



Chapter II

Chapter-II

Compliance Audit

Department of Higher Education

2.1 Improper Financial Management in Bangalore University

Improper financial management in Bangalore University resulted in misappropriation of ₹12.97 lakh, manipulation of records and suspected misappropriation of ₹1.28 lakh and loss of revenue of ₹87.87 lakh.

Financial Management is an integral component of an organisation and involves planning, organizing, controlling and monitoring financial resources to achieve organisation goals and objectives. As per Canons of Financial Propriety stipulated under Karnataka Financial Code, 1958 (KFC), it is the duty of every Government servant merely not to observe complete integrity in financial matters, but also to be constantly watchful to see that the best possible value is obtained for all public funds spent by him or under his control and to guard scrupulously against every kind of wasteful expenditure from public funds.

Scrutiny of the records (October 2019-January 2020) of Bangalore University⁸ (BU) for the period 2014-15 to 2018-19 showed improper/inefficient financial management as detailed below:

2.1.1 Misappropriation of fees by staff of Canara Bank School of Management Studies

Bangalore University (BU) offers Master of Business Administration (MBA) program (both day and evening courses) through Canara Bank School of Management Studies (CBSMS), which was constituted during the year 1998 under the aegis of the BU. Admission for the above course is through the Post Graduate Common Entrance Test (PGCET), conducted by Karnataka Examination Authority (KEA). Any unfilled seats shall be filled by the University after issuing a notification in this regard followed by a separate exam conducted by the University. The students were being admitted to the course on the recommendations of the Admission Committee formed every year for this purpose.

The students allotted admission by the KEA are required to pay a portion of the first-year fees to KEA at the time of counselling and balance amount of the fees was to be remitted to BU through Demand draft (DD). In cases of admission directly by the BU, the students have to remit the entire fees through DD/Challan drawn in the name of the Finance Officer, BU and obtain an official receipt for the fees paid.

⁸ Bangalore University was trifurcated into Bangalore University, Bangalore Central University and Bangalore North University during 2015 and each of these Universities function independently.

The concerned department would enter the details of the students in the Admission register after the student has submitted the proof of having paid the complete fees. The department then prepares a statement of students who have reported along with details such as the eligibility, work experience, fee receipt/challan number with the approval of the Head of the Department for onward submission to the Registrar (Administration). Copies of the fee receipt/challan numbers were to be enclosed along with the statement. The administration section under the Registrar is to verify each and every record and scrutinize the application and all relevant documents, fee receipt of every student recommended for admission. The students who do not match the criteria fixed are to be rejected.

Similarly, for payment of course fees pertaining to the second year, the students were required to obtain DD/Challan for the fee amount and were required to submit the receipt to the department in proof of having paid the fees.

During the period 2014-19, as per the information furnished by BU, a total of 145 students were admitted for the evening batch of MBA course (53 through KEA and 92 by the University).

A review of the records of CBSMS for the period 2014-19 showed the following:

- (i) The admission register did not contain the details of 10 students for 2016-17 and one student for 2017-18. The admission register was incomplete at several places i.e., the columns for filling the details of the course fees (comprising of tuition fee, registration fee, admission fee, sports fee etc.) paid did not indicate the particulars of the challan number, bank remittance details, date of remittance etc.***
- (ii) The Director, CBSMS submits the statement indicating the details of students for admission to the Registrar every year. These statements included a certificate by the Director, CBSMS, stating that the registration and eligibility fees⁹ from the candidates are duly collected and remitted to the University Account. However, these statements were not supported with the challans/receipts of the fees remitted to the University account.***
- (iii) Audit observed that in some cases, the CBSMS had collected the fees in cash from the students assuring that the fees paid by them would be remitted to University Account. This was supported by the fact that the department had submitted a consolidated DD instead of individual DDs by students and a few of the students had brought this issue to the notice of the University. Collection of fees by cash was not allowed as per the University directions.***
- (iv) The vital check of scrutiny of documents such as application details, eligibility criteria, experience, verification of payment of fees to the University with challans/receipts was not carried out by the Admission***

⁹ Eligibility fees refers to the fees to be paid by Indian nationals who have passed the qualifying examination outside Karnataka

section functioning under the Registrar and the certificate submitted by the Director, CBSMS was accepted. The absence of this secondary check for verification of payment of fees exposed the weakness in the internal control mechanism existing within the University.

- (v) *Audit attempted to verify the remittance of the fees collected from the students admitted to MBA evening course and observed that the copies of challan/fee receipt amounting to ₹12.97 lakh in respect of 38 students were neither on record nor could the amounts indicated in the statement as having been collected be traced to the bank statements/University accounts resulting in short remittance of fees (Appendix 2.1). The fact that the Director, CBSMS certified all the students having paid the fees/dues indicates that the amounts were collected from the students but had not been remitted to the University account. Non-remittance of fees stated to have been collected resulting in adoption of fraudulent practices and consequent misappropriation of funds.*
- (vi) *After the trifurcation of Bangalore University into Bangalore, Bangalore Central and Bangalore North Universities in 2015, the Director and Assistant of CBSMS, Bangalore University campus were transferred (February 2019) to CBSMS, Bengaluru Central University campus. Allegations of misappropriation of the admission fee pertaining to MBA evening courses for the academic year 2018-19 were raised in Bangalore Central University and an Inquiry Committee was constituted August 2019). The Committee found the allegations against both as proven and proposed (October 2019) disciplinary proceedings against them. This substantiates the audit observation that the concerned officials were in the habit of adopting fraudulent practices and committing misappropriation of funds.*

The State Government replied (January 2021) that the untraced amount would be recovered from persons responsible for the misappropriation and criminal proceedings would be initiated against them for their misdeed.

The reply cannot be accepted as the State Government/University ought to have initiated action immediately on this being pointed out by audit (October 2019-January 2020) and in the light of the fact that similar allegations against them were proven (October 2019) in Bangalore Central University.

It is recommended that suitable action be taken against the earlier Director and Assistant of CBSMS for short remittance of amounts and the staff of admission section for their failure to verify the payment of fees and the correctness of the statement furnished by the Director. The internal control mechanism in place needs to be strengthened to prevent recurrence of such incidents.

2.1.2 Manipulation of records and suspected misappropriation of funds

The University provides a monthly stipend to research scholars undertaking research in various fields of study. The research scholars prefer the stipend claims in the prescribed format which is certified by the guide concerned and countersigned by the Head of the Department. The claim is accompanied by

an extract of the attendance certificate for the period of claim. The claims of the scholars are verified by the finance section and passed for payment. The payment is then credited to the bank accounts of the scholars concerned.

The Vice Chancellor of BU, based on a complaint received (28 June 2017) from a Post-Graduate Research student alleging manipulation of records and misappropriation of stipend, ordered (3 July 2017) detailed enquiry of the complete work done by a Senior Assistant during his entire working period in the finance section. The official was entrusted with the work of processing the stipendiary applications of research students, processing all files of SC/ST group regarding finance, processing of bills of monthly pensionaries etc., along with many other works. The official was suspended on 4 July 2017 and based on the initial internal enquiry, a police complaint was lodged on 22 July 2017 against the official for manipulation and misappropriation of nine bills including that of the above complainant amounting to ₹4.32 lakh (Claim applications were manipulated and an amount of ₹4.32 lakh was drawn against the original claim of ₹0.72 lakh). The official had meddled with the claims of the research scholars wherein the claim for one month of ₹8,000 was modified.

