

## Chapter-I

### 1. An Overview of the Grama Panchayats in the State

#### A: Functioning of Grama Panchayats

##### 1.1 Introduction

Consequent to the 73<sup>rd</sup> Constitutional Amendment Act, the State Government enacted the Karnataka Panchayat Raj Act, 1993 (henceforth referred to as KPR Act, 1993) to establish three tier Panchayat Raj Institutions (PRIs) - Grama Panchayats (GPs) at the village, Taluk Panchayats (TPs) at the taluk and Zilla Panchayats (ZPs) at the district levels in the 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 Grama Swaraj and Panchayat Raj Act, 1993(KPR Act,1993).

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

The salient statistics in respect of rural population in the State is shown in **Table 1.1:**

**Table 1.1: Salient statistics of the State**

Indicators	Unit	State	National
<b>Population</b>	In lakhs	610.95	12105.69
<b>Rural population</b>	In lakhs	374.69	8334.63
<b>Rural population</b>	Percentage of population	61.33	68.8
<b>Population density</b>	Persons/ Sq.kms	319	382
<b>Rural Sex Ratio</b>	Per Thousand	979	949
<b>Rural Literacy rate</b>	Percentage of population	68.70	67.8
<b>Zilla Panchayats</b>	Numbers	30	540 (approx)
<b>Taluk Panchayats</b>	Numbers	176	6,000 (approx)
<b>Grama Panchayats</b>	Numbers	6022	2,34,000 (approx)

Source: RDPR Annual Report 2018-19, Census 2011 and Economic survey of Karnataka 2018-19

Karnataka is the seventh largest state in India in terms of geographical area (191791 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*).

## **1.2 Organisational setup of PRIs in the State**

The Rural Development and Panchayat Raj Department (RDPR) headed by the Principal Secretary, Government of Karnataka 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 Mandate of C&AG with respect to PRIs and Scope of audit**

In respect of Local Bodies on the rural side, the role 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, 1993, the accounts of the Zilla Panchayat Fund shall be audited by the CAG in accordance with CAG's (DPC) Act. Similarly, section 253 of KPR Act, mandates that the accounts of Taluk Panchayat Fund shall be audited by the CAG in accordance with CAG's (DPC) Act. This audit is done under section 19 (3) of CAG's (DPC) Act and the arrangement is extended every five years. The latest extension is from 01.04.2017 to 31.03.2022. Accordingly, the certification of the accounts of all the 30 ZPs and 176 TPs are undertaken and Separate Audit Reports (SAR) for each ZP and one consolidated SAR for all TPs are issued. The audit observations on compliance and regularity issues are included in the usual Audit Report of the CAG.
- In respect of GPs, the primary audit is carried out by the Karnataka State Audit & Accounts Department (KSAAD) and CAG is entrusted with Technical Guidance and Support (TGS) mandate under section 20 (1) of the CAG's (DPC) Act with effect from 1 April 2010. Hence, this chapter is restricted to audit findings under TGS arrangement in respect of GPs only.

**Scope:** As per the details furnished by KSAAD (October 2019), it had conducted audit of 5,091 and 5,297 GPs for the years 2016-17 and 2017-18 during 2017-18 and 2018-19 respectively. Among those audited units, we undertook audit of 42 GPs and 80 GPs during 2018-19 and 2019-20 under TGS.

## **1.4 Devolution of functions of GPs**

The 73<sup>rd</sup> Constitutional amendment envisaged transfer of 29 functions listed in the 11<sup>th</sup> schedule of the Constitution of India to the PRIs. This is also covered in the KPR Act, 1993. Section 58 of the KPR Act, 1993 empowers the GPs to perform 31 functions as specified in the Schedule-I of the Act. Similarly, Section 145 and Section 184 of the KPR Act, 1993 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 as listed in the 11<sup>th</sup> 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 1.2**.

