

Chapter-III

3. An Overview of Technical Guidance and Support operations

3.1 Introduction

The State Government entrusted (May 2011) Technical Guidance and Support (TGS) mandate in respect of Grama Panchayats (GPs) to the Comptroller and Auditor General of India (CAG) under Section 20(1) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 [CAG's (DPC) Act]. The entrustment was initially given for a period of five years from 2010-11 to 2014-15 and the validity was extended for a further period of five years with effect from the financial year 2020-21 to 2024-25. The TGS mandate was extended to Urban Local Bodies (ULBs) with effect from 2011-12.

As per the standard terms, CAG shall provide suitable TGS to primary statutory Auditors of GPs and ULBs viz., the Controller, State Accounts Department (now renamed as Karnataka State Audit and Accounts Department) for strengthening Public Finance Management and Accountability in GPs/ULBs. Sections 120 to 122 of Audit Regulations 2020 issued under section 23 of CAG's (DPC) Act prescribe the areas where TGS support is to be extended i.e., planning, methodology/procedure, advice on improvements to the existing systems followed by the primary Auditor, assistance for developing a system of internal control and training & capacity building. Information in respect of these Parameters is obtained through specific returns/reports to be submitted by the primary Auditor as discussed below.

3.2 Audit Planning

Audit Planning is essential in view of the need to prioritize manpower resources and focus on important aspects. It involves risk analysis of units based on various pre-decided parameters. The KSAAD is required to prepare the Annual Audit Plan (AAP) by the end of March every year for audit of GPs and ULBs in the next financial year and forward it to the offices of Accountant General (Audit) (hereafter referred to as AG(Audit)) of the State.

Chapter IV of the KSAAD manual highlights the importance of risk analysis and usage of sampling in audit:

- A hundred percent audit check is not only highly expensive but also unwarranted as the objective of audit could be well achieved by a test check (Para 68)
- Since it is not possible to verify all the transactions, events, records, *etc.*, the auditor uses risk to narrow down to areas or groups of transactions for audit (Para 69)

Chapter VI of the KSAAD manual deals with the audit planning and manpower allocation to different types of audit units. The number of man-

days allotted for each type of institution is indicated in the **Table 3.1:**

Table 3.1: Number of man days allotted for audit

Sl No	Institution	Man days
1	Gram Panchayat	Maximum 6
2	Town Panchayat	25-40
3	Town Municipal Council	40-50
4	City Municipal Council	150-200
5	Mahanagara Palike	As decided by the Joint Director, LAC, in consultation with the Regional Office

Source: KSAAD Manual

The Audit Plan for the years 2017-18 and 2018-19 submitted by the KSAAD did not indicate any risk analysis conducted before the preparation of the Audit Plan. During the year 2017-18, KSAAD planned to audit 100 *per cent* (6024 out of 6024) of GPs and 100 *per cent* (275 out of 275 ULBs) for the year ended 31 March 2017. However, the number of units actually audited was 5091 GPs and 201 ULBs as of July 2019. Similarly, KSAAD planned to audit 92 *per cent* (5881 out of 6022) of GPs and 98.6 *per cent* (273 out of 277 ULBs) for the year ended 31 March 2018. However, the number of units actually audited was 5297 GPs and 169 ULBs as of July 2019. Further, an attempt to audit such a high number of units reduces the time that can be allotted for each unit. To illustrate, each GP is audited in just 2-3 days, which is low considering the volume of transactions and records to be checked in a GP.

The KSAAD replied (February 2021) that the scope and extent of audit generally depend on the internal control systems in the auditee institutions. It was further stated that the internal control systems in the GPs/ULBs were nonexistent and majority of the financial transactions take place outside the treasury. As the GPs collect the revenue receipts in cash and deposit it into the bank on periodical basis, audit of the entire transactions rather than the test check method is adopted to establish reliability. From the audit year 2021-22, KSAAD will increase the number of man days for GPs from six to eight.

The Indian Audit and Accounts Department (IA&AD) categorizes all units to be audited into High, Medium and Low Risk units based on detailed risk analysis *viz.*, trend of expenditure or receipts, past audit findings or Inspection Reports, five-year plans and working group reports/ Annual plans *etc.*, High risk units are audited annually; the rest of the units are covered over a period of 2-5 years. The risk analysis methodology followed in IA&AD was shared (July 2020) with the primary Auditor through the Finance Department for reference and adoption with modification if any. The detailed guidelines are available in the official website¹² of the CAG.

