

Chapter-I

Introduction

1.1 About this Report

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

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

The primary purpose of the Report is to bring important results of audit to the notice of the State Legislature. 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, 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 compliance audit and follow-up on previous Audit Reports. Chapter-II and Chapter-III of this report contains findings arising out of Performance Audit and Information Systems Audit respectively of selected programmes/activities/Departments. Chapter-IV contains observations arising out of compliance audit in Government Departments and Autonomous Bodies.

1.2 Auditee Profile

The Accountant General (General & Social Sector Audit), Karnataka, Bengaluru, conducts audit of expenditure under the General and Social Services Sectors 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 2015-16 and 2016-17 is given in **Table-1** below:

Table-1: Summary of fiscal transactions in 2016-17

(₹ in crore)

Receipts			Disbursements				
	2015-16	2016-17		2015-16	2016-17		
Section-A Revenue				Total	Non-Plan	Plan	Total
Revenue Receipts	1,18,817.31	1,33,213.79	Revenue Expenditure	1,17,028.58	83,958.99	47,961.76	1,31,920.75
Tax revenue	75,550.18	82,956.13	General Services	30,799.28	31,152.93	111.63	31,264.56
Non-tax revenue	5,355.04	5,794.53	Social Services	46,307.08	24,653.32	29,895.92	54,549.24
Share of Union taxes/duties	23,983.34	28,759.94	Economic Services	33,846.17	23,840.45	16,580.92	40,421.37
Grants-in-aid and contributions from GOI	13,928.75	15,703.19	Grants-in-aid and contributions	6,076.05	4,312.29	1,373.29	5,685.58
Section-B: Capital and others:							
Misc. Capital receipts	352.30	26.96	Capital Outlay	20,713.03	466.08	27,684.35	28,150.43
			General Services	991.41	33.42	1,026.97	1,060.39
			Social Services	5,313.91	213.80	6,683.04	6,896.84
			Economic Services	14,407.71	218.86	19,974.34	20,193.20
Recoveries of Loans and Advances	59.68	99.84	Loans and Advances disbursed	656.41	5.31	1,929.07	1,934.38
Public debt receipts**	21,072.33	31,155.92	Repayment of public debt**	4,110.20	7,420.24	-	7,420.24
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Account Receipts	1,60,518.76	1,79,318.45	Public Account disbursements	1,55,094.83	-	-	1,67,153.81
Opening Cash Balance	23,900.90	27,118.23	Closing Cash Balance	27,118.23	-	-	34,353.58
Total	3,24,721.28	3,70,933.19	Total	3,24,721.28			3,70,933.19

Source: Finance Accounts 2016-17

** Excluding net transaction under ways and means advances and overdraft.

1.3 Authority for conducting Audit

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, give the Comptroller and Auditor General (C&AG) of India the authority for conducting Audit. 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

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.

methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007, issued by the C&AG.

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

Under the directions of the C&AG, the Office of the 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 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. The frequency and extent of audit are decided based on risk assessment.

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 to be tabled in the State Legislature.

During 2016-17, in the General & Social Sector Audit Wing, 6,200 party days were used to carry out audit of 519 units and to conduct one performance audit, one information systems audit and one thematic audit.

1.6 Significant audit observations

In the last few years, Audit 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 audit of programmes/activities/Departments

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

1.6.1.1 Modernisation of Police Force

The Government of India launched the Modernisation of Police Force (MPF) Scheme in order to supplement the efforts of the State Government to modernise the police force in order to effectively face the emerging challenges to internal security. A performance audit of the implementation of the Scheme during the period 2012-13 to 2016-17 revealed the following:

- There was delay of at least four months in submission of all Annual Action Plans (AAPs) by the Department to the Ministry of Home Affairs (MHA). This not only delayed approval of AAPs by MHA but also led to delay in release and utilisation of funds.

(Paragraph 2.1.6.3)

- The delay in release as well as utilisation of Central and State share of funds resulted in loss of central grants during 2013-14 and 2014-15 to the extent of ₹66.31 crore.

(Paragraph 2.1.7.1)

- The Department incurred expenditure of ₹10.26 crore on office equipment, consultancy fees, annual maintenance fees, etc., which were inadmissible under MPF scheme.

