

CHAPTER-3

AUDIT OF TRANSACTIONS

3.1 Non-compliance with the rules and regulations

3.2 Audit against propriety/Expenditure without justification

3.3 Persistent and pervasive irregularities

3.4 Failure of oversight/governance

Chapter-3

Audit of Transactions

Audit of transactions of the Government departments, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

3.1 Non-compliance with the rules and regulations

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. Some of the audit findings on non-compliance with rules and regulations were as under:

PRIMARY AND SECONDARY EDUCATION DEPARTMENT

3.1.1 Excess payment of salary

The teaching staff in Government and aided Pre-university colleges received salary of ₹ 4.01 crore for a strike period without compensating for the loss of academic days caused by the strike, in disregard of Government directives.

The teaching staff of Government and aided Pre-University (PU) Colleges in Karnataka struck work for eight days from 8 December 2011 to 15 December 2011. The Government declared the strike illegal and issued instructions to the Commissioner for PU Education (Commissioner) to withhold the salaries of lecturers and principals in 1203 Government colleges and 638 aided PU colleges for the strike period. The Commissioner sought (December 2011) the permission of the Government to initiate disciplinary proceedings against the teaching staff and also to regularise the strike period either by debiting the leave account of the teaching staff or by deducting the salary payable for the strike period.

The Government subsequently ordered (2 February 2012) the release of salary withheld on condition that the teaching staff compensated for the loss of academic days by teaching on holidays. The Commissioner issued (3 February 2012) instructions to the Deputy Directors of the districts and Principals of the Government and aided PU colleges to release the salary for the strike period if the teaching staff compensated for the loss of academic days by working on holidays. The salary for the strike period of eight days was disbursed to the teaching staff in March 2012.

We found that the last working day of the academic year for the PU colleges across the State was 31 March and the summer vacation commenced thereafter. During the academic year 2012, the PU examination commenced

from 22 February 2012 for the first year PU students and the teaching staff could have, at the most, worked on only three holidays. Similarly, the examination for the second year PU students commenced from the second week of March 2012 and there were only 5 holidays left before the start of the examination.

Evidently, there was no scope for the teaching staff to compensate for the academic days lost by working on holidays. However, the Deputy Directors and Principals of the PU colleges overlooked this aspect while releasing the withheld salary in March 2012. The college-wise details of the number of holidays on which the teaching staff had worked were not available with the Commissioner. We calculated the excess payment to the teaching staff on the basis of a very conservative estimate that the teaching staff could not have worked on more than five holidays till the commencement of the examination for the second year PU students. Applying the minimum salary of ₹ 750 per day for each lecturer, the excess payments aggregated ₹ 4.01 crore for 17840 lecturers including Principals of Government and aided PU colleges. The actual excess payment would be higher if the salary actually drawn by each lecturer and the number of holidays on which the teaching staff had actually worked is considered.

Pursuant to the audit findings, the Government stated (November 2012) that it had modified (November 2012) its order of 2 February 2012 by treating five days of the strike period as duty and allowing the remaining three days to be regularized by sanctioning leave of the kind due and admissible to the lecturers and Principals. However, while doing so, the Government glossed over the judgment of the Supreme Court advocating the principle of 'no work, no pay'. As the lecturers and Principals had not compensated for the loss of three days, release of pay for these three days by sanctioning leave was irregular. Further, treating five days of the strike period as duty without verifying whether the lecturers and Principals had actually worked on five extra days was also irregular.

REVENUE DEPARTMENT

3.1.2 Loss of interest

The Commissioner, Survey Settlement and Land Records retained huge unspent balances in the current account without earning interest, in disregard of the instructions given by the Finance Department for remitting the surplus money to the consolidated fund. This resulted in a loss of interest of ₹ 1.55 crore.

The Government had launched (August 2008) a Tatkal Podi and Pre-mutation Sketch Scheme (scheme) to facilitate correction of land records arising from division of landholdings due to a variety of reasons. The Government prescribed fees of ₹ 500 and ₹ 600 per application for Podi and Pre-mutation sketch, respectively. The Tahsildars were to receive the applications along with the prescribed fees and provide the requisite documents to the applicants within a month. The amounts so received were to be deposited in the bank

accounts to be opened at taluk levels and utilized for making payments at the prescribed rates to the licensed surveyors engaged for the purpose. The Tahsildars were to transfer the unspent balances to the bank account of the Commissioner, Survey Settlement and Land Records (Commissioner) once in three months. The unspent balance in this account was not to exceed ₹ 1 crore any time. The Commissioner was to report, at the end of the financial year, the unspent balances to the Finance Department (FD), which was to advise on remittance of the surplus balance to the Consolidated Fund of the State.

We found that unspent balance of ₹ 39.20 crore had been parked in the current accounts of the Commissioner as of September 2012. Further, while giving concurrence to the opening of the bank account, the FD had prescribed the following:

- A financial management plan for the scheme was to be got approved by the FD;
- A committee headed by the Principal Secretary, Revenue Department and consisting of representatives from the FD and the Department of Personnel and Administrative Reforms was to review the account on a quarterly basis; and
- The financial arrangement was to be reviewed in April 2010 in consultation with the FD.

However, the Commissioner had not complied with the directives of the FD and had also not reported the unspent balances to the FD, and in the process, huge funds had been parked outside the Consolidated Fund of the State.

