit of Schemes Rules 2011 stipulates that SAU shall be responsible for preparing social audit reporting format, resource material, guidelines and manuals for the social audit process. We observed that MPSSSS had circulated a VSA manual and Social Audit Proforma for conducting social audit. Scrutiny of Social Audit Report of 50 test checked GPs revealed that Social Audit Reports did not include findings on the requisite verification exercise included in the Social Audit Proforma, as detailed below:

- **Deficiency in filling up the Social Audit Report format**

As discussed in Paragraph 2.1.7.3, out of the sample selected in Audit the prescribed formats for social audit findings were properly filled in case of only two GPs (Khulsan and Chopna), while in 48 other GPs the formats were either not properly filled or not filled at all.

- ***Physical verification reports of project sites***

Para 13.4.3(vi) of MGNREGA Operational Guidelines 2013 stipulates that Social Audit Teams (comprising concerned VSA and GSS) shall visit project sites under MGNREGS and physically verify whether completed projects match with the information contained in the records of the implementing agencies. The report of physical verification was required to be recorded in the proforma of Social Audit Report.

On being enquired, two GPs (Badgaon and Bagholi) informed that physical verification at project sites was not done. Secretaries of nine GPs<sup>1</sup> replied that physical verification at project sites was carried out, however, the report of physical verification was neither filled in the prescribed proforma nor mentioned in the Gram Sabha proceedings. We, however, noticed that the details of physical verification were mentioned in the proceeding of Social Audit Gram Sabha/prescribed proforma in case of remaining 39 test-checked GPs.

MPSSSS replied (September 2015) that the physical and oral verification were done on the basis of physical verification formats and these were read during Gram Sabha. It further added that instructions would be issued to Secretaries of GPs to keep one copy of such formats in Gram Panchayat office also.

The reply is not acceptable, as two GPs accepted that the physical verification at project site was not done. Further, physical verification reports were not available in nine GPs.

- ***Absence of wall painting containing details of money paid to job card holders***

Para 13.3.4(vii) of Operational Guidelines 2013 envisage that for facilitating conduct of social audit by Gram Sabha, the resource persons deployed by SAU, alongwith primary stakeholders shall verify as to whether details of money paid to all job card holders was painted on the walls of Panchayat office.

We observed that details of payment made to job card holders were found painted on the walls of one GP (Badalpar) while in other 49 out of 50 test checked GPs, the payment made to job card holders were not found painted on the walls. However, this fact was not commented in the respective Social Audit Reports.

MPSSSS replied (September 2015) that the activity of wall writing should be taken up by the implementing agency and MGNREGA Council would be requested to issue an exclusive order in this regard.

The fact remains that the veracity and quality control of Social Audit Reports was not ensured which led to deficiencies in reporting of Social Audit Verification exercise.

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<sup>1</sup> Bangai, Bijoripathar, Chakhla, Chopna, Delakheri, Jamundonga, Kumhadi, Lotia and Muttair of Janpad Panchayat Tamia District Chhindwara

### **Recommendation**

MPSSSS should develop necessary quality control mechanism to ensure that GSS and VSA report their observations with accuracy and completeness in the prescribed Social Audit Report proforma.

#### **2.1.8.4 Social Audit Gram Sabha not chaired in accordance with the provisions of guidelines**

Para 13.3.5 of MGNREGA operational Guidelines 2013 stipulates that a Gram Sabha shall be convened to discuss the findings of Social Audit. The meeting shall be chaired by an elderly villager, who is not a part of Panchayat or any implementing agency.

During scrutiny of Social Audit Reports, we noticed that Gram Sabhas were chaired either by the Sarpanch or by Peon of the Gram Panchayats in five<sup>2</sup> out of 50 test-checked GPs. This was in contravention to provisions of MGNREGA Operational Guidelines 2013, as Sarpanch/Peon, being a part of Panchayat, could not chair the Social Audit Gram Sabha.

MPSSSS accepted (September 2015) that Panchayat Raj Institution member had chaired Social Audit Gram Sabha in certain Gram Panchayats. It would be ensured to avoid such situation in future.

### **Recommendation**

MPSSSS should ensure that Social Audit Gram Sabhas are chaired by persons, who are not part of Panchayat or any implementing agency in order to facilitate candid discussion during the Gram Sabha.

#### **2.1.8.5 Video recording of Social Audit Gram Sabha**

Para 13.3.11 of MGNREGA Operational Guidelines 2013 stipulates that the entire proceeding of Social Audit Gram Sabha shall be video recorded and uploaded on website [www.nrega.nic.in](http://www.nrega.nic.in) without editing. The Video recording would also be stored in the custody of District Programme Coordinator. Para 13.3.5 of MGNREGA Operational Guidelines 2013 provides that decisions and resolutions would be put to vote. However, dissenting opinion must be recorded in minutes.

Scrutiny of Social Audit Reports revealed that Gram Sabha was convened to discuss the Social Audit Reports in all 50 test-checked Gram Panchayats. In seven GPs<sup>3</sup>, video recording of the Gram Sabha Proceedings were done, but the same were not uploaded on the website ([www.nrega.nic.in](http://www.nrega.nic.in)). The proceedings were, however, not video recorded in other 43 GPs out of 50 test-checked GPs.