¹²<https://cag.gov.in/uploads/guidelines/Compliance-Guidelines-approved-final-preface-05de4efef9159d0-85033036.pdf> and <https://cag.gov.in/uploads/guidelines/PAGuidelines2014-05de4f757ca0964-06548165.pdf>

KSAAD may consider adopting this practice.

In its reply, KSAAD stated that, from the audit year 2021-22 it would examine categorization of universities and other institutions based on risk analysis to determine prioritization for taking up audit. The reply was silent about taking up audit of GPs/ULBs based on risk analysis.

3.3 Audit Methodology and Procedure

The audit methodology and procedures for audit of PRIs and ULBs are designed to check compliance with the various Acts and statutes enacted by the State Government and as per the guidelines prescribed by the CAG.

KSAAD was following the system of conducting 100 *per cent* voucher audit. Audit of very high number of the GPs and ULBs in one year and check of 100 *per cent* transactions of each GP/ULB is not feasible due to time/manpower constraints. In IAAD, transactions for a period of two months are selected for detailed check usually based on the importance/magnitude of transactions during the selected month. If any discrepancies are noticed in the selected months, the check of transactions is extended to the other months as well.

KSAAD may consider adopting this practice.

The department stated that for reasons explained in the reply to the earlier para, KSAAD will have to continue with check of 100 *per cent* transactions of each GP/ULB.

3.4 Periodic Returns

The Assessment of the primary Auditor is based on scrutiny of returns in Annexure A to H prescribed by the CAG, local audit reports and scrutiny of records of GPs and ULBs selected for audit under TGS module. The details regarding the returns furnished by the primary Auditor to the AG (Audit) for the years 2017-18 and 2018-19 are given in **Table 3.2:**

Table 3.2 Returns furnished by the primary Auditor

	Name of the return	Periodicity	2017-18		2018-19	
			Due date	Actual date of submission	Due date	Actual date of submission
Annexure A	Annual Audit Plan	Annual	March 2017	16-07-2018	March 2018	16-01-2020
Annexure B	Implementation of Audit Plan	Annual	15-04-2018	16-07-2018	15-04-2019	16-01-2020
Annexure C	Serious Irregularities	Quarterly	15-07-2017 15-10-2017 15-01-2018 15-04-2018	16-07-2018	15-07-2018 15-10-2018 15-01-2019 15-04-2019	16-01-2020
Annexure D	Training Programmes	Half yearly	15 th April 15 th October	16-07-2018	Aug-2018 Feb-2019	16-01-2020
Annexure E	Progress report of IRs & Paras of DLFA	Annual	15-4-2018	16-07-2018	15-4-2019	16-01-2020
Annexure F	Progress report of IRs & Paras of test checked units forwarded by AG to DLFA	Annual	15-4-2018	16-07-2018	15-4-2019	16-01-2020
Annexure G	Consolidated Performance Report	Half yearly	15-10-2017 15-04-2018	16-07-2018	15-10-2018 15-04-2019	16-01-2020
Annexure H	Status of Certification of Accounts	Annual	15-04-2018	Not furnished	15-04-2019	16-01-2020

Source: Information furnished by KSAAD

The department replied that the returns would be furnished as per schedule from the year 2021-22 onwards.

3.5 Copies of Inspection Reports

Copies of Inspection Reports in respect of selected local bodies shall be forwarded by the primary Auditor to the AG (Audit) for advice on system improvements and the AG (Audit) shall review the same with a view to make suggestions for improvement of existing systems being followed by the KSAAD.

The issues noticed during the review of Inspection Reports of KSAAD and results of a more detailed analysis by the AG (Audit) team are discussed in **Para 3.6** below.

3.6 Test check of units audited by primary Auditor

The AG (Audit) conducts test check of some of Panchayat Raj Institutions in order to provide technical guidance. The report of the test check is to be sent to the primary Auditor for pursuance of action to be taken by the local bodies. The primary Auditor is required to pursue the compliance of such paragraphs in the Inspection Reports of the AG (Audit) in the same manner as if these are its own reports.

The department replied that compliance would be pursued with the test checked auditee offices.

During the year 2018-19, AG(Audit) audited 42 GPs and 114 ULBs. The observations thereon are included in the Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2017 and Annual Technical Inspection Report for the year ended March 2018. A list of the observations included in the above two reports are given in **Appendix 3.1** for reference.

3.6.1 Test check of GPs

During the year 2018-19, the primary Auditor had audited 3965 GPs as on December 2018. Among them, AG (Audit) selected 80 GPs (around 2 per cent) subject to completion of primary audit by the KSAAD and based on expenditure incurred during 2015-16 to 2017-18 and the available manpower in the Office of the AG (Audit). The list of GPs test checked is given in **Appendix 3.2**.