- (i) *as a claim of six months by prefixing either the month (For ex. A scholar claimed stipend for November 2016. It was meddled to read for six months by prefixing 'June 2016 to' November 2016) or the date (For ex. A scholar claimed stipend for May 2017. It was meddled to read for six months by prefixing '1.12.2016 to' 31.05.2017).*
- (ii) *by prefixing numerical '6 x' before 8,000.*
- (iii) *by prefixing numerical '4' to 8,000 to make it read as ₹48,000/-.*
- (iv) *by prefixing 'forty' in words to eight thousand to read as Rupees forty-eight thousand.*

These modifications were carried out by the official after obtaining the approval of the Assistant Finance Officer/Deputy Finance Officer (AFO/DFO) for the original claims. Further, as per the complaint lodged with the police, the excess amounts transferred to the students was collected in cash by the official from the students stating that the amounts were credited to their account instead of some other students account by mistake.

The official initially remitted the excess amount of ₹40,000 through Demand Draft to the University account after collecting the same from the complainant and an amount of ₹1.6 lakh pertaining to four cases was remitted on 16 August 2017. The details of remittance of the balance ₹1.6 lakh was neither forthcoming from the records produced nor was stated to audit. The official served (27 November 2017) with a show cause notice for which the official submitted (5 December 2017) his reply, which was not accepted by the University.

Subsequently, the Vice Chancellor appointed (8 August 2018) Shri. B. Shivalinge Gowda, Retired District and Session Judge for enquiry into the

allegation of manipulation and misappropriation. The Inquiry Report submitted (11 January 2019) stated that “the act of manipulations narrated above clearly demonstrates that it cannot and couldn’t have been act of oversight instead, premeditated, deliberate and well planned and the reason is obvious”. The inquiry officer further held the allegation of manipulation as proved but not of misappropriation and instructed that University may take suitable action in terms of its statutes.

Audit noticed that the suspension of the official was revoked (13 June 2018) pending departmental enquiry, which was irregular. No reasons were recorded for revoking the suspension. Though the inquiry officer submitted a report confirming the allegations, the University had not taken any action against the official so far and Vice Chancellor had deferred (20 July 2019) the proposal for initiating suitable action against the official and instructed to keep it under abeyance without according any reasons.

Audit further test checked the records (mainly vouchers) relating to the audit period to the extent they were made available and observed manipulation of following four bills in addition to the above nine bills resulting in disbursement of excess stipend of ₹1.28 lakh.

(i) Shri. Omkaramurthy B.M, Department of Studies in Chemistry had preferred (February 2017) a claim of stipend amount of ₹8000 for the month of January 2017. After obtaining approval of Assistant Finance Officer/Deputy Finance Officer (AFO/DFO), the claim of ₹8000 was numerically suffixed ‘x 6’ enabling it to be read as for six months and prefixing numerical ‘4’ to 8000 to read as ₹48,000. The words ‘August 2016 to’ was written above January 2017. However, the amount in words entered by the claimant was left as it is without modification but in the bill passing seal, the amount in words was modified as forty-eight thousand.

Further, in the instant case, the entire amount of ₹48,000 was credited (7 February 2017) to the bank account of the official instead of that of the claimant. An amount of ₹8,000 was credited to the account of the claimant through cash deposit on 8 February 2017. As per the police complaint, in two out of the nine cases referred to above, the official had adopted the same modus operandi.

(ii) Stipend amount claims of Sunithamma K Department of Science and Engineering (August 2016 to December 2016) for ₹36,129 was passed for ₹40,000. The Bill Register was not authorized by Superintendent.

(iii) Though an amount of ₹22,400 was paid during May 2016 as stipend for the months November 2015 to March 2016 to Shri Ravikumar E and recorded in the Bill Register, the student again preferred a claim for ₹18,000 being the stipend for the months of January to March 2016. This claim was modified for ₹40,305 as follows.

➤ *A reference was invited to another BR No.9637/31.01.2016 for ₹28,155.*

- *While the changes to the figures were made, the amount in words entered by the claimant was not modified.*
- *In the bill passing seal, the amount both in figures and words were written as ₹40,305.*
- *However, there was no entry in the Bill Register/Ledger Folio regarding the above payment. This raises doubts on the genuineness of the claim.*

(iv) Stipend amount claim of Shri Krishna Nayak, Department of Kannada, for the months of March to April 2017 for ₹16,000 was overwritten as ₹24,000 by inserting February 2017 mentioning the amount as ₹800 and the bill was passed for ₹24,000. The claim was not supported by attendance sheet for the month of February 2017. The amount in words entered by the claimant was also modified as Rupees twenty-four thousand.

The finance section of the University failed to exercise the necessary checks such as comparing the amount of the bill both in words and figures, the attestation of modifications made in the bills etc., before printing the cheques which indicates the deficiency of the existing control mechanisms besides the possibility of their involvement in these instances.

As can be seen from the above, audit noticed four more cases from the records made available other than those reported to police. Thus, it can be concluded that the University had not effectively verified the full period of working of the Senior Assistant in the finance section from 15 February 2005 to 04 July 2017 even though it was ordered for detailed enquiry for the whole period.

The manipulation of claims of the individual students by the official for higher amounts indicates the intention of the official to siphon off University funds either through transfer to his account or through collection of cash from students for excess amounts transferred.

It is recommended that action may be taken against all the concerned to prevent occurrence of such instances in future. Additional checks such as attestation of the modifications to the claims by the claimants, obtaining acknowledgements from the students for having received the claimed amount, comparing the amount both in words and figures before passing the bill and printing cheques, etc., should be put in place.

2.1.3 Operation and Management of Bank accounts

The Government of Karnataka issued (January 2017) set of guidelines for operation of funds to ensure transparency and accountability in the management of funds/money through bank accounts. These guidelines were applicable to all State Government Departments, Local bodies or Authorities, Boards, Corporations, Societies, Universities and other State autonomous bodies. The guidelines covered aspects such as opening of new bank account, management of bank accounts and disclosure of bank accounts and stipulated among other things that only Sweep-in-Sweep-out deposit accounts must be

considered for operation of funds in Banks and for all other kinds of bank accounts (savings/current account *etc.*) further sanction of the administrative department in the form of a Government order is mandatory.

BU had exhibited 23 bank accounts in the financial statements of the University. Audit, however, observed that BU has maintained 94 bank accounts in the name of Finance Officer / Heads of various Departments of University in State Bank of India, Nagarabhavi branch besides a bank account in Bank of Baroda. BU had neither prepared a list of bank accounts as required under the guidelines nor were the details forthcoming from the records. Hence, audit could not ensure the exact number of the bank accounts being operated by the University and the possibility of the bank accounts remaining concealed cannot be ruled out. Failure of BU to exhibit the transactions of all the bank accounts in its books of accounts does not present a true and fair picture of the financial statements of the University.

In addition to the existing accounts, BU had opened (February 2017) a current account in Axis Bank for collection of all types of fees online and entered (March 2017) into a Memorandum of Understanding (MoU) stipulating the time limit for transfer of amounts collected online to the University Account. Since the account was opened after issue of the guidelines cited supra, the BU was required to obtain specific sanction from the Principal Secretary, Department of Higher Education. No such approval was obtained. Audit observed that BU invited closed quotations¹⁰ and attractive offers made by other banks in the quotations were not considered despite the University having banking transactions with State Bank of India for its banking operations. The reasons for preferring private sector bank for its banking operations was not on record. Moreover, opening of current account instead of sweep-in-sweep-out account¹¹ not only contravened the Government guidelines but also resulted in loss of interest¹² of ₹37.79 lakh.