MPSSSS replied (September 2015) that instructions would be issued to CEOs of Janpad Panchayats for video recording of Gram Sabha and to upload the same on GoI website. Regarding putting the decisions and resolution passed by the Gram Sabha to vote, the Government replied that it would be ensured that all the decisions and resolution passed in Gram Sabha would get mentioned in Gram Sabha proceedings.

**Video recording of Social Audit Gram Sabha proceedings were not done in 43 GPs**

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<sup>2</sup> Bhouraghat, Bijoripather, Dhusawani, Khurmundi and Sirsod

<sup>3</sup> Badalpar, Fatehpur (MA), Ghoradehi, Jagantola (M), Majhgaon (MA), Nagri and Sirsod

### **Recommendation**

MPSSSS should ensure that the proceedings of Social Audit Gram Sabha are video recorded and uploaded on the website of Madhya Pradesh State Employment Guarantee Council.

#### **2.1.8.6 Proceedings of Social Audit Gram Sabha**

Para 13.3.10 of MGNERGA operational Guidelines 2013 that all issues must be recorded in writing and evidence should be gathered for all issues raised during the Social Audit. As per PRDD circular (January 2014), the proceeding of Social Audit Gram Sabha is to be recorded by a government officer nominated by Sub Divisional Officer (Revenue).

We observed that the proceedings of Social Audit Gram Sabha of 19 GPs<sup>4</sup> were not recorded with details of issues discussed. In one GP (Muttair), the proceeding was not recorded. In the absence of video recording of Gram Sabha as discussed in Paragraph 2.1.8.5, the decision and resolution put to vote in these Gram Sabhas could not be vouched in audit.

MPSSSS replied (September 2015) that instructions had been issued to pay full attention to record proceedings of Social Audit Gram Sabha from the next Social Audit.

#### **2.1.8.7 Absence of officials nominated by District Programme Coordinator (DPC)**

Para 13.3.6 of MGNREGA Operational Guidelines 2013 provides that the DPC or his authorised representative shall supervise the Gram Sabha for its smooth conduct.

Scrutiny of Social Audit Reports and related audit findings revealed that nominated officers were not present in six<sup>5</sup> out of 50 GPs.

MPSSSS replied (September 2015) that instructions would be issued to avoid such situation.

#### **2.1.8.8 Social Audit Reports not countersigned by chairpersons**

Para 13.3.12 of MGNREGA operational Guidelines 2013 stipulates that the Social Audit Report must be countersigned by the chairperson of that particular Social Audit Gram Sabha. However, we noticed that the Social Audit Reports were not countersigned by the Chairpersons of the respective Gram Sabhas in 30 out of 50 test checked GPs, as detailed in **Appendix 2.2**.

MPSSSS replied (September 2015) that counter signature of the Social Audit Report by chairperson would be ensured in future.

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<sup>4</sup> Arindia, Badgaon, Bhikewara, Bijoripathar, Boda, Chakhla, Dauriyakheda, Delakheri, Dhusawani, Doifodiya, Dudgaon Basti, Jamundonga, Khapasani, Khulsan, Kumhadi, Kurshidhana, Linga, Nagri, Shitakamt.

<sup>5</sup> Amawahi, Bandhibodal Kachar, Bhouraghat, Doifodiya, Khurmundi and Nagjhiri.

## 2.1.9 Follow up of Social Audit Reports

### 2.1.9.1 Action taken reports on Social Audit findings not submitted to State Legislature

Para 13.4.5 of MGNREGA Operational Guidelines 2013 stipulates that State Employment Guarantee Council (SEGC) shall monitor the action taken by the State Government and incorporate the action taken reports in the annual report to be laid before the State Legislature by the State Government.

On being pointed out, Madhya Pradesh SEGC informed that the status of conducting social audit would be included in the next annual administrative report for the year 2015-16. However, the mechanism developed for ensuring action taken reports on social audit was not intimated to audit.

As regards action taken by State Government on findings of social audit, MPSSSS informed that issues emerged during social audits were resolved by Gram Sabha and District Administration. It further informed that findings of social audit report would be provided to Madhya Pradesh SEGC to get it included in the annual report.

The fact remains that the action taken reports on the social audit were not laid before the State Legislature as provided under MGNREGA Operational Guidelines.

### 2.1.9.2 Submission of summary of findings of Social Audit to Comptroller and Auditor General of India.

Section 3(2) of Audit of Schemes Rule 2011 provides that a summary of findings of Social Audits conducted during a Financial Year shall be submitted by the State Government to the Comptroller and Auditor General of India. However, the summaries of findings on Social Audits for the years 2012-13, 2013-14 and 2014-15 were belatedly submitted (February 2016) to Comptroller and Auditor General of India.

### Recommendation

Timely follow up action on the Social Audit Reports should be ensured in accordance with the Audit of Schemes Rule 2011 and MGNREGA Operational Guidelines 2013.

