

EXECUTIVE SUMMARY

Why CAG did this audit

Karnataka Rural Infrastructure Development Limited (KRIDL) was established in 1971 as a Government of Karnataka (GoK) undertaking under the Rural Development and Panchayat Raj Department (RDPR) with the objectives of (i) execution of rural development projects to improve employment opportunities to rural unemployed, (ii) to build infrastructure by executing works departmentally by eliminating middlemen and (iii) to pass on the full worth of money to the people.

Considering the magnitude of works entrusted to KRIDL during the last five years coupled with exemptions given to KRIDL from KTPP Act and based on previous audit findings, CAG took the Performance audit for the period upto 2016-17 to 2020-21. The Performance Audit was conducted with the objective to assess the entrustment procedures of the departments, efficiency, effectiveness and economy in works executed by KRIDL, the procurement of labour and materials and internal controls and accounting system in KRIDL.

Major Audit Observations

Contrary to 4 (g) exemption notification, Entrustment Agencies (EAs) entrusted works costing more than ₹2.00 crore by splitting such works to suit the entrustment criteria and thereby avoiding regular tender process. Entrustment/execution of ineligible works such as event management, procurement of UPS, shifting of HT line, *etc.*, were also noticed.

There was neither procurement plan for materials nor the details of machinery hired for execution of works. The payment was made to Group Leader (GL) on lumpsum basis. The acceptance of the Government that GL brings the required men and machinery for execution of the works is indicative of sub-contracting in execution of works. A cross verification of GST/TIN status of test-checked GLs in BBMP revealed that their activity was works contract. Outsourced staff, AEs and JEs was treated as GLs and payments were made to them for the job works executed

As against 84,574 works received during the audit period, the KRIDL could complete only 24,014 works (28 *per cent*). There were inordinate delays, ranging from one month to 24 months in commencement of works despite availability of funds. KRIDL does not have a mechanism to analyse the capacity in terms of resources available and works-on-hand.

As against the utilisation of funds ranging from ₹352.88 crore to ₹1,679.74 crore, KRIDL received funds ranging from ₹2,604 crore to ₹4,610.35 crore, which resulted in accumulation of ₹17,320.30 crore at the end of 2020-21. The inability to timely complete the entrusted works resulted in blocking up of funds with KRIDL.

The non-allotment of work code to the tune of ₹303.76 crore, non-settlement of mobilisation advances to the extent of ₹389.90 crore and increase of funds in suspense account from ₹3.95 crore to ₹66.92 crore indicated poor financial

management. KRIDL incurred expenditure before release of funds, in excess of funds released by EAs and in excess of estimated cost indicating poor financial controls. Non-recovery of royalty from the JWB resulted in extending unintended benefit to GLs and loss of revenue to the Government.

There were various lapses in execution of works, non-reporting of completion of works and excess expenditure, non-submission and non-settlement of final bills, and non-surrender of savings to EA indicating poor monitoring and follow-up mechanism.

The quality control system in KRIDL is non-existent. The three-tier Quality Control (QC) mechanism is not implemented in letter and spirit. Third-party monitors were not appointed, QC divisions are defunct and there is no Quality Management System (QMS) and Quality Assurance Programme (QAP) as required under KPWD code.

The KRIDL Standing Orders formulated in 1974 were not revised/updated thereafter to suitably incorporate the KTPP Act, 1999 provisions meant for transparency in public procurement. The Standing Orders were minimally followed indicating lack of requisite accounting controls, non-submission of monthly returns led to non-evaluation of monthly accounts/quarterly financial statements by the Board for suitable interventions.

What CAG recommends

1. The State Government must ensure periodical reconciliation of funds between EAs and KRIDL. Responsibility should be fixed for any delay in commencement of works.
2. The State Government must mandate the departments to provide detailed justification for direct entrustment of works along with reasons for not going through tender process and initiate action against erring officials for violations in entrustment conditions.
3. The State Government must ensure responsibility is fixed at each level for preparation, scrutiny and sanction of estimates. KRIDL standing orders must be suitably modified to ensure accountability.
4. The State Government must ensure KRIDL execute works by itself and not through Group Leaders. Responsibility should be fixed for subletting of works without tendering and ensure KRIDL maintains a digital database of payments made to the labourers in the Project Monitoring Software.
5. The State Government should mandate the departments to enter into agreements with KRIDL as practiced by BBMP to ensure timely release of funds and timely execution of works.
6. The State Government must fix responsibility for procurement of stores in violation of KTPP Act and payments made without valid Measurement Book recordings.
7. The State Government must instruct KRIDL to update/modify the existing Project Monitoring Software (Bhusiri) - for real-time

monitoring of works including stores management along with a module for the Entrustment Departments for tracking the physical and financial progress of entrusted works for suitable interventions.

8. The State Government must ensure implementation of 3 tier Quality Monitoring System and operationalise the defunct QC divisions.
9. The State Government must ensure periodical revision of the KRIDL Standing Orders keeping in view the provisions of KTPP Act, revisions in KPW A and D Codes and any other relevant statutes and guidelines related to procurement and execution of works. The KRIDL should evolve a mechanism for constant updation of prices as per Schedule of Rates and prevailing market rates.
10. The State Government must ensure that KRIDL accept or refuse the works based on the manpower available to complete the entrusted works in time.

Management's response to audit recommendations

- The Government replied that the Group Leaders will be empanelled, and payments will be regulated accordingly. It further stated that Board is not able to make online payments as statutory deductions are to be made by Divisions/Sub-Divisions. The response of the Government is not acceptable as online payments brings more transparency and proper control over accounting affairs. Further, empanelment could result in formalisation of contractors as Group Leaders.
- The Government accepted that the Standing Orders issued during 1974 based on the requirements at that time and it felt necessary to amend the Standing Orders in tune with the present-day requirement for effective execution of works.