Cash balances in the Consolidated Fund of the State are parked with the Reserve Bank of India (RBI). While the State Government earns interest at 5 per cent per annum on surplus cash balances through automatic investment in 14 days' intermediate treasury bills, the balances in the current accounts of the Commissioner do not earn any interest. Failure of the Commissioner to remit the surplus funds to the Consolidated Fund in consultation with the FD deprived the State Government of the opportunity of earning interest thereon by investing these in treasury bills. In the process, the State Government lost ₹ 1.55 crore in foregone interest during August 2009 to July 2012.

The matter was referred to Government in July 2012; reply has not been received (November 2012).

3.1.3 Sanction of excessive grants to temples and mutts

Government failed to follow its own guidelines regulating grants to religious institutions and released ₹ 50.86 crore excessively to 58 institutions during 2010-11. Grants of ₹ 8.16 crore released to nine institutions were outside the purview of the Government guidelines.

The Government provided grants to temples and other religious institutions for taking up repairs, renovations and construction of new structures. The Government had issued guidelines from time to time to regulate the release of

grants to religious institutions. The latest guidelines were issued in September 2010. In terms of these guidelines, the maximum limits up to which grants could be sanctioned to these institutions were as under:

- (1) Muzrai temples – ₹ 10 lakh
- (2) Private temples and institutions – ₹ 25 lakh
- (3) Mutts- ₹ 50 lakh

The grants were to be sanctioned on the basis of technical scrutiny of the estimates submitted by these institutions. While Commissioner, Hindu Religious Institutions and Charitable Endowments, Bangalore (Commissioner) had been delegated power to sanction grants up to ₹ 10 lakh, power to sanction grants in excess of ₹ 10 lakh vested with the Government. Further, if the grant exceeded ₹ 5 lakh, it was to be released in two installments. The second installment was to be released only after obtaining utilisation certificate from the grantee for the first installment. The Government released grants to the respective Deputy Commissioners (DCs) who parked the funds in a separate bank account and released the funds to the grantees.

We found that the Government had sanctioned grants in excess of these limits to 59 temples and mutts (8 muzrai temples, 28 private temples and 23 mutts) during September 2010 to March 2011. While these 59 institutions were eligible for grants aggregating ₹ 19.30 crore as per the scale fixed by the Government, the actual releases aggregated ₹ 72.05 crore, resulting in excess release of ₹ 52.75 crore, including ₹ 5.65 crore excessively released to eight muzrai temples. While the Government guidelines of September 2010 permitted relaxation of the norms for releasing grants to muzarai temples, no such relaxation was envisaged for private temples and mutts. We also found that DCs, Bangalore and Tumkur districts released ₹ 8.25 crore to eight of these 51 private temples and mutts in one installment instead of two installments.

Under the guidelines of September 2010, the Government had released another ₹ 5.51 crore during 2010-11 to seven Trusts and Samajas for undertaking developmental activities, centenary celebrations, Ganesha Utsava celebrations etc. Grant of ₹ 3.01 crore given to three of the seven institutions for centenary celebrations (₹ 2.51 crore to two institutions) and Ganesha Utsava celebrations (₹ 50 lakh to one institution) was outside the scope of Government guidelines of September 2010. In these seven cases, the grants exceeded the prescribed limits by ₹ 3.76 crore.

Though Government guidelines of September 2010 did not cover religious institutions outside the State, grants aggregating ₹ 5.15 crore had been released to six temples outside the State during 2010-11.

The Government stated (November 2012) that the Government guidelines of September 2010 provided for relaxation of the norms fixed for releasing grants and grants were released in relaxation of the guidelines with the approval of the Minister for Muzrai and the Chief Minister. The reply was not acceptable as the guidelines of September 2010 permitted relaxation only in respect of muzrai temples whereas the relaxation had been irregularly given to private temples and mutts.

Regarding grants to religious institutions outside the State, the Government stated (November 2012) that these grants had been released due to pressure from the public, with the approval of the Chief Minister. The reply was not acceptable as the Government guidelines did not cover religious institutions outside the State.

Thus, Government violated its own guidelines while sanctioning grants to religious institutions and released grants aggregating ₹ 50.86 crore excessively, evidently to patronize the grantees. Grants of ₹ 8.16 crore released to nine institutions were outside the purview of the Government guidelines.

3.1.4 Loss on sale of land

Government sold 13 acres of land to a Trust at a concessional rate of 50 per cent of its guidance value, though the Trust agreed to pay the guidance value for the land required for establishing a medical college. As per the Rules, the concession was available only to charitable institutions which did not charge any fee or service charges. As the medical college intended to be set up on the Government land was expected to inevitably collect fees from the students, the concession extended was unjustified and it resulted in a loss of ₹ 4.23 crore.

The Karnataka Land Grant Rules, 1969 (Rules) permit grant of land to religious and charitable institutions with the prior approval of the Government subject, inter alia, to the following conditions:

- While fixing the price of the land to be granted for non-agricultural purposes, no concession in price of land should be given to any institution; and
- Institutions run purely for religious and charitable purpose such as temples, leprosy treatment centres, old age homes, orphanages, homes for physically and mentally challenged persons etc., and ***without collecting any fee or service charge*** may be granted land at fifty *per cent* of the market value or guidance value, whichever is higher.

