

Chapter-I

Accountability framework and financial reporting in Panchayat Raj Institutions

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Rural Development and Panchayat Raj Department

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A Functioning of Panchayat Raj Institutions

1.1 Introduction

Consequent to the 73rd Constitutional Amendment Act (CAA), the State Government enacted the Karnataka Panchayat Raj Act, 1993 (henceforth referred to as KPR Act) to establish three tier Panchayat Raj Institutions (PRIs) - Gram Panchayats (GPs) at the village, Taluk Panchayats (TPs) at the taluk and Zilla Panchayats (ZPs) at the district levels in rural areas of the State. The KPR Amendment Act 2011 inserted sub section (i) under section 246 according to which “The Comptroller and Auditor General shall provide technical guidance and support for audit of accounts under this section in accordance with the provisions of Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971[CAG’s (DPC) Act] and also undertake test check of the accounts of the GPs”. The Act was further amended in 2013 and 2015 and was renamed in 2017 as the Karnataka Gram Swaraj and Panchayat Raj Act, 1993.

Effective functioning of the PRIs is essential in order to address the needs of the people and also for effective implementation of schemes for economic, social and cultural development.

1.1.1 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1**. Population growth in Karnataka in the last decade was 15.60 *per cent*, which was less than the national average of 17.70 *per cent*. The decadal growth rates of urban and rural population were 31.50 *per cent* and 7.40 *per cent* respectively. As per Census 2011, the population of the State was 6.11 crore, of which, women comprised 49.31 *per cent*. The State has 114 backward taluks, out of which, 39 taluks are the most backward.

Table 1.1: Important statistics of the State

Indicator	Unit	State	National
Population	1,000s	61,095	12,10,570
Population density	Persons per sq km	319	382
Urban population	1,000s	23,997	3,77,106
Rural population	1,000s	37,097	8,33,463
Urban population	Percentage	39.28	31.20
Rural Population	Percentage	60.72	68.85
Number of ZPs	Numbers	31*	584 (approx)
Number of TPs	Numbers	233	6,312 (approx)
Number of GPs	Numbers	5,962	2,38,054 (approx)
Gender ratio (females per 1,000 males)	Numbers	973	943
Literacy Rate	Percentage	75.40	73.00

*31st ZP:-Vijayanagara District

Source: Economic Survey Report 2021-22, Census 2011, RDPR Annual Report 2021-22 and Karnataka at a Glance 2021-22.

Karnataka is the seventh largest State in India in terms of geographical area (1,91,791 sq km) and accounts for 5.05 *per cent* of India's population. Rural literacy of the State (68.7 *per cent*) is better than the National literacy rate (67.8 *per cent*). Urban literacy rate (85.8 *per cent*) is also better than national literacy rate (84.10 *per cent*).

1.2 Organisational structure of PRIs

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

1.3 Audit Mandate of CAG with respect to PRIs

In respect of PRIs, the responsibility of the Comptroller and Auditor General of India (CAG) is different in respect of the ZPs and TPs on the one hand and the GPs on the other.

- As per Section 262 of KPR Act, the accounts of the ZP Fund shall be audited by the CAG in accordance with CAG's DPC Act. Similarly, Section 253 mandates that the accounts of TP Fund shall be audited by the CAG in accordance with Section 19(3) of CAG's (DPC) Act and the arrangement is extended every five years. The current extension is up to March 2027. Accordingly, the certification of the accounts of all the ZPs and TPs are undertaken and Separate Audit Reports for each ZP and one consolidated Separate Audit Report for all TPs are being issued. The audit observations on compliance and regularity issues are included in the Audit Report of the CAG.
- The primary audit of GPs is carried out by the Karnataka State Audit and Accounts Department (KSAAD). As per section 246 of KPR Act, the accounts of every GP shall be audited each year by such officer as may be authorised by the Director General, KSAAD. Further CAG is entrusted with Technical Guidance and Supervision (TGS) mandate under Section 20 (1) of the CAG's (DPC) Act, under which, he shall audit and test check the accounts of the GPs.

1.4 Devolution of Funds, Functions and Functionaries

The KPR Act provides for devolution of funds, functions and functionaries along with institutional mechanism and detailed governance framework as envisaged in the 73rd CAA.

1.4.1 Devolution of Funds

The revenue resources of the PRIs include Central Finance Commission (CFC)/State Finance Commission (SFC) grants, assigned revenue and own sources of revenue. Lack of devolution of funds to the PRIs, especially to GPs, has rendered them financially unsustainable as their own sources of revenue were less than two *per cent* of overall financial requirement. They were thus more reliant on the Government grants for their sustainability.

There was a delay in acceptance and implementation of the recommendations of CFCs/SFCs. Audit observed that there were delays in constitution of 2nd SFC by 474 days, 3rd SFC by 327 days and 4th SFC by 1,600 days respectively. The

State Government accepted the recommendations of respective SFCs with a delay ranging from 190 days to 1,284 days. The intervening period between the two SFCs *viz.*, 2002-03 to 2005-06 and 2017-18 were covered under respective previous SFCs recommendations. The State is still under 4th SFC regime instead of 6th SFC (4 states¹ are under 6th SFC regime). The institutional measures to consolidate the financial and accounting aspect were not fully implemented. Delay in implementation of SFCs affected the financial resource of PRIs due to non-discharge of incremental assigned grants/revenues during the intervening period. Further, an Action Taken Report on the recommendations of the SFCs which was required to be placed in the Legislature within six months, indicating the modification or acceptance and implementation was not placed.

The constraints in levying and collecting property tax and other taxes were not addressed by the Government as the right to levy and collection of property tax by GPs in the industrial areas was transferred to Karnataka Industrial Areas Development Board (KIADB)/Electronics City Industrial Township Authority (ELCITA). The concerned GPs are yet to realize property tax/building license fee of ₹ 30.03 crore collected by them.

