

Chapter-III

**Results of Audit of Gram Panchayats
and Urban Local Bodies under TGS
Module**

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Results of Audit of Gram Panchayats and Urban Local Bodies under Technical Guidance and Supervision Module

3.1 Introduction

The State Government entrusted TGS mandate in respect of GPs and ULBs to the CAG under Section 20(1) of CAG's (DPC) Act. The entrustment for GPs was given for a period of five years from 2010-11 to 2014-15 and the validity is being extended for a further period of every five years. The current entrustment is for the period up to 2024-25.

As per the standard terms, CAG shall provide suitable TGS to primary statutory Auditors of GPs and ULBs viz., the Principal Director, KSAAD for strengthening Public Finance Management and Accountability in GPs/ULBs. Section 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 and 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 office of Accountant General (Audit) [hereafter referred to as AG (Audit)] of the State. The KSAAD had submitted its Audit Plan for the year 2021-22 on 30 July 2021 after a delay of four months.

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

- A hundred *per cent* 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 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 **Table 3.1**.

Table 3.1: Number of mandays allotted for audit

Sl. No	Institution	Mandays
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, Local Audit Circle, in consultation with the Regional Office

Source: KSAAD Manual

The Annual Audit Plan for the year 2020-21 was not furnished by the primary auditor by March 2020. Audit Plan for the year 2021-22 submitted by KSAAD did not indicate any risk analysis as all the 6,005 GPs and 288 ULBs were planned for Audit. The KSAAD could audit 5,938 GPs and 85 ULBs indicating reduced man-days for each unit.

As per CAG mandate, all units to be audited are categorized into High, Medium and Low risk units based on detailed risk analysis *viz.*, trend of expenditure and receipts, past audit findings from Inspection Reports, five-year plans and working group reports/Annual Plans *etc.* While the high-risk units are audited annually, the rest of the units are covered over a period of two to five years. The adoption of risk analysis methodology (as followed by CAG) by KSAAD is not forthcoming from the audit plan submitted.

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.

Under TGS module, CAG conducts audit of transactions for the selected two months based on highest expenditure and magnitude of transactions. Check of transactions are extended to the other months for further probe, if any discrepancies are noticed in the selected months. KSAAD may consider adopting this practice.

Further, KSAAD may attempt other types of audit like Performance Audits and Information Technology Systems Audit of selected subject matter.

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 year 2020-21 and 2021-22 is given in **Table 3.2**.

Table 3.2: Returns furnished by the primary auditor

	Name of the return	Periodicity	Year	Due date	Actual date of submission	Remarks
Annexure A	Annual Audit Plan	Annual	2020-2021	31.03.2020	01.07.2021	Audit Plan was prepared and submitted. Total No. of mandays available during the year was 233.
			2021-2022	31.03.2021	30.07.2021	Since audit plan was received after implementation of the same, AG (Audit) could not provide guidance on the same.
Annexure B	Implementation of Audit Plan	Annual	2020-2021	15.04.2021	01.07.2021	Among total Auditable units (6,296), only 5,722 units were audited.
			2021-2022	15.04.2022	20.05.2022	As against 5,875 units, audit was conducted in 5,859 units
Annexure C	Serious Irregularities	Quarterly	2020-2021	15.07.2020 15.10.2020 15.01.2001 15.04.2022	01.07.2021	The details of serious irregularities noticed were not communicated by KSAAD to AG (Audit) for test check and providing guidance.
			2021-2022	15.07.2021 15.10.2021 15.01.2022 15.04.2022	20.05.2022	The details of serious irregularities noticed were not communicated by KSAAD to AG (Audit) for providing guidance and test check.
Annexure D	Training Programmes	Half yearly	2020-2021	August 2020 and February 2021	01.07.2021	AG (Audit) planned to impart training to 55 personnel during the period.
			2021-2022	August 2021 and February 2022	20.05.2022	AG (Audit) imparted training to 28 officers of KSAAD during September-2021.
Annexure E	Progress report of IRs and Paras of DLFA	Annual	2020-2021	15.04.2021	01.07.2021	During the year 2020-21, KSAAD settled 5,046 paras (₹5,002.66 lakh) relating to objections and 3,829 paras (₹963.64 lakh) relating to recovery of amounts.
			2021-2022	15.04.2022	20.05.2022	During the year 2021-22, KSAAD settled 12,658 paras (₹24,055.65 lakh) relating to objections and 6,673 paras (₹1,821.74 lakh) relating to recovery of amounts.
Annexure F	Progress report of IRs and Paras of test checked units	Annual	2020-2021	15.04.2021	01.07.2021	The KSAAD had cleared 295 paras relating to objections and 337 paras relating to recovery.