Further, as per the terms and conditions of the MoU,

- the total amount collected during the day till 7.00 pm will be transferred to SBM Account of BU within seven days (Clause 3d);
- that bank has to credit the entire fee collected by them to the said current account through core banking system on each day (Clause 5);
- that the bank shall transfer the amount in the current account of first party immediately and account should be settled within seven days. If there is any delay on the part of the bank in transferring amount due to the second party, the bank shall be liable to pay interest at prevailing bank interest rates on the amount due for the period of delay (Clause 7).

¹⁰ Canara Bank, State Bank of Mysuru and State Bank of India

¹¹ It is an account which is flexible in nature giving advantage and flexibility both of a fixed deposit and savings bank account. In other words, it is a combination of both savings cum fixed deposits accounts

¹² As sweep-in sweep out has both the components of savings bank and fixed deposit, interest is calculated on the closing balances for the day @ 4 per cent applicable for savings account.

Since the banks do not provide any interest for the funds retained in the current accounts, the reasons/justification for stipulating seven days for transfer of funds from the current account to SBM savings account were to be have been explicitly recorded. This was neither done nor were the reasons explained to audit.

Scrutiny of Bank Account Statement revealed that

- Axis Bank did not adhere to the timelines for credit of the fee collected as stipulated in the MoU.
- The average time taken to transfer the daily receipts to university account was 12, 15 and 9 days during 2017, 2018 and 2019 respectively.
- The delay in crediting of the amount by Axis Bank to the current account and further transfer to the SBM Account of the university resulted in loss of interest of ₹17.43 lakh for delays in excess of the stipulated seven days during the three-year period.

Thus, the action of the BU to open a current account with a private bank and to incorporate terms and conditions that are unfavourable to the BU resulted in loss of interest revenue to the tune of ₹55.22 lakh to the University.

The State Government accepted the audit observation and stated (March 2021) that

- (i) though BU was legally constrained to procure the service of online fee collection from the State Bank of India which had succeeded in the tender process as lowest bidder, Axis bank which was unqualified bidder had been awarded the procurement. This measure of the University blatantly infringes K TPP Act, 1999 and the rules made thereunder and attracts punitive action against the University.
- (ii) BU opened the current account in Axis Bank without the express sanction of the Higher Education Department
- (iii) BU had not adhered to its directions of February 2020 to transfer the fees collected online to its account within two days.
- (iv) the VC of BU had been instructed to institute criminal proceedings against officers/officials responsible for the loss, recoup the loss, close the current account in Axis Bank, open sweep-in-sweep out account with SBI and ensure transfer of receipts within two days and submit compliance report to Government within the outer limit of 30 days.

It is recommended that the State Government follow up on its instructions and ensure that responsibility be fixed and action taken for not ensuring compliance to guidelines and procedures stipulated by the State Government.

2.1.4 Absence of reconciliation

Reconciliation is one of the important controls that assists in detecting fraud, detecting errors, reducing the risk of transactions which could lead to levy of penalties, interest charges *etc.*, and helps to spot unexplained differences which could be indicative of theft or misappropriation. Audit observed absence of reconciliation mechanism resulting in loss of revenue as illustrated below.

➤ **Loss of revenue due to non-realisation of DDs - ₹23.21 lakh.**

BU offers various Undergraduate, Post- graduate and Ph. D courses for which it collects registration, admission, examination and development fee from affiliated colleges and students through DDs. These DDs are deposited in separate bank accounts meant for revenue collection (collection accounts). The Finance Officer is expected to ensure that the DDs remitted to these collection accounts were credited to the University account in a timely manner.

Scrutiny of Bank financial statements furnished by BU for the years 2015-16 to 2018-19 revealed that receipts amounting to ₹23.21 lakh were returned by the bank for various reasons such as time-barred DDs, server problem, absence of date, signature *etc.* No documents were maintained for monitoring the receipt of these instruments from the bank, their return to the concerned for revalidation / modifications and their subsequent realization. In the absence of reconciliation, detection of failed transactions and their subsequent realisation was not possible and this resulted in failure to reclaim ₹23.21 lakh to the University.

➤ **Demand drafts/receipts not traced to Bank statements - ₹8.66 lakh.**

DDs amounting to ₹8.66 lakh drawn in the name of Finance Officer, BU pertaining to two departments (Physical Education and CBSMS) relating to Ground fee for utilisation of the University playgrounds and admission fees paid by the II-year MBA students could not be traced/found in the bank statements (**Appendix 2.2 and Appendix 2.3**). This could be a case of non-submission of the DD to the bank for realisation or the DD becoming time-barred besides carrying the risk of diversion/misappropriation of funds. Failure to periodically reconcile the accounts resulted in non-detection of revenues remaining unrealised indicating the absence of control mechanisms.

It is recommended that the matter be investigated and suitable action be taken on the basis of such investigation to prevent recurrence of such omissions.

2.1.5 Short collection of ground fee of ₹0.79 lakh and doubtful remittance of another ₹0.78 lakh by Physical Education Department

BU College of Physical Education lets out playgrounds on rental basis for sports /other purposes to schools/colleges and private organisations by collecting Ground fee. Different rates were prescribed for different categories (**Appendix 2.4a**) and the fee was to be paid through DDs drawn in favour of the Finance Officer, BU.

Scrutiny of the register of the receipt of the Ground Fee showed that rates prescribed were not adopted resulting in short collection of ₹78,500 and consequent loss of revenue to the University (**Appendix 2.4b**). Further, ₹78,200 was recorded in the register as collected from Karnataka Rajya Amateur Kabaddi Association, Bengaluru on 23 June 2015. However, the details of the DD number or Receipt number was not indicated and the amount could not be traced in the bank statements. Hence, the remittance of the same was doubtful.

2.1.6 Abnormal delay in submission of NDC bills – ₹1.91 crore

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorised to draw sums of money by preparing Abstract Contingent Bills (AC Bills) and are required to present Non-payment Detailed Contingent (NDC) bills (vouchers in support of final expenditure) before the 15th of the month following the month to which the bill relates. Controlling Officers should also ensure that no amounts were drawn from the treasury unless required for immediate disbursement. Further, as per Rule 243 of the Karnataka Financial Code, 1958, all advances are subject to adjustment by the officials receiving them in accordance with the rules applicable to each case. Every advance must be adjusted by the end of the month succeeding the one in which the advance is drawn, where the date within which adjustment should be made is not prescribed in the order itself.

Audit scrutiny of AC bills register, NDC bills register and vouchers showed that there was an abnormal delay in submission of NDC bills for 111 AC Bills valuing ₹1.92 crore, the delays ranging from 123 days to 3,322 days. Further, it was observed that in respect of 27 AC Bills drawn during 26 April 2014 to 24 May 2019 for ₹14.84 lakh, NDC bills were yet to be submitted.

Considerable delay in submitting NDC Bills not only violates rules but also paves way for possible misappropriation of funds besides indicating that checks such as whether the amounts drawn on AC Bills were really for immediate disbursement, whether any advances were pending adjustment against the individuals who have drawn AC Bills, the periodicity of adjustment *etc.*, were not carried out by the Finance Officer in dealing with such advance payments.

It is recommended that action be taken against the concerned for non-submission of NDC bills within the prescribed time and the outstanding balance be recovered immediately.

2.1.7 Amounts drawn through self-cheques for ₹20.72 lakh

As per the provisions of KFC Rule 3, every government servant should see that proper accounts are maintained for all Government financial transactions with which he is concerned. It also specifies that he has to render accurately and promptly all such accounts and returns relating to them as have been prescribed by Government, the Accountant General or the competent authority.

