

Chapter 1

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 relating to expenditure 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 the 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 findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial 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 audit of transactions and follow up on previous Audit Reports. Chapter-2 of this report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter-3 contains observations on audit of transactions in Government departments and autonomous bodies. Chapter-4 presents an assessment of internal controls in the Public Works Department.

1.2 Auditee Profile

There are 74 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them and eight autonomous bodies which are audited by the Principal Accountant General (C&CA), Bangalore and the Accountant General (WF&RA), Bangalore.

The comparative position of expenditure incurred by the Government during the year 2008-09 and in the preceding two years is given in Table below.

Table 1: Comparative position of expenditure

(Rupees in crore)

Disbursements	2006-07			2007-08			2008-09		
	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
Revenue expenditure									
General services	76	10,343	10,419	86	10,786	10,872	110	12,165	12,275
Social services	4,208	6,729	10,937	4,784	8,340	13,124	5,925	9,948	15,873
Economic services	3,539	6,901	10,440	3,443	8,010	11,453	3,699	7,438	11,137
Grants-in-aid and contributions	29	1,610	1,639	-	1,926	1,926	796	1,578	2,374
Total	7,852	25,583	33,435	8,313	29,062	37,375	10,530	31,129	41,659
Capital Expenditure									
Capital outlay	8,411	132	8,543	7,199	1,450	8,649	9,135	735	9,870
Loans and advances disbursed	306	51	357	752	5	757	223	508	731
Repayment of public debt (including transactions under ways and means advances)	-	1,749	1,749	-	1,329	1,329	-	1,778	1,778
Contingency fund	-	-	13	-	-	-	-	2	2
Public account disbursements	-	-	42,637	-	-	54,055	-	-	54,783
Total	8,717	1,932	53,299	7,951	2,784	64,790	9,358	3,023	67,164
Grand Total	16,569	27,515	86,734	16,264	31,846	1,02,165	19,888	34,152	1,08,823

1.3 Authority for Audit

The authority for 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) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of eight autonomous bodies which are audited under sections 19(2)² and 20(1)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 274 other autonomous bodies, under Section 14⁴ 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.

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

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

⁴ Audit of 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 any body 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 Rs one crore.

1.4 Organisational structure of the Office of the Principal Accountant General (C&CA) and Accountant General (WF&RA), Bangalore

Under the directions of the C&AG, the Office of the Principal Accountant General (C&CA)/Accountant General (WF&RA), Bangalore conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountant General and Accountant General are assisted by seven Group Officers.

1.5 Planning and conduct of Audit

Audit process starts with the assessment of risk faced by various Departments of Government and also 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 department. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. 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.

During 2008-09, in the Civil Audit Wing, 7,894 party-days were used to carry out audit of 582 units and to conduct two performance audit reviews. In the Works and Forest wing 112 units were audited by utilising 3,640 party-days. The audit plan covered those units/entities which were vulnerable to significant risk as per our assessment.

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.

1.6.1 Performance audits of programmes/activities/department

The present report contains two performance audits, one long paragraph and an assessment of internal controls in Public Works Department. The highlights of the performance audits are given in the following paragraphs.

1.6.1.1 Public Distribution System in Karnataka

Public Distribution system is vital to the Government policy of ensuring availability of adequate food grains to the public at affordable price as well as enhancing food security to the poor.

The performance audit noted the failure to follow Government of India guidelines to identify the families living below poverty line resulting in inclusion of 75.40 lakh extra families in the BPL list over and above 31.29 lakh families identified by Government of India.

Implementation of the system without identifying the families living below poverty line as per Government of India guidelines, lack of basic infrastructure in the wholesale godowns and viability of Fair Price Shops, non-accountal of transit and handling loss of food grains, avoidable transportation expenditure, non-viability of Fair Price Shops due to very low economic returns coupled with poor monitoring of transportation and distribution of food grains rendered the public distribution system ineffective.