During the test check of the units audited by KSAAD, we observed that KSAAD made an observation in respect of GP Diddige which is reproduced in box below:

Review of Inspection Report: KSAAD had noticed the violation of KTPP Act in purchases of Cement and LED lamps made under Gram Vikasa Yojane (GVY) and kept the entire amount of expenditure (₹23.64 lakh) under objection.

The details of observations noticed by AG Audit team on the same issue is as shown below:

Irregularities in purchase of Cement

- During 2017-18, the GP, Diddige purchased cement bags at different rates out of GVY scheme funds from M/s Deeksha Enterprises.
- The GP did not maintain a stock register for watching purchases, receipt and issue of cement.
- There was no need for the GP to purchase cement bags, as the civil works relating to GVY in GP Diddige were entrusted to M/s. Karnataka Rural Infrastructure Development Limited (KRIDL).
- The GP had neither executed any civil work under GVY nor maintained any records in support of the utilisation of cement.
- The GP had furnished bills in support of payments made to M/s. Deeksha Enterprises, Davanagere, for cement bags at ₹675/- per bag which was more than double the market rate of the top brands of cement during the year 2017-18.
- It was evident that the entire payment of ₹6,64,169/- (**Appendix-3.3**) made to M/s Deeksha Enterprises was based on questionable bills and hence needs to be re-examined by the department.

Irregularities in purchase of LED lamps

- During 2017-18, the GP, Diddige purchased 100 LED streetlights amounting to ₹8,22,480 and other fittings for Hurulikatte village from M/s Deeksha Enterprises out of GVY scheme funds.

- The GP did not maintain a stock register for watching purchases, receipt and issue of LED streetlights.
- On physical inspection, only 10 LED lights amounting to ₹74,950 had been installed and remaining 90 LED lights were not traceable.
- The expenditure of ₹7.47 lakh (**Appendix-3.4**) incurred for 90 LED lights (₹8,22,480- ₹74,950 = ₹7,47,530) was doubtful.

Suggestion: It is suggested that the KSAAD may conduct detailed analysis as shown above and bring out the serious irregularities viz. doubtful payments of ₹14.11 lakhs made towards procurements of Cement and LED lamps.

The department replied that the suggestion would be communicated to the Local Audit Circle.

3.6.2 Test check of ULBs

Similarly, during the year 2018-19, the primary Auditor had audited 132 ULBs up to the year 2017-18 as on December 2018. Among them, AG (Audit) test checked 14 ULBs (around 10 *per cent*) during the year 2019-20. As Tumkuru was the only City Corporation audited by the KSAAD, it was selected. Simple Random Sampling method¹³ was adopted for selection of City Municipal Corporations, Town Municipal Corporations & Town Panchayats by applying expenditure incurred as the criteria. List of ULBs test checked are given in **Appendix 3.5**. The category-wise ULBs selected are as under:

Table 3.3: Category wise ULBs audited under TGS

Sl. No	Type of ULB	No. of units audited by KSAAD	No. of units test checked under TGS
1	CCs	1	1
2	CMCs	29	4
3	TMCs	63	4
4	TPs	39	5
	Total	132	14

Source: Information furnished TGS Cell of Audit I

During test check of the units audited by KSAAD, AG audit team noticed the following.

a) Inspection Report of City Corporation, Tumakuru:

Review of Inspection Report: The KSAAD commented on non-collection of rent/outstanding rent receivable

The details of observations noticed by AG Audit team on the same issue is as shown below:

¹³ Random tables were generated for each category of ULB and selected the units from top left to right of the random table.

- Government *vide* its circular dated 26.10.2009 directed that if any commercial establishment was constructed under Infrastructure Development of Small and Medium Towns (IDSMT) scheme or under 10th /11th Finance Commission or under Externally Aided Projects, the same may be leased through auction process. The circular further stated that lease period shall be allowed for 12 years and rent shall be enhanced at the rate of 10 *per cent* after completion of every three years
- If the lessee fails to pay the rent within 10th of the following month, then penalty at two *per cent* on the rent payable for every month shall be levied
- CC, Tumakuru failed to enhance the rental charges at 10 *per cent* after completion of three years from the date of allotment or date of issue of the circular dated 26.10.2009. This resulted in short collection of revenue amounting to ₹38.35 lakh.

Suggestion: It is suggested that KSAAD carry out necessary checks and comment on loss of revenue due to non-enhancement of rent as per Government's circular dated 26.10.2009 which would augment the revenue of the Corporation.

b) Inspection Reports of CMC, Gadag-Betageri, TP, Alanavar and TP, Holalkere:

Review of Inspection reports: KSAAD had pointed out non-maintenance of security deposit/Earnest Money Deposit register.

