

Chapter-I

Introduction

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1.1 About this Report

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

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

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

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

1.2 Auditee Profile

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

The summary of fiscal transactions of the Government of Karnataka during the year 2013-14 and 2014-15 is given in **Table-1** below.

Table-1: Summary of fiscal transactions in 2014-15

(₹ in crore)

Receipts			Disbursements				
	2013-14	2014-15		2013-14	2014-15		
Section-A Revenue			Total	Non Plan	Plan		
Revenue receipts	89,542.53	1,04,142.15	Revenue Expenditure	89,189.57	69,783.10	33,831.19	1,03,614.29
Tax revenue	62,603.53	70,180.21	General services	24,954.41	28,024.39	240.88	28,265.27
Non-tax revenue	4,031.90	4,688.24	Social services	32,621.89	19,204.97	20,161.28	39,366.25
Share of Union taxes/duties	13,808.28	14,654.25	Economic services	26,592.83	18,748.23	11,223.08	29,971.31
Grants in aid and contributions from GOI	9,098.82	14,619.45	Grants-in-aid and contributions	5,020.44	3,805.51	2,205.95	6,011.46
Section – B: Capital and others:							
Misc. Capital receipts	87.94	10.14	Capital outlay	16,946.86	277.35	19,344.95	19,622.30
			General services	500.74	29.85	588.61	618.46
			Social services	3,052.68	98.11	4,082.78	4,180.89
			Economic services	13,393.44	149.39	14,673.56	14,822.95
Recoveries of loans And advances	109.28	83.82	Loans and advances disbursed	695.43	12.04	564.11	576.15
Public debt receipts**	17,286.81	21,874.63	Repayment of public debt**	3,816.84	4,812.23	--	4,812.23
Contingency Fund	--	--	Contingency Fund	--	--	--	--
Public Account Receipts	1,21,842.37	1,40,229.39	Public Account Disbursements	1,12,971.74	--	--	1,29,573.99
Opening cash balance	10,511.24	15,759.73	Closing cash balance	15,759.73			23,900.90
Total	2,39,380.17	2,82,099.86	Total	2,39,380.17			2,82,099.86

(Source: Finance Accounts 2014-15)

* Tax Revenue include ₹1,215.07 crore, being the book adjustment relating to M/s. Hindustan Aeronautics Limited, Bengaluru (HAL) for ₹1,211.67 treating the same as waiver, ₹3.05 crore being the waiver of tax and interest dues pertaining to utensil dealers and ₹0.35 crore being the waiver of tax and interest dues pertaining to Arecanut dealers.

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

1.3 Authority for conducting Audit

The authority for conducting audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13¹ 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)² and 19(3)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 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

¹ 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.

² 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.

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

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

Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

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

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

1.5 Planning and conduct of Audit

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

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

During 2014-15, in the General & Social Sector Audit Wing, 6,700 party days were used to carry out audit of 457 units and to conduct two performance audits and one information system 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 two performance audits. The highlights are given in the following paragraphs:

1.6.1.1 Health care facilities in State Sector Hospitals including Autonomous and Teaching Hospitals

Healthcare facilities in the State are provided through a three tier system viz., primary, secondary and tertiary level of healthcare. A performance audit of the 'Healthcare facilities in the State Sector Hospitals including Autonomous and Teaching Hospitals' under the Secondary and Tertiary level of healthcare was conducted covering the period 2010-15. There were inadequacies in creation of infrastructure as well as in providing healthcare services in terms of availability of services as well as quality care which is brought out below:

- Out of 113 taluk hospitals, which were upgraded as 100 bedded hospitals in 2006-07, only 63 were functional with the bed strength of 100 and the remaining 50 continued to function with bed strength less than 100.
- In the 28 test-checked hospitals we observed that most of the hospitals had not obtained statutory compliance from the fire authorities; Atomic Energy Regulation Board for X-ray and CT scan units; State Pollution Control Board for biomedical waste management; excise permit for storing spirit and license for blood bank /authorisation for storage of blood *etc.*
- Seventy five *per cent* of hospitals had less sanctioned strength than that prescribed under the IPHS guidelines with regard to specialists, staff nurses and laboratory technicians which hampered health services.
- While 50 *per cent* of the General/District Hospitals did not have services of General Medicine as well as Ophthalmology; General Surgery, Obstetrics & Gynaecology and Paediatrics services were not available in 35, 21 and 41 *per cent* of the General/District Hospitals respectively.
- In some of the hospitals test-checked, though equipment viz., Scanners, X-ray machines, Treadmill, Echocardiogram, *etc.*, were available, but due to shortage of technicians, the equipment remained unutilised.
- Sixty eight *per cent* of the hospitals test-checked had not got their laboratory results validated through external laboratories.
- Insufficient equipment in Intensive Care Units and Operation Theatres affected the quality of vital health services.
- There were shortcomings in support services under laundry and disposal of medical waste in terms of providing adequate laundry facilities and regular disposal of biomedical waste.
- Special initiatives taken by Government to create/establish Burns Wards and Trauma care centres were not functioning effectively due to inadequate release of funds as well as lack of manpower.