We found that Government had approved (February 2011) sale of 13 acres of its land in Survey No.15 of Chikkasandra village, Yeswanthapura Hobli, Bangalore North taluk to Sri Srinivasa Educational and Charitable Trust for establishing a medical college. At the time of seeking (March 2010) approval for sale of land, the Trust had agreed to pay the guidance value for the land. However, the Government approved the sale of land to the Trust at 50 *per cent* of the guidance value of ₹ 65 lakh per acre. The Government's decision was gratuitous, as the Trust itself volunteered to pay the guidance value for the land while seeking approval for its sale. Further, the Trust had needed the land for construction of a medical college which was expected to inevitably collect fees from the students and, in this context, 50 per cent exemption in the guidance value was not permissible under the Rules. Thus, Government's decision to sell the land to the Trust at a concessional price resulted in a loss of ₹ 4.23 crore.

As per the Rules, where the Government land is alienated for non-agricultural purposes, market value or guidance value of the land, whichever is higher, should be collected. It is common knowledge that market value of any property is mostly higher than the guidance value fixed by the Government due to a variety of reasons. In this context, we observed that the loss of ₹ 4.23 crore remained understated and the actual loss to the Government in this case would have been more.

The Government stated (November 2012) that under Rule 19, charitable and religious institutions were eligible for 50 per cent concession in the value of land and the Government was empowered to grant such concession under Rule 27. It was further stated that the Government had accordingly approved the sale of 13 acres of land to the Trust. The reply was not acceptable as the Rules provided for extending 50 per cent concession in the value of land only in respect of religious and charitable institutions which did not collect any fee or service charge. As the medical college proposed to be set up on the land sold to the Trust was expected to inevitably collect fees from the students, the concession extended was irregular.

URBAN DEVELOPMENT DEPARTMENT

3.1.5 Extra expenditure

The Bangalore Water Supply and Sewerage Board misjudged the responsiveness of the lowest bids received for seven packages and rejected these on the ground that these were not substantially responsive. Consequently, the Board accepted higher bids for these packages and this resulted in extra expenditure of ₹ 21.36 crore.

The Bangalore Water Supply and Sewerage Board (Board) invited (May 2010) tenders for providing sewerage systems in the areas under the erstwhile City Municipal Corporations. The works had been grouped under seven packages as shown below:

SI No	Name of the package	Amount put to tender (₹ in crore)	Lowest bid (₹ in crore)	Name of the agency submitting the lowest bid	Accepted bid (₹ in crore)	Name of the Agency	Difference (₹ in crore)
1	GBS 3F- KR Puram	38.84	43.72	M/s Patil Constructions and Infrastructure Pvt. Ltd	46.88	M/s SEW-AIPP Ltd	3.16
2	GBS 4A- Bommanahalli	53.84	60.22	-do-	61.88	-do-	1.66
3	GBS 7B- Dasarahalli	45.79	51.57	-do-	55.53	M/s L&T Ltd	3.96
4	GBS 8A- Dasarahalli	28.05	30.10	-do-	38.39	M/s Prathiba industries Ltd	8.29
5	GBS 2B- Byatarayanapura	54.27	53.67	M/s Neev Santhinath Joint venture	55.73	M/s SEW-AIPP Ltd	2.06
6	GBS 2D- Byatarayanapura	63.23	62.52	-do-	64.14	-do-	1.62
7	GBS 01- Yelahanka	25.00	27.47	M/s Patil Constructions and Infrastructure Pvt.Ltd	28.08	M/s DSC-CIPL Joint Venture	0.61

The lowest bids in all these seven packages had been rejected by the Board on the ground that these were not substantially responsive. Scrutiny of the files showed the following:

As per the notice inviting bids, bids were to be accompanied by bid security in the form of Demand Draft/Bank Guarantee/Letter of Credit drawn in favour of the Additional Chief Engineer and payable in Bangalore. Further, the bid security of a joint venture entity should be in the name of the joint venture entity that submitted the bid. A substantially responsive bid was one that met the requirements of the bidding documents without material deviation, reservation or omission. A material deviation, reservation or omission, as defined in the bid documents, was one that, if accepted, would:

- affect in any substantial way the scope, quality or performance of the works specified in the contract; or
- limit in any substantial way, inconsistent with the bidding document, the Employer's rights or the bidder's obligations under the proposed contract; or
- if rectified, would unfairly affect the competitive position of other bidders presenting substantially responsive bids.

In all these seven cases, the bidders were joint venture companies and the bid security had been in the names of the lead partners of the joint ventures instead of in the names of joint venture companies as specified in the bid documents. A scrutiny of the joint venture agreements entered into in each of these seven cases showed that the lead partner of the joint venture had been authorised to conduct all businesses for and on behalf of any or all the partners of the joint venture during the bidding process as well as during contract execution. Though there was a deviation from the requirement prescribed in the bid documents, the deviation was not material for the following reasons:

A bid security is a form of security that ensures that a bidder will not withdraw its bid within the period specified for acceptance. Whether the bid security is in the name of the joint venture or in the name of the lead partner as permitted by the joint venture agreement, the determinative question in judging the sufficiency of the bid security is whether it could be enforced if the bidder subsequently failed to execute the required contract documents. As bid security furnished by the lead partner in all these seven cases was legally sufficient and enforceable, it did not constitute a material deviation. The bids in these cases were substantially responsive as the bid securities in the names of the lead partner did not affect the scope, quality or performance of the works and did not also limit the Employer's rights or the bidders' obligations. Besides, bid securing declaration had been submitted in all these cases in the names of the legally constituted joint ventures, as specified in the bid documents.

Thus, injudicious rejection of the substantially responsive bids in these seven cases resulted in extra expenditure of ₹ 21.36 crore to the Board.