	Name of the return	Periodicity	Year	Due date	Actual date of submission	Remarks
	forwarded by AG to DLFA		2021-2022	15.04.2022	20.05.2022	The KSAAD had not pursued the AG (Audit) paras.
Annexure G	Consolidated Performance Report	Half yearly	2020-2021	15.10.2020 15.04.2021	01.07.2021	KSAAD reported that 5,722 units audited during 2020-21 and 4,985 LARs were issued, out of which 4,555 LARs were issued in time.
			2021-2022	15.10.2021 15.04.2022	20.05.2022	KSAAD reported that 5,987 units audited during 2021-22 and 5,893 LARs were issued, out of which 5,882 LARs were issued in time.
Annexure H	Status of Certification of Accounts	Annual	2020-2021	15.04.2021	01.07.2021	KSAAD had not furnished the status of certification of accounts of GPs.
			2021-2022	15.04.2022	Not furnished	

Source: Information furnished by KSAAD

3.5 Copies of Inspection Reports

Copies of IRs in respect of selected GPs and ULBs 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. CAG reviewed Local Audit Reports of selected 45 and 71 GPs for the years 2020-21 and 2021-22 respectively furnished by KSAAD.

The issues noticed during the review of Inspection Reports of KSAAD and results of more detailed analysis by the CAG are discussed below.

3.5.1 Test check of GPs audited by Primary Auditor

The Primary Auditor conducted audit of 5,297 GPs (January 2021), 5,938 GPs (February 2023), out of which CAG selected 45 and 71 GPs based on expenditure incurred and manpower available for the years 2020-21 and 2021-22 respectively **Appendix 3.1**.

3.6 Important audit findings from the test check of GPs by CAG

3.6.1 Short collection of building license fees - ₹45.61 lakh

Review of Inspection Report: KSAAD vide their IR commented that the correctness of the data could not be verified due to non-maintenance of registers for issue of licenses in GP Doddabanahalli, GP Kittaganur, GP Mandya Gramanthara, GP Kannur, and GP Mayasandra.

On detailed analysis of files relating to issue of building licenses and fee collected in the above five GPs, Audit observed (March 2021) that the GPs collected fees of ₹73.55 lakh instead of ₹119.16 lakh towards issue of building licenses for the period 2016-17 to 2018-19 resulting short collection of ₹45.61 lakh. The details are vide **Appendix 3.2**.

3.6.2 Non collection of building license fees ₹86.05 lakh

The GoK in exercise of powers conferred by Section 315 read with Section 311 of the KPR Act (Karnataka Act 14 of 1993) made the KPR (ZPs, TPs and GPs Control Over erection of buildings) Model Bye-laws, 2015.

As per Rules 4 to 7 of the above model Bye-laws, every person who intends to erect, re-erect or make material alteration or demolish any building, shall give in writing an application for erection, re-erection, material alternation or demolition of the building to the authority of such intention in the form given in Schedule 1 and shall be accompanied by plans and statements in triplicate drawn or prepared along with *Khata* certificate, Receipts for fees, Building Plan and Specifications.

Further, Rule 8 (1) stipulates that no application under Bye law (4) and (7) shall be valid unless and until the person giving such application encloses the challan or receipt for having paid the necessary license fee as specified below:

Industries:

- (a) Fee to be imposed on different types of industrial buildings is shown in Schedule X.
- (b) If the estimation exceeds ₹10 lakh, one *per cent* of total estimated amount shall be paid as labour cess in addition to the amount shown in Schedule X.

Further, Rule 8(2) (v) stipulates that for the purpose of calculating fees, the area covered under the basement shall be counted towards the covered area.