Some of the important functions of GPs are Drinking Water Supply, Town and Rural Schemes and Public Works, Poverty alleviation, Rural Electrification, Power and Energy, Disaster Management *etc.*

## 1.5 Formation of Committees

### 1.5.1 Standing Committees in GPs

Section 61 of KPR Act, 1993 provides that each GP shall constitute Standing Committees from among its members by election. The Standing Committees shall perform the functions as delegated to them by the GPs. The details of the roles envisaged for the Standing Committees are given in the **Table 1.2:**

**Table 1.2: Constitution of the Standing Committees and its functions**

Sl. No.	Standing Committees	Executive of Standing Committees	Functions of the Standing Committees
1.	General Standing Committee	Upadhyaksha	To perform functions relating to agricultural production, animal husbandry and rural industries and poverty alleviation programmes, education, public works and other functions of the GPs.
2.	Finance, Audit and Planning Standing Committee	Adhyaksha	To perform functions relating to the finance of the GPs, framing of budgets, examinations of receipts and expenditure statement, general supervision of revenue and expenditure of GP and any other functions relating to the development plan of the GP.
3.	Social Justice Standing Committee	Chairman (elected from amongst Scheduled Caste (SCs)/Scheduled Tribe (STs) members)	Functions shall include: (a) Promotion of educational, economic, social, cultural and other interest of the SCs and STs and backward classes and their protection from social injustice. (b) Shall address women's concerns and issues such as empowerment of women by achieving their social, cultural and economic development and to protect them against crimes of domestic violence, sexual harassment etc. Also, shall include tendering of advice on promoting gender friendly programs by ensuring adequate facilitations for women at schools, offices, factories hospitals and other public places and go about their daily lives in freedom and dignity.

Source: KPR Act, 1993

### 1.5.2 District Planning Committee

According to Section 309 of the KPR Act, 1993 every GP shall prepare a development plan annually in the prescribed form and forward it to the TP within the stipulated time. The TP consolidates the plans of all the GPs in digital form at the taluka level and places them before the Taluk Planning and Development Committee constituted under Section 309D of the KPR Act, 1993 for carrying out the integration of planning. District Planning Committee (DPC)

constituted under Section 310 (1) of the KPR Act, 1993 in every district shall consolidate the plans prepared by the ZPs, TPs, GPs, Town Panchayats, Municipal Council and Municipal Corporations in the district and prepare a draft development plan for the district as a whole. These plans are forwarded to Karnataka State Decentralised Planning and Development Committee (DPDC) formed under section 310 B of KPR Act, 1993 to enable the Government to formulate development plans. DPC was formed in all the districts of Karnataka, except Bagalkote. DPDC was reconstituted *vide* Government Order dated 3 September 2020 to formulate development plans. No DPC Meetings were held during 2018-19 & 2019-20.

## 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.

Rule 77 & 80 of KPR (GP Budgeting & Accounting) Rules 2006 provides for delegation of financial powers with respect to sanction of estimates for developmental works of GP. The details are given in **Table 1.3**. The delegation of financial powers was being followed in the test checked GPs.

**Table 1.3: Delegation of Financial Powers**

Particulars	Authority	Financial Powers
<b>Technical Sanction</b>	GP Engineer	Up to ₹25,000/-
	AEE of ZP Sub-Dn	>₹25,000<₹4,00,000
	EE	>₹4,00,000<₹10,00,000
	SE	₹10,00,000 and above
<b>Administrative Sanction</b>	Adhyaksha of GP	Does not exceed ₹5,000 provided GP has delegated such powers to Adhyaksha by means of a resolution.
	Grama Panchayat	>₹5,000<₹10,00,000
	CEO of ZP	>₹10,00,000<₹30,00,000
	Government	>₹30,00,000

## 1.7 System of Accounting

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 KPR GPs (Budgeting and Accounting) Rules, 2006. The annual 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.

As per the recommendations of the Thirteenth Finance Commission (TFC), PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by GoI. Unlike the earlier format, MPAS format facilitates exhibition of month wise figures of receipts and payment, budget allocation, grants released and expenditure, movable and immovable assets in the accounts. GPs in the State were yet to adopt MPAS formats for their accounts.