The matter was referred to Government in June 2012; reply has not been received (November 2012).

3.1.6 Loss of rebate

The Bangalore Water Supply and Sewerage Board unilaterally repaid interest at a lower rate on loans availed from the Karnataka Urban Infrastructure Development and Finance Corporation and, in the process, lost the incentive rebate of ₹ 84.59 lakh provided in the loan agreements for timely repayment of interest and principal.

The State Government had approved (December 2003) the implementation of water supply and sewerage projects for seven City Municipal Councils and one Town Municipal Council falling within the Bangalore Metropolitan region at a cost of ₹ 658.64 crore. The Government also constituted a Project Steering Committee (PSC) under the Chairmanship of the Principal Secretary, Urban Development Department to monitor the project implementation.

The Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) had sanctioned a loan of ₹ 46.82 crore during September 2007 to November 2007 to these eight local bodies for implementing the project. Consequent upon merger of these local bodies with the Bruhat Bangalore Mahanagara Palike (BBMP), the PSC decided (February 2008) to transfer the loan liability of ₹ 46.82 crore to the Bangalore Water Supply and Sewerage Board (BWSSB), which was mandated with the responsibility of providing water supply and sewerage services in the BBMP area. The project implementation was also entirely shifted to BWSSB.

BWSSB took over the loan of ₹ 46.82 crore by entering (July 2008) into an agreement with KUIDFC. The loan carried interest at the rate of 5.5 *per cent* per annum. BWSSB further borrowed (August 2008) ₹ 106.51 crore from KUIDFC for the project at the same rate of interest. The agreements with KUIDFC provided for an incentive rebate of 0.5 *per cent* in the rate of interest if the quarterly installments of interest and the principal were paid punctually on or before the due date. BWSSB started servicing the loan by unilaterally calculating interest at a rate of 4.5 *per cent* against 5.5 *per cent* agreed upon, in spite of KUIDFC clarifying (June 2008) that the interest rate was 5.5 *per cent* and rebate of 0.5 *per cent* would be given only for prompt repayment. KUIDFC also turned down (September 2008) the request of the Board to reduce the interest rate to 4.5 *per cent* per annum. Subsequently, the PSC decided (June 2009) to pre-close the two loans as sufficient funds for project implementation were available. Accordingly, the Board repaid the loans in October 2009 and October 2010 at the agreed rate of 5.5 *per cent*. KUIDFC refused to allow the incentive rebate of 0.5 *per cent* aggregating ₹ 84.59 lakh as BWSSB had failed to service the loan at the agreed rate since beginning.

Injudicious action of the Board to repay interest unilaterally at a reduced rate without obtaining KUIDFC's concurrence resulted in non-availing of the incentive rebate of ₹ 84.59 lakh.

The matter was referred to Government in June 2012; reply has not been received (November 2012).

3.1.7 Excess payment to contractor

The Bangalore Water Supply and Sewerage Board inappropriately adopted current cost indices of a different commodity for regulating price adjustment and, in the process, made an excess payment of ₹ 6.82 crore to a company.

The Bangalore Water Supply and Sewerage Board (Board) invited (July 2009) tenders for providing raw water transmission system of the Cauvery Water Supply Scheme, Stage IV, Phase II (scheme) and awarded (February 2010) the work to a company at a cost of ₹ 210.62 crore with stipulation for completion by February 2012. As of August 2012, the Board had paid the company ₹ 159.68 crore for the work done and another ₹ 10.50 crore towards price adjustment and the work was in progress. We noticed the following from a scrutiny of the payments made towards price adjustment:

As per the agreement with the company, the price adjustment on account of changes in cost was to be determined in accordance with a formula attached thereto. In respect of iron and steel, price adjustment was to be reckoned considering 1993-94 base index of the average whole sale prices for “iron and steel”, as published by the Reserve Bank of India (RBI). However, the RBI published the price indices from August 2010 by shifting the base level from 1993-94 to 2004-05. While doing so, the RBI revised the sub-groups of the commodities. While “iron and steel” was a distinct sub-group under the group “Basic Metals and Alloys and Metal Products” prior to August 2010, new sub-groups such as “Iron and Semis”, “Steel: Pipes and Tubes” etc. were introduced under the same group from August 2010.

As steel pipes had been used in the raw water transmission system, the appropriate sub-head for determining the price adjustment for materials would, therefore, be “Steel: Pipes and Tubes”. However the Board, while switching over to the base level indices of 2004-05, regulated the price adjustment on the basis of fluctuations in price indices of “Iron and Semis”, instead of “Steel: Pipes and Tubes”.

Irregular adoption of the current cost indices of iron and semis instead of steel pipes for regulating price adjustment resulted in an excess payment of ₹ 6.82 crore to the company (**Appendix-3.1**) for the work carried out during August 2010 to August 2011.

The matter was referred to Government in July 2012; reply has not been received (November 2012).

3.1.8 Unauthorised diversion of health cess

Bangalore Development Authority irregularly diverted health cess collections aggregating ₹ 13.26 crore for unauthorised purposes.

Under the provisions of the Karnataka Health Cess Act, 1962 (Act), health cess is levied to augment the revenues of the State, specially for implementing

a programme of adequate health service to the citizens. The health cess is to be levied at the rate of 15 per cent on taxes on land and buildings. The Act prescribes that where the health cess is recovered by a local authority, such local authority is to deduct 10 per cent of the amount recovered as cost of collection and remit the balance to Government.