The potential revenue avenues within PRI jurisdictional limits such as Betterment tax, Professional tax, Market fee, *etc.*, of GPs were not transferred to PRIs and requisite NOCs from GPs were not insisted upon.

1.4.2 Devolution of Functions

Section 58 of the KPR Act empowers the GPs to perform 31 functions as specified in the Schedule-I of the Act. Similarly, Section 145 and Section 184 empowers TPs and ZPs to perform 30 functions and 28 functions as specified in the Schedule-II and Schedule-III of the Act respectively. Though, the State Government transferred all the 29 functions (**Appendix 1.2**) as listed in the 11th Schedule to the PRIs, the activity map for distribution of all the functions among GPs, TPs and ZPs was devised only in November 2016. The Activity map is given in **Appendix 1.3**.

1.4.3 Devolution of Functionaries

The PRIs were not assigned powers to assess, recruit, define Cadre and Recruitment Rules (C&R rules), regulate pay and allowances, initiate disciplinary action and transfer functionaries except in the case of Group 'C' and 'D' posts.

Though the PRI functionaries of various line departments were brought under purview of RDPR, control over functionaries *viz.*, recruitment, transfer and disciplinary proceedings still lie with the State Government. Thus, there exists dual control over PRI functionaries.

The Third SFC highlighted the necessity of including the cadre of Extension Officers/Field Extension Officers in the C&R Rules, who will guide and work at Taluk/GP level for better implementation of various Government schemes.

However, Audit observed that the Karnataka General Services (Panchayat Raj Department Cadre and Recruitment) Rules, 2020 notified in July 2021 did not include the posts of Extension Officers and Field Extension Officers which was

¹ Assam, Bihar, Punjab and Rajasthan.

not in conformity with the SFC recommendation. The permanent cadre to function within the purview of the PRI was not constituted by the Government. The State Government accepted (May 2023) the audit comment.

As per Rashtriya Gram Swaraj Abhiyan (RGSA) Framework, the States are required to prepare detailed Annual State Capacity Building Plans for PRIs in accordance with the Guidelines and submit them to the Ministry of Panchayat Raj (MoPR) for appraisal and approval. Such annual plans are required to be developed by the State following a need assessment and a process which must include extensive consultation with Elected Representatives, Panchayat Functionaries and other stakeholders concerned. Audit observed that Abdul Nazir Sab State Institute of Rural Development and Panchayat Raj did not conduct Training Needs Assessment (TNA) annually and relied on TNA of 2015-16 for conducting trainings till 2020-21.

The State Government accepted (May 2023) that TNA was not conducted annually. Non conducting of TNA on annual basis and non-preparation of perspective plan defeated the objective of capacity building exercise.

1.5 Formation of Committees

1.5.1 Standing Committees

Sections 61, 148 and 186 of KPR Act provides that each GP, TP and ZP shall constitute Standing Committees from among its members by election and headed by *Adhyaksha* of respective PRIs. The Standing Committees shall perform the functions as delegated to them by the respective PRIs. The details of the roles envisaged for the Standing Committees are detailed in **Appendix 1.4(a)**.

Audit observed that the Standing Committees were not formed in 23 GPs as shown in **Appendix 1.4(b)**.

The State Government stated (April 2024) that necessary action has been taken to form the Standing Committees. However, records relating to the formation of Standing Committees were not furnished to audit.

1.5.2 District Planning Committee

Article 243ZD of the Constitution requires District Planning Committees (DPC) to consolidate the plans prepared by the Panchayats and Municipalities in the district and to prepare a District Development Plan (DDP) for a district as a whole.

The DDP was to be forwarded to the State Government through the Decentralized Planning and Development Committee (DPDC)² for integration into the State plan. Further, the DPC was to conduct meetings regularly. Funds for the DPCs were to be mobilized through annual contributions from the rural and urban local bodies.

² As per Section 310 B of the Karnataka Gram Swaraj and Panchayat Raj Act, the Karnataka Decentralised Planning and Development Committee must be constituted to review the development plan and annual economic plan of local bodies. The Chief Minister is the Chairman and Ministers of RDPR, UDD, Finance Department and Planning are the members.

Audit observed that DPC³ was not functioning in any of the districts and no meetings were being conducted resulting in non-preparation of consolidated DDP for the district. The sectoral plans are not prepared as the DPCs were non-functional.

The State Government replied (May 2023) that DPC meetings were not conducted due to COVID pandemic and the same will be conducted in due course. The reply is not acceptable as non-constitution and non-function of DPCs were observed even during the pre-pandemic period. Such non-formation and non-conduct of DPCs to prepare DDP is not explainable despite having the resources at their disposal.

1.6 Delegation of financial powers

The GP consists of elected members, one member for every four hundred of the population or part thereof of the panchayat area. Two members are chosen among the elected members to be *Adhyaksha* and *Upadhyaksha*. *Adhyaksha* is the executive head of the GP. Apart from the elected members, each GP shall have a whole time Panchayat Development Officer (PDO) and Secretary who shall be the officials of the Government and such other officials appointed by the Government.

Rules 77 and 80 of Karnataka Panchayat Raj Gram Panchayat (Budgeting and Accounting) Rules, 2006 [KPRGP (B&A) Rules] provides for delegation of financial powers with respect to sanction of estimates for developmental works of GP. The details are given in **Table 1.2**. The delegation of financial powers was being followed in the test checked GPs.