(Paragraph 2.1.7.3)

- Out of 60 test-checked police stations, physical infrastructure such as barracks, toilets, witness examination room and separate lockup facility for men and women were inadequate in 43, 34, 41 and 20 police stations respectively.

(Paragraph 2.1.8.2)

- Though the Department procured arms under MPF scheme during 2012-13 to 2016-17, shortages *vis-à-vis* Bureau of Police Research and Development (BPR&D) scales were observed in respect of 5.56 mm INSAS, 0.303 Truncated Rifle, T.G. Gun 37/38 mm etc.

(Paragraph 2.1.9.1)

- During 2012-13 to 2016-17, there was hardly any improvement in the number of vehicles available under this scheme as the condemnation of old and obsolete vehicles exceeded the procurement of new vehicles.

(Paragraph 2.1.10.1)

- The Department lagged in adopting modern technology for communication, as the communication sets available with it were analog. Further, the Department could not procure modern digital communication equipment due to delay in obtaining Wireless Operating Licence.

(Paragraphs 2.1.11.1 and 2.1.11.2)

- In three test-checked training institutes, trainees were deprived of training in various modern weapons due to non-functioning of fire arms simulator. Further, one training school was functioning without necessary obstacles required for outdoor training. In addition, audit observed shortage of outdoor trainers when compared to prescribed BPR&D norms in two out of three test-checked training institutes.

(Paragraph 2.1.13)

- The Special Police Forces viz. Coastal Police Stations, Special Weapons and Tactics Team, Anti-sabotage Check Wing and Anti Naxal Force are neither adequately equipped nor trained to the optimal extent. **(Paragraph 2.1.14)**
- Implementation of Megacity Policing was delayed for more than two years depriving the city police of extensive CCTV surveillance and upgraded Dial 100 Systems. **(Paragraph 2.1.15)**

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 'Sajala' Revenue Billing & Collection System in Bangalore Water Supply and Sewerage Board

Bangalore Water Supply and Sewerage Board (BWSSB) implemented 'Sajala' Revenue Billing and Collection System with an objective to improve accuracy in bill payments, hassle free service and allow better monitoring controls to top management. An Information System Audit of 'Sajala' for the period 2012-13 to 2016-17 revealed the following:

- Absence of password policies, insecure operations over Hyper Text Transfer Protocol coupled with incomplete audit trails indicated poor appreciation of the need for security. **(Paragraphs 3.1.8.1, 3.1.8.2 and 3.1.8.3)**
- Due to inconsistencies in data and non-validation of data, the information in the system was unreliable and BWSSB was exposed to the risk of incorrect decision making and risks of incorrect billing. **(Paragraph 3.1.10)**
- Gaps in billing and non-generation of bills periodically resulted in non-levy of meter charges amounting to ₹1.11 crore for unbilled periods. **(Paragraph 3.1.6.3)**
- Incorrect application of business rules resulted in short levy of Meter charges on working meters to the extent of ₹1.41 lakh (loss of revenue) and excess levy of meter charges on non-working meters to the extent of ₹3.94 crore. **(Paragraph 3.1.6.4)**
- Levy of penalties towards Rainwater Harvesting and Occupation Certificate was poorly implemented resulting in non-levy of ₹3.08 crore. **(Paragraphs 3.1.6.5 & 3.1.6.6)**
- Strategic advantages arising from the centralisation of 'Sajala' Billing and Collection Software were not understood and utilised by the Senior Management of BWSSB. **(Paragraphs 3.1.8.5)**

1.6.3 Compliance audit

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

1.6.3.1 Thematic Audit on appointment, promotion and pay-fixation of Teaching staff

UGC/AICTE/MCI regulations are applicable to Universities, Degree Colleges, Engineering/Polytechnic colleges and Medical Colleges for appointment, promotions and pay-fixation of teaching staff. The objective of prescribing minimum qualifications for teaching posts by UGC/AICTE/MCI is to maintain excellence in standards of higher education by appointing highly qualified teaching staff, which would be defeated if rules & regulations regarding appointment and promotion are not complied with effectively. During audit, we observed the following deviations in the procedures for appointment, promotion and extension of pay scales:

- Sixty-seven candidates were appointed as teaching staff of Universities/ Degree Colleges/Engineering Colleges without adhering to requirement of all India advertisement and/or constitution of selection committee.
- Thirty-four teaching staff were appointed even though the candidates did not possess the mandatory essential qualifications and/or NET/SLET qualification or Ph.D.
- Five lecturers of five polytechnic colleges were promoted as Principals even though they did not possess requisite qualification as prescribed by AICTE. DTE had given notional promotions to 25 teaching staff with effect from an incorrect date, which resulted in extending promotion to the candidates during ineligible period.
- Audit observed extension of UGC/AICTE pay scales to 924 teaching staff, who did not possess qualification *i.e.*, NET/SLET or Ph.D, which was a mandatory condition prescribed by the UGC in 136 test-checked Degree/ B.Ed/Law colleges and nine Universities.