## 2.1.10 Summary of conclusions and recommendations

- The objective of Social Audit of Schemes was not fulfilled mainly due to severe human resources shortage at State level and field level. There was shortfall of 98 *per cent* in conducting social audits with reference to prescribed frequency of social audits during 2012-13 to 2014-15, as only 2,674 Social Audits could be conducted against the requirement of 1,37,678.

**Recommendation:** State Government may recruit adequate resource persons at various levels for effective functioning of MPSSSS.

- MPSSSS could not ensure capacity building at field level which affected the quality of Social Audit Reports.

Follow up action on Social Audit Reports was either not ensured or belatedly ensured as required under Audit of Schemes Rule 2011 and MGNREGA Operational Guidelines 2013.

**Recommendation:** MPSSSS may ensure adequate capacity building of Gram Sabha for conducting social audit by imparting suitable training to various resource persons.

- The Social Audit Reports were deficient as it did not include findings on the requisite verification exercise included in the Social Audit Proforma. The prescribed proforma were either not properly filled or not filled at all.

**Recommendation:** MPSSSS should develop necessary quality control mechanism to ensure that GSS and VSA report their observations properly in the prescribed Social Audit Report proforma.

- There were some instances where Social Audit Gram Sabhas were chaired by members of Panchayat. Further, video recording of Social Audit Gram Sabha was either not done or not uploaded on the website.

**Recommendation:** MPSSSS should ensure that Social Audit Gram Sabhas are chaired by elderly villagers, who are not part of Panchayat or any implementing agency. It should also ensure that the proceedings of Social Audit Gram Sabha are video recorded and uploaded on the website.

- Follow up action on Social Audit Report was either not being ensured or belatedly ensured by the Government as required under Audit of Schemes Rule 2011 and MGNREGA Operational Guidelines 2013.

**Recommendation:** Timely follow up action on the Social Audit Report should be ensured in accordance with the Audit of Schemes Rule 2011 and MGNREGA Operational Guidelines 2013.

## **Panchayat and Rural Development Department**

### **2.2 Internal Control Mechanism in Panchayat Raj Institutions**

#### **2.2.1 Introduction**

Internal controls are essential for good governance. These are activities and safeguards that are put in place by the management of an organisation to ensure that its activities are proceeding as planned. Internal controls are pervasive and continuous process designed to provide reasonable assurance about the achievement of the objectives of an entity.

As per Section 8 of *Madhya Pradesh Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, establishment of Panchayat Raj consists of three tier arrangement - Gram Panchayat (GP) for a village, Janpad Panchayat (JP) for a Block and Zila Panchayat (ZP) for a District. These Panchayat Raj Institutions (PRIs) have been devolved various functions as enshrined in Eleventh Schedule of the Constitution.

GP consists of elected Panchs from each ward and a Sarpanch, who is the head of the GP. Sarpanch exercises supervision and control over the acts done and action taken by the employees of GP. He is responsible to ensure proper custody and maintenance of records and registers of the GP. Sarpanch is also responsible for safe custody of the GP fund and authorises payments, issue of cheques and refunds. Secretary is the administrative official appointed by the State Government at GP level. He maintains all registers and records prescribed under the Act and rules and byelaws made thereunder.

JP consists of elected members, all members of the State Legislative Assembly returned from the constituencies which wholly or partly fall within the Block, and one-fifth of the Sarpanchs in the territorial area of the Block on a rotational basis for a period of one year. Each JP is headed by a President, who is elected by and from among the elected members. President exercises supervision and control over the acts done and action taken by the employees of the JP. He is responsible for safe custody of the JP fund and authorises payments, issue of cheques and refunds.

Chief Executive Officer (CEO) is the administrative head of JP, who is assisted by Block Development Officer, Assistant Development Officer and administrative staff. CEO is responsible to take action for implementation of resolution of JP, and supervises and controls the execution of all activities of JP. He is authorised to draw and disburse money out the JP fund, as per the financial rules made in this regard.

ZP comprises of elected members, members of Lok Sabha, Rajya Sabha and State Legislative Assembly returned from the district, and all Presidents of JPs in the district. Each ZP is headed by a President who is elected by and from among the elected members. President exercises supervision and control over the acts done and action taken by the employees of the ZP. He is responsible for safe custody of the ZP fund and authorises payments, issue of cheques and refunds.

CEO is the administrative head of ZP, who is assisted by Project Officers, Accounts Officer, Assistant Engineer and administrative staff. He is responsible to take action for implementation of resolution of ZP, and



supervises and controls the execution of all activities of ZP. He is authorised to draw and disburse money out the ZP fund, as per the financial rules made in this regard.

At State level, the Additional Chief Secretary, Panchayat and Rural Development Department (ACS, PRDD) Government of Madhya Pradesh is responsible for providing guidance to all the three tiers of PRIs for proper implementation of Panchayat Raj arrangements.