Table 1.2: Delegation of Financial Powers

Particulars	Authority	Financial Powers
Technical Sanction	GP Engineer	Up to ₹25,000/-
	Assistant Executive Engineer of ZP Sub-division	> ₹25,000 < ₹4,00,000
	Executive Engineer	> ₹4,00,000 < ₹10,00,000
	Superintending Engineer	₹10,00,000 and above
Administrative Sanction	<i>Adhyaksha</i> of GP	Does not exceed ₹5,000 provided GP has delegated such powers to <i>Adhyaksha</i> by means of a resolution.
	Gram Panchayat	> ₹5,000 < ₹10,00,000
	Chief Executive Officer of ZP	> ₹10,00,000 < ₹30,00,000
	Government	> ₹30,00,000

Source: KPRGP (B&A) Rules

1.7 System of Accounting in Panchayat Raj Institutions

1.7.1 System of Accounting in GPs

The annual statement of accounts of GPs comprises Receipt and Payment accounts, Income and Expenditure accounts and Balance Sheet in the prescribed forms. The accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under KPRGP (B&A) Rules. The annual

³ Out of the selected eight districts, only five districts have constituted DPC.

financial statement and the note on accounts shall be placed before the GP for its consideration and approval before 30 June of the succeeding year.

The Government of Karnataka (GoK) through National Informatics Centre developed a software called 'Panchatantra' to promote transparency in governance and make available all information. The Panchatantra is a web-based application with 3- tier architecture for implementing the double entry accounting system as well as for meeting the basic requirement of the GPs. The software was implemented in all the GPs with effect from 2012-13. GP-wise income and expenditure statement and balance sheet can be viewed in Panchatantra. Various reports maintained by the department are also available in the portal. All the GPs are using the Panchatantra for their day-to-day accounting transaction.

The State Government replied (April 2024) that Panchatantra 2.0 has been developed for accounting in GPs and it is operational.

1.7.2 System of Accounting in ZPs and TPs

Financial reporting in PRIs is a key element of accountability. Matters relating to drawl of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by ZPs and TPs are governed by the provisions of KPR Act, Karnataka Zilla Panchayat (Finance and Accounts) Rules, 1996 [KZP(F&A) Rules], Karnataka Panchayat Raj Taluk Panchayats (Finance and Accounts) Rules, 1996 [KPRTP (F&A) Rules], Karnataka Treasury Code (KTC), Karnataka Financial Code (KFC), Manual of Contingent Expenditure, Karnataka Public Works Accounts Code (KPWAC), Karnataka Public Works Departmental Code (KPWDC), Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

Annual accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt Deposit and Remittance (DDR) heads as prescribed vide Rule 37(4) read with appendix-I of KZP (F&A) Rules and Rule 30(4) read with appendix KPRTP(F&A) Rules. As per the recommendations of 13th CFC, PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by Government of India.

ZPs prepared the accounts in MPAS format from 2011-12 onwards. Out of 31 ZPs, 30 ZPs have prepared MPAS completely in the prescribed formats and ZP, Bidar has not furnished MPAS format of accounts during 2021-22. Also, 42 TPs had not prepared the annual accounts in MPAS format during 2020-21 and 35 TPs during 2021-22 and thus, defaulted in complying with the norms, as detailed in **Table 1.3**.

Table 1.3: Status of annual accounts of TPs in MPAS format

Year	Number of TPs which submitted annual accounts	Number of TPs not prepared accounts in MPAS format
2019-20	162	42
2020-21	172	42
2021-22	171	35

Source: Annual accounts of TPs

The State Government replied (April 2024) that directions were issued to all ZPs and TPs for preparing Annual accounts in MPAS format.

1.7.2.1 Status of accounts in ZPs and TPs

KPR Act stipulates that the annual accounts are to be prepared and approved by the General Body of PRIs within three months from the closure of the financial year and are to be forwarded to the Accountant General/Principal Director of KSAAD to conduct audit.

The delay in submission of annual accounts by ZPs and TPs for the years 2019-20 to 2021-22 is exhibited in **Table 1.4**.

Table 1.4: Delay in submission of annual accounts by ZPs and TPs (as of March 2023)

Delay	Number of ZPs			Number of TPs		
	2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
No delay	03	03	03	07	20	35
1 to 30 days	02	04	06	46	42	34
31 to 60 days	07	07	05	18	28	22
61 to 100 days	12	05	10	14	17	17
More than 100 days	06	11	05	80	65	63
Total submitted	30	30	29	165	172	171
Not submitted	00	00	01	11	09	62

Source: Compiled from Annual Accounts received by this Office.

The State Government replied (April 2024) that circular has been issued to all ZPs and TPs for preparing Annual accounts within the stipulated time.

1.7.2.2 Deficiencies in accounts of ZPs and TPs

Significant deficiencies noticed in the accounts of ZPs and TPs during 2020-21 and 2021-22 are detailed below:

- The GoK withdrew (October 2006 and June 2007) the Letter of Credit (LoC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREDS). Consequently, both the divisions had stopped issuing cheques. However, the annual accounts of ZPs for the year 2020-21 and 2021-22 continued to reflect balances relating to earlier period as detailed in **Appendix 1.5**. This indicated that ZPs had not reconciled the encashed cheques with treasuries, resulting in incorrect reporting of expenditure. Though these deficiencies were brought to notice of the Government through previous ATIR (2017-18), no action had been initiated to rectify the same.
- Though GoK dispensed with (September 2004) the system of operation of TP and GP suspense accounts by ZPs, they continued to depict the balances outstanding for the years 2020-21 and 2021-22 as detailed in **Appendix 1.6**.

The State Government accepted (April 2024) the deficiencies in the Annual Accounts of ZPs and TPs.

1.8 Financial Profile

1.8.1 Resources of the PRIs

The resource base of PRIs consists of own revenue, SFC grants, CFC grants, GoK grants and Government of India (GoI) grants for maintenance and development purposes. The fund details of flagship schemes are given in **Appendix 1.7**.

The trends of resources of PRIs for the period 2019-20 to 2021-22 are shown in **Table 1.5**.