Ministry of Panchayat Raj (MoPR), GoI, brought Panchayati Raj Institutions Accounting Software (PRIA soft) that captures the 3-tier accounting classification and generates all the reports of PRIs in the formats prescribed by the CAG. It is a centralized Accounting Software intended for use by all the three tiers of Panchayati Raj namely ZP, TP and GP. At present, only accounts relating to payment out of Fourteenth Finance Commission (FFC) grants released to GPs are handled by the PRIA soft.

Government of Karnataka 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 on the portal. All the GPs are using the Panchatantra for their day-to-day accounting transactions.

## **1.8 Internal Control System of GPs**

Internal control is designed to provide reasonable assurance that the general objectives of accountability, complying with applicable laws, ensuring economical, efficient and effective operations and safeguarding resources against loss are achieved. Failure to adhere to internal controls is fraught with the risks of inefficiency, ineffectiveness, misappropriation of funds/loss or pilferage of stores.

Some of the important internal control mechanisms to be implemented by PRIs include periodical reconciliation of cashbook with bank balances, annual physical verification of fixed assets, stores and stock, preparing and passing of budget and annual accounts *etc.* Annual physical verification ensures the actual presence of stores and stock/fixed assets as exhibited in the books of account. Similarly, periodical reconciliation of cash book with bank book is to be carried out and differences between balances as per bank records and cash book if any, have to be investigated and cleared.

However, test check of 42 GPs and 80 GPs conducted during 2018-19 and 2019-20 for the period 2016-18 revealed the following:

- Annual physical verification of stores and stock was not done in 10 GPs (24 per cent) and 61 GPs (76 per cent) during 2017-18 and 2018-19 respectively. The GPs did not specifically furnish reasons for non-conduct of physical verification. However, it was stated that Annual Physical Verification of Stock will be conducted annually in future.

- Reconciliation of Cash book and bank scrolls was not conducted in 14 GPs (33 per cent) and 22 GPs (28 per cent) during 2017-18 and 2018-19 respectively.
- During 2019-20, in one GP, Diddige, Jagalur taluk, Davanagere district, payment of ₹6.64 lakh was made towards purchase of cement without recording the stock certificate. Stock register was also not maintained.

## **1.9 Functioning of Finance/Accounts section of GPs**

Section 111 of KPR Act, 1993 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 KPR (GP Budgeting & Accounting) Rules, 2006.

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.

## **1.10 Ombudsman**

As per the recommendations of the TFC, 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. No such Ombudsman was appointed by RDPR to investigate complaints of corruption and maladministration against the functionaries of Rural Local Bodies. The department stated (December 2020) that the system of appointment of Ombudsman under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) was in force from 2010-11 onwards. Against 30 districts in the State, there was provision to appoint 27 Ombudsmen. For the districts of Bengaluru Urban/Rural, Hassan/Kodagu and Udupi/Dakshina Kannada, common Ombudsmen were to be appointed. As of November 2020, 23 Ombudsmen were appointed for 25 districts, and in the remaining five<sup>1</sup> districts, the post was vacant. Against ₹24.12 crore ordered for recovery, ₹2.47 crore were recovered and ₹21.65 crore was pending recovery. The reply does not address the point at issue and the fact remained that the department had not implemented the recommendation of the TFC regarding appointment of independent ombudsman.

<sup>1</sup> Bengaluru(R), Bengaluru (U), Haveri, Kalaburagi, and Kolar

**B: Financial Arrangement****1.11 Financial Overview****1.11.1 Source of funds**

The resource base of GPs consists of own revenue<sup>2</sup>, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Government of India (GoI) grants for maintenance and development purposes. The details of receipts of GPs during 2015-19 are given in **Table 1.4**:

**Table 1.4: Receipts of GPs during 2015-19**

(₹ in crore)