### 2.2.2 Audit objectives

The objectives of the audit of internal control mechanism in PRIs were to ascertain whether:

- PRIs have properly complied with the internal controls prescribed in relevant Acts, Rules and Regulations;
- records were properly maintained;
- adequate administrative control existed to carry out prescribed internal controls; and
- management periodically reviewed the internal control structure through internal audit and took corrective action.

### 2.2.3 Scope, Methodology and Criteria of audit

Two districts, Chhindwara (scheduled district)<sup>6</sup> and Indore (other than scheduled district) were selected for the audit of internal control mechanism in PRIs. The offices of CEOs, ZPs Chhindwara and Indore, all JPs of these two districts (11 JPs<sup>7</sup> of district Chhindwara and four JPs<sup>8</sup> of district Indore) were covered. Within each JP, ten GPs were selected by Probability Proportional to Size sampling method with size measure as allocation of funds to GPs. Thus, 150 GPs were selected for the audit as detailed in **Appendix-2.3**. The audit covered the period of 2010-11 to 2014-15 and the field audit was conducted during March to August 2015.

The audit criteria to arrive at the audit findings were MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 and rules made thereunder; Panchayat Audit Rules 1997; and instructions/circulars issued by the State Government.

The entry conference was held with the ACS, PRDD on 17 March 2015 to discuss the audit objectives, criteria and audit coverage. The exit conference was held on 8 September 2015 with ACS, PRDD. The replies of the Department have been suitably incorporated in the report.

<sup>6</sup> Districts notified by Government of India as scheduled districts vide Scheduled Areas (State of Chhattisgarh, Jharkhand and Madhya Pradesh) Order, 2003

<sup>7</sup> Amarwara, Bichhua, Chaurai, Chhindwara, Harrai, Junnardev, Mohkhed, Pandhurna, Parasiya, Saunsar and Tamia

<sup>8</sup> Depalpur, Mhow, Indore and Sanwer

## Audit Findings

### Internal control mechanism in Zila Panchayats

ZP, the apex body of PRIs, coordinates the activities of JPs and GPs. According to Section 52 of MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, it shall be the duty of ZPs to prepare annual plans for economic development and social justice of the district and to ensure the coordinated implementation of such plans. It shall co-ordinate, evaluate and monitor activities and guide JPs and GPs, ensure overall supervision, co-ordination and consolidation of the plans prepared by JPs and reallocate to JPs and GPs the funds made available by Central or State Government. ZP is responsible to execute works, schemes and projects through GPs or through the executing agencies.

The audit of internal control of two ZPs Chhindwara and Indore revealed the following:

#### 2.2.4 Compliance with the internal control procedures as prescribed in the relevant Act, Rules and Regulations

##### 2.2.4.1 Delay in preparation and approval of budget estimates

Rule 8 of ZP (Budget Estimates) Rules, 1997 stipulates that the CEO of the ZP, after examination of proposals, about the programmes for the ensuing year received from various Standing Committees and proposed allocation to JP, shall on or before the first day of January each year cause to be prepared an estimate of income and expenditure of the ZP for the next financial year. Rule 13 *ibid* further prescribes that the ZP shall consider and approve the budget estimates by 20 January and submit the same to Panchayat Raj Directorate for approval latest by 31 January. On receipt of budget estimates from the ZP, the Directorate is required to examine the budget estimates and communicate its approval by 15 March.

In test check of records, we noticed that the budget estimates were prepared and approved timely by ZP Indore.

In ZP Chhindwara, we noticed that during the period 2010-11 to 2014-15, there were delays ranging from 57 days to 329 days in submission of budget estimates to the Panchayat Raj Directorate as detailed in **Appendix-2.4**. We further noticed delays in approval of budget estimates at Directorate level. The budget estimates for the year 2011-12 to 2013-14 were approved by the Panchayat Raj Directorate in December 2014, i.e., after the close of the respective financial years to which these budget estimates pertained. Further, the Panchayat Raj Directorate communicated the approval on the Budget estimate for the year 2014-15 with a delay of 298 days.

Thus, the budgetary control, an essential tool to check improper utilisation of fund was poor. Besides, the delays in preparation and approval of budget estimates indicated lack of planning at ZP level.

In the exit conference, the Government replied that instructions would be issued to ZPs for timely preparation and approval of budget estimates.

There were delays up to 329 days in preparation and approval of budget estimates of ZP Chhindwara.

## Recommendation

Budget estimates of ZPs should be prepared and approved within the time schedule prescribed in the ZP (Budget Estimates) Rules, 1997.

### 2.2.4.2 Preparation of unrealistic budget estimates

As per Rule 11 of ZP (Budget Estimate) Rules 1997, the budget estimates should be as close and accurate as possible. A saving in an estimate is as much a financial irregularity as an excess.

During test check of records of ZP Chhindwara and Indore, we noticed large variation between budget estimates and actual income and expenditure (**Appendix-2.5**) which indicated unrealistic budget formulation.

In ZP Chhindwara, the actual income varied from the budget estimates by 21 per cent to 52 per cent during 2010-11 to 2014-15. During this period, the variation in actual vis-à-vis estimated expenditure was from 32 per cent to 51 per cent.