Table 1.5: Trends and composition of resources of PRIs

(₹ in crore)

Particulars	2019-20	2020-21	2021-22
ZPs			
State Grants/Assigned Revenue	172.07	172.07	172.07
Grants from GoI for Centrally Sponsored Scheme [#]	39.78	*4,671.21	**2,143.30
Central Finance Commission	0	160.85	118.85
Other Receipts	12,090.49	12,466.37	12,494.90
Total	12,302.34	17,470.50	14,929.12
TPs			
State Grants/Assigned Revenue	361.89	411.89	461.89
Central Finance Commission	0	321.70	237.70
Other Receipt	20,762.07	20,890.44	22,783.94
Total	21,123.96	21,624.03	23,483.53
GPs			
Own Revenue	688.71	683.02	812.20
State Grants/Assigned Revenue	902.99	902.99	902.99
Central Finance Commission	2,507.88	2,734.45	2,020.45
Other Receipt	2,337.80	2,072.84	2,113.41
Total	6,437.38	6,393.30	5,849.05

Source: IFA, RDPR

*Figure pertains to 30 ZPs, **Figure pertains to 29 ZPs (Provisional).

Total figures of CSS expenditure incurred by ZP/TP/GP are exhibited under ZP.

The GPs are vested with the power to levy taxes and collect fees and implement GP Sector schemes. The TP and ZPs are vested only with powers to exercise supervisory roles in implementation of PRI schemes.

1.8.2 Application of Resources by PRIs

The trends of application of resources of PRIs for the period 2019-20 to 2021-22 are given in **Table 1.6**.

Table 1.6: Application of resources

(₹ in crore)

Particulars	2019-20	2020-21	2021-22
ZPs			
State Grants/Assigned Revenue/ other receipts	12,104.59	11,811.55	8,476.47
Grants from GoI for CSS	39.78	5,110.43^	3,610.92^^
Central Finance Commission*	0	21.26	113.73
Total	12,144.37	16,943.24	12,201.12
TPs			
State Grants/Assigned Revenue/ other receipts	21,126.99	21,308.70	16,653.59
Central Finance Commission*	0	82.72	222.81
Total	21,126.99	21,391.42	16,876.40
GPs			
State Grants/Assigned Revenue/ other receipts	4,841.06	5,040.75	2,387.29
Central Finance Commission	2,507.88	838.28	1,884.16
Total	7,348.94	5,879.03	4,271.45

Source: IFA RDPR.

*includes Basic (Untied) Grant and Tied Grant Expenditure

^Figure pertains to 30 ZPs

^^ Figure pertains to 29 ZPs.

It can be seen from **Tables 1.5** and **1.6** that the expenditure against the available funds by the ZPs, TP and GPs for the year 2021-22 were 82, 72 and 73 *per cent* respectively indicating underutilization of funds.

1.8.3 Release of duty on transfer of immovable properties

As per Section 205 of KPR Act, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of three *per cent* of the duty imposed by the Karnataka Stamp Act, 1957 on instruments of sale, gift, mortgage, exchange and lease in perpetuity, of immovable property situated within the limits of the area of a TP. The Additional stamp duty (ASD) collected for the above transactions shall be passed on to TPs in the State, in proportion to the population of the taluk, by the Inspector General of Registration and Commissioner of Stamps (IGR&CS) duly deducting 10 *per cent* towards collection charges.

Audit observed that the ASD receipt credited to particular TP was less than the ASD released by IGR&CS in 40 and 49 TPs during 2020-21 and 2021-22 respectively and in 32 and 18 TPs, the ASD was not credited by Treasury Network Management Centre during the year 2020-21 and 2021-22 as detailed in **Appendix 1.8**.

The reasons for non-crediting of ASD as apportioned by IGR&CS to various TPs were not forthcoming from the records.

The State Government, while accepting (June 2024) the audit findings, did not furnish reasons for not crediting the apportioned revenue to the TPs.

1.8.4 Status of transfer of non-tax revenue to PRIs

- 14th CFC recommended that the States should review the position and prepare a clear framework of rules for the levy of Betterment tax (Developmental Charges).

Audit observed that no Betterment Tax (Developmental Charges) framework was prepared by the Government, nor such provision existed in the KPR Act. However, Audit noticed that such provision exists in Karnataka Municipal Corporation Act, 1976 (KMC Act) empowering the Urban Local Bodies (ULB) to levy and collect such tax. In line with ULBs, PRIs also can be handed over this source of revenue.

- 14th CFC stipulated that the professional tax may be a major source of income for the local bodies and also recommended to assign this tax to the rural local bodies. Further, 15th CFC has also emphasized increasing the limits of Professional Tax by amending Article 276(2) of the Constitution.

Audit observed that GoK neither assigned Professional Tax to PRIs nor enhanced the limits unlike in the States of Tamil Nadu, Kerala, Haryana, Andhra Pradesh, Telangana, and Orissa where this revenue has been assigned to PRIs. Non-assignment of this revenue in the State led to loss of revenue to that extent.

- Section 69 of the KPR Act prescribes that no place within the jurisdiction of a Gram Panchayat shall be used as a shop whether permanently or temporarily, other than a shop referred to in section 68 and 69 under a license granted or renewed by the Gram Panchayat by collection of license fee.

However, Audit observed that GPs did not collect Market fee from APMC yards during the audit period, wherein, such license fee was collected by the Agriculture Department under rule 76(1) of Karnataka Agricultural Produce Marketing (Regulation and Development) Rules, 1968 [KAPM (R&D) Rules]. Consequent upon the enactment of the KPR Act, KAPM (R&D) Rules was not amended resulting in the loss of revenue for the Gram Panchayats.

1.9 Internal Control System of PRIs

Internal control mechanism is an integral function of an organization which helps it to govern its activities effectively and achieve its objectives. It is intended to provide reasonable assurance of proper compliance of Acts and Rules. Various internal control measures would minimize the risk of errors and irregularities.