(Paragraph 2.1)

1.6.1.2 Engineering Education in Karnataka

Engineering Education in the State is available in 216 Engineering Colleges affiliated to Visvesvaraya Technological University (VTU)/Bangalore University which included National Institute of Technology, Suratkal and colleges under deemed universities. It is under the administrative control of the Department of Higher Education and a range of other organisations also

play a role in engineering education. A performance audit of ‘Engineering Education in Karnataka’ during 2010-15 showed the following:

- Majority of engineering colleges opened in the State were mainly concentrated in Bengaluru which led to regional disparity and there was no engineering college in Koppal district though approved by Government in 2011. Thus, expansion of engineering colleges continued without addressing the issues of regional imbalance.
- There was a declining trend in the enrolment of SC/ST students, differently-abled students, students from kannada medium and rural area to the engineering stream.
- Affiliation procedure was not completed prior to the commencement of admission of students to the college seeking affiliation, which ranged between 26 and 155 colleges during the period 2011-15.
- Since permanent affiliation was not mandatory, only 48 out of 162 colleges had permanent affiliation for their courses.
- Recommendations of VTU with respect to intake capacity were overruled by Government, resulting in large scale vacant seats which rendered the affiliation process a mere formality.
- Though accreditation was mandatory, VTU as well as many of its affiliated colleges were yet to secure accreditation from National Assessment and Accreditation Council as well as National Board of Accreditation. This indicated that the quality of education being imparted by VTU as well as engineering colleges was not of requisite standards required for the above accreditations.
- Marks were changed in over 90 *per cent* of answer papers for which re-evaluation was sought, which was indicative of poor quality of evaluation.
- VTU did not ensure continuous support to e-Vidya, EDUSAT in the e-learning projects initiated by it which rendered the projects unproductive.
- VTU had failed to ensure minimum standards prescribed by AICTE in respect of colleges affiliated to it as the colleges had deficiencies in teaching faculty, library, laboratory facilities, *etc.*, which indicated poor monitoring by the VTU.
- VTU had failed to receive recognition from UGC even after 17 years of its existence as it had not met minimum standards required for recognition. Hence, it did not act as a good role model for the institutions affiliated to it.

(Paragraph 2.2)

1.6.2 Information Systems audit

The present report contains one Information Systems audit and the significant audit findings are given below.

1.6.2.1 e-Procurement

Delay and poor implementation led to the government not deriving full benefit of the unified e-Procurement solution. The off-the-shelf e-Procurement application was not adequately customised to suit the specific user requirements and KTPP provisions. Opportunities for using IT for improving efficiencies has not been utilised fully. Inadequate testing had led to incomplete supplier history, incorrect management information system reports. The application suffered from four out of the Top Ten security vulnerabilities.

Although the Government had intended to implement an end-to-end procurement solution with benefits of transparency and smart governance, the e-Procurement portal had no information about contracts concluded, works in progress, works completed, goods supplies done, expenditure progress, abandoned works, letters of intent and works yet to be started. Thus, the project failed in achieving its intended benefits of transparency and smart governance, leading to a situation where the envisaged end-to-end procurement solution for Government of Karnataka was used only as a tender processing website even after eight years of its implementation.

(Paragraph 3.1)

1.6.3 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:

1.6.3.1 Follow up audit on Internal Control System in Department of Prisons

After discussing the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2004, the Public Accounts Committee had given detailed recommendations (December 2009) in its Fifth Report. Even though more than five years have elapsed, the current audit findings indicate that though the Government had taken certain initiatives to implement the recommendations of the Public Accounts Committee, the measures taken were inadequate and much more action needs to be taken to ensure that the internal control systems in the Prisons are made effective.

With a view to ensure more effective implementation, Government needs to update and revise the Karnataka Prisons Manual, 1978, to keep it valid for all times; issue detailed guidelines for the upkeep and usage of the sophisticated electronic equipment purchased and ensure their effective use; ensure strict adherence to the guidelines for checking of prohibited articles and ensure that equipment such as CCTV cameras and jammers are maintained properly to ensure proper functioning. There is need to encourage the usage of Video Conferencing facilities with regard to producing undertrials before courts, maximise the benefits from Lok Adalats, and also provide adequate medical services/counselling by ensuring availability of adequate numbers of doctors, counsellors etc.

(Paragraph 4.1)

1.6.3.2 Implementation of Juvenile Justice Act, 2000

The objective of the Juvenile Justice Act (JJ Act) is to protect children and bring about improvements in their condition. However the way this act is being implemented gives rise to serious concerns. The first requirement for effective implementation is to first identify children at risk and who are living in difficult circumstances, so that timely care and protection may be given, and hence identification of such children through a need based assessment survey is essential. It was, however, observed that out of 30 districts in Karnataka, such a survey had not been carried out in nine districts, and in 21 districts, the survey though carried out was still pending approval and hence not finalised. In the absence of a reliable database, the number of children who require care and protection could not be ascertained.

There was also inordinate delay in the clearance of the cases referred to the Juvenile Justice Board as well as Child Welfare Committees, which resulted in huge pendencies. Many CCIs continued to run without registration which was mandatory. Further, 103 CCIs whose registration had been rejected by the Department of Women and Child Development, for not complying with standards continued to operate, indicating lack of Government control.