Funds released by BU to University Vishweshwariah College of Engineering (UVCE) towards Hostel miscellaneous expenditure were deposited into a bank account¹³. An amount of ₹20.72 lakh was withdrawn during April 2018 to December 2018 by a Junior Assistant from UVCE through self-cheques for the purpose of mess maintenance and cleaning charges. However, no vouchers or bills in support of the expenditure incurred were available in the records produced to audit. Hence, the genuineness of the expenditure could not be ascertained.

It is recommended that suitable action be taken against the concerned for failure to comply with the codal provisions.

Thus, absence of an effective internal control system within the Bangalore University resulted in improper financial management through violation of the guidelines/instructions prescribed by both the Government and University, which paved way for misappropriation of ₹12.97 lakh by staff, manipulation of records and misappropriation of ₹1.28 lakh by an official and loss of revenue of ₹87.87 lakh by way of loss of interest, non-realisation of Demand Drafts, short collection of ground rent *etc.*

As the issues pointed out by audit are only illustrative and not exhaustive, it is recommended that the State Government carry out a detailed investigation into the various financial irregularities existing in the University and take appropriate action thereon.

2.2 Loss of terminal benefits to NPS employees

Non-implementation of National Pension System architecture as prescribed by Pension Fund Regulatory and Development Authority in three Universities resulted in loss of ₹2.83 crore to 577 employees of these Universities who joined the service after 01 April 2006.

Government of Karnataka (GoK) introduced (March 2006) New Defined Contributory Pension Scheme (NPS), which was mandatory for all employees appointed to State Government service on or after 01 April 2006. Contributions made by the Government Servants and the matching contribution by the State government shall be kept in Public Account of the State on which appropriate interest shall be given till appointment of the Central Record Keeping Agency and Pension Fund Managers. The State Government in January 2010 decided to avail the services of NPS architecture set up by Pension Fund Regulatory and Development Authority (PFRDA) and accordingly signed an agreement with the NPS Trust (January 2010) to be governed in *toto* by the NPS architecture and other parameters, directions regulations, guidelines *etc.*, as may be issued from time to time. The State Government also signed an agreement (January 2010) with the National Securities Depository Limited (NSDL), appointed by PFRDA as the Central Record Keeping Agency (CRA) for performing the functions of record keeping, accounting, administration and customer services for subscribers to the schemes of pension funds approved by PFRDA.

¹³ SB Account No. 64156935644, SBI City Branch, Bengaluru

Government of Karnataka instructed (February 2015) State Autonomous Bodies/Boards/Corporations/Societies/Universities/State Aided Institutions under various departments of State Government to mandatorily adopt NPS for employees appointed on or after 01 April 2006 and the employer's contribution towards this scheme shall be paid from their own resources. No time frame was, however, specified by which these institutions were to adopt the NPS.

Under NPS, the total contribution uploaded in an employee's account is invested by three¹⁴ Pension Fund Managers (PFM's) as prescribed by NSDL and units are allotted in the subscribers account accordingly. PFM's would invest the money in different financial instruments within the investment guidelines laid down by PFRDA and declare Net Asset Value (NAV)¹⁵ at the end of each day. Accordingly, units based on NAV were to be credited in the subscriber's account. The present value of the investment is to be arrived at by the units held multiplied by NAV.

Seven Universities¹⁶ were selected for audit during 2019-20 for the period up to March 2019. Scrutiny of the records relating to implementation of NPS revealed the following:

- i. All the Universities except Karnataka Folklore University, which did not have any regular employees, had adopted and extended the NPS to its employees.
- ii. Only four out of seven Universities had registered themselves with NSDL. Bangalore University had registered in August 2020 after being pointed out by Audit; Mangalore University and Karnataka Folklore University were yet to register.
- iii. In the absence of time frame within which the institutions were required to comply with the Government instructions, the Universities had registered between the period August 2016 to December 2019. The delay in registering would lead to a loss in terminal benefits to the employees of these Universities.
- iv. Mangalore University (MU) and Bangalore University (BU) invested¹⁷ (2009 and 2016 respectively) the deducted contributions (both employee and employer contribution) with LIC of India in New Group

¹⁴ SBI Pension Funds private limited, LIC Pension Fund limited and UTI Retirement Solutions Limited.

¹⁵ NAV- It is calculated by adding up the value of all the securities and cash in the fund's portfolio (its assets), subtracting the fund's liabilities, and dividing that number by the number of units that the fund has issued.

¹⁶ Bangalore University, Davanagere University, Karnataka Folklore University, Karnataka Sanskrit University, Mangalore University, Rani Channamma University and Vijayanagara Sri Krishnadevaraya University

¹⁷ Policy No. NGSCA 508000192 (Mangalore) and NGSCA 501005587 (Bangalore)

Superannuation Cash Accumulation Plan¹⁸. Though MU had started deductions from employees before receipt of Government instructions, it had not registered itself with NSDL after February 2015 and continued its investment with LIC. Audit observed from the statements of returns furnished by Universities that the return received on investment was less than the return that would have been earned in NSDL for NPS scheme calculated as at the end of March 2020. The loss¹⁹ in this regard was ₹64.13 lakh and ₹189.57 lakh for the employees of MU and BU as detailed in **Appendix 2.5** and **Appendix 2.6** respectively.

- v. As per the information made available by Rani Channamma University (RCU), an amount of ₹2.40 crore being the employees and employer contribution for the period from February 2015 to September 2016 was not invested. The investment with NSDL started from October 2016 onwards including the earlier contribution. The delay in investing the NPS contribution with NSDL resulted in a loss of ₹29.62 lakh to the employees of RCU as detailed in **Appendix 2.7**.
- vi. The details of month-wise deductions, investments and returns realised on investments in respect of the other Universities are awaited, hence the loss could not be quantified.

Thus, investment of monthly deductions by two universities with LIC in violations of the State Government instructions and delay in investment by one University resulted in non-transfer of contributions to NSDL and consequent loss of ₹283.32 lakh to 577 employees of these Universities (138 in MU, 221 in BU and 218 in RCU). This also undermined the provision of a sustainable solution for ensuring financial security and stability to NPS subscribers after retirement.

The State Government replied (January 2021) that BU was taking necessary action to adopt NPS to the employees of the University who joined service after 01.04.2006 in accordance with PFRDA Stratagem and the University had received Drawing and Disbursing Office (DDO) and Directorate of Treasuries and Accounts (DTA) registration numbers. It further stated that BU was stringently instructed to instantly withdraw the legacy and monthly contributions under NPS architecture invested in LIC and adopt the NPS for all the employees who joined service after 01.04.2006.

No reply was furnished in respect of MU. The University, however, replied (January 2021) that the value of NAV of LIC from 2016 to 2019 was higher compared to that of SBI and UTI except in 2020 and the investment suffered a

¹⁸ This is a non-linked non-participating Group Superannuation Cash Accumulation Plan suitable for employer having defined contribution for their employees. The following types of interest rates shall be provided on the Policy Account Value:

- i. Minimum Floor Rate: 0.5 per cent per annum during entire policy term
- ii. Additional Interest Rate: At the beginning of each financial quarter a non-zero positive interest rate (declared by corporation)
- iii. Residual Addition: Starting from fifth policy anniversary a non-zero positive interest rate (declared by corporation) at the end of each policy year.