As per the regulations, the primary auditor shall develop, in consultation with CAG, a system of internal control in the 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, 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.

An Internal Audit wing is required to be established in the RDPR by the State Government. However, Audit observed that the same was not formed.

The State Government stated (April 2024) that Internal Audit wing in the districts is functioning under the Chief Accounts Officers of respective ZPs. The process to establish Internal Audit wing in the RDPR, by the State Government, has been initiated but due to the shortage of staff it was not convenient enough to frame the Internal Audit Wing.

1.9.1 Non-reconciliation of Cash book by various TPs

As per Article 293(b) and 329 of KFC, TPs are required to reconcile the difference between cash book balances and Bank balances at the end of each month and each year in the respective scheme-cash book.

However, it was seen in the test checked TPs for the year 2021-22 that the Internal Control systems such as non-reconciliation of scheme's cash book *etc.*, were inadequate in the TPs as detailed below in **Table 1.7**.

Table 1.7: Details of non-reconciliation of Scheme cash books in various TPs

Name of the District	Name of the TP	Name of the Scheme
Vijayanagar	Hosapete	NRLM, SBM, EO-TP-Est, ANSSIRD-Training, Meeting Hall Rent and Hampi Utsav
Tumakuru	Koratagere	RGCY, NRLM, Anganawadi, 15 th Finance, MGNREGA and ANSSIRD-Training
Kalaburagi	Sedam	Housing, 15 th Finance, NRLM and SBM
Koppal	Koppal	12 th Finance, 13 th Finance, Gram Swaraj, Stree Shakti Yojane, General Account and Biodiversity
	Gangavathi	General Account, MGNREGA, 15 th Finance, Anganawadi Toilet, 12 th Finance, 13 th Finance and SBM
Vijayapura	Vijayapura	15 th Finance, Suvarna Gramodaya, SBM, NRLM, RGCY and ANSSIRD-Training
	Sindagi	SBM, 15 th Finance and Housing scheme
	Indi	15 th Finance, 13 th Finance, SDP, RGCY, NRLM, TP Quarters, ANSSIRD-Training, Biodiversity and SBM
	Basavanabagewadi	15 th Finance, Commercial Complex, Samarthya Soudha, Samarthya Soudha Rent, SBM, Suvarna Gramodaya, ANSSIRD-Training and MGNREGA-Admn.
	Muddebihal	15 th Finance, TP & GP members honorarium, SBM, ANSSIRD-Training, Biodiversity, TP shop rent, Suvarna Gramodaya, Gram Swaraj, 12 th Finance (Building & maintenance) and 12 th Finance.

Source: Records of test-checked TPs

The State Government stated (June 2024) that meetings have been conducted to carry out the reconciliation and year ending process within a stipulated time.

1.10 Vigilance Mechanism

1.10.1 Ombudsman

As per the recommendations of the 13th CFC, the State Government was required to put in place a system of independent local body Ombudsman to investigate complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials. The Ombudsman would submit reports on such investigations to the Lokayukta who would forward the report with his recommendations to the Governor.

As per Section 30, Schedule 1 of the Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA), the States were mandated to appoint an Ombudsperson for each district for receiving grievances, enquiring and passing awards. The Chief Secretary of the State heads the selection committee of Ombudsman, appointed for two years' tenure which is extendable by two years.

As of February 2023, 30 regular Ombudsmen were appointed for 31 districts. In Gadag district an in-charge Ombudsman was functioning since 2021-22.

Ombudsman conducts enquiries on all the complaints in the implementation of the scheme and also recommends for recovery of the misappropriated amount, if any. As per the mandate, the said amount shall be recovered, and disciplinary proceedings shall be completed within six months.

As of March 2022, ₹11.81 crore was recommended for recovery, out of which ₹3.51 crore was actually recovered and ₹8.30 crore was pending for recovery.

The State Government accepted (April 2024) the audit findings.

1.10.2 Social Audit

The GoK notified (January 2012) and implemented Social Audit Rules, 2011. Accordingly, the Social Audit Directorate headed by the Director was formed and registered (May 2012) under the Societies Registration Act, 1960. The details of Social Audit taken up during the years 2020-21 and 2021-22 is given in **Table 1.8**.

Table 1.8: Details of Social Audit conducted

Sl. No	Name of the scheme	Whether social audit conducted or not	Mandate	Periodicity	Number of GPs Audited	
					2020-21	2021-22
1	MGNREGA	Yes	MGNREG Act, 2005	Twice a year in each GP	3,055 GPs in 1 st Round	5,916 GPs in 1 st Round (target 50 per cent of total GPs)
					5,862 GPs in 2 nd Round	5,868 GPs in 2 nd Round
2	14 th /15 th CFCs	Yes	Guidelines issued during Training	Once in a year	5,446 GPs	5,916 GPs
3	Pradhan Mantri Awas Yojana-Gramin (PMAY-G)	Yes	Scheme guidelines on social Audit	Conducting Social Audit as per the demand from the department concerned.	5,679 GPs	Not conducted
4	National Social Assistance Programme (NSAP)	No	6.10 of scheme guidelines	Once in a year	Nil	Nil
5	Public Distribution System	No	Section 28 National Food Security Act, 2013	Once in a year	Nil	Nil

Sl. No	Name of the scheme	Whether social audit conducted or not	Mandate	Periodicity	Number of GPs Audited	
					2020-21	2021-22
6	National Rural Livelihood Mission (NRLM)	No	As per 5.1 of Scheme guidelines	Once in a year	Nil	Nil
7	Mid-day Meal (MDM)	Yes	As per Education department request	Once in a year	Nil	93 schools
8	Swachh Bharath Mission (SBM)	No	As per 5.2.10 of Scheme guidelines	Once in a year	Nil	Nil