Period	Central	State	Other receipts	Total
2015-16	4,096.19	692.69	479.07*	5,267.95
2016-17	5,180.35	1,054.14	394.63	6,629.12
2017-18	4,823.52	1,156.39	405.04	6,384.95
2018-19	4,971.17	1,405.96	511.64*	6,888.77

Source: IFA Section, RDPR

\*includes interest amount ₹0.32 lakh for 2015-16 and ₹0.49 lakh for 2018-19

The details of own source of revenue comprising tax and non-tax revenue for the period 2015-19 is given in **Table 1.5**:

**Table 1.5: Details of Own Revenues of GPs for the period 2015-19**

(₹ in crore)

Year	Tax Revenue	Non-Tax Revenue	Total
2015-16	304.46	174.29	<b>478.75</b>
2016-17	257.72	136.36	<b>394.08</b>
2017-18	293.08	111.96	<b>405.04</b>
2018-19	379.68	131.47	<b>511.15</b>

Source: IFA Section, RDPR

**1.11.2 Utilization of Funds**

The details of expenditure of GPs during 2015-19 are given in **Table 1.6** below:

**Table 1.6: Expenditure of GPs during 2015-19**

(₹ in crore)

Year	Revenue Expenditure	Capital Expenditure
2015-16	5,335.16	118.89
2016-17	5,908.66	188.73
2017-18	6,002.66	207.61
2018-19	6,100.52	224.75

Source: IFA Section, RDPR

<sup>2</sup> As per schedule IV of KPR Act, major sources of tax revenue of GPs are taxes on land and buildings, advertisement and hoardings, mobile towers, windmill, solar park and; sources of non-tax revenue are water charges, fees on entertainment, vehicle parking fees, market fees, fee on registration of cattle, road cutting charges for laying optical fibre cable

From the above, it can be seen that the percentage of own revenue (**Table 1.5**) to total receipts (**Table 1.4**) was in the range of 6 per cent (2016-17) to 9 per cent (2015-16) and the contribution of own revenue (**Table 1.5**) to revenue expenditure (**Table 1.6**) was less than 10 per cent. This indicates that the GPs were not self-sufficient and were dependent on grants even for their day-to-day expenditure (revenue expenditure)

## 1.12 FC Recommendations Implementation status

### 1.12.1 State Finance Commission

The Third State Finance Commission (SFC) was constituted in August 2006 and submitted its report in December 2008. The recommendations of the third SFC were accepted (October 2011) with modifications by the Government of Karnataka and were made applicable for the period 2011-12 to 2017-18. The criteria for allocation of funds to each ZP, TP and GP were based on indicators and respective weightages assigned to criteria like Rural population, Geographical area, Illiteracy *etc.*

The Fourth SFC, constituted in December 2015, submitted its report in May 2018. The Government of Karnataka accepted the recommendations of the Fourth SFC in December 2018, being applicable for the period 2018-19 to 2022-23. As per the recommendations, 7.76 per cent of the share of PRIs in Non-Loan Net Own Revenue Receipts (NLNORR)<sup>3</sup> was to be earmarked for GPs. Important recommendations of SFC and their modifications are mentioned in **Appendix 1.3**.

The details of statutory grants allocated by SFC and transferred to GPs by State Government during 2015-19 is shown in the **Table 1.7**:

**Table-1.7 Status of Grants Released**

(₹ in crore)

General Grant				
SFC	Year	Allocation	Release	Balance
Third	2015-16	616.62	616.62	0
Third	2016-17	638.04	638.04	0
Third	2017-18	623.42	623.42	0
Fourth	2018-19	902.99	902.99	0

Source: PR-1 Section, RDPR

Statutory grants released to GPs increased from ₹616.62 crore in 2015-16 to ₹902.99 crore in 2018-19.