In ZP Indore, the variation between budget estimates and actual income was from 9 per cent to 50 per cent and variation between budget estimates and actual expenditure was from 13 per cent to 54 per cent during 2010-11 to 2014-15.

In the exit conference, the Government replied that instructions would be issued to ZPs for preparation of realistic budget estimates.

### 2.2.4.3 Bank reconciliation statement not prepared

Rule 15 of ZP (Accounts) Rules 1999 envisages that the cash book should be closed at the end of each day and the closing balance signed by Accountant and CEO or such other person as may be authorised by him. As per Rule 25 *ibid*, the aggregate balances of bank register at any given day must tally with the balances as shown in the bank column of the cash book for the same day. A monthly statement of reconciliation of the balances appearing in the bank register has to be prepared. Rule 26 further stipulates that a certificate must be obtained from the bank regarding the closing balance as on 30 September and 31 March each year, which should be compared with the balances in pass book as on that date and half yearly reconciliation of the bank account(s) shall be prepared to arrive at the aforesaid balance.

During test check of records, we observed that bank reconciliation statements were not prepared by ZP Chhindwara during 2010-11 to 2014-15. As on 31 March 2015, 29 banks accounts were maintained by ZP Chhindwara. Out of these, there was difference in closing balance in the cash book and the bank pass book in respect of one bank account (DRDA<sup>9</sup> scheme). The closing balance of DRDA scheme cash book of ZP Chhindwara was ₹ 29.73 lakh, whereas the closing balance of the related bank pass book was ₹ 22.63 lakh. The reason for the difference of ₹ 7.10 lakh in the closing balances of cash book and bank pass book could not be ascertained in the absence of bank reconciliation statement. Thus, ZP Chhindwara had weak internal control over its cash management.

In the exit conference, the Government replied that instructions would be issued to all ZPs to prepare bank reconciliation statement. It further added that the reason for less balances in bank as compared to cash book would be examined.

**Bank reconciliation statement was not prepared by ZP Chhindwara.**

<sup>9</sup> District Rural and Development Authority

## **Recommendation**

ZPs should ensure preparation of bank reconciliation statement as prescribed under ZP (Accounts) Rules 1999.

### **2.2.4.4 Non-furnishing of security deposit**

As per Rule 49 of ZP (Accounts) Rules, 1999, the cashier or the store keeper or any other employee of the ZP, who is entrusted with the custody of cash or store shall furnish security of a minimum amount of ₹ 10,000 or such higher amount as may be fixed by the ZP.

Scrutiny of records revealed that persons entrusted with the custody of cash or store did not furnish the security deposit in both the test-checked ZPs Chhindwara and Indore.

In the exit conference, the Government replied that instructions would be issued to all ZPs to obtain the security deposit.

## **2.2.5 Administrative control**

### **2.2.5.1 Administrative Report not prepared**

As per Section 73 (3) of *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, ZPs were required to prepare and present to the prescribed authority, report of administration every year. Directorate of Panchayat Raj directed (January 2011) CEOs of ZPs to submit the Administrative Report to Commissioner, Panchayat Raj by 30 June each year.

During test check of records, we noticed that Administrative Report was not prepared by ZPs Chhindwara and Indore during the period 2010-11 to 2014-15.

In the exit conference, the Government replied that instructions would be issued to ZPs for preparation of Administrative Report.

### **2.2.5.2 Physical verification of store**

As per Rule 61 of ZP (Accounts) Rules, 1999, physical verification of all the items of stores/dead stock would be carried out on a periodic basis and at least twice in a year by the General Administration Committee. Shortages/excesses, if any, detected on verification would be recorded in the register duly signed and dated by the verifying authority.

During test check of records, we noticed that physical verification of stores/dead stock was not carried out by ZP Chhindwara.

In the exit conference, the Government replied that instructions would be issued to CEOs of ZPs to nominate an officer to carry out physical verification of store as per Rules.

## **Internal control mechanism in Janpad Panchayats**

As per Section 50 of the *MP Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, JP is required to prepare the annual plans in respect of schemes of economic development and social justice entrusted to it by the Act and those assigned to it by the State Government or ZP. JP is also responsible to consider and consolidate the annual plan of all GPs and the JP and submit the consolidated plan to ZP. JP controls and supervises the administration of the

**Administrative Reports were not prepared by ZP Chhindwara and Indore.**

**Physical verification of stores/dead stock was not carried out by ZP Chhindwara.**

community development block or tribal development block within its jurisdiction. The functions and schemes assigned to such block by the State Government are implemented under the superintendence, directions and control of JP in accordance with the instructions issued by the State Government from time to time.

The audit of internal control of 11 JPs of Chhindwara and four JPs of Indore districts revealed the following:

**2.2.6 Compliance with the internal control procedures as prescribed in the relevant Act, Rules and Regulations**

**2.2.6.1 Non-preparation of budget estimates**

As per Rule 11 of JP (Budget Estimates) Rules, 1997, the CEO after examination of proposals about the programmes for the ensuing year received from the various standing committees shall on or before 10 January each year cause to be prepared and laid before the General Administrative Committee of the JP an estimate of Income and Expenditure of the JP for the next financial year. Rule 16 *ibid* further prescribes that JP shall consider and approve the budget estimates before 30 January of each year.