Source: Information furnished by the Director, Social Audit

Audit observed that as per information provided by Social Audit Directorate, there were Eight schemes for which Social Audit was envisaged by the Scheme guidelines. The Social Audit Directorate was constituted as a Society (Karnataka State MNREGA Social Audit Society) with the objective of Social Audit of MGNREGA. The 15th FC scheme guidelines provided that Social Audit Unit set up under MGNREGA Audit of Scheme Rules, 2011 shall also facilitate the Social Audit. The Directorate conducted Social Audit in respect of these two schemes (MGNREGA and 14th/15th CFC schemes). In respect of MGNREGA for the year 2020-21 (first round), the coverage was less than 50 *per cent* (3,055 GPs). There was shortfall in respect of 14th/15th FC scheme. In respect of MDM, the audit was conducted at the request of the Department. Social Audit was not conducted in respect of other schemes *viz.*, National Social Assistance Programme, Public Distribution System, National Rural Livelihood Mission and Swachh Bharath Mission during 2020-21 and 2021-22.

The Directorate stated (February 2023) that due to delay in release of funds by the Ministry of Rural Development, COVID pandemic and non-production of records by certain GPs, there was shortfall in conducting Social Audit.

1.10.3 Lokayuktha for PRIs

As per Section 286 of KPR Act, every member of GP, TP or ZP and every officer and servant employed under them shall be deemed to be a public servant within the meaning of Section 21 of the Indian Penal Code and Prevention of Corruption Act, 1988 for the time being in force. Further, as per Karnataka Lokayuktha Act, 1984 (Act No. 4 of 1985), if satisfied that the allegations against a public servant is *prima facie* true and makes a declaration that the post held by him, and the declaration is accepted by the Competent Authority that the public servant has committed any criminal offence, prosecution may be initiated without reference to any other authority.

The RDPR stated (February 2023) that there was no separate cell dealing exclusively with cases relating to complaints against the officials of PRIs. Further, it stated that during 2021-22, total cases registered relating to PRIs was 1,917 against which 1,271 cases were disposed.

The State Government confirmed (April 2024) the facts and figures.

B. Financial profile and Reporting

1.11 Reporting framework

Functioning of Finance/Accounts section of PRIs

- Section 30(1) of KZP (F&A) Rules stipulates that the Chief Accounts Officer (CAO) shall be Head of the Finance Wing of ZP. He shall work directly under Chief Executive Officer (CEO) and assisted by Accounts Officer, Accounts Superintendents and other Staffs as may be necessary in carrying out the function assigned to under these rules. Section 30(2) emphasise that the CAO will be in overall charge of the work relating to the Finance, Budget and Accounts of the ZP.
- Section 25(1) of KPRTP(F&A) Rules stipulates that the Executive Officer (EO) will be in overall charge of the work relating to the Accounts of the TP. The EO will be assisted by an Accounts Superintendent and Accounts Assistants.
- Section 111 of KPR Act stipulates that there shall be a whole time Panchayat Development Officer (PDO), Secretary and other officials appointed by the Government in each GP. The Secretary and the other officials shall assist the PDO in the discharge of his duties.

The Secretary shall be responsible for preparation of budget estimates, monthly accounts, half yearly accounts, trial balances, matters relating to drawal and expenditure of funds, maintenance of accounts and rendering of accounts as per the provisions of KPRGP (B&A) Rules.

The PDO shall submit the monthly accounts, furnish returns, statement of accounts and such other information when called for by the GP, Government or the auditor.

1.11.1 Variation in amount released by RDPR Department and received by ZP under 15th CFC Grant

Audit observed variations between the funds released by RDPR to each ZP and their accounting by ZPs during 2020-21 and 2020-22 under 15th CFC in 30 ZPs and 18 ZPs respectively as detailed in the **Appendix 1.9 and Appendix 1.10**.

While 25 ZPs had short accounted the funds to an extent of ₹34.31 crore, five ZPs ⁴ did not account any receipts to an extent of ₹23.58 crore during 2020-21 and during 2021-22, 18 ZPs accounted excess receipts to the extent of ₹1.93 crore.

The State Government stated (June 2024) that the funds were released to the districts as per the allocation from the Central Government. The reply is not tenable as it did not address the variation in accounting of funds.

⁴ Chamarajanagar, Chikkamagaluru, Uttara Kannada, Vijayapura and Yadgir.

1.11.2 Irregular retention of (10th to 14th CFC) funds - non-adherence to the instructions of RDPR.

RDPR issued (August 2016) instructions to all the ZPs/TPs to remit the unspent amount including interest in respect of closed and in-operative scheme accounts to the HOA '0515-00-800-0-03 - other receipts.

However, review of bank accounts appended to the Annual Accounts for the year 2021-22 showed that funds relating to previous CFCs (10th to 14th) were continued to be depicted in the annual accounts of ZPs/TPs to the tune of ₹29.35 crore without remitting it to the Government account as detailed in **Appendix 1.11** and **Appendix 1.12**.

Audit also observed that though the 14th CFC Grants were to be released to GPs, two ZPs, Bengaluru Urban (₹3.58 crore) and Shivamogga (₹10.35 lakh) had exhibited balances in the 14th FC which was irregular and in violation of CFC guidelines. The non-remittance thus resulted in blocking/accumulation of funds to the tune of ₹29.35 crore in the ZPs/TPs accounts.

Though the State Government accepted (June 2024) the finding, no action was initiated to get the unutilised funds from the respective ZPs/TPs.

1.11.3 Shortfall in 15th CFC Grants

Audit noticed that there was a shortfall of ₹1.5 crore in the release of basic grants to the State Government during the year 2021-22 as shown in **Table 1.9**.