¹⁹ Loss is the difference of total value of investment (total number of units that can be purchased multiplied by average NAV of three funds as on 31 March 2020) and total investment made by universities and interest earned from LIC of India

loss to the employees only in 2020. The reply was incorrect as the returns paid by LIC were not NAV based. Moreover, the investment was against the Government directions.

The State Government should ensure that all the Universities in the State register themselves immediately with NSDL and thereby adopt NPS for all the employees as per the PFRDA stratagem. Action should be initiated against the institutions for the delay in compliance, which has resulted in loss to the employee's terminal benefits.

Department of Animal Husbandry and Fisheries

2.3 Loss due to non-remittance of Government revenue and misappropriation

Manipulation of records and non-remittance of cash receipts into Government Account at the office of the Assistant Director, Department of Animal Husbandry and Veterinary Sciences, Channapatna resulted in loss of revenue and misappropriation of Government revenue- ₹1.38 lakh.

The Government of Karnataka under Article 4 (a) Chapter II General Principles and Rules of the Karnataka Financial Code, 1958 (KFC) stipulates that all transactions to which any Government servant in his official capacity is a party, must, without any reservation, be brought to account, and all moneys received should be paid in full without undue delay in any case within two days, into a Government treasury, to be credited to the appropriate account and made part of the general treasury balance.

Article 6 of KFC stipulates that a Government Officer receiving money on behalf of Government must give the payer a receipt and Article 34 stipulates that every departmental controlling officer should obtain regular accounts and return from his subordinates for the amount realised by them and paid into the treasury and consolidate the figures in a register so as to show the total receipts for each month classified according to the heads of accounts in the Budget Estimate.

The remittance of money into Government account is to be ensured by the Treasury, once the remittance challans are filled and duly signed by the head of the department and acknowledged by the designated Bank with seal affixed on the challans. The same will be reflected in form No-25 of the Karnataka Treasury Code (KTC) in which the Treasury shows the details of departmental receipts, which should be tallied with the entries in the remittance register maintained by the concerned office.

Audit scrutiny of records (December 2020/January 2021) in the Office of the Assistant Director of the Department of Animal Husbandry and Veterinary Services (AD, AH & VS), Channapatna, Ramanagara district for the period from 2015-16 to 2019-20 showed that, in ten out of seventy-two test checked cases, an amount of ₹1,38,470 was collected as service charges towards the

supply of semen straw²⁰ and other poultry farm charges. The challans used for remittance of cash receipts into the designated Bank²¹ were entered in the Remittance register of the audit entity against the respective heads of accounts. The remittances of the collected amount as indicated in the challans shown in the Appendix 2.8 could not be traced in the Schedule of receipts of the Sub-Treasury maintained in KTC-25.

Confirmation was sought (January 2021) from the Sub-treasury, Channapatna, Ramanagara District and the designated Bank i.e., State Bank of India, Channapatna with respect to the said 10 cases of remittances. The Sub-Treasury, Channapatna confirmed (January 2021) that the amounts of remittances as mentioned in the letter could not be traced to the schedule of receipts of the Sub-Treasury maintained in KTC 25. The State Bank of India, Channapatna also confirmed (January 2021) that all the ten remittance cases referred were not received by the Bank and the seal (rubber stamp for cash received by the Bank, branch, and dated stamp) on the challans for depositing the amount did not pertain to the Bank. The initials on the referred challans also did not pertain to any of the Bank branch staff/official and numbers mentioned in the concerned challans were not connected to the remittances.

The manipulation of records and use of fictitious instrument in Government transactions is a serious lapse on the part of AD, AH & VS, Channapatna. Further, AD, AH & VS, Channapatna had also failed to reconcile the cash book entries with the Treasury statement periodically as per the codal provisions to ensure whether all the Governmental receipts collected by the department were duly remitted to the Government account. Thus, non-adherence to the prescribed procedure coupled with fraudulent practice resulted in misappropriation of revenue/ loss of ₹1.38 lakh to the Government.

The matter was referred to the State Government in February 2021, reply is awaited.

Detailed investigation needs to be carried out by the Government to fix the responsibility for the misappropriation and recover the amount besides initiating criminal proceedings/disciplinary action on the erring officials. The DDO should conduct periodical reconciliation of Cash book with the connected records/registers to ensure prompt remittance of Government moneys and prevent such occurrences in future.

²⁰ Semen straw is a tool used for artificial insemination of cattle/animals.

²¹ State Bank of India, B.M. Road, Channapatna

**Department of Food and Civil Supplies, Consumer Affairs and
Legal Metrology**

2.4 Avoidable payment of interest on procurement of rice

The Karnataka Food and Civil Supplies Corporation Limited made belated payments to the Chattisgarh State Civil Supplies Corporation for procurement of rice despite availability of funds resulting in avoidable extra expenditure of ₹5.25 crore towards interest.

The Government of Karnataka (GoK) launched 'Anna Bhagya Scheme' (ABS) in July 2013 on the lines of 'Antyodaya Anna Yojana' (AAY) of the Government of India introduced in August 2002 to distribute food grains at subsidised rate to the poorest people and Below Poverty Line (BPL) families. Under the Anna Bhagya Scheme (ABS), the eligible BPL and AAY card holders were to be provided rice of 10 kgs per person, in a family, 20 kgs for two persons in a family and a maximum of 30 kgs for three persons or more in a family at ₹1 per kg.

In order to meet the additional demand of rice for the implementation of the ABS, GoK decided to purchase 1,50,000 MT of rice in three phases from M/s Chattisgarh State Civil Supplies Corporation (CGSCSC). A Memorandum of Understanding (MOU) was entered into by Karnataka Food and Civil Supplies Corporation Limited (KFCSC) with the CGSCSC in July 2013. The MOU detailed the terms and conditions for the supply of rice to KFCSC by CGSCSC to various designated places at ₹2,290 per quintal plus railway freight, handling and transportation charges up to Chattisgarh Railway point, besides payment terms according to which the cost of rice and Railway/Container freight charges of each rake shall be made in advance by KFCSC. A clause on appointment of Arbitrator with mutual consent of GoK and Government of Chattisgarh was also included in the MOU. In case of any dispute arising out of operation of the scheme or interpretation of the terms of MOU, the decision of the Arbitrator would be final and binding on both the Corporations. Further, the GoK had released advance amount of ₹1,915.76 crore between June 2013 and May 2014 to KFCSC towards purchase of food grains under Public Distribution System/Anna Bhagya scheme.

Audit scrutiny of records of the KFCSC for the period²² 2012-13 to 2018-19 revealed that the CGSCSC supplied 15,36,389 quintals of rice to KFCSC between July 2013 to December 2013. The KFCSC paid ₹317 crore as against ₹377.68 crore belatedly between July 2013 and December 2013 and balance amount of ₹60.68 crore²³ in three instalments. The third and final installment of ₹45.68 crore was made by KFCSC during October 2014 with a delay of eight months after the second installment was paid in February 2014. The CGSCSC claimed interest of ₹6.16 crore at 11 *per cent* for the delayed

²² Period 2012-13 to 2013-14 audited during October 2015 to February 2016 and for the period 2017-18 to 2018-19 audited during November 2020.