The details of observations noticed by AG Audit team on the same issue is as shown below

- As per Rule 117 of the Karnataka Municipalities Accounting and Budgeting Rules, 2006, deposits remaining unclaimed for three consecutive financial years after their refunds have fallen due, shall be lapsed. An advice in KMF No 69 shall be prepared by the concerned department and, after obtaining approval from the Municipal Commissioner or Chief Officer as the case may be, it shall be sent to Accounts Department for passing necessary entries in the books of account.
- Such lapsed deposits shall be recognised as income of the ULB in the year when they are so forfeited or lapsed. At the end of each accounting year, the Accounts Department shall, along with the concerned departments, examine such items, and prepare a list of such lapsed deposits.
- The Accounts Department shall obtain Deposit Refund/Adjustment/Lapse Advices from concerned departments in respect of deposits to be lapsed, and pass necessary journal entries, after obtaining the approval of the Commissioner or Chief Officer, as the case may be.

- AG(Audit) noticed in three¹⁴ ULBs that the unclaimed deposits of more than three years old amounting to ₹108.95 lakh was shown in the deposit register but the same was not treated as income of the Corporations.

Suggestion: It is suggested that KSAAD carry out proper check of records and quantify the lapsed deposit amount and treat it as income which would augment the revenue of the Corporation.

The department replied that the suggestion would be communicated to the Local Audit Circle.

c) Inspection report of TP, Holalkere

Review of inspection report: The issue of levy of service charges as pointed out by AG Audit on exempted properties was not noticed /brought out in KSAAD Inspection Report.

The details of observations noticed by AG Audit team on the same issue is as shown below:

- As per Section 94(2) of the KM Act, notwithstanding the exemptions granted under Section 94(1-A), it shall be open to the Municipal Council to collect service charges for providing civic amenities and for general or special services rendered at such rates as may be prescribed.
- The decision taken by the Town Panchayat to collect service charges, quantum of service charges to be levied, list of properties exempted from payment of property tax and the service charges collected there against, besides details on the number of tax returns filed seeking tax exemption from the Chief Officer of the Town Panchayat so far, number of tax returns for which Chief Officer accorded exemption, number of cases rejected by the Chief Officer and intimation sent to property holder to pay the tax amount and the Register maintained for monitoring the above details was not forthcoming.
- As per the statement furnished to audit by the Town Panchayat, there are 58 Public Worship places, 7 Government Schools, 2 State/Central Government office buildings and 2 Government Hospitals in the jurisdiction of Town Panchayat. No information was provided about the collection of service charge from those exempted properties.
- The Chief Officer replied that the issue will be placed in the council meeting and decision will be taken to levy service charge on exempted properties.

Suggestion: It is suggested that KSAAD carry out proper check of compliance with the Acts, Rules or Manuals as pointed out by AG Audit team which would augment the revenue of the Corporation.

The department replied that the suggestion would be communicated to the Local Audit Circle.

¹⁴ CMC Gadag-Betageri (₹99.21 lakh), TP Alanavar (₹6.42 lakh) and TP Holalkere (₹3.32 lakh)

3.7 Internal Control System developed by the Primary Auditor

As per the regulations, the primary Auditor shall develop, in consultation with AG(Audit), a system of internal control in his organization. Chapter II (Audit Concepts) of the KSAAD Audit manual gives details about the Internal Control Framework to be adopted such as executing orderly, ethical, economic efficient and effective operations, complying with applicable laws and regulations, fulfilling accountability obligations and safeguarding resources against loss, misuse and damage. It is suggested that in addition to the practices given in the Manual, maintenance of calendar of returns and peer review of the work between different Local Audit Circles may also be considered for adoption.

3.8 Non-inclusion of TGS aspect in the manual of KSAAD

The KSAAD was governed by the Mysore Local Fund Audit Manual 1967 and other manual/instructions issued from time to time. Due to the amendments to relevant Acts and Rules and major changes in the system of accounting of many of the auditees including GPs and ULBs, the KSAAD manual was revised and submitted to the State Government in November 2014 for approval and the approved manual was brought out in August 2016. Though the audit of GPs and ULBs were entrusted to CAG under TGS with effect from 2010-11 and 2011-12 respectively, this aspect is not mentioned in the manual. Insertion of the entrustment to CAG under TGS module and its terms and conditions in the manual will create awareness among the audit staff of KSAAD and streamline the TGS system and make it more fruitful.

The department replied that the above aspect will be taken into consideration after having review of the provision in the audit manual.

Bengaluru
The

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