Table 1.9: Allocation and release of 15th Finance Commission Grant

Year	Allocation			Releases			Shortfall		
	Basic	Tied	Total	Basic	Tied	Total	Basic	Tied	Total
2020-21	1,608.50	1,608.50	3,217.00	1,608.50	1,608.50	3,217.00	0.00	0.00	0.00
2021-22	950.80	1,426.20	2,377.00	949.30	1,426.20	2,375.50	1.50	0.00	1.50

Source: GoI Operational Guidelines and release orders, RDPR data.

The State Government stated (June 2024) that the GoI had released the grants on pro rata basis for the year 2021-22, as a result of which the shortfall of ₹1.5 crore was incurred by the State Government.

1.11.4 Audit Online

Para 8 of the Operational Guidelines of 15th CFC stipulates (July 2021) that PRIs have to mandatorily prepare and make available online their audited accounts on 'Audit-Online application' to be eligible for release of grants.

The State Government stated (April 2024) that Audit Online has been implemented and carried out by KSAAD and online audit of all the GPs of the State has been completed. Further in respect of ZP/TPs, the mapping of units and personnel is in progress.

1.12 Audit arrangements

1.12.1 Internal Audit System of PRIs

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules and provides assurance to management on the adequacy of the risk management and internal control framework in the PRIs. The State Government did not have an Internal Audit Wing to oversee the functions of PRIs.

The State Government stated (April 2024) that Internal Audit wing in the districts is functioning under the Chief Accounts Officers of respective ZPs. The process to establish Internal Audit wing in the RDPR, by the State Government, has been initiated but due to the shortage of staff it was not convenient enough to frame the Internal Audit Wing.

1.12.2 External audit

1.12.2.1 Audit by Karnataka State Audit and Accounts Department

As per Section 246 of the KPR Act, the Principal Director, KSAAD shall submit to the Government a consolidated annual report in respect of all the GPs of the State, and State Government shall lay such report before both houses of the State Legislature. The consolidated annual report of the GPs up to the year 2021-22 had been laid before the State Legislature.

1.12.2.2 Financial statements certification

Section 246 of KPR Act stipulates that the accounts of every GP shall be audited each year by such officer as may be authorised by the Principal Director, KSAAD. The KPRGP (B&A) Rules stipulates the procedure to be followed. As per the prescribed procedure, the approved accounts shall be sent to the Chief Accounts Officer of the ZP and the Assistant Controller of the concerned Local Audit Circle for taking up audit. On completion of audit, the Assistant Controller of Local Audit Circle shall issue Audit Report on behalf of the Principal Director, KSAAD to the GP and Executive Officer within one month after completion of audit and ensure that the Audit Report shall contain a certified statement of Annual Receipt and Payment Account, Income and Expenditure account and Balance Sheet of the GP. The audit of accounts is important as the State Government may withhold release of funds to such GPs which fail to furnish accounts to the Audit authority within the stipulated period.

The status of audit conducted by KSAAD, as of March 2022, in respect of GPs in the State is shown in **Table 1.10**.

Table 1.10: Status of audit of GPs by KSAAD as of March 2022

Year	Number of GPs	Number of GPs audited
2017-18	6,022	5,939
2018-19	6,024	5,799
2019-20	6,035	5,493
2020-21	6,021	5,613
2021-22	6,005	5,938

Source: Information furnished by KSAAD

KSAAD stated (March 2023) that 42 GPs were not audited for five to 23 years either due to shortage of manpower or non-furnishing of records by the GPs as of March 2022. The details are given in **Appendix 1.13**.

The State Government accepted (April 2024) the shortfall in auditing GPs.

1.12.2.3 Audit by CAG

(a) Delay in issue of Local Audit Reports to GPs

Rule 246(5) of KPR Act stipulates that the Local Audit Reports (LAR) should be issued to GPs within 30 days from the last date of audit. On a general review of LARs, there was delay in issue of LARs ranging from 3 days to 209 days in 33 out of 45 test checked GPs.

(b) Non preparation of Gram Panchayat Development Plans

Twelve⁵ out of 45 test checked GPs did not prepare the GPDP as required under Section 309 of KPR Act, 1993.

(c) Non conduct of Physical Verification of Stores and Stock

None of the test checked 45 GPs had conducted annual verification of Stores and Stocks.

(d) Status of Certification of Accounts and Compliance Audit

The CAG audits and certifies the accounts of ZPs and TPs under Section 19(3) of CAG's (DPC) Act. The status of Certification of accounts and Compliance Audit for the period 2020-21 is indicated in **Table 1.11**.

Table 1.11: Status of audit of PRIs as of March 2022

	ZP	TP	GP
Certification of Accounts	30	154	-
Compliance Audit	09	23	71

Source: As per the information available in this office

(e) Responsiveness to Audit

Rule 63 of KZP(F&A) Rules stipulate that the heads of the Departments/Drawing and Disbursing Officers of ZPs shall attend to the objections issued by the Accountant General promptly. It further stipulates that the ultimate responsibility for expeditious settlement of audit objections rest with the CEO of ZPs. As of March 2022, 1,468 Inspection Reports (IRs) consisting of 10,944 paragraphs were outstanding in various PRIs as detailed in **Table 1.12**.

⁵ GPs - Arani, Bannikuppe, Belluru, Devalapura, Keregoddu, Kodathi, Kudur, Manchanayakanhalli, Mandya Gramanathara, Mangala, Mayaganahalli, Ummadahalli.