Bangalore Development Authority (BDA) is a local authority for levy and collection of health cess on property tax collected on land and buildings. We found that during the period 2001-02 to 2008-09, BDA had utilised ₹ 12.25 crore of the health cess collected for making contributions to the Chief Minister's Relief Fund and other medical institutions as shown below:

Year	Name of the institution	Contribution (₹ in lakh)
2001-02	CM's Relief Fund	100.00
2002-03	CM's Relief Fund	100.00
2003-04	CM's Relief Fund	100.00
2004-05	CM's Relief Fund	100.00
2005-06	CM's Relief Fund	75.00
2006-07	Jayadeva Institute of Cardiology and Kidwai Memorial Cancer Institute	150.00
2007-08	CM's Relief Fund	200.00
2008-09	CM's Relief Fund and Indira Gandhi Institute of Child Health	400.00
	Total	1225.00

These contributions had been made on the basis of requests received from the Chief Minister and the heads of medical institutions. In addition, BDA had paid (February 2002) ₹ 1.01 crore out of the cess collected to the Bangalore Water Supply and Sewerage Board towards cleaning of the Ulsoor lake. In all these cases, BDA's Board had either approved the contribution or ratified the contributions made by the Commissioner. BDA stated (October 2011) that the contributions had been made as these were utilised for providing medical assistance to the poor and mitigating the hardship caused by accidents and unforeseen conditions. The reply was not acceptable as the health cess collected was to be remitted to Government as per the provisions of the Act and the Board had no powers to override the provisions in the Act. Further, the cess collections were to be utilised only for purposes authorised by the Act.

Thus, the Board irregularly diverted the health cess collections aggregating ₹ 13.26 crore for unauthorised purposes, in total disregard of the provisions in the Act.

The matter was referred to Government in August 2012; reply had not been received (November 2012).

3.2 Audit against propriety/Expenditure without justification

Authorisation of expenditure from public funds is to be guided by the principles of propriety and efficiency. 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, some of which are discussed below:

URBAN DEVELOPMENT DEPARTMENT

3.2.1 Ineffective restoration of a lake at a huge cost

The investment of ₹ 22.69 crore on restoration and development of Malathahalli lake failed to prevent contamination of the lake by untreated sewage.

Bangalore Development Authority (BDA) took up the restoration and development of the Malathahalli lake. The Detailed Project Report (DPR) prepared by BDA in May 2008 through a consultant had highlighted that the lake had been highly polluted¹ as there was no underground sewerage system to transmit the sewage and sullage from the housing layouts in the watershed area to a trunk sewer and to a treatment plant. The sewage and sullage entered the lake through three inlet channels. To prevent further pollution of the lake, the DPR proposed the following measures.

- Construction of a leap weir or diversion weir at the end point of inlet channel No.1 and laying of a diversion sewer from the diversion weir to the wet sump of a 5 MLD Tertiary Treatment Plant (TTP) to be constructed in the north-east corner of the lake. While the tertiary treated effluent to the extent of 2.5 MLD was to be supplied to the lake to maintain water level in the lake throughout the year, the balance quantity was planned to be used for watering the parks around the lake. Any sewage inflow into the wet sump in excess of 5 MLD was to be diverted by laying an overflow pipe sewer to be connected to the trunk sewer to the 60 MLD Sewerage Treatment Plant (STP) proposed to be constructed by the Bangalore Water Supply and Sewerage Board (BWSSB). In the event of any delay in completion of the trunk sewer by the BWSSB, the DPR envisaged laying a bypass sewer from the leap weir chamber to the down stream of the lake over a length of 1600 m.
- In respect of inlet channels No 2 and 3 also, a leap weir was to be constructed for each channel with necessary diversion sewers and manholes. BDA was to connect these diversion sewers to the sewerage system to be constructed for Blocks 8 and 9 of Sir M.Visvesvaraya Layout.

BDA entrusted (July 2009) the restoration and development of the Malathahalli lake to a contractor on the basis of his lowest tender costing ₹ 9.29 crore with stipulation for completion within 14 months. The work

¹ Five MLD of untreated sewage and sullage was entering the lake.

consisting of construction of stone pitched storm water inlet structures with retention walls for the three channels, refurbishing the existing tank bund, strengthening the existing waste weir, desilting of the lake bed, construction of three wet bunds, construction of walkway, chain link fencing, office building etc., had been completed at a cost of ₹ 9.09 crore during November 2010. However, tenders for establishing and commissioning 5 MLD TTP were invited only during January 2010 and the work was awarded to a contractor in August 2010 at a cost of ₹ 13.34 crore. The work was completed in November 2011 at a cost of ₹ 13.60 crore.

Scrutiny showed that BWSSB had impressed (April 2010) upon BDA the need for timely construction of the TTP to ensure that the lake which had been desilted would not be again polluted by discharge of sewage into the lake and would be kept free from eutrophication². As there was considerable delay in fixing the agency for construction of the TTP after desilting the lake, the lake was continued to be contaminated by the flow of sewage till construction of the TTP.

Further, the sewage flow into the lake did not stop even after construction of the TTP, as sewage in excess of 5 MLD was flowing into inlet channel No 1. The overflow sewer for diverting of the excess sewage could not be connected to the trunk sewer as the work on the same, taken up in October 2010, had not been completed by BWSSB. The bypass sewer to divert the sewage in the event of delay in completion of the trunk sewer by BWSSB had also not been constructed by BDA. As a result, the excess sewage from inlet channel No.1 was overflowing into the lake through the leap weir, filling the wet land pond of the lake with raw sewage.

