

# 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 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 compliance audit 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 arising out of compliance audit in Government Departments and autonomous bodies.

## 1.2 Auditee Profile

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

The summary of fiscal transactions during the year 2010-11 and 2011-12 is given in **Table-1** below.

**Table-1: Summary of fiscal transactions**

Receipts			Disbursements				
	2011-12	2012-13		2011-12	2012-13		
				Total	Non Plan	Plan	Total
<b>Revenue receipts</b>	<b>69,806.27</b>	<b>78,176.22</b>	<b>Revenue expenditure</b>	<b>65,115.07</b>	<b>55,081.58</b>	<b>21,211.68</b>	<b>76,293.26</b>
Tax revenue	46,475.96	53,753.56	General services	16,445.48	20,028.35	152.50	20,180.85
Non-tax revenue	4,086.86	3,966.10	Social services	25,171.73	17,110.39	13,309.41	30,419.80
Share of union taxes/ duties	11,075.04	12,647.14	Economic services	19,153.90	15,112.05	6,562.14	21,674.19
Grants-in-aid & contributions from GOI	8,168.41	7,809.42	Grants-in-aid and contributions	4,343.96	2,830.79	1,187.63	4,018.42
<b>Section-B: Capital and others</b>							
<b>Misc. Capital receipts</b>	<b>89.19</b>	<b>33.04</b>	<b>Capital outlay</b>	<b>15,505.65</b>	<b>321.65</b>	<b>15,156.82</b>	<b>15,478.47</b>
			General services	625.49	27.09	562.38	589.47
			Social services	2,695.19	6.64	2,909.35	2,915.99
			Economic services	12,184.97	287.92	11,685.09	11,973.01
<b>Recoveries of loans and advances</b>	<b>240.40</b>	<b>157.61</b>	<b>Loans and advances disbursed</b>	<b>1,815.55</b>	<b>17.77</b>	<b>1,084.60</b>	<b>1,102.37</b>
<b>Public debt receipts*</b>	<b>9,357.95</b>	<b>13,464.66</b>	<b>Repayment of public debt*</b>	<b>3,319.88</b>	<b>3,727.06</b>	<b>---</b>	<b>3,727.06</b>
<b>Contingency Fund</b>	<b>12.53</b>	<b>0.51</b>	<b>Contingency Fund</b>	<b>0.51</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Public Account receipts</b>	<b>94,408.53</b>	<b>1,07,548.81</b>	<b>Public Account disbursements</b>	<b>86,216.03</b>	<b>--</b>	<b>--</b>	<b>1,01,877.94</b>
<b>Opening cash balance</b>	<b>7,667.31</b>	<b>9,609.49</b>	<b>Closing cash balance</b>	<b>9,609.49</b>	<b>--</b>	<b>--</b>	<b>10,511.24</b>
<b>Total</b>	<b>1,81,582.18</b>	<b>2,08,990.34</b>	<b>Total</b>	<b>1,81,582.18</b>			<b>2,08,990.34</b>

(Source: Finance accounts 2012-13)

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

### 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 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 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 ₹ one crore.

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

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit), Karnataka, Bangalore conducts 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.

## **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.

During 2012-13, in the General & Social Sector Audit Wing, 6648 party-days were used to carry out audit of 403 units and to conduct one performance audit.

## **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 Functioning of the Karnataka Residential Educational Institutions Society***

The Government had established (October 1999) the Karnataka Residential Educational Institutions Society to establish, maintain, control and manage all

residential educational institutions in the State. As of April 2013, 542 residential educational institutions had been functioning in the State under the control of the Society to impart quality education to meritorious children belonging to educationally, socially and economically weaker sections of the Society. A performance audit of the functioning of the Society showed the following:

- The Government/Society had not followed any norms or criteria for establishing residential educational institutions which was driven mainly by recommendations received from the elected representatives. As a result, the number of residential schools and colleges proliferated without the Government being in a position to provide basic infrastructural facilities to all of them.
- As of April 2013, only 234 (43 *per cent*) residential schools and colleges had own buildings while others had been functioning in rented or rent free premises lacking basic facilities such as toilet, bathroom, classroom, playground, library, benches and tables, laboratories *etc.* Land for 108 out of 542 residential schools/colleges had not been identified till date though 47 out of these 108 schools had been sanctioned prior to 2008-09.
- The residential schools functioning with less than 75 *per cent* of the sanctioned strength of students belonging to the primary target groups had increased during 2008-13 and constituted 46 *per cent* as of April 2013. The proportion of residential schools functioning with less than 50 *per cent* of students from the primary target groups was 18 *per cent*. Thus, these schools failed to attract students belonging to the targeted weaker sections of the Society.
- The financial management by the Society was not effective as funds remained unused at the end of each year during 2008-13. This was, *inter alia*, due to the client Departments releasing 33 to 100 *per cent* of the funds during the last quarter of each year. The Society also failed to optimise the returns on investment of surplus funds.
- The tendering process for construction of residential schools/colleges had not been compliant with the provisions of the Karnataka Transparency in Public Procurement Act, 1999. The evaluation of tenders had also not been consistent with the conditions spelt out in the tender documents, resulting in award of construction contracts to ineligible agencies during 2008-13. The eligibility criteria for hiring Project Management Consultants had been diluted year after year without sound rationale and a large number of consultancy contracts had been awarded by the Society in violation of its own norms.
- The Society did not have land in its possession before awarding construction contracts, resulting in delay ranging from 16 to 520 days in handing over sites to contractors appointed for construction of 163 out of 210 residential schools. The Society had also acquired private land costing ₹ 1.20 crore though Government land was available.

- Absorption of teaching staff engaged on contract basis had witnessed deficiencies as ineligible teaching staff had been absorbed. Similarly, ineligible candidates had been appointed by the Society under the direct recruitment of teaching and non-teaching staff. The Society's disregard of the High Court's directives resulted in posting of more than one subject teacher to residential schools in 446 cases, resulting in wasteful expenditure of ₹ 7.73 crore.
- While the pass percentage of students studying in residential schools increased from 89 in 2007-08 to 95 in 2012-13, it increased from 28 in 2010-11 to 54 in 2012-13 in respect of residential Pre-University colleges during 2010-13.
- Monitoring was ineffective as various deficiencies in the functioning of the residential schools/colleges had continued to remain unaddressed.

**(Paragraph 2.1)**

## **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 Disbursement of agricultural subsidies**

A review of the implementation of schemes aimed at supporting agricultural activities by providing subsidy to small and marginal farmers showed the following:

Though the State policy on 'Organic Farming' prescribed an integrated approach to promote organic farming, the Government's approach was disaggregated as it consisted of only payment of subsidy to a handful of persons in each taluk for undertaking certain activities connected with organic farming. The integrated approach was lacking as convergence of all related schemes of different Departments had not been established to create an enabling atmosphere for sustained organic farming at appropriate places. The implementation of the scheme witnessed several shortcomings right from selection of NGOs to disbursement of subsidies. Checks and balances for ensuring that subsidy was paid only to eligible beneficiaries had been compromised, creating scope for financial irregularities.

Under the Suvarna Bhoomi Yojana-Agriculture, payment of incentives to the beneficiaries to procure the inputs for sowing had been badly delayed, defeating the very purpose of the incentive. The performance of the Third Party Agencies appointed for verifying the crops grown by the beneficiaries was far from satisfactory and failed to provide assurance that incentives had been disbursed to eligible beneficiaries.

GOI's grant-in-aid given for seed replacement under Prime Minister's Rehabilitation Package in six districts which had reported high incidence of suicides had not been fully made use of and the State Government lost central assistance of ₹ 85.33 crore.

**(Paragraph 3.1)**

#### ***1.6.2.2 Audit of Human Resources Management System***

Transferring the legacy data to HRMS unscientifically rendered the database inaccurate and unreliable. Even after migration of data to HRMS, the data quality and design issues had not been addressed effectively by creating necessary masters and mapping the business rules in the form of validation checks. This created a need for manual intervention in payroll processing leading to wrong determination of the entitlements of the employees.

**(Paragraph 3.2)**

#### ***1.6.2.3 Functioning of Karnataka Building and Other Construction Workers' Welfare Board***

The State Government framed the Karnataka Building and Other Construction Workers (Regulation of Employment and Conditions of Services) Rules, 2006 and constituted the Karnataka Building and Other Construction Workers' Welfare Board for the welfare of the construction workers in the State. However, the Board had not been able to achieve its objective as the number of employers and construction workers registered with the Board was dismally low. The low registration level was attributable mainly to (i) inadequate efforts to create awareness among the construction workers of the benefits of registration (ii) absence of linkages with the agencies responsible for giving approvals for construction activities to identify the employers and the workers and (iii) insufficient number of registering officers. While on the one hand the Board lost substantial revenue from cess collection on account of its inability to identify the employers, on the other, it had not been able to spend the available funds for the welfare of the construction workers as the number of construction workers registered with the Board was negligible. There were no adequate checks and balances in the Board on the implementation of the welfare schemes, resulting in several financial irregularities.