### 1.12.2 Central Finance Commission

The FFC allocated grants of ₹8,359.79 crore towards basic grants (BG) for GPs of the State for the period 2015-16 to 2019-20 and ₹928.87 crore towards performance grants (PG) for the period 2016-17 to 2019-20. GoI

<sup>3</sup> NLNORR comprises state's own revenue inclusive of both tax and non-tax sources after deducting the cost of collection charges.

was to release the grants in two instalments (June and October) in every fiscal year. The release of second instalment was subject to receipt of Utilisation Certificate (UC) for the first instalment. The details of funds received from GoI towards FFC and transferred to PRIs by State Government during 2015-19 is shown in the **Table 1.8:**

**Table 1.8 Status of Grants Released**

(₹ in crore)

Year	Basic Grant			Performance Grant		
	Allocation	Release	Shortfall	Allocation	Release	Shortfall
2015-16	1002.85	972.36	30.49	0	0	0
2016-17	1388.62	1368.21	20.41	182.15	179.45	2.70
2017-18	1604.42	1580.18	24.24	206.13	204.08*	2.05
2018-19	1856.02	1841.54	14.48	234.08	0	234.08

Source: Finance accounts

\*released during June 2018

The allocated amount of PG for 2018-19 was not released to PRIs till the end of March 2019 by GoI. RDPR stated (September 2019) that the claim for 2018-19 PG pertaining to PRIs had been forwarded to GoI, but the grant was not released. A reminder in this regard was sent by the Hon'ble Chief Minister to the Hon'ble Finance Minister of India on 18 September 2020. Finance Department also reiterated (February 2021) that the PG for the year 2018-19 was not released by the GoI.

## **C: Public Accountability arrangements in Grama Panchayats**

### **1.13 Financial Reporting framework**

As per the KPR (GP Budgeting and Accounting) Rules, 2006, the annual financial statements for the financial year along with the note on accounts shall be placed before the GP for its consideration and approval before 30<sup>th</sup> June of the succeeding year.

### **1.14 Audit arrangements**

#### **1.14.1 Internal Audit System of GPs**

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. Finance Department had given concurrence (August 2019)

for constitution of an Internal Audit Wing in RDPR. However, the internal audit wing had not been constituted as of November 2020.

### 1.14.2 External audit

#### 1.14.2.1 Audit by Primary Auditor

As per Section 246(1) of the KPR Act, 1993, the KSAAD is the statutory external auditor for GPs. Its duty, *inter alia*, is to certify correctness of accounts, assess internal control systems and report cases of loss, theft and fraud to audited entities and to the State Government.

As per section 246(12) of the KPR Act, 1993, 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 2015-16 had been laid before the state legislature.

#### 1.14.2.2 Financial statements certification

Section 246 of KPR Act, 1993 stipulates that the accounts of every GP shall be audited each year by such officer as may be authorised by the Principal Director, KSAAD. KPR (GP Budgeting and Accounting) Rules 2006 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 Controller, 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. Details relating to certification of accounts of GPs by KSAAD is as shown in **Table 1.9:**

**Table 1.9 Status of certification of accounts of GPs by KSAAD, as of January 2021**

Year	Number of GPs	Number of GPs (accounts certified by KSAAD)
2014-15	5,629	3,637
2015-16	6,022	3,754
2016-17	6,022	3,757
2017-18	6,022	3,692
2018-19	6,022	3,936

Source: Information furnished by KSAAD

### 1.14.2.3 Compliance Audit

The status of audit conducted by KSAAD, as of January 2021, 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 January 2021**

Year	Number of GPs	Number of GPs audited
<b>2014-15</b>	5,629	4,981
<b>2015-16</b>	6,022	5,401
<b>2016-17</b>	6,022	5,450
<b>2017-18</b>	6,022	5,309
<b>2018-19</b>	6,022	5,442

Source: Information furnished by KSAAD

### 1.14.2.4 Audit by CAG under Technical Guidance and Supervision

The details of audit undertaken by CAG are discussed in **Chapter 3**

### 1.14.2.5 Social audit

Social Audit is an audit of a scheme jointly conducted by the Government and the people, especially by those who are affected by, or are the intended beneficiaries of such schemes. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)<sup>4</sup> 2005, was the first Act that mandated Social Audit by the Grama Sabha of all the works under the scheme taken up within the GP. To facilitate the conduct of Social Audit, the Ministry of Rural Development (MoRD) in consultation with the CAG notified the Mahatma Gandhi National Rural Employment Guarantee Audit of Scheme Rules in 2011. Consequently, Government of Karnataka notified (January 2012) the Scheme Implementation of Social Audit Rules 2011. In accordance with these rules, the Social Audit Directorate (hereafter referred to as Social Audit Unit) headed by the Director was formed and registered (May 2012) under the Societies Registration Act, 1960.