While, the JJ Act stipulated for separate homes for Juvenile delinquents and children who required care and protection, in some of the test-checked CCIs, it was observed that both were put up in the same place, which was in violation of the Act. Most of the CCIs also failed to provide the minimum standard of care in terms of physical infrastructure, sanitation and hygiene, medicinal care, education *etc.*, as required under JJ Rules, 2010. Except for one paramedical staff available, services of doctor, counsellor and house mother/father were not provided in a Special Home in Ballari which housed 50 mentally retarded children.

The non-functioning of the State Advisory Board and Management Committee and lack of inspection by District Inspection Committee also contributed to poor monitoring and effective implementation, which contributed to the deficiencies in implementation of the JJ Act.

In view of these serious deficiencies, Governments needs to review the current way the act is being implemented so as to enable it to effectively deal with its deficiencies and ensure that the children who require and deserve care and protection are truly provided the same.

(Paragraph 4.2)

1.6.3.3 Investments made by the Bangalore Development Authority in Mutual Funds

A special audit was conducted on the investments made by the Bangalore Development Authority (BDA) in mutual funds during the period 1999-2014. The highlights of the special audit are given below:

BDA had no investment policy to manage its surplus funds. An investment committee constituted had no guidelines to work with. The three Finance Members during the period 1999-2014 had violated all principles of financial

propriety, failed to maintain financial records as per the provisions of Karnataka Financial Code and to conduct internal audit, and also did not ensure proper checks and balances through segregation of duties of staff in the finance wing. The Second Division Clerk, banks and brokerage firms aided, abetted and participated in committing various financial irregularities.

The BDA's funds were diverted to Mutual Funds and transferred to other organisations by opening and operating unauthorised bank accounts, creation of fake Term Deposits, suppressing of facts, falsification of records, preparation of misleading financial statements and destroying the trail of all transactions.

The unauthorised transfer of funds for investment in Mutual Funds and also to other organisations that audit was able to track resulted in financial loss of ₹205.85 crore to the BDA. The unauthorised transfer of funds aggregating ₹6.17 crore to BMRCL, Coffee Board and Karnataka Backward Classes Department Buildings Construction Society represented cases of misappropriation of BDA's funds.

(Paragraph 4.3)

1.6.3.4 Other audit observations

Deficiencies in implementation of the scheme on 'Inclusive Education of the Disabled at the Secondary Stage' by the State Government and also disregarding of guidelines issued by the Ministry of Human Resource Development resulted in loss of central grants of ₹18.93 crore for the year 2009-11, and excess payment of ₹1.79 crore besides resulting in children and young persons with disabilities being deprived of the educational facilities which were envisaged for them.

(Paragraph 4.4)

Purchase of commercial off-the-shelf package software 'Campus Resource Management' of a private software company by various medical institutions, without study of user specification or understanding of business needs, resulted in non-utilisation of software procured and also rendered the amount of ₹2.68 crore invested on the software unproductive.

(Paragraph 4.5)

Non-compliance to the guidelines issued by Ministry of Home Affairs with regard to utilisation of funds released to the State under the Scheme Modernisation of Police Forces resulted in loss of Central assistance of ₹79.16 crore during 2013-15.

(Paragraph 4.6)

Non-availing of exemption under the Income Tax Act, 1961 by the Karnataka Building and Other Construction Workers' Welfare Board resulted in avoidable payment of ₹42.83 crore towards income tax and ₹ three crore towards penal interest.

(Paragraph 4.9)

The Bangalore Development Authority did not follow various procedures prescribed in the Bangalore Development Authority Act, 1976 for acquisition of land for developmental schemes. This resulted in utilisation of land without acquisition and also excess payment of compensation of ₹46.93 crore.

(Paragraph 4.12)

Due to ambiguity in various clauses on price adjustment in the bid document of a project floated by the Karnataka Urban Water Supply and Drainage Board (Board), the Board could not operate the contract properly which led to extending undue benefit of ₹6.17 crore to the agency.

(Paragraph 4.13)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Outstanding inspection reports

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

As of 31 March 2015, 394 IRs (1994 paragraphs) were outstanding against the Higher Education Department. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**.

A review of the pending IRs, issued upto March 2015 showed that the Heads of Offices had not sent even the initial replies in respect of 11 IRs containing 100 paragraphs issued between September 2014 to March 2015 though all IRs were required to be replied to within a period of one month from the date of their receipt.

1.7.2 Response of Departments to the draft paragraphs

The Draft paragraphs and Performance audit reports were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between June and October 2015 to send their responses within six weeks. Government replies have been received for both the Performance Audits, Information Systems audit and 10 out of 12 paragraphs featured in this Report. The replies, wherever received, have been suitably incorporated in the Report.

1.7.3 Follow-up action on Audit Reports

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

The administrative departments did not comply with these instructions and 16 departments as detailed in **Appendix-1.2** had not submitted ATNs for 57 paragraphs for the period 1996-97 to 2013-14 even as of 30 November 2015.

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 November 2015 are detailed in **Appendix-1.3**.