**(Paragraph 3.3)**

#### ***1.6.2.4 Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)***

The construction of Super Speciality Hospital (SSH) and purchase of equipment under PMSSY witnessed lack of planning and due diligence, resulting in (i) procurement of equipment far ahead of construction of the SSH, (ii) non-procurement of all the essential equipment required for all the departments of the SSH and (iii) non-recruitment of the requisite medical, paramedical and other support staff. The implementation of PMSSY did not result in the delivery of expected better healthcare facilities due to acute

shortage of medical and paramedical staff and lack of essential equipment. No benchmarks had also been prescribed to judge the outcome from the implementation of PMSSY.

**(Paragraph 3.4)**

#### **1.6.2.5 Other audit observations**

The Government approved the establishment of an Armed Police Training School. After incurring expenditure of ₹ 5.32 crore the work on the school was stopped midway and the use of the buildings constructed had not been decided.

**(Paragraph 3.6)**

Despite Government directive, aided Pre-university colleges had irregularly extended pay fixation benefit to the teaching staff for the period of unaided service, resulting in excess payment of salaries aggregating ₹ 34.75 crore.

**(Paragraph 3.10)**

Deputy Commissioner, Dakshina Kannada district unauthorisedly permitted 53.65 acres of Government land valued at ₹ 72.43 crore, to be developed as a golf course.

**(Paragraph 3.11)**

The Government granted 11 acres and 11 guntas of land to a Trust at a concessional price of ₹ 3.95 crore against the market value of ₹ 10.15 crore by unjustifiably relaxing the provisions in the Karnataka Land Grant Rules.

**(Paragraph 3.12)**

The Government irregularly sanctioned grant of ₹ 2 crore to a Trust against the budget provision provided for the welfare of the Scheduled Castes, Scheduled Tribes and Other Backward Classes.

**(Paragraph 3.15)**

Bangalore Development Authority (BDA) irregularly donated ₹ 10.19 crore for various purposes not permitted by the BDA Act.

**(Paragraph 3.16)**

BDA awarded the advertising rights of five flyovers to two agencies for ₹ 7.29 crore for a period of five years. The agreements of these agencies had not been renewed every year, though required. After remitting ₹ 2.79 crore, the agencies stopped further payments. BDA took no action till the expiry of the five year period, losing a revenue of ₹ 4.50 crore in the process.

**(Paragraph 3.17)**

The Karnataka Urban Water Supply and Drainage Board took up a water supply scheme to meet the drinking water requirement of Tiptur and Arasikere



towns during the summer season. The Board completed the same at a cost of ₹ 2.72 crore without connecting the source to the water treatment plant. Subsequently, the Government sanctioned another water supply scheme exclusively for Arasikere town, rendering the expenditure of ₹ 2.72 crore incurred on the earlier scheme wasteful.

**(Paragraph 3.18)**

BDA took up the restoration of a lake without clearing the encroachments and without diverting the sewage flow into the lake. After incurring an expenditure of ₹ 1.06 crore on restoration, there was no improvement in the condition of the lake which continued to receive sewage water, polluting the environment.

**(Paragraph 3.24)**

## **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 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 Secretary of the Department to facilitate monitoring of the audit observations.

As of December 2013, 258 IRs (879 paragraphs) were outstanding against Primary and Secondary Education Department. 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 from the Department, showed that the Heads of Offices had not sent even the initial replies in respect of 20 IRs containing 103 paragraphs issued between 2007-08 and 2011-12.

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

The Draft paragraphs/Performance audit reports were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between July and September 2013 with the request to send their responses within six weeks. Government replies have been received for 5 out of 24 paragraphs featured in this Report. The replies, wherever received, have been suitably incorporated in the Report.



### 1.7.3 Follow-up 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 observations which 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 these instructions and 15 Departments as detailed in **Appendix-1.2** had not submitted ATNs for 51 paragraphs for the period 1995-96 to 2011-12 even as of December 2013.

### 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 2013 are detailed in **Appendix-1.3**.

