

## **Chapter-I**

### **Introduction**

#### **1.1 About this Report**

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government Departments and Autonomous Bodies.

Compliance audit refers to examination of the transactions of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with. On the other hand, performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/Department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit findings are expected to enable the Executive to take corrective actions as also to frame policies and issue directives that will lead to improved management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the compliance audit and follow-up on previous Audit Reports. Chapter-II of this report contains findings arising out of performance audit of selected programmes/activities/Departments. Chapter-III contains observations arising out of compliance audit in Government Departments and Autonomous Bodies.

#### **1.2 Auditee Profile**

The Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru conducts audit of the expenditure under the General and Social Services incurred by 66 Departments in the State and 11 Autonomous Bodies. The Departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/ Commissioners and subordinate officers working under them.

The summary of fiscal transactions of the Government of Karnataka during the year 2014-15 and 2015-16 is given in **Table-1** below.

**Table-1: Summary of fiscal transactions in 2015-16**

(₹ in crore)

	Receipts			Disbursements			
	2014-15	2015-16		2014-15	2015-16		
<b>Section-A Revenue</b>							
				<b>Total</b>	<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
Revenue Receipts	<b>1,04,142.15</b>	<b>1,18,817.31</b>	Revenue Expenditure	<b>1,03,614.29</b>	<b>77,018.84</b>	<b>40,009.74</b>	<b>1,17,028.58</b>
Tax revenue	70,180.21	75,550.18	General Services	28,265.27	30,574.06	225.22	30799.28
Non-tax revenue	4,688.24	5,355.04	Social Services	39,366.25	22,191.29	24,115.79	46307.08
Share of Union taxes/duties	14,654.25	23,983.34	Economic Services	29,971.31	20,383.68	13,463.49	33,846.17
Grants-in-aid and contributions from GOI	14,619.45	13,928.75	Grants-in-aid and contributions	6,011.46	3,870.81	2,205.24	6,076.05
<b>Section-B: Capital and others</b>							
Misc. Capital receipts	<b>10.14</b>	<b>352.30</b>	Capital Outlay	<b>19,622.30</b>	<b>397.13</b>	<b>20,315.90</b>	<b>20,713.03</b>
			General Services	618.46	41.74	949.67	991.41
			Social Services	4,180.89	218.76	5,095.15	5,313.91
			Economic Services	14,822.95	136.63	14,271.08	14,407.71
Recoveries of Loans and Advances	<b>83.82</b>	<b>59.68</b>	Loans and Advances disbursed	<b>576.15</b>	<b>98.28</b>	<b>558.13</b>	<b>656.41</b>
Public debt receipts**	<b>21,874.63</b>	<b>21,072.33</b>	Repayment of public debt**	<b>4,812.23</b>	<b>4,110.20</b>	--	<b>4,110.20</b>
Contingency Fund	--	--	Contingency Fund	--	--	--	--
Public Account Receipts	<b>1,40,229.39</b>	<b>1,60,518.76</b>	Public Account disbursements**	<b>1,29,573.99</b>	--	--	<b>1,55,094.83</b>
Opening Cash Balance	<b>15,759.73</b>	<b>23,900.90</b>	Closing Cash Balance	<b>23,900.90</b>	--	--	<b>27,118.23</b>
<b>Total</b>	<b>2,82,099.86</b>	<b>3,24,721.28</b>	<b>Total</b>	<b>2,82,099.86</b>			<b>3,24,721.28</b>

(Source: Finance Accounts 2015-16)

\*\* Excluding net transactions under ways and means advances and overdraft

### 1.3 Authority for conducting Audit

The authority for conducting audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13<sup>1</sup> of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 11 Autonomous Bodies which are audited under Sections 19(2)<sup>2</sup> and 19(3)<sup>3</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 other Autonomous Bodies, under Section 14<sup>4</sup> of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

<sup>1</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.