Table 1.12: Statement showing the details of outstanding IRs and paragraphs up to the audit period 2021-22

Unit	More than 10 years (up to 2011-12)		05 to 10 years (2012-13 to 2016-17)		03 to 05 years (2017-18 to 2019-20)		2020-21		2021-22		Total	
	IR	Paras	IR	Paras	IR	Paras	IR	Paras	IR	Paras	IR	Paras
ZPs	180	631	44	322	28	367	12	174	7	96	271	1,590
TPs	516	1,981	112	957	128	1,639	28	320	24	197	808	5,094
GPs	0	0	151	1,352	122	1,553	45	623	71	732	389	4,260
Total	696	2,612	307	2,631	278	3,559	85	1,117	102	1,025	1,468	10,944

Source: Inspection Reports

Out of 1,468 IRs outstanding, 696 IRs (47 *per cent*) containing 2,612 paragraphs (24 *per cent*) were pending for more than 10 years, indicating inadequate action on the part of CEOs. The details of IRs and paragraphs outstanding are in **Appendix 1.14**.

The State Government stated (April 2024) that periodical Ad-hoc Committee meetings at ZPs, TPs and GPs are being conducted for clearance of outstanding audit objections.

1.13 Paragraphs to be discussed by the Committee on Local Bodies and Panchayat Raj Institutions

The Second Administrative Reforms Commission recommended (October 2007) that audit reports on Local Bodies should be placed before the State Legislature and these reports should be discussed by a separate Committee of the State Legislature on the same lines as the Public Accounts Committee.

The State Government constituted the Committee on Local Bodies and Panchayat Raj Institutions on 12 March 2010 to discuss the audit reports on Local Bodies.

The details of paragraphs that appeared in Audit Reports/Annual Technical Inspection Reports during last five years with money value and the pendency position of the discussion is given in **Table 1.13**.

Table 1.13: Statement showing the details of paras with money value appeared in the Audit Reports and pendency of discussion.

(₹ in crore)			
Audit Report	No. of Paras	Money Value	Status of discussion
2019-20	01	1.29	Pending
2020-21	01	0.62	Pending

Source: CAG Audit Reports and Committee on LBs & PRIs meeting files.

The State Government accepted (April 2024) the above findings.

1.14 Implementation of Fourth State Finance Commission Recommendations

The Fourth Finance Commission was constituted in December 2015 for the award period of 2018-19 to 2022-23. Implementation of key recommendations of the Commission are as follows:

1.14.1 Devolution of financial resources between the State and the Local Bodies

One of the recommendations of SFC is that the actual devolution of financial resources between the State and the local bodies are to be in the ratio of 52:48 based on the Non-Loan Net Own Revenue Receipts (NLNORR) allocations with base year as 2018-19 and thereafter every year. Further, the above share of 48 *per cent* of NLNORR is devolved to PRIs, ULBs and BBMP in the ratio of 35, 12, and one respectively. As per the recommendations, 7.76 *per cent* of the share of PRIs in NLNORR was to be earmarked for GPs.

However, Audit observed that the share of the local bodies in NLNORR showed a decreasing trend from 33.43 *per cent* in 2018-19 to 30.93 *per cent* in 2021-22, which was much below the 4th SFC recommendation of 48 *per cent* as shown in **Table 1.14**.

Table 1.14: Relative share of local bodies in NLNORR

	(₹ in crore)			
Particulars	2018-19	2019-20	2020-21	2021-22
NLNORR*	1,14,357.00	1,24,540.90	1,18,735.26	1,41,492.43
Devolutions to PRIs#	33,845.99	35,545.48	34,889.18	38,179.59
Devolutions to ULBs#	4,383.25	4,762.94	4,271.55	5,586.32
Total devolutions	38,229.24	40,308.42	39,160.73	43,765.91
Share of local bodies in NLNORR (<i>in per cent</i>)	33.43	32.36	32.98	30.93

*The cess and collection charges have not been considered for calculating NLNORR. Further, the compensation received as back-to-back loans during 2020-21 and 2021-22 has not been considered.

Devolutions from XIII, XIV and XV Finance Commission has not been included.

The State Government accepted (April 2024) the above findings.

1.14.2 Non-implementation of recommendations relating to database management

The 4th SFC vide its report observed data deficiency in RDPR and made recommendations (December 2018) to address the issues. Audit observed that these recommendations are yet to be implemented (February 2023). The recommendations and its implementation status is given in **Table 1.15**.

Table 1.15: Status of Recommendations of SFC relating to database management

Para No.	SFC Recommendation	Status
12.1.8(a)	Adopt the 13 th FC's suggestions and formats for ensuring a proper data base.	Not Implemented
12.1.8(b)	Decentralization Analysis Cell (DAC) with regard to each tier of PRIs should be further be empowered as the nodal agency for maintaining and updating data.	Implemented. However, DAC does not have a dedicated and reliable database.
12.1.8(c)	Local bodies will continue to need funding support for building capacity, data base and maintenance of accounts.	Not implemented.
12.1.8(d)	It is desirable that the local bodies should digitize and put in place all data on their programmes and projects (including historical and legacy data) and make it available in the public domain.	Not implemented.
12.1.8(e)	Information and data availability on the performance and operations on real time basis is critical for effective governance.	Real time data for the performance and operations of PRIs not available.

Source: Fourth SFC Report.

Conclusion

The expenditure against the available funds by the ZPs, TPs and GPs for the year 2021-22 were 82, 72 and 73 *per cent* respectively indicating underutilization of funds. The Inspector General of Registration and Commissioner of Stamps could not transfer the Additional Stamp Duty to the Taluk Panchayats for the period 2019-2022 due to non-reconciliation of receipts with Sub Registrar Offices. ZPs and TPs did not remit the unspent previous Finance Commission Grants to the tune of ₹29.35 crore to the Government account. As at the end of March 2022, 271 Inspection Reports consisting of 1,590 paragraphs, 808 Inspection Reports consisting of 5,094 paragraphs and 389 Inspection Reports consisting of 4,260 paragraphs were outstanding in various ZPs, TPs and GPs respectively. Against ₹11.81 crore ordered for recovery by Ombudsman under MGNREGA Scheme, only ₹3.51 crore was recovered. The State did not devolve the requisite share of NLNORR as per the recommendations of Finance Commission.