The diversion sewers from inlet channels No2 and 3 also could not be connected to the sewerage system of Sir M.Visvesvaraya Layout as BDA had not completed the work. The Commissioner, BDA requested (December 2011) Chairman, BWSSB to complete the work on the trunk sewer immediately and divert the excess sewage from entering the lake. However, the trunk sewer had not been completed and the lake continued to be polluted (April 2012).

The DPR had cautioned that if the proposed trunk sewer of BWSSB was not commissioned within a few years and the quantum of raw sewage flow exceeded 5 MLD, the capacity of the TTP would have to be suitably enhanced. However, BDA had not taken any action to explore the feasibility of enhancing the capacity of the TTP to guard against contamination of the lake.

Thus, despite incurring an expenditure of ₹ 22.69 crore, the contamination of the lake could not be prevented, rendering its ecosystem vulnerable to degradation.

² The process by which a body of water acquires a high concentration of nutrients, especially phosphates and nitrates. These promote excessive growth of algae. As the algae die and decompose, high levels of organic matter and the decomposing organisms deplete the water of available oxygen, causing the death of other organisms, such as fish.

The matter was referred to Government in July 2012; reply has not been received (November 2012).

3.2.2 Extra expenditure

The Bangalore Development Authority prepared the designs for three flyovers and two grade separators considering the use of steel of grade Fe 415. However, during preparation of estimates and execution of these works, steel of grade Fe 500 had been considered. Though the steel requirement using Fe 500 grade was less as compared to Fe 415 grade, the BDA did not revise the designs suitably, leading to unnecessary consumption of more steel on these works and the attendant extra expenditure of ₹ 4.33 crore.

Among the two grades of steel, viz Fe 415 and Fe 500, which are used for construction of structures like dams, bridges and high rise buildings, Fe 500 has more tensile strength than the other. The steel requirement using Fe 500 is less as compared to Fe 415. Where one metric tonne (MT) of Fe 415 is required, the corresponding quantity, if Fe 500 is used, would only be 0.83 MT. In terms of IRC: 21-2000, while the basic permissible stress in steel reinforcement using Fe 415 is 200 MPa, it is 240 MPa if Fe 500 is used. Thus, more the tensile strength of steel, less the consumption of steel.

In the case of three flyovers and two grade separators entrusted (September and November 2009) by the Bangalore Development Authority (BDA) to a company, the design for the structures had been finalized using Fe 415. However, the estimates for these works had been framed using the rates applicable for Fe 500 and the company entrusted with these works had also used only Fe 500 as evidenced by the test reports. However, the BDA had not revisited the design and incorporated necessary changes to factor in usage of Fe 500 and bring down the quantity of steel required. As a result, Fe 500 had been used by the company in place of Fe 415 without any reduction in the quantity of steel. The excess quantity of Fe 500 consumed on these five works aggregated 769.25 MTs as shown in the Table below:

Name of the work	Quantity of Fe 500 actually consumed (MT)	Rate paid (₹ per MT)	Excess quantity of Fe 500 consumed (MT)	Extra expenditure (₹ in lakh)
Flyover at Bellandur junction	929.19	57423	157.96	90.71
Flyover at HSR layout	1140.63	57423	193.91	111.35
Flyover at Devarabeesanahalli	893.49	57423	151.89	87.22
Grade separator at Kadubeesanahalli	754.72	54461	128.30	69.87
Grade separator at Mahadevapura junction	806.99	53958	137.19	74.02
Total			769.25	433.17

Thus, failure to revisit the design for structures after deciding upon the use of grade Fe 500 resulted in extra expenditure of ₹ 4.33 crore.

The matter was referred to Government in July 2012; reply has not been received (November 2012).

3.3 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 willful deviations from observance of rules/regulations and results in weakening of the administrative structure. Some such cases are discussed below:

FINANCE DEPARTMENT

3.3.1 Excess payment of Family Pension

The Karnataka Government Servants (Family Pension) Rules, 2002 provide that when a Government servant dies while in service, his/her family is entitled to Family Pension at double the normal rate or fifty *per cent* of the last pay drawn by the deceased Government servant, whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he/she remained alive, whichever is earlier. Majority of the pension payments are made through Banks and the Banks, after crediting the Family Pension amount to the SB accounts concerned, forward the claim through the link branch and the claim is settled by the treasury.

During 2011-12, in 744 cases relating to 31 district treasuries, Public Sector Banks made payment of Family Pension at enhanced rates beyond the period mentioned in the Pension Payment Orders, resulting in excess payment of ₹ 3.43 crore (**Appendix-3.2**). In respect of 23 treasuries, further excess payment of ₹ 1.10 crore was noticed in 228 cases in spite of excess payment having been pointed out in earlier years in these cases, resulting in total continued excess payment of ₹ 1.84 crore (**Appendix-3.3**).

Failure on the part of the Public Sector Banks to monitor and adhere to the cutoff date for payment of Family Pension at enhanced rates resulted in these excess payments. The Public Sector Banks continued to make payments at enhanced rates beyond the period mentioned in the Pension Payment Orders although we had highlighted instances of such excess payments on a number of occasions in the past.