<sup>2</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

<sup>3</sup> Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>4</sup> Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of anybody or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

#### **1.4 Organisational structure of the Office of the Principal Accountant General (G&SSA), Karnataka, Bengaluru**

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru conducts the audit of Government Departments/Offices/Autonomous Bodies/Institutions under the General and Social Sector which are spread all over the State. The Principal Accountant General (General & Social Sector Audit) is assisted by three Group Officers and various subordinate officers.

#### **1.5 Planning and conduct of Audit**

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the Departments. The Departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India for being laid on the table of the State Legislature.

During 2015-16, in the General & Social Sector Audit Wing, 6,200 party days were used to carry out audit of 443 units and to conduct one performance audit and two compliance audits.

#### **1.6 Significant audit observations**

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected Departments which impact the success of programmes and functioning of the Departments. Similarly, the deficiencies noticed during compliance audit of the Government Departments/Organisations were also reported upon.

##### ***1.6.1 Performance audits of programmes/activities/Departments***

The present report contains one performance audit. The highlights are given in the following paragraphs:

**1.6.1.1 Karnataka Urban Water Supply and Drainage Board's role in augmentation of Water Supply and Sewerage systems in Urban Karnataka**

The Karnataka Urban Water Supply and Drainage Board (Board) which is functioning since August 1975 is responsible for capacity creation and augmentation of Water Supply Schemes (WSS) and Under Ground Drainage (UGD) systems in all the Urban Local Bodies (ULBs) under its jurisdiction in the State. Since inception, the Board has commissioned 531 WSS and 61 UGD systems across the State. A performance audit of the Board's role in augmentation of Water Supply and Sewerage systems in Urban Karnataka during 2011-12 to 2015-16 showed the following:

- Due to absence of long term plan for both WSS and UGD schemes, it was observed from the test-checked projects that while the Board had taken up WSS repeatedly during 2001-02 to 2015-16 in seven ULBs, it was yet to take up WSS in seven ULBs wherein the per capita water supply was less than the minimum standard fixed by the State.

**(Paragraph 2.1.8.1)**

- The Board had executed without ensuring reliability and dependability of source of water in four test-checked WSS. This resulted in expenditure on the projects, which did not deliver their objectives of giving the desired level of water supply to the beneficiaries.

**(Paragraph 2.1.8.3(a))**

- While designing the WSS, the Board had not conducted tests to assess quality of the raw water and thus employed inadequate treatment process, which resulted in presence of coliform bacteria in treated water above permissible limits.

**(Paragraph 2.1.8.3(b))**

- The Board had invited tenders and awarded contracts without ensuring availability of land in seven test-checked schemes in violation of the Karnataka Public Works Departmental Code. This resulted in inordinate delay in completion of works and under utilisation of partially completed works besides untreated sewage mixing with and polluting water bodies.

**(Paragraph 2.1.8.3(c))**

- The Board could not ascertain exact quantity of water treated, supplied and lost in transmission and distribution in 18 out of 21 test-checked WSS due to non-provision for installation of flow meters at various points of the WSS in the estimates.

**(Paragraph 2.1.8.3(e))**

- In all the 21 test-checked WSS except for one, the Board was not recycling the filter backwash water in order to increase the availability of treated water and decrease the amount of effluent.

**(Paragraph 2.1.8.4)**

- Inordinate delay in commencement and completion of the schemes had resulted in loss of central assistance to the extent of ₹11.05 crore in respect of two test-checked schemes.

**(Paragraph 2.1.9.1)**

- During execution, the Board had deviated from the approved detailed project report (DPR) viz., by installation of higher capacity pump-sets, non-execution of some works approved in DPR and non-execution of distribution network in WSS. These resulted in additional financial burden to the ULBs and also in non-achievement of the intended objective of the WSS.

**(Paragraph 2.1.9.2(a))**

- Due to non-maintenance of WSS and UGD schemes handed over to the ULBs, most of the infrastructure provided was being under-utilised or not utilised.