The details of programmes/schemes where Social Audit was to be taken up and status of implementation during the year 2018-19 are given in **Table 1.11**:

<sup>4</sup> under section 17, sub-section 1, 2 and 3 of the Act, the main responsibility of Social Audit was provided to the Grama Sabha.

**Table 1.11: Details of Social Audit conducted during 2018-19**

Sl. No.	Name of the Scheme	Mandate	Periodicity	Number of audits
1	MGNREG Scheme	MGNREG Act, 2005	Twice a year in each GP (6,022)	11,942
2	National Rural Drinking Water Programme (NRDWP)	NRDWP Guidelines	Twice a year in each GP	Not Conducted
3	Swachh Bharat Mission (SBM)	SBM Guidelines	Twice a year in each GP	
4	Mid-day Meal (MDM) Scheme	Instructions of Department of School Education and Literacy (MDM)	Not available	
5	Public Distribution System (PDS)	National Food Security Act.	All fair price shops 'Periodically'	

Source: Information furnished by Social Audit Directorate

The above table indicates that Social Audit was conducted regularly only for MGNREGS.

As per the master circular<sup>5</sup>, the State Government has to establish Social Audit Units (SAU) and every Unit shall be headed by the Governing body which is responsible for overseeing the performance of the Unit periodically and also provide advice and direction to the Unit as and when needed.

The master Circular further stipulated as under

- Social Audit Reports (SARs) shall be prepared in local language and displayed on the notice board of GP and on the public domain by the SAU within 48 hours from completion of Social Audit. SAU shall also ensure that SARs are uploaded on MIS within two days of the Grama Sabha. SARs once approved by Grama Sabha/Ward Sabha are required to be submitted to the District Programme coordinator and State SAU within 24 hours of completion of the social audit.
- For every instance of financial irregularities found during a social audit, the SAU must file a written complaint addressed to the District Programme Coordinator for registration of a First Information Report.
- The implementing agency is responsible for taking follow-up action on the findings in a time bound manner.
- The Programme officer within one month from conduct of Grama Sabha/Ward Sabha should submit Action Taken Report (ATRs) to the SAU and monthly review shall be conducted by the Additional Chief Secretary/Principal Secretary/Secretary, RDPR with respect to

<sup>5</sup> a guide for programme implementation of MGNREGA for 2018-19

irregularities noticed in the report and the status of progress on the action taken by the implementing agencies. The State SAU should submit quarterly report in the prescribed format to Principal Accountant General of the State.

Some of the interesting points noticed during an audit of 'Effectiveness of Social Audit' conducted by this office for the period 2016-17 to 2018-19 are as under.

- Though, provisions of various schemes mandated for conduct of Social Audit, there was no Social Authority to oversee the conduct of Social Audit of schemes implemented in the State. The SAU in the State established exclusively for MGNREGS was entrusted with Social Audit of other schemes such as NRDWP, SBM, MDM and PDS. However, the Social Audit of these schemes was not a continuous process as in the case of MGNREGS.
- Information, Education & Communication activities creating awareness about Social Audit was ineffective and inadequate as 99 *per cent* of the Social Audit Gram Sabha (SAGS) meetings were attended by less than two *per cent* of the population.
- Follow up action on the social audit finding was very weak.
- The recoveries of the objected amounts in the SARs were less than one *per cent*.
- The monthly reviews of SARs were not conducted in the State.
- Quarterly reports were not submitted by the SAU to the Principal Accountant General during 2018-19.