In response to audit observations, the Government and Directorate of Treasuries had also been repeatedly emphasizing by detailing the procedure to be followed by the Banks to recover the excess Family Pension paid. However, scrutiny of the instructions issued by the Government/Director of Treasuries showed that these only prescribed the mode of recovery after excess payments had been made by the Banks and failed to prescribe necessary checks and balances to guard against excess payment by the Banks.

The matter was referred to Government in July 2012; reply had not been received (November 2012).

URBAN DEVELOPMENT DEPARTMENT

3.3.2 Avoidable expenditure

Bangalore Water Supply and Sewerage Board persistently defaulted in payment of water cess to the Karnataka State Pollution Control Board during 2003-12 and in the process, was burdened with a huge undischarged liability of ₹ 19.10 crore towards interest and penalty.

The Bangalore Water Supply and Sewerage Board (BWSSB) is a statutory body entrusted with the duty of providing water supply and sewerage treatment in the Bangalore Metropolitan region. Under the Water (Prevention and Control of Pollution) Cess Act, 1977, BWSSB is liable to pay to the Karnataka State Pollution Control Board (Board) water cess calculated at the rate of two paise per kilolitre of water used for domestic purposes or at a higher rate of three paise per kilolitre in the event of non-compliance with any of the provisions of Section 25 of the Water (Prevention and Control of Pollution) Act, 1974 or any of the standards laid down in the Environment (Protection) Act, 1986. Failure to pay the cess assessed by the Board within the time frame specified in the assessment order would attract levy of interest on the cess amount at the rate of two *per cent* per month for the period of delay. Besides, the Board was also empowered to impose on BWSSB a penalty not exceeding the amount of cess in arrears.

Though BWSSB was to file returns with the Board on the fifth of every month, no returns had been filed from October 2003 to January 2010. The returns for the period October 2003 to May 2009 had been filed only in July 2009. After making a payment of ₹ 80 lakh to the Board during July-August 2003, BWSSB failed to pay any amount towards cess thereafter. The Board raised (October 2007) a demand of ₹ 24.54 crore on BWSSB for the period ending June 2007. The demand included ₹ 8.50 crore towards cess in arrears calculated at the rate of three paise per kilolitre, ₹ 11.26 crore towards interest and ₹ 4.78 crore towards penalty. In a meeting held with the Board during December 2009, BWSSB offered to pay the amount of cess in arrears, if interest and penalty was waived off by the Board.

There were no further developments till April 2011 when the Board directed BWSSB to remit ₹ 29.01 crore, falling due as of November 2010. When BWSSB reiterated (May 2011) its earlier offer of clearing only the amount of cess in arrears, the Board referred (August 2011) the matter to the Ministry of Forest and Environment, Government of India (Ministry), seeking permission to waive off interest and penalty. However, the Ministry turned down (September 2011) the proposal on the ground that the rate of interest had been provided in the statute itself without any enabling provision to reduce or waive off the interest. Intimating BWSSB of the Ministry's decision, the Board raised (October 2011) a fresh demand of ₹ 29.55 crore for the period ending March 2011 (cess in arrears: ₹ 10.45 crore, interest: ₹ 14.32 crore and penalty: ₹ 4.78 crore). BWSSB had not discharged the liability so far (November 2012).

Scrutiny showed that though BWSSB had been filing the monthly returns regularly from February 2010, the amount of cess due as per the returns had not been remitted, leading to continued accumulation of arrears of cess and the attendant consequence of levy of interest and penalty by the Board. The payment of cess, though mandated in the statute, had also not been factored in while fixing the water rate recoverable from the consumers. Thus, while on the one hand, the Board was unable to pass on the cess to the consumers due to inappropriate fixation of the water rate, on the other hand it had been increasing its liability by persistently defaulting on payments due to the Board. The oversight mechanism in BWSSB failed to rectify this persistent irregularity which resulted in undischarged liability of ₹ 19.10 crore towards interest and penalty for belated payment of water cess to the Board.

The matter was referred to Government in June 2012; reply has not been received (November 2012).

3.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people. For this, it works towards fulfilment of certain goals in the areas of health, education, development and upgradation of infrastructure and public service etc. However, we 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. A few such cases are discussed below:

LABOUR DEPARTMENT

3.4.1 Continued Government support to an Institute which did not have the capacity to deliver

The Karnataka State Labour Institute, despite being not in a position to discharge the mandated functions even three years after its formation, continued to receive Government grants year after year and as a result, the major portion of the grants remained unutilized.

The Karnataka State Labour Institute (Institute) was registered (February 2009) as a society with the broad aim of creating awareness and providing a forum for training as well as information dissemination to all the stakeholders in labour management and industrial relations. The main objectives of the Institute were:

- To start certificate and diploma courses for the students as well as practitioners in the field of labour management;
- To prepare long term training modules based on functional requirements for the officers of the Labour Department;
- To advocate statutory compliances with the labour standards, promote voluntary compliances and evolve certification process;

- To create database and standardize labour statistics;
- To disseminate knowledge and information regarding labour laws;
- To conduct impact assessment studies to improve and update the existing labour laws; and
- To build networks and partnerships with labour institutes, universities and other research based organisations.

The Commissioner of Labour headed the Managing Committee of the Institute.

While the Institute received Government grants of ₹ 1.47 crore during 2009-11, the expenditure incurred was a dismal ₹ 10.81 lakh, mainly on 20 training programmes and salaries of a skeleton administrative staff. Though the Institute had huge unspent grants, the Government released grant of ₹ 1.97 crore to the Institute during 2011-12 without monitoring the utilization of the grants previously provided. As of March 2012, against the receipts of ₹ 3.62 crore³, the Institute had spent only ₹ 20.94 lakh.