**(Paragraph 2.1.10.3)**

- In WSS to the Mysuru city, adoption of incorrect survey data and non-revision of the DPR resulted in a deficient estimate which led to reduction of the area of coverage from 69 Direct Metering Areas (DMAs) to 47 DMAs and curtailment of funding for the project. Also, failure of the Board to ensure installation and calibration of Pressure Control Valves defeated the objective of supplying water 24x7 to the 47 DMAs. Non-installation of water meters and deficient billing coverage resulted in high Non-revenue Water. Thus, despite incurring an expenditure of ₹271.56 crore, the intended objective of supplying water 24x7 to the city of Mysuru was not achieved.

**(Paragraph 2.1.11.2)**

## **1.6.2 Compliance audit**

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government Departments/Organisations. Some significant audit findings are as under:

### **1.6.2.1 Schemes for the Empowerment of Differently Aabled Persons**

The special schools run by Government had huge vacancies against teaching staff and the teacher-student ratio in the special schools for hearing impaired was lower than the prescribed ratio of 1:10. The proposal for amending vocational training was yet to be approved by the Government. During joint inspection of test-checked units, highly inadequate infrastructure and gross inaccuracies in District Disability Welfare Officers' (DDWOs) Inspection Reports were observed by audit. Also, 90 *per cent* of the teachers appointed in the special schools did not possess the requisite qualifications.

**(Paragraph 3.1.6.1(a) & (b))**

Further, the State Government is yet to devise a comprehensive education scheme which covers transport facilities, removal of architectural barriers, and supply of books, uniforms *etc.* No schemes have been formulated to provide non-formal education either. Irregularities viz., delay in disbursement of scholarships, non-maintenance of records, irregular withdrawal, *etc.*, were noticed in disbursement of scholarships to students.

**(Paragraph 3.1.6.1(iv) (d))**

Despite surveys being conducted both in Rural Rehabilitation Programme and District Disability Rehabilitation Centre Schemes for several years, the Department did not have a comprehensive database of Differently Abled Persons (DAPs) and were dependent on population census data.

**(Paragraph 3.1.7.3(a))**

Neither the Department nor the State Commissioner had any information relating to recruitment of DAPs in departments, where the posts have been identified. The powers of the State Commissioner were restricted in the State and hence the monitoring by the State Commissioner was ineffective. Even the State Co-ordination Committee had met only once against requirement of nine meetings and the State Executive Committee had not met even once against the requirement of 20 meetings during 2011-12 to 2015-16. Hence, there was inadequate monitoring and evaluation of policies and programmes for DAPs.

**(Paragraph 3.1.8.1 & 3.1.8.2)**

Absence of internal control and monitoring by the Department was evident as we observed discrepancies in DDWO's inspection reports, non-conduct of inspections by Director and third party evaluation, lacunae in management of bank accounts and registration process, *etc.*

**(Paragraph 3.1.8.3)**

Therefore, in view of the deficiencies and shortcomings in implementation of these schemes, necessary action must be taken to ensure effective compliance to the scheme guidelines by strengthening internal controls and monitoring mechanism and to ensure proper identification of beneficiaries so that the allocated resources are used optimally for the benefit of the beneficiaries.

**(Paragraph 3.1.9)**

#### ***1.6.2.2 Social Security Pension for Differently Abled Persons and Senior Citizens***

There were many shortcomings in ensuring adherence to the guidelines on assessment, sanction and disbursement and in the identification of beneficiaries in all the three schemes of Sandhya Suraksha Yojana, Indira Gandhi National Old Age Pension Scheme and Monthly Maintenance Allowance. A contributing factor was the weak internal controls and ineffective monitoring mechanism. Hence the allocated resources could not be put to optimum use due to various shortcomings brought out in this report which among other issues, resulted in irregular/fraudulent payments. Therefore, a serious relook on the implementation and monitoring aspects is needed to ensure optimum utilisation of the resources available for the benefit of genuine beneficiaries.

As a follow up action on this report and the exit conference, the Department has initiated several measures to tackle many of the lacunae/deficiencies pointed out in the report. Besides, taking corrective steps on the remaining issues, it now needs to strengthen its monitoring and internal control mechanism to ensure that these schemes function effectively.