For details of the observation on 'Effectiveness of Social Audit', Report of the Comptroller and Auditor General of India on General and Social Sector Audit for the year ended March 2019 (**Paragraph 3.2/** Report No.3 of the year 2020) may be referred to.

To have a comparison of the system of social audits prevailing in other states, the annual report of the Society for Social Audit, Accountability and Transparency (SSAAT), Department of Rural Development for the period 2016-17 to 2018-19 Government of Telangana was referred to. It states that along with MGNREGS, SSAAT Telangana undertakes social audit of quite a few schemes. A copy of the Report is handed over to the District Vigilance Officer of the district vigilance wing to process files and initiate action against the erring staff. The recovery of the misappropriated amount was around 30 *per cent*.

The above points indicate that Telangana has a more robust system of social audit in their state. It is recommended that Karnataka may consider adopting the steps initiated by Telangana in a phased manner for effective social audit of schemes or programmes implemented by different departments.

### 1.15 Submission of Utilisation Certificates

The details of UCs relating to FFC grants submitted during 2018-19 is shown in **Table 1.12:**

**Table 1.12: Details of UCs against the release of FFC grants during 2018-19**

(₹ in crore)

Sl. No	Particulars	Released Amount	UC No & date	Utilised Amount
1	FFC Performance Grant (2017-18)	204.08	FD/14/FCC/2017 14/08/2018	204.08
2	FFC Basic Grant 1 <sup>st</sup> instalment (2018-19)	920.77	FD/25/FCC/2015 22/11/2018	920.77
3	FFC Basic Grant 2 <sup>nd</sup> instalment (2018-19)	920.77	FD/27/FCC/2015 26/02/2019	920.77

Source: Information furnished by Finance Department, Government of Karnataka

FFC guidelines stipulated release of grants to duly constituted Panchayats<sup>6</sup>. It was observed from the UCs submitted to GoI by the State Government, the elected bodies were in place only in 5,977 out of 6,024 GPs during 2017-18 and 6,011 out of 6,022 GPs during 2018-19. However, the basic grants were invariably released to all GPs irrespective of the duly elected body being in place and thus, violated the stipulation of FFC guidelines.

### 1.16 Responsiveness to Audits

Inspection Reports (IRs) are issued by Principal Accountant General, Karnataka to audited GPs. Authorities are required to comply with the observations contained in the IRs and report their compliance within one month from the date of issue of IRs.

As at the end of September 2020, 253 Inspection Reports (IRs) consisting of 2,881 paragraphs were outstanding in various GPs as detailed in **Table 1.13:**

**Table 1.13: Statement showing the details of outstanding IRs and paragraphs**

Year	Number of IRs	Number of Paragraphs
Up to 2015-16	128	1,311
2016-17	03	37
2017-18	42	586
2018-19	80	947
<b>Total</b>	<b>253</b>	<b>2881</b>

Source: Inspection Reports

<sup>6</sup> A duly constituted Panchayat means a Panchayat where elections have been held and an elected body is in place as provided in Part IX and IX A of the Constitution of India.

Out of 253 IRs containing 2,881 paragraphs outstanding, 128 IRs (51 *per cent*) containing 1,311 paragraphs (45 *per cent*) were pending for more than three years indicating inadequate action on the part of GPs.

The details of paragraphs that appeared in Audit Reports/Annual Technical Inspection Reports during last five years with the money value and the pendency position of the discussion by Committee on Local Bodies and Panchayat Raj Institutions is given in the **Table 1.14**:

**Table 1.14: Statement showing the details of paras with money value appeared in Audit Reports and pendency of discussion.**

(₹ in crore)

Audit Report/ ATIR	No. of Paragraphs	Money Value	Status of discussion
<b>2014-15</b>	01	22.68	Completed
<b>2017-18</b>	02	01.54	Pending
<b>Total</b>	<b>03</b>	<b>24.22</b>	

Source: CAG Audit Reports and Committee on LB& PRIs meeting file