²³ KFCSC paid ₹5.00 crore in January 2014; ₹10.00 crore in February 2014 and ₹45.68 crore in October 2014.

payment from KFCSC as the belated payment was violating clause 10 of the MOU which specified advance payment of cost of rice by KFCSC together with ₹6.22 lakh outstanding towards handling charges. The KFCSC stated (October 2014) that the requirement of rice went up drastically as 30 kg of rice was distributed to BPL households at ₹1 per kg and the required quantity of rice was procured from various sources which led to locking up of funds and therefore requested for waiver of interest on outstanding payments. However, the CGSCSC expressed (February 2015) its inability to waive the interest amount as the supply was made from the quantity procured under state pool by utilizing borrowed funds. CGSCSC continued to request for payment of interest on the delayed payments by KFCSC.

The issue of disagreement between the Corporations with respect to payment of interest and handling charges was placed before the Board of Directors by KFCSC in its 278th Board meeting held in April 2015. The Board directed KFCSC to pay 50 *per cent* of the amount claimed by CGSCSC along with justification. However, the decision of the Board was not communicated to the CGSCSC as there was an objection by the AG audit team during transaction audit for 2015-16 regarding the matter. The KFCSC in its 290th board meeting held in August 2017 directed to investigate the reasons for the delay in timely remittance and fix responsibility and initiate disciplinary action against delinquent officers. Based on the request made by KFCSC (October 2017), the GoK appointed (November 2017) Additional Chief Secretary, GoK as arbitrator to settle the dispute between the two Corporations. The arbitrator after hearing both parties, passed an order (July 2018) directing KFCSC to make interest payment of ₹5.25 crore²⁴ as full and final settlement within one week of receipt of the order and submit acknowledgement obtained by CGSCSC to the Government. Accordingly, the KFCSC paid the amount of ₹5.25 crore to the CGSCSC on 31 July 2018.

Out of ₹1,915.76 crore released by GoK, KFCSC had received ₹895 crore as of December 2013 (loading date of final consignment) for procurement of rice under ABS. It had also Open Cash Credit (OCC) facility of ₹650.00 crore²⁵ from a nationalized bank for working capital requirement for procurement of rice, wheat *etc.*, under Public Distribution System (PDS). Despite availability of funds²⁶ KFCSC made belated payments with delays ranging from 1 to 232 days which resulted in avoidable expenditure of ₹5.25 crore towards interest and consequent loss to KFCSC.

The State Government accepted (March 2021) that the KFCSC had availed cash credit of ₹400 crore under II OCC Account and had the KFCSC paid the balance of ₹45.68 crore from its bank cash credit account to CGSCSC during February 2014 then interest at 10.25 *per cent* would have been paid to the bank up to October 2014. But KFCSC had paid interest at 11 *per cent* to

²⁴ As per the calculation sheet attached to the arbitration proceedings, interest was computed for each instalment with delays beyond 15 days from the date of dispatch of the railway rake.

²⁵ OCC of ₹400 crore and ₹250 crore from Indian Bank.

²⁶ Under OCC A/C-I was ₹221.80 crore as on 1 February 2014 and in OCC A/C-II ₹263.93 crore as on 15 March 2014 and releases from GoK.

CGSCSC. The actual loss is only at 0.75 per cent (11 - 10.25) which works out to ₹35.80 lakhs. The reply cannot be accepted as the analysis made does not address the reasons for belated payments. Moreover, KFCSC was bound by the contractual terms and conditions to make payments within the stipulated time period. Further, the reply is silent about the action taken by the Managing Director as per the Board directives (August 2017) to investigate the reasons for the delay in remittance and initiate disciplinary action against the persons responsible for the loss.

The Corporation should implement the directives of the Board to investigate the reasons for delay in remittance and initiate action against the concerned responsible for the loss on the basis of such investigation. It should also ensure that terms and conditions of the agreements are scrupulously followed to prevent such occurrences in the future.

Department of Labour

2.5 Non/short realisation of revenue

The delay in updating the revised rates for registration/renewal on the online portal resulted in short realisation of revenue of ₹2.38 crore. Huge pendency of renewal of registration of shops and commercial establishments resulted not only in non-realisation of revenue to the extent of ₹37.21 crore but also continuation of the establishments without valid registrations.

The Government of Karnataka (GoK), with an intention to provide for the regulation of conditions of work and employment²⁷ in shops and commercial establishments, had enacted (February/March 1962) the Karnataka Shops and Commercial Establishments Act, 1961 (Act) which came into effect from 1 October 1964. For smooth implementation of the Act, GoK notified (December 1963) the Karnataka Shops and Commercial Establishments Rules, 1963 (Rules). As per Section 4(1) and 4(3) of the Act and Rule 3 of the Rules, the employer of every establishment shall send to the Inspector of the area concerned, a statement in the prescribed form together with such fees as may be prescribed within 30 days from the date on which the establishment commences its work. On receipt of the statement and fees, the Inspector shall, on being satisfied about the correctness of the statement, register the establishment in the register of establishments and shall issue a Registration Certificate (RC) to the employer. The RC shall be valid for five years' period. Further, as per Section 4(4) and Rule 3A, the RC shall be renewed before the date of its expiry on payment of the prescribed fees.

The Department of Labour entered (March 2012) into an agreement with M/s KEONICS for developing a software for online registration/renewal of licences of the shops and commercial establishments of the State. A portal 'e-karmika' was designed and hosted by M/s KEONICS, which is currently

²⁷ Employment condition - working hours, rest intervals overtime, holidays, termination of service etc.

maintained by National Informatics Centre (NIC). The entire process of both registration and renewals was shifted to this online platform in a phased manner²⁸ across the state from June 2012 to April 2015. The applicants, after registering with *e-karmika*, were required to upload the details along with the payment of the prescribed fees at prevalent rates to complete the process of registration/renewal. The details of the entire manual data of the shops and commercial establishments, which were registered and renewed prior to 2014 were also digitised and migrated to this online portal during 2014-15.

Compliance audit of the Department of Labour for the period ending March 2019 was conducted during April to June 2019. Out of 67 units in the Department, 16 units (Office of the Commissioner of Labour, three offices of Deputy Labour Commissioner, four offices of Assistant Labour Commissioner and six offices of the Labour Officer and two Boards²⁹) were test-checked. Audit observed instances of delay in implementation of revised rates for registrations/renewals and non-renewal of registrations in many of the offices test-checked. Hence, consolidated data for the State as a whole was sought (October 2020) from the Commissioner of Labour. Analysis of the data and information furnished revealed the following:

(i) ***Delay in implementation of revised rates for registration/renewal of the registration of shops and commercial establishments:***

GoK notified (March 2018) the revised rates³⁰ for registration/renewal of registrations which were effective from the date of notification (24 March 2018). Since the department had shifted to the online platform for registration/renewals in 2014-15 itself, the rates were to be immediately updated in *e-karmika* portal. Audit observed that the department had approached the NIC for updating the revised rates only during January 2019. The Department received 32,171 applications for registrations and 15,620 applications for renewals after the notification till the rates were updated on the portal. The delay in updating the portal resulted in registering/ renewing the registrations at pre-revised rates leading to a loss of revenue to the State exchequer of ₹2.38 crore as detailed in **Appendix 2.9**.

The State Government replied (March 2021) that the revised rates were to be updated in the *e-karmika* online application by the software developers (KEONICS), who withdrew the technical and maintenance support due to some technical issues during 2017-18. Hence the department could not implement the revised rates immediately. The reply is not acceptable since the maintenance and regular updating of website is an essential work of the

²⁸ Bengaluru Urban - June 2012; Mysuru and Bengaluru 1&2 - October 2012; Kalaburagi and Belagavi - April 2015.