(Paragraph 4.1)

1.6.3.2 Other audit observations

Poor quality assurance by the Karnataka State Drugs Logistics and Warehousing Society resulted in distribution of non-standard quality drugs. Besides, the Society failed to recover ₹2.11 crore being the cost of these non-standard quality drugs.

(Paragraph 4.2)

Karnataka State Drugs Logistics and Warehousing Society failed to insert specific clause in the tender/contract document for availing concession on Central Excise Duty. This resulted in avoidable expenditure of ₹76.55 lakh towards purchase of ambulances.

(Paragraph 4.3)

Karnataka Housing Board delayed payment of compensation for more than 21 years in respect of 1 acre 20 guntas of land acquired at Valagerahalli, Bengaluru.

This resulted in payment of enhanced compensation of ₹15.26 crore under the Land Acquisition Act, 2013.

(Paragraph 4.4)

There was suspected embezzlement of ₹20,000 in Karnataka State Child Labour Eradication Society by fraudulently manipulating the invoices presented for payment.

(Paragraph 4.5)

In five districts, there were huge variations in the number of students to whom uniforms were distributed under Vidya Vikasa Yojane during 2015-16 and 2016-17 when compared to the student strength as per Unified District Information System for Education data. This indicated that there was a possibility of excess distribution of uniforms worth ₹1.72 crore in five districts.

(Paragraph 4.6)

Excess acquisition of 0.24 acres of land by the Revenue Department and its transfer to South Western Railways resulted in extra expenditure of ₹9.75 crore by the State Government.

(Paragraph 4.7)

Karnataka Urban Water Supply and Drainage Board adopted higher shell thickness of Mild Steel Pipes in two Water Supply Schemes to Bailahongal and Guledagudda, which resulted in avoidable expenditure of ₹1.67 crore.

(Paragraph 4.8)

Bangalore Development Authority awarded work of construction of Signal Free Corridor to a contractor without ensuring availability of land in violation of Karnataka Public Works Departmental Code. This resulted in rescinding of the contract and avoidable expenditure of ₹99.33 lakh on settlement of contractual obligations.

(Paragraph 4.9)

Executive Director of Karnataka Backward Classes Department Buildings Construction Society unauthorisedly invested ₹10.50 crore of Society funds in Mutual funds and incurred a loss of ₹1.79 crore. This loss was fraudulently misrepresented as profit of ₹0.23 crore by ignoring mutual fund investment of ₹2.13 crore by Bangalore Development Authority in favour of the Society. This also resulted in a loss of ₹1.14 crore on account of interest foregone and freezing of Society's accounts to the extent of ₹4.67 crore.

(Paragraph 4.10)

1.7 Responsiveness of Government to Audit

1.7.1 Outstanding inspection reports

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001, provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and

procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in IRs, rectify the defects and omissions promptly and report their compliance to AG, who forwards a half yearly report of pending IRs to the Secretaries of the Departments to facilitate monitoring of the audit observations.

As on 31 March 2017, 189 IRs (1,206 paragraphs) were outstanding against Urban Development Department. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**.

A review of the pending IRs, issued upto March 2017 showed that the Heads of Offices did not send even the initial replies in respect of 21 IRs containing 316 paragraphs issued between April 2008 and March 2017 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 2017 and October 2017 to send their responses within six weeks. Government replies were received for the Performance audit, Information Systems Audit, Thematic Audit and eight out of nine paragraphs. The replies, wherever received, are 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 provides for all the departments of Government to furnish 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.

The administrative departments did not comply with these instructions and 16 departments as detailed in **Appendix-1.2** did not submit ATNs for 42 paragraphs for the period 1996-97 to 2015-16 even as on 30 November 2017.

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 on 30 November 2017 are detailed in **Appendix-1.3**.