On verification of daybook, bank passbook and other connected records relating to GPs, Shivarupattana and Nosagere of Malur Taluk, Kolar District for the years from 2017-18 to 2019-20, it was observed (March 2022) that there was short/non-collection of building license fee amounting to ₹86.05 lakh in four cases as detailed in **Appendix 3.3**.

Property Assessment needs to be carried out by the PDO of the GP concerned to arrive at the actual amount of Building License fee, based on area/type of the buildings as per the extant Acts and Rules.

The State Government, while accepting the audit observation stated (June 2024) that necessary action will be initiated in this regard.

Recommendation 1: State Government should direct KSAAD to examine all files relating to levy of license fees to ascertain the correctness of assessment and collection.

3.6.3 Loss of revenue due to non-realization of dues on account of dishonoured cheques - ₹48.74 lakh.

Review of Inspection Report: KSAAD had commented in GPs, Kaggalipura, Muguluru, Hulimangala and Anneshwara about non-issue of Form 3-A as per Rule No.20 of KPR (GP Budgeting and Accounting) Rules, 2006 in respect of Cheques/DDs received towards GP revenue.

As per Rule 20 of KPRGP (B&A) Rules, 2006, when GP receives payment by way of cheques or bank drafts, no cash receipt shall be issued. Instead, a temporary receipt in Form 3(A) shall be issued. On realization of the said cheque/bank draft, an official receipt in Form-3 will be issued to the remitter. In the event of the cheque being dishonored by the bank on presentation, the fact shall be reported at once to the remitter with demand for payment in cash. A detailed record of cheques/bank drafts received in the office shall be maintained in Form-4. Proceeds of cheques or bank drafts shall be credited to GP account in the treasury/bank within next day.

However, during test check of records such as daybook, cash receipt, cash book *etc.*, the following discrepancies were noticed.

The test checked four¹² GPs were receiving cheques/drafts from taxpayers and directly issuing Cash Receipts instead of temporary receipt in Form-3(A) as prescribed above. A detailed record of cheques/bank drafts received was not maintained in Form-4. Name of the taxpayer, address, survey number/plot number *etc.*, were not recorded in the General Receipt, as a result, the tax receipts could not be cross verified in the Demand Register (Form-11) of the GP. Instances of dishonoured cheque/loss of cheque or drafts, if any, were not kept on record.

On check of the bank pass sheet of respective GPs for the years 2016-17 to 2019-20, it was noticed that 47 cheques amounting to ₹48.74 lakh were returned/dishonored by the Bank (**Appendix 3.4**) indicating that the GPs did not exercise the procedures prescribed under KPRGP(B&A) Rules 2006.

The State Government accepted the audit comments.

Recommendation 2: The KSAAD should scrupulously audit transactions relating to dishonored cheques and instruct GPs to strictly adhere to KPRGP(B&A) Rules 2006 to safeguard the revenues.

3.6.4 Short collection of rent on advertisement hoardings erected in the GP premises - ₹4.01 lakh.

Review of Inspection Report: KSAAD vide their IR did not comment upon non-collection of rent on advertisement hoardings erected in the GP premises in GP Yamare.

¹² Anneshwara (August 2021), Hulimangala Kaggalipura and Muguluru (March 2021).

On analysis (February 2021) of GP proceedings, copy of agreement executed by the GP with the advertising agency and the rent realised, Audit noticed that the GP Yamare had realised only ₹1.15 lakh during 2017-18 against the amount due of ₹5.16 lakh towards rent for the years 2016-17 and 2017-18 as shown in **Table 3.3**.

Table 3.3: Short collection of rent on advertisement hoardings

(Amount in ₹)				
Sl. No.	Year	Rent on advertisement hoardings to be collected	Rent on Advertisement hoardings actually collected	Non/Short collection
1	2016-17	2,16,000	0	2,16,000
2	2017-18	3,00,000	1,15,295	1,84,705
Total		5,16,000	1,15,295	4,00,705

Source: Records of GP Yamare.

Further, the GP had neither issued notices nor initiated action towards collection of rent of ₹4.01 lakh with the advertising agency.

The State Government accepted (June 2024) the audit comments and stated that necessary action will be initiated.