During test check of records, we noticed that JP Depalpur of district Indore did not prepare budget estimates during the period 2010-11 to 2014-15. We further noticed that JPs Indore, Mhow and Sanwer of district Indore and JP Mohkhed of district Chhindwara did not prepare budget estimates in the years 2013-14 and 2014-15. Non-preparation of budget estimates by these JPs indicated lack of planning, besides absence of budgetary control over expenditure.

In the exit conference, the Government replied that instructions had already been issued to all Panchayats for preparation of budget estimates every year.

**Recommendation**

Budget estimates of JPs should be prepared within the time schedule prescribed in the JP (Budget Estimates) Rules, 1997.

**2.2.6.2 Non-preparation of bank reconciliation statement**

Rule 15 of JP (Accounts) Rules 1999 envisages that the cash book should be closed at the end of each day and the closing balance signed by Accountant and CEO or such other person as may be authorised by him. As per Rule 25 *ibid*, the aggregate balances of bank register at any given day must tally with the balances as shown in the bank column of the cash book for the same day. A monthly statement of reconciliation of the balances appearing in the bank register has to be prepared. Rule 26 further stipulates that a certificate must be obtained from the bank regarding the closing balance as on 30 September and 31 March each year which should be compared with the balances in pass book as on that date and half yearly reconciliation of the bank account(s) shall be prepared to arrive at the aforesaid balance.

Nine JPs of district Chhindwara and three JPs of district Indore did not prepare bank reconciliation statements.

During test check of records, we observed that nine JPs<sup>10</sup> out of 11 JPs of district Chhindwara and three JPs<sup>11</sup> out of four JPs of district Indore did not prepare bank reconciliation statement. The differences in the closing balances of cash books and bank accounts in these 12 JPs are detailed in **Appendix-2.6**. We further noticed that:

- In JPs Amarwara and Pandhurna of district Chhindwara, the balances in the bank account as on 31 March 2015 were less in comparison to cash book balance by ₹ 84.99 lakh and ₹ 31.48 lakh respectively. Similarly, in JP Sanwer of district Indore, the balance in the bank account was ₹ 0.37 lakh less in comparison to the cash book balance as on 31 March 2015.
- In JP Indore, the balances in three bank accounts were less in comparison to balances in the respective cash books, as detailed in **Table 2.2**:

**Table 2.2: Closing balances of cash book and bank pass book in JP Indore as on 31 March 2015**

Sl. No.	Name of cash book	Closing Balances		Difference (₹)
		As per cash book (₹)	As per bank pass book/statement (₹)	
1	MP LAD <sup>12</sup>	2,01,803	1,03,286	(-) 98,517
2	Anganwadi Bhawan	73,18,405	70,13,804	(-) 3,04,601
3	Panchayat upkar	4,09,958	4,09,804	(-) 154

The reason for the differences in closing balances of cash book and bank pass books could not be ascertained in the absence of bank reconciliation statements. This reflected weak internal control of JPs over their cash management.

In the exit conference, the Government replied that instructions would be issued to all JPs to prepare bank reconciliation statement. Cases where the balances in bank are less in comparison to cash book would be examined.

### Recommendation

JPs should ensure preparation of bank reconciliation statement as prescribed under JP (Accounts) Rules 1999.

#### 2.2.6.3 Advances not adjusted

As per Rule 49 of JP (Accounts) Rules 1999, it would be the responsibility of the person who has taken any advance to submit a statement of expenditure incurred for the purpose for which the advance was taken immediately after incurring such expenditure failing which the entire amount of advance would be deducted from the next salary or other sums payable to him. Rule 48 *ibid* further lays down that no advances would be made to any person unless the earlier advances has been fully recovered/adjusted.

During test check of records, we observed that advance of ₹ 35.96 lakh was outstanding for recovery from one year to 32 years in nine JPs of district Chhindwara and one JP of district Indore, as detailed in **Appendix-2.7**.

In the exit conference, the Government replied that instructions would be issued for adjustment of advances.

₹ 35.96 lakh of advance was outstanding for recovery for last one year to 32 years.

<sup>10</sup> Amarwara, Bichhua, Chaurai, Harrai, Junnardev, Mohkhed, Pandhurna, Saunsar and Tamia

<sup>11</sup> Depalpur, Indore and Sanwer

<sup>12</sup> Member of Parliament Local Area Development

## Recommendation

JPs should ensure adjustment of advances immediately after incurring the expenditure for which it was granted.

### 2.2.6.4 Security deposit not obtained

As per Rule 44 of JP (Accounts) Rules, 1999, every employee of the JP who is entrusted with the custody of cash or store shall furnish a security of ₹ 10,000.

Scrutiny of records revealed that the CEOs of nine JPs<sup>13</sup> of district Chhindwara and all the four test-checked JPs of Indore did not ensure that security deposits were obtained from persons handling cash.