²⁹ Karnataka Labour Welfare Board, Bengaluru and Karnataka State Unorganised Workers Social Security Board, Bengaluru

³⁰ Renewals/registration (₹300- establishments with zero employees, ₹600- establishments with 1-9 employees, ₹4000/- establishments with 10-19 employees, ₹10000- establishment with 20 to 49 employees, ₹20000 – establishment with 50 to 99 employees, ₹40000- establishment with 100 to 250 employees, ₹50000- establishment with 251 to 500 employees, ₹70000 – establishment with 501 to 1000 employees and ₹75000 for more than 1000 employees).

department and any changes were to be updated/modified immediately to ensure that there is no loss of revenue to Government.

(ii) Huge pendency in renewal of registration of shops and commercial establishments

Of the 6,95,448 establishments as per data available on the portal, 3,64,775 shops/establishments were due for renewal as of November 2020. This included cases of renewal of establishments established prior to 1961. The year wise details of the number of establishments due for renewal and total revenue to be realised is detailed in **Appendix 2.10**.

The Act solely empowers the Inspector to conduct inspections and convict the concerned for any violation of the provisions of the Act including non-renewal. The relevant provisions are indicated below:

- Section 27 of the Act describes the powers and duties of Inspectors which inter alia includes inspection of the premises and examinations of records as may be deemed necessary.
- Section 30 of the Act states that whoever contravenes the provisions of Section 4 and other Sections of the Act, shall on conviction, be furnished with fine, which for the first offence may extend to one thousand rupees and for a second or subsequent offence, may extend to two thousand rupees.
- Section 31(1) of the Act states that no prosecution shall be instituted save on a complaint in writing by an Inspector.
- Section 32 states that no court shall take cognizance of any offence under this act or rules or orders made thereunder unless the complaint thereof is made within six months from the day on which the offence is alleged to have been committed.

As per the information made available to audit, the Inspectors of the department had conducted 1,01,028 inspections under the Act during the audit period and levied a penalty of ₹1.38 crore. However, the break-up of the violations was not made readily available to audit. In the absence of details of the violations, audit could not ascertain the extent of violations under Section 4 of the Act and convictions made thereon and the sufficiency of inspections carried out.

Thus, non-renewal of registration of establishments after expiry of every five years from the initial date of registration, as per the codal provisions, resulted not only in huge pendency of the cases due for renewal and non-realisation of revenue to the extent of ₹37.21 crore at the current rates but also continuation of the establishments without valid registrations.

The pendency of renewals of establishments dating back to earlier than 1961 indicate that the department failed to ensure periodic renewals of registrations and also had not refined its database by carrying out necessary inspections to remove any establishments that may have closed its operations.

The State Government replied (March 2021) that

- (i) during implementation phase of the online portal *e-karmika*, there were instances where many shops and commercial establishments were closed but were not informed to the concerned authorities though enabling provision was made in the online portal.
- (ii) the department had shortage of Labour Inspectors/Senior Labour Inspectors who are the notified authorities as per the 1961 Act for the purpose of registration and renewal of shops and establishments.
- (iii) with the enactment of the Karnataka Building and other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 and the Unorganised Workers Social Security Act, the core activities of the department had drastically shifted from enforcement to welfare activities and the Labour Inspectors/Senior Labour Inspectors were carrying out voluminous amount of such work of the Boards established under the above Acts.
- (iv) the Labour Inspectors/Senior Labour Inspectors would be strictly instructed to verify the status of shops and commercial establishments and carryout registration and renewals of such establishments.

The reply is not acceptable as it is primary responsibility of the Labour Inspector, the notified authority to carry out such inspections as may be required to ensure that all shops and commercial establishments are registered and periodically renewed such that there is no loss of revenue to Government and that no establishment functions without a valid registration.

In view of the huge pendency of renewal of registrations, the department should take up a survey of shops and commercial establishments in the State immediately to ascertain the actual status of their existence and registration and ensure that the establishments continue to function with valid registrations. The department should also initiate action for the loss caused due to delay in updating the portal.

Department of Health and Family Welfare Services

2.6 Short levy of liquidated damages

The Chief Engineer, Health Engineering Wing levied nominal penalty for delays on part of the contractors in completing the works based on the recommendations of the Executive Engineers of the divisions. This resulted in short levy of liquidated damages of ₹14.63 crore besides extending undue benefit to the contractors.

The Chief Engineer, Health Engineering Wing, Health and Family Welfare Services Department is responsible for construction, repair, maintenance of the Health and Medical institutions of the department. Tenders were invited during the period (November 2013 to November 2017) for the works of various hospitals at the district and taluk level by the Chief Engineer.

Clause 41.1 of general conditions of the tender document stipulate that the contractor shall pay liquidated damages to the employer at the rate per day as stated in the contract data for each day after the completion date is later than the intended completion date (for the whole of the works or the milestone as stated in the contract data). The total amount of liquidated damages shall not exceed amount defined in the contract data. Different rates were prescribed for imposition of liquidated damages based on the milestones besides rates for overall delay. The maximum amount of liquidated damages for the whole of the works was ten *per cent* of final contract price.

Audit reviewed (July 2019) 30³¹ out of 375 works selected across four divisions³² for the period 2017-18 and 2018-19 and observed delay in completion of six works. The Executive Engineers of the divisions attributed the delay both to the department and the contractors. Periodic notices were issued to the contractors for the delay in completion of the work. However, the Executive Engineers while recommending for extension of time proposed for levy of nominal penalty in the range of ₹100 - ₹5000 for the delay on part of the contractors, which was approved by the Chief Engineer as detailed below:

- (i) The work of Renovation and Expansion of 100 bedded MCH at Gadag was due for completion on 25 November 2015 but was completed on 31 January 2019 after a delay of 1,166 days. The delay attributed to the contractor was 230 days. A nominal penalty of ₹1,000 per day was levied as against ₹25,950 per day as per the contract.
- (ii) The work of construction of District Health Office Building in Yadgir was completed after a delay of 417 days of which 294 days' delay was attributed to the contractor. However, a penalty of only ₹100 per day was levied as against ₹25,600 per day as per the contract.
- (iii) The delay in completion of the work of construction of 100 Bed MCH wing at District Hospital, Bidar was 120 days. The delay attributed to the contractor was 60 days and a penalty of ₹100 per day was levied instead of ₹1,99,356 per day (one *per cent* of the contract price).
- (iv) The work of construction of Trauma Care Centre at Kalaburagi was completed after a delay of 444 days. Penalty was levied at ₹400 per day instead of ₹39,725 per day for 30 days of delay attributed to the contractor.
- (v) The delay in completion of the work of Upgradation of Taluk level hospital at Yellapura was 375 days. Though 253 days' delay was attributed to the contractor, penalty was levied at ₹200 per day as against ₹81,374 per day as per the contract.
- (vi) The work of construction of Super Specialty hospital in the premises of Gulbarga Institute of Medical Sciences, Kalaburagi was due for completion on 26 September 2019. Extension of time of 365 days was

³¹ 22 works of estimated cost more than one crore and 8 works of estimated cost less than one crore. Works were selected across all the four divisions based on highest estimated cost of the work

³² Bengaluru, Dharwad, Kalaburagi and Mysuru

approved by the Chief Engineer subject to levy of penalty of ₹5000 per day for 92 days of delay attributed to the contractor and the work was to be completed by 26 September 2020. The penalty to be levied as per the contract was ₹12,41,465 per day.

The levy of penalty at nominal rates was against the contractual terms and conditions stated above. Moreover, the basis or the rationale behind levying such nominal amounts were neither recorded nor was explained to audit.