The Institute had not prepared any strategic plan outlining the activities to achieve its objectives and had made no headway in capacity building even three years after its formation and its response to the mandated functions was, at best, tepid. Continued funding of the Institute through Government grants was, therefore, not justified as it only resulted in parking of huge funds outside the Consolidated Fund.

The Government stated (September 2012) that action would be taken to direct the Labour Commissioner to surrender ₹ 3.19 crore out of ₹ 3.44 crore released to the Institute. Details of remittance of ₹ 3.19 crore to the Government account by the Institute were awaited (September 2012).

PRIMARY AND SECONDARY EDUCATION DEPARTMENT

3.4.2 Non-remittance of fee to Government account

Aided Pre-University colleges failed to remit the fees collected from the students to the Government account, though mandated by the rules. This facilitated continued retention of fees, due to Government, outside the Government account. The amounts so retained by 74 aided Pre-University colleges aggregated ₹ 13.04 crore.

The Government had prescribed from time to time the fee to be collected from the students enrolled in Government and Government aided Pre-university (PU) colleges. The fee of ₹ 150 per student for Government PU colleges and ₹ 300 per student for aided PU colleges, prescribed by Government in May 1996, had been subsequently revised four times, the last revision being in May 2010. The fee currently being collected was ₹ 420 by Government PU colleges and ₹ 840 by aided PU colleges. According to instructions issued (February 1998) by Commissioner for PU Education (Commissioner), 50 *per*

³ Rent: ₹ 343.73 lakh, interest on investment: ₹ 16.98 lakh and other receipts: ₹ 1.14 lakh

cent of the fee collected by aided colleges were to be remitted to the Government account and the remaining 50 per cent could be used by the colleges. However, Karnataka Pre-University Education (Academic, Registration, Administration and Grant-in-aid etc) Rules, 2006 which came into effect from July 2007 required the aided PU colleges to remit the entire tuition fee collected to the Government account.

In respect of 74 aided PU colleges in Bangalore North, Bangalore South and Dharwad districts, we found that ₹ 13.04 crore collected as fee from the students since 1997-98 had not been remitted to the Government account. Monitoring of the remittances of fees collected by aided PU colleges to the Government account was absent as no mechanism had been put in place by the Commissioner to track the collection and remittance of fees by the aided PU colleges. This facilitated continued retention of fees due to Government outside the Government account. The Government stated (November 2012) that pursuant to the audit finding, tuition fee of ₹ 3.58 crore collected from 111 colleges had since been remitted to the Government account and the Department was to complete the entire process within a short period. Though the Department had kickstarted the process of remittance of the fees to the Government account, only 17 per cent of the total number of aided colleges had so far remitted the fees to the Government account. Further, the aided colleges had parked these fees in bank accounts and earned interest. It is, therefore, imperative that the Government should direct the aided colleges to remit such interest also to the Government account.

3.4.3 Idle investment on equipment

The Department of Collegiate Education procured equipment for receiving centres and broadcast studio to implement the EDUSAT programme in 142 colleges of the State. As the broadcasting studio had not been completed, investment of ₹ 1.81 crore made on the equipment remained idle for more than three years.

The Department of Collegiate Education (Department) had initiated (December 2005) 'EDUSAT' programme as part of its e-governance initiatives to supplement the conventional mode of education through satellite-based teaching and learning. The programme was to be implemented in selected colleges with the support of the Indian Space Research Organisation (ISRO) and Visweswaraya Technology University (VTU) using a Direct-to-Home (DTH) network. ISRO was to provide the necessary technical support, and the Department was to install the receiving infrastructure such as projectors, DTH equipment etc., in the colleges. The Government approved (February 2006) the proposal of the Department to purchase projectors and DTH equipment for implementing the programme. Although the Department had decided (December 2005) to set up studio facilities on its own during 2006-07 after seeking of funds from the Government, no follow up action was taken to set up the studio as planned.

The Department set up receiving centres in 142 colleges during 2007-08 at a cost of ₹ 1.51 crore and completed 42 sessions of EDUSAT telecast by hiring

the studio of VTU at a cost of ₹ 1.23 lakh. However, the Department did not continue the programme from 2008-09 as VTU did not provide appropriate time slot. When the civil works for the building to house the studio was completed, the Department procured studio equipment costing ₹ 29.86 lakh from KEONICS, Bangalore during 2009-10. However, the studios had not been set up as of November 2012. As no broadcasting studio was available for the Department, the receiving centres in 142 colleges and the studio equipment procured at a cost of ₹ 1.81 crore had remained non-functional for three to four years. The Government stated (November 2012) that though there was no doubt about the delay in setting up the studio and not continuing the programme, the Department was committed to continue the project and start telecasting of programmes in January 2013. The reply was not acceptable for the following reasons:

- (i) The Department had failed to set up the studio during 2006-07 as planned. Though the civil works for the building had been completed during 2009-10, the studio had not been set up even as of November 2012; and
- (ii) Without setting up the studio, studio equipment costing ₹ 29.86 lakh had been purchased during 2009-10.

Thus, failure to dovetail the setting up of the studio and the procurement of equipment into an integrated programme resulted in idle investment of ₹ 1.81 crore on the project since 2008-09 besides depriving the students of better quality education using modern technology.