In the exit conference, the Government replied that instructions would be issued to all JPs to obtain the security deposit.

## 2.2.7 Administrative control

### 2.2.7.1 Monitoring staff

As per Directorate, Panchayat Raj orders (February 2011), Panchayat Coordinating Officers (PCOs) were required to conduct review of all the schemes implemented by GPs and ensure sending monthly progress report to JPs. They were also responsible to ensure that accounts were properly maintained by GPs, budget was prepared and approved timely, bank reconciliation was prepared and store items were purchased after following prescribed procedure etc. State Government was responsible to fill the sanctioned posts of PCOs.

During test check of records, we noticed that out of 35 sanctioned posts of PCOs in three JPs<sup>14</sup> of district Chhindwara, 13 posts (37 per cent) of PCOs were vacant.

In the exit conference, the Government replied that recruitment of PCOs was under process and would be filled in future.

### 2.2.7.2 Physical verification of store

As per Rule 58 of JP (Accounts) Rules, 1999, physical verification of all the items of stores/dead stock would be carried out on a periodic basis and at least twice in a year by the General Administration Committee. Shortages/excesses, if any, detected on verification would be recorded in the register duly signed and dated by the verifying authority.

During test check of records, we noticed that physical verification of stores/dead stock was not carried out by nine JPs<sup>15</sup> out of 11 test-checked JPs of district Chhindwara and any of the four test-checked JPs of district Indore.

In the exit conference, the Government replied that instructions would be issued to CEOs of JPs to nominate an officer to carry out physical verification of store as per rules.

<sup>13</sup> Amarwara, Bichhua, Chhindwara, Harrai, Junnardev, Mohkhed, Pandhurna, Parasiya and Saunsar

<sup>14</sup> Harrai, Junnardev and Mohkhed

<sup>15</sup> Amarwara, Chaurai, Chhindwara, Harrai, Junnardev, Mohkhed, Pandhurna, Saunsar and Tamia

### Internal control mechanism in Gram Panchayats

According to Section 49-A of MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, it shall be the duty of GPs to prepare annual plans for economic development and social justice of the Panchayat area and submission thereof to the JP. GPs are required to ensure execution of schemes, works, projects entrusted to them by any law and those assigned to them by Central or State Government or ZP or JPs.

Ten GPs from each of the 15 selected JPs of districts Chhindwara and Indore were selected for audit. However, out of 150 sampled GPs, 139 GPs could be test-checked. The audit of 9 GPs could not be conducted in Chhindwara district as the records of three GPs (Sajwa, Bhalpani and Khamra) were not handed over to present Secretary by the previous Secretary. In six GPs (Chichkheda, Mohpanimal, Pathri, Silotakala, Kadhैया and Itawa), the GP office was found locked and the Secretary was absent when audit party visited the GP office. Further, two GPs (Palda and Bada Bangarda) of district Indore could not be audited as these were merged in Nagar Nigam Indore.

The audit of internal control of 139 GPs revealed the following:

#### 2.2.8 Compliance with the internal control procedures as prescribed in the relevant Act, Rules and Regulations

##### 2.2.8.1 Non-preparation of budget estimates

As per Rule 5 of MP Gram Panchayats (Budget Estimates) Rules, 1997, GPs is required to consider and approve the draft budget estimates by 21 February each year and submit it to JP by the last day of February each year. As per Rule 3 *ibid*, the GP must explain in detail each budgetary provision and the reason justifying the proposed provision in the budget.

We noticed that none of the 139 test-checked GPs of district Chhindwara and Indore prepared budget estimates in any of the years during 2010-11 to 2014-15. Non-preparation of budget estimates by GPs indicates lack of planning at the GP level. Besides, there was lack of any budgetary control over utilisation of funds in these GPs.

In the exit conference, the Government replied that instructions had already been issued to all Panchayats for preparation of budget estimates every year.

#### Recommendation

JPs should ensure that GPs prepare and submit budget estimates within the time schedule prescribed in the GP (Budget Estimates) Rules, 1997.

##### 2.2.8.2 Non-preparation of Bank Reconciliation Statement and improper maintenance of Cash Book

As per Rule 24 of GP (Accounts) Rule, 1999, the Secretary and the Sarpanch shall ensure that on periodic basis the balances with the bank as appearing in the ledger are compared with the balances shown in the bank statement. The difference, if any in the ledger balances and the balances as per the bank statement shall be reconciled and all the missing entries made in the accounts of the Panchayat. Rule 16 *ibid* stipulates that the cash book should be written

None of the 139 test checked GPs prepared budget estimates during 2010-11 to 2014-15.



on day to day basis and closed at least once a week. The closing balances would be recorded in cash book and would be signed by Secretary/Sarpanch.

**Bank reconciliation was not prepared by the test checked GPs.**

We noticed that none of the 139 test checked GPs prepared the bank reconciliation statement during 2010-11 to 2014-15. Further, 80 out of 139 test-checked GPs informed that cash books were written on the basis of entries of the bank pass book/statement, which was in contravention of Rule 16 of GP (Accounts) Rule, 1999. Thus, GPs had poor internal control over their cash management.