Recommendation 3: The KSAAD should verify all such agreements with the agencies and direct GPs to initiate action for realization of pending dues.

3.6.5 Irregular receipt of cheques from GPs by TP official in his personal capacity towards procurement of receipt books and other purchases.

Review of Inspection Report: The issue of handing over cheques without supporting vouchers was not noticed/brought out in KSAAD Inspection Report.

As per Rule-21 of KPRGP (B&A) Rules, 2006, GP shall obtain the printed receipt books in Form-3 from the Government printing press or through ZP of the district. Under no circumstances it shall obtain its receipt books requirement from a private printer.

Further, as per Rule 43, every payment charged to the GP fund shall be supported by a bill or voucher and shall bear an order to pay the specified amount and as per Rule 46 (2), the voucher shall bear or have attached to it an acknowledgement of payment signed by the person for whom or on whose behalf the claim is put forth.

On verification of cash book, bank pass sheets of SB accounts of GP Shantipura and GP Muguluru (March 2021) for the year 2017-18 and 2018-19, it was noticed that the GPs had issued four cheques in the name of Shri T.V. Murthy, FDA of TP Anekal as detailed in **Table 3.4**.

Table 3.4: Details of Issue of cheques in contravention of rules

Sl. No.	Particulars Items	Name of the GPs	Cheque No. / Date	Amount (in ₹)
1	Procurement of Receipt Books	Shantipura	718615/01.01.2019	8,000
2	Procurement of Receipt Books	Muguluru	745134/26.04.2017	10,000
Sub-Total				18,000
3	Procurement of T Shirts for World Environment Day	Muguluru	367060/27.06.2018	6,500
4	Karnataka Panchayat Raj Act. Book	Muguluru	291756/05.09.2018	18,400
Sub-Total				24,900
Grand Total				42,900

Source: Records of GPs

Though the GPs made above purchases from Karnataka Law Journal Publication, Gandhinagar, Bengaluru, cheques were issued in favour of Shri T.V. Murthy, First Division Assistant, TP Anekal instead of transferring the amount to the concerned supplier's account.

The reasons for issue of cheques in personal capacity of TP Official was not forthcoming from the records, which is in contravention to the Rules supra and misuse of Government money cannot be ruled out.

The State Government replied (April 2024) that action will be taken against the concerned officials.

Recommendation 4: The KSAAD should verify procurement procedures of General Receipt Books and other contingent bills in accordance with KPRGP(B&A) Rules 2006.

3.6.6 Improper certification of earth work excavation by manual means instead of mechanical means facilitated payment of excess amount to the contractors - ₹13.06 lakh.

Review of Inspection Report: KSAAD vide their IR did not comment any observation on excess amount paid to the contractors for earth work excavation in GP Tumari.

Rule 34 (8) of Karnataka Public Works code requires the field engineer to ensure that the works are carried out according to the specification approved plans and estimates with required quality at all levels of construction and also timely efficient execution of works entrusted to him.

On a review of 86 works executed during the period from 2016-17 to 2020-21 by GP Tumari relating to development of road, improvements to road and providing NP2 pipes to the road, the following observations were noticed.

- (1) The estimates were prepared by adopting PRED Scheduled Rates, wherein, the item for 'Excavation of soil by manual means with lead up to 50m - Excavation for roadway in soil using manual means for carrying of cut earth

to embankment site with a lift up to 1.5m and lead up to 50m as per Technical Specification Clause 302.3 [Item No.3.5(i)]' was considered.

- (2) It was seen from the photographs taken during execution of work enclosed with final work bills that the same was actually executed by mechanical means, which carried lesser rates when compared to manual means.
- (3) However, it was certified by the concerned Engineers in the measurement books and final RA Bills that the above works were carried out by manual means.
- (4) Accordingly, the contractors had claimed the bill for manual means, which was higher than the mechanical means. The failure of the GP in regulating the claim for mechanical means resulted in excess payment of ₹13.06 lakh to the contractors as detailed in **Appendix 3.5**.

The State Government accepted (June 2024) the audit comments and stated that necessary action will be initiated.

Bengaluru
The 11 AUG 2025

(Vimalendra Anand Patwardhan)
Principal Accountant General (Audit I)
Karnataka