1.6.1.2 National Rural Health Mission

The performance audit of the National Rural Health Mission noted gaps in community participation in preparation of village and block plans for project implementation, defeating the objectives of decentralised planning. The Arogya Raksha Samithis were not effective in management of healthcare centres. There was delay in taking up the upgradation and construction of healthcare centres resulting in huge amount of the funds remaining unspent even at the end of fourth year of project implementation. There was shortage of medical and paramedical staff and lack of essential equipment and buildings for the healthcare centres. Evaluation of health indicators indicated poor achievement in reducing maternal mortality and registering higher cure rate of endemic diseases. Computerisation of health centres up to block level and networking was yet to be achieved.

1.6.1.3 Karanja project

The project which envisaged irrigation of 35,614 ha of land at a cost of Rs 9.90 crore could not be completed despite revising its cost to Rs 532 crore and even after 38 years of its commencement. The irrigation potential was also revised downwards to 29,227 ha due to drastic reduction in the inflow of water into the reservoir and the maximum area irrigated at the end of March 2009 with an outlay of Rs 481.10 crore was only 1,040 ha. The benefit cost ratio was reduced to 0.26 rendering the project economically unviable.

1.6.1.4 Internal control in Public Works, Ports & Inland Water Transport Department

An evaluation of Internal control in Public Works, Ports & Inland Water Transport Department revealed non-compliance with rules, manuals and codes in budget preparation, expenditure control, accountal of transactions, quality control of Works executed, inventory control, etc.

Budget formulation was deficient due to delayed submission of work estimates by controlling officers to the Finance Department. The delayed circulation of Appendix-E to implementing officers, inclusion of unapproved works affected execution of works. There were persistent savings in capital expenditure and wide variations in revenue expenditure. There were long standing unadjusted balances in suspense accounts. Delay in reconciliation of cheques issued and remittances faced the risk of fraud remaining undetected. Departmental Code of 1965 was not updated despite recommendations of Public Accounts Committee. Various control registers were not updated. Failure to conduct physical verification of stores resulted in delay in detection of shortages and surplus and un-serviceable items were not disposed of. Deficiencies in operational controls included instances where requisite designs and drawings were not given to contractors even after due dates of completion of work and instances of payments without check measurements by divisional officers. Monitoring cell at Secretariat level was largely non-functional. The monitoring of disciplinary cases was also inadequate.

1.6.2 Compliance audit of transactions

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments/organisations. These are broadly categorised and grouped as:

- Non-compliance with rules.
- Audit against propriety/expenditure without justification.
- Persistent and pervasive irregularities.
- Failure of oversight/Governance.

1.6.2.1 Non-compliance with rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but helps in maintaining good financial discipline. This report contains instances of non-compliance with rules involving Rs.18.86 crore. Some important audit findings are as under:

- *Action of the Directorate of Employment and Training to admit 16 private Industrial Training Institutes to grant-in-aid before completion of the mandatory seven year period resulted in violation of the Grant-in-Aid Code and irregular payment of grant-in-aid of Rs 1.12 crore.*

(Paragraph 3.1.1)

- *In violation of Planning Commission guidelines, the Director of Vocational Education diverted Rs 1.97 crore earmarked to provide extra coaching and to supply study material to students belonging to Scheduled Castes and Scheduled Tribes to meet salary expenditure for regular staff.*

(Paragraph 3.1.2)

- *Net Present Value of Rs 13.97 crore was not recovered from user agencies by two forest divisions on transfer of 157.32 hectares of forest land for non-forest purposes.*

(Paragraph 3.1.3)

- *Deputy Commissioner, Gadag in defiance of norms prescribed by Government of India diverted Rs 81.60 lakh out of Calamity Relief Fund to construct compound wall around the District office complex, to repair roads and to furnish his official residence.*

(Paragraph 3.1.5)

1.6.2.2 Audit against propriety/expenditure without justification

Authorisation of expenditure from public funds has to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit has detected instances of impropriety and extra expenditure involving Rs.7.14 crore, some of which are as under:

- *Inaction of Commerce and Industries Department for over four years to act on the proposal of a public sector advertising company to allot shares to the Government and failure to levy Business Development Cost resulted in loss of dividend income of Rs 58.77 lakh and potential loss of Rs 10.04 crore.*

(Paragraph 3.2.1)

- *Bangalore University paid overtime allowance of Rs 2.22 crore to the employees of the University Printing Press during the period 2002-09 without fixing work norms for such payments.*

(Paragraph 3.2.2)

- *Procurement of higher bandwidth for improving internet connectivity in its campuses by Bangalore University without assessing the capacity of the existing equipment resulted in its under-utilisation and wasteful expenditure of Rs 85.85 lakh.*

(Paragraph 3.2.3)

1.6.2.3 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive when it is prevailing in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the executive but is also an indication of lack of effective monitoring. This in turn encourages wilful deviations from observance of rules/regulations and results in weakening of the administrative structure. Excess payment of Rs 2.15 crore relating to excess payment of family pension was noticed during audit.

- *During 2008-09, in 841 cases relating to 28 district treasuries, public sector banks made payment of family pension at enhanced rate beyond the period indicated in the Pension Payment Orders resulting in excess payment of Rs 2.15 crore.*

(Paragraph 3.3.1)

1.6.2.4 Failure of oversight/Governance

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the area of health, education, development and upgradation of infrastructure and public service etc. However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels involving Rs.10.03 crore. A few such cases have been mentioned below.

- *Failure of the Lake Development Authority to block flow of sewage into Jaraganahalli lake resulted in wasteful expenditure of Rs 3.63 crore on restoration works.*

(Paragraph 3.4.1)

- *Failure of the Government to communicate administrative approval for construction of Underground Drainage, Kolar (Stage-II) within the validity period of the tender, resulted in re-tendering entailing extra cost of Rs 1.73 crore.*

(Paragraph 3.4.2)

- *Execution of water supply scheme to Mulky town and five other villages enroute in Dakshina Kannada district by the Karnataka Urban Water Supply and Drainage Board without ensuring availability of water source, resulted in unfruitful expenditure of Rs 2.90 crore.*

(Paragraph 3.4.3)

- *Failure of the Executive Engineer to acquire land resulted in non-completion of canals rendering expenditure of Rs 1.77 crore spent on construction of a tank in Gulbarga district unfruitful, as the objective of providing irrigation could not be achieved.*

(Paragraph 3.4.4)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Inspection reports outstanding

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 of the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during

the inspection. 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 Secretary of the Department to facilitate monitoring of the audit observations.

As of 31 August 2009, 983 IRs (3,994 paragraphs) were outstanding against Higher and Technical Education, Water Resources, Minor Irrigation and Public Works Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**.

A review of the IRs pending due to non-receipt of replies, in respect of these four departments revealed that the Heads of Offices had not sent even the initial replies in respect of 169 IRs containing 1,331 paragraphs issued between 2001-02 and 2008-09.

1.7.2 Response of the Department to the Draft Paragraphs

The draft paragraphs were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between March and July 2009 with the request to send their responses within six weeks. Despite this, the departments did not send their replies to one performance audit and six out of 18 paragraphs featured in this Report. The replies wherever received, have been suitably incorporated in the report.

1.7.3 Follow-up on Audit Reports

Besides Hand Book, the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee also provide for furnishing by all the departments of Government, detailed explanations in the form of Action Taken Notes (ATNs) to the observations featured 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 the instructions and 25 Departments as detailed in **Appendix-1.2** had not submitted ATNs for 92 paragraphs for the period 1995-96 to 2007-08 even as of 7 December 2009.

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Comments on Appropriation Accounts featured in Audit Reports for the years 1989-90 and onwards are pending discussion by the Public Accounts Committee. Details of paragraphs (excluding General and Statistical) pending discussion as of 7 December 2009 are detailed in **Appendix-1.3**.