In the exit conference, the Government replied that instructions would be issued to all GPs for proper maintenance of cash book and preparation of bank reconciliation statement.

### **Recommendation**

GPs should ensure preparation of bank reconciliation statement as prescribed under GP (Accounts) Rules 1999. Cash book should be written on day to day basis.

#### **2.2.8.3 Non-furnishing of security deposit**

As per Rule 42 of GP (Accounts) Rules, 1999, every secretary of the GP or Sarpanch or any other panch or such other person, who is entrusted with the custody of the cash or stocks of the Panchayats, shall furnish either in cash or through a guarantee of a person acceptable to the Panchayat, a security of a minimum amount of ₹ 5000 or such higher amount as may be fixed by the Gram Panchayat.

Scrutiny of records revealed that, persons entrusted with the custody of cash or stock did not furnish the security deposit in any of the 139 test-checked GPs.

In the exit conference, the Government replied that instructions would be issued to all GPs to obtain the security deposit.

### **2.2.9 Maintenance of control registers**

#### **2.2.9.1 Non-maintenance of essential records**

As per Rule 55 of Gram Panchayat (Accounts) Rules 1999, details of all immovable properties whether acquired by the GP or transferred to it are required to be recorded in the Register of immovable properties in form GP-13. Rule 56 *ibid* further stipulates that the details of all the items of expendable and issuable nature as also dead stock of non-consumable nature purchased or acquired for use of GP shall be recorded in the Register of Dead Stock in Form GP-14.

**Register of immovable properties and stock registers were not maintained in test checked GPs.**

We noticed that the register of immovable properties and stock registers were not maintained by any of the 139 test-checked GPs. Due to non-maintenance of essential registers, audit could not vouch the details of immovable properties and stores/other dead stocks of test-checked GPs.

In the exit conference, the Government replied that instructions had been issued to all GPs for maintenance of Stock Register.

### Recommendation

GPs should ensure maintenance of records of immovable properties and stock registers in the prescribed forms.

#### 2.2.10 Follow up action on audit observations of Local Fund Audit

As per Rule 3 of the M.P. Panchayat Audit Rules, 1997, the accounts of a Panchayat would be audited annually. Rule 13 *ibid* further stipulates that on receipt of the audit report, the Sarpanch/President/CEO shall sort out the defects or irregularities pointed out in the report and put up the report before the General Administration Committee for a detailed discussion. The Sarpanch/President/CEO, shall after the Panchayat has considered the report, would take further necessary action to rectify the defects or irregularities within the stipulated time, but not later than three months from the date of receipt of audit report and send to the audit authority a detailed report on the compliance of the audit observations. State Government has made Director, Local Fund Audit (DLFA) responsible for audit of accounts of local bodies.

We noticed ineffective monitoring of compliance of observations made by DLFA. The details of pending paragraphs of DLFA (**Appendix-2.8**) revealed 282 paragraphs in ZPs Indore and Chhindwara, and 2,249 paragraphs in 11 JPs<sup>16</sup> of these two districts were pending for settlement as of March 2015. Remaining four JPs<sup>17</sup> did not furnish the details of outstanding paragraphs.

In the exit conference, the Government replied that instructions would be issued to CEOs of ZPs and JPs to ensure compliance and settlement of audit observations.

### Recommendation

PRIs should ensure timely compliance of audit observations of DLFA.

#### 2.2.11 Summary of conclusions and recommendations

- The budgetary control, an essential tool to check improper utilisation of funds, was poor. There were delays in preparation and approval of budget estimates by ZP Chhindwara. Five test-checked JPs and 139 test-checked GPs did not prepare budget estimates.

**Recommendation:** Budget estimates should be prepared and approved within the time schedule as prescribed under the respective rules.

- Bank reconciliation was not done in ZP Chhindwara, 12 JPs and 139 test-checked GPs, which indicated weak internal control over their cash management.

**Recommendation:** PRIs should ensure preparation of bank reconciliation statement as prescribed under the respective rules.

- Advance amounting to ₹ 35.96 lakh was outstanding for recovery in ten JPs for a period varying from one year to 32 years.

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<sup>16</sup> JPs Bichhua, Chaurai, Chhindwara, Harrai, Mohkhed, Pandhurna, Parasiya and Tamia of district Chhindwara and JPs Indore, Mhow and Sanwer of district Indore

<sup>17</sup> JPs Amarwara, Junnardev and Saunsar of ZP Chhindwara and JP Depalpur of ZP Indore

2,531 paragraphs of local fund audit was pending for settlement.

**Recommendation:** JPs should ensure adjustment of advances immediately after incurring the expenditure for which it was granted.

- None of the 139 test-checked GPs were maintaining asset register and stock register.

**Recommendation:** GPs should ensure maintenance of records of immovable properties and stock register in the prescribed form.

- There was ineffective monitoring of compliance of observations made by Director Local Fund Audit, as 2,531 audit observations were outstanding for settlement.

**Recommendation:** PRIs should ensure timely compliance of audit observations of DLFA.