**(Paragraph 3.2)**

### **1.6.2.3 Other audit observations**

Payment of remuneration for examination duties disregarding Government directions, by four Universities, resulted in irregular expenditure of ₹28.01 crore.

**(Paragraph 3.3)**

The Karnataka Slum Development Board had recommended waiver of outstanding loan of ₹2.17 crore irregularly in respect of 453 allottees, who had sold their dwelling units, thereby violating the terms of allotment. This resulted in extension of undue financial benefit to the said allottees.

**(Paragraph 3.4)**

Absence of mechanism to monitor remittance of tuition fees to Government account resulted in Grants-in-aid receiving Industrial Training Institutes retaining tuition fees amounting to ₹19.61 crore.

**(Paragraph 3.5)**

The Department of Printing, Stationery and Publications, Government Central Press had procured consumables relating to electronic devices without ascertaining users' requirement and also without consultation with Department procuring electronic devices. This resulted in accumulation of unutilised stock which became obsolete thereby rendering expenditure amounting to ₹82.34 lakh unfruitful.

**(Paragraph 3.6)**

The Deputy Commissioner, Chikkaballapur applied incorrect cost indices for regulating price adjustment which resulted in excess payment of ₹126.83 lakh to a company.

**(Paragraph 3.7)**

The Karnataka Residential Educational Institutions Society's failure to monitor and initiate appropriate and timely action on the contractor and Project Management Consultant resulted in avoidable dismantling and reconstruction of a School Complex. The expenditure incurred on this avoidable activity was ₹1.07 crore.

**(Paragraph 3.8)**

The Karnataka Urban Water Supply and Drainage Board violated the guidelines of the State Government while regulating the price adjustment, which resulted in avoidable excess payment of ₹44.10 lakh to the contractor.

**(Paragraph 3.9)**

Bangalore Development Authority (BDA) failed to consider the General Power of Attorney that empowered the developer to develop and sell, lease or mortgage his share of land before sanctioning detailed building plans for a Golf Course with 460 guest houses. This allowed the Developer to sell the guest houses as independent villas to prospective owners, apart from violating BDA's zonal regulations.

**(Paragraph 3.10)**

Injudicious entrustment of Underground Drainage works to Karnataka Housing Board resulted in failure to provide Underground Drainage facility for Shikaripura town even after seven years from the original date for completion. This also resulted in unfruitful expenditure of ₹14.38 crore on incomplete works, avoidable expenditure of ₹0.50 crore for third party inspection besides liability to incur ₹1.73 crore for rectification of works not being maintained.

**(Paragraph 3.11)**

## **1.7 Responsiveness of Government to Audit**

### **1.7.1 Outstanding inspection reports**

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG, who forwards a half yearly report of pending IRs to the Secretaries of the Departments to facilitate monitoring of the audit observations.

As of 31 March 2016, 407 IRs (1,754 paragraphs) were outstanding against the Health and Family Welfare Department. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**.

A review of the pending IRs, issued upto March 2016 showed that the Heads of Offices had not sent even the initial replies in respect of 29 IRs containing 216 paragraphs issued between April 2002 and March 2016 though all IRs were required to be replied to within a period of one month from the date of their receipt.

### **1.7.2 Response of Departments to the draft paragraphs**

The Draft paragraphs and Performance audit reports were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between June 2016 and November 2016 to send their responses within six weeks. Government replies have been received for the Performance audit and nine out of 11 paragraphs. The replies, wherever received, have been suitably incorporated in the Report.

### **1.7.3 Follow-up action on Audit Reports**

The Hand Book and the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provide for furnishing by all the departments of Government, detailed explanations in the form of Action Taken Notes (ATNs) to the audit observations included in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The administrative departments did not comply with these instructions and 14 departments as detailed in **Appendix-1.2** had not submitted ATNs for 46 paragraphs for the period 1996-97 to 2014-15 even as of 31 December 2016.

***1.7.4 Paragraphs to be discussed by the Public Accounts Committee***

Details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of December 2016 are detailed in **Appendix-1.3**.