Imposing nominal rates resulted not only in short levy of liquidated damages amounting to ₹14.63 crore as detailed in the **Appendix 2.11** but also in extending undue benefit to the contractors. Further, the delay in timely completion of the works defeated the very objective of the department in providing healthcare services on time to the intended beneficiaries.

The State Government replied (April 2021) that the delay was mainly due to field issues such as delay in handing over site, shifting of utilities, design clearances and approval to the additional works which were not envisaged at the time of preparation of estimate. It further stated that non-levy of penalty would attract price escalation for the extended period which increases the cost of the work and to avoid this, a nominal penalty was levied to the contractor.

The reply is not acceptable as the State Government merely stated the reasons for the delays and did not furnish the basis for arriving at the nominal amounts as low as ₹100 per day for the delays attributed to the contractor in violation of the contractual terms and conditions. Further, as per the reply, the work of construction of Super Specialty hospital in the premises of Gulbarga Institute of Medical Sciences, Kalaburagi was still under progress though extension of time provided ended on 29 September 2020. However, the reply does not indicate the action proposed to be taken for the additional delay in completion of the work.

The State Government should fix responsibility for the short levy of liquidated damages.

2.7 Avoidable expenditure

Adopting Cement Concrete (Machine Mixed) for M25 grade concrete instead of Ready-Mix concrete in estimate/BOQ by the department of Health and Family Welfare, Engineering Sub-Division resulted in avoidable expenditure of ₹3.30 crore and undue benefit to the contractor.

Department of Health & Family Welfare Services follows the Schedule of Rates (SR) of Public Works, Ports and Inland Water Transport Department for preparation of estimates for various works undertaken by it. The SR provides separate rates to be adopted for providing Machine Mixed Reinforced Cement concrete (RCC) and Ready-Mix Cement Concrete (RMC) for different grades (M20, M25, M30, M35). The SR also specified that all concrete above M20

grade for RCC work must be design mixes in accordance with IS 456:2000 recommendations³³.

The cost of RMC is cheaper when compared to machine mixed cement concrete and preferred in projects where volumes of execution are high. RMC is a process of preparing concrete in a batch plant³⁴ by testing all necessary properties of concrete ingredients according to set engineered design so that better quality concrete is produced. RMC can be procured from an already established plant or can be manufactured at site after erecting such plant. Machine mix is mixing of ingredients using concrete mixer to prepare concrete at site when used in small quantity or where the load is not high.

Scrutiny of records in the office of the Assistant Executive Engineer, Health and Family Welfare Department Engineering Sub-Division, Belagavi revealed that the work of construction of Super Speciality Hospital in the premises of Belagavi Institute of Medical Sciences, Belagavi estimated to cost ₹138.60 crore was awarded (March 2018) to an agency³⁵ at a negotiated cost of ₹162.83 crore (@17.5 per cent tender premium). The stipulated due date for completion of the work was September 2019 and the work is currently under progress. An expenditure of ₹56.05 crore was incurred as of July 2020. The estimate was technically sanctioned by Technical Advisory Committee.

The Work included providing and laying of RCC of M 25 with machine mix (19,435.11 cubic meters) for items such as foundations for footings, retaining walls, roof slabs, staircases, lintels, beams *etc.*, and RMC of Grade M35 (2,221.65 cum) as indicated in **Appendix 2.12**.

Audit observed that though the quantity of works to be executed involving M25 grade was substantially high in comparison with the quantity involving M35, the estimate was prepared by adopting RCC (machine mix) rates instead of RMC rates. This was injudicious and uneconomical and was also against the IS 456:2000 recommendations which specified adopting RMC for all works involving concrete above M 20 grade. Faulty preparation of estimate allowed the contractors to quote the rates for machine mix instead of RMC.

Further, the tender conditions clearly specified establishment of concrete batching plant. The contractor had established the plant as evident from the photographs appended to the monthly progress report of the consultant. Since use of RMC is more economical, it is apparent that the contractor would have used the plant for manufacturing M 25 grade also. Hence, the payments to the contractor should have been regulated at the rates applicable to RMC and not of Machine Mix.

³³ IS 456:2000 recommends that minimum grade of concrete shall not be less than M20 in reinforced cement concrete. Design mix (Ready mix) concrete is preferred to nominal (machine) mix. All concrete above M20 grade for Reinforced Cement Concrete works must be of design mix

³⁴ Batch plant also known as concrete plant is an equipment used to manufacture high quality concrete by combining various ingredients such as water, sand, admixture, silica *etc.*

³⁵ M/s BSR Infratech India Ltd

Thus, adoption of rates for RCC (Machine mix) instead of RMC for M25 grade of concrete in the estimate resulted in avoidable expenditure of ₹3.30 crore and undue benefit to the contractor as detailed in **Table 2.1**.

Table 2.1: Statement showing the details of extra cost.

(Amount in ₹)

Item no in the BOQ	Floors	BOQ Quantity in cum	Quantity executed in cum	Rate at which paid	Rate payable RMC ³⁶	Excess per cum (e-f)	Extra cost (d*g)
a	b	c	d	e	f	G	h
13	M 25 (Foundation)	7,470.25	5,897.74	9,500.00	7,332.17	2,168.00	1,27,86,300.00
15	M 25 (Ground Floor)	3,795.48	3,720.05	9,700.00	7,332.17	2,368.00	88,09,078.00
16	M25 First floor)	1,880.93	1,787.00	10,000.00	7,393.86	2,606.00	46,56,922.00
17	M 25 (Second floor)	1,880.93	1,877.81	10,000.00	7,455.55	2,544.00	47,77,148.00
18	M 25 (Third Floor)	2,086.25	806.28	10,000.00	7,517.23	2,483.00	20,01,993.00
Total		17,113.84	14,088.88				3,30,31,441.00

Source: BOQ/RA Bills, SR and audit calculation.

The State Government replied (April 2021) that

- (i) the work included items such as foundation, columns, beams *etc.*, which were to be executed in a phased manner and hence they were provided with M25 concrete with machine mix considering the field constraints and difficulty in supply of M25 RMC concrete in discrete quantities.
- (ii) adoption of RMC M25 grade of concrete for entire 90 per cent quantity in the estimate was not considered as it was practically not feasible for continuous work and to complete the project.
- (iii) Since the roof slab is laid at one stretch and consumes huge quantity of concrete, M35 grade concrete with RMC was provisioned and executed accordingly.
- (iv) the quantity of M35 grade is only about 10 *per cent* and to maintain required quality of the concrete without chance of getting mixed up with the M25 grade as well as for simultaneous placing of concrete, this M35 concrete was to be outsourced to a private certified working RMC plant instead of batching plant established at the work site.

The reply cannot be accepted for the following reasons.

- i. The SR clearly specified that all concrete above M20 grade for RCC works must be of design mix in accordance with IS-456-2000 recommendation and the design mix is manufactured from RMC plant.
- ii. The tender conditions clearly specified establishment of concrete batching plant of capacity not less than 30 cum/hour, which indicates

³⁶ Includes basic rate as per SR, additional rate of ₹50.00/cum per floor for every additional floor plus area weightage of 5 *per cent* & tender premium of 17.5 *per cent*.

that the grade of concrete through RMC would not only be consistent but also significantly speeds up the construction process unlike the machine mix which is highly inconsistent.

- iii. The reply that the quantity of M35 grade concrete was only about 10 per cent and this M35 concrete was to be outsourced to a private certified working RMC plant instead of batching plant established at the work site clearly implies that the batching plant proposed in the tender and established at the site was for preparation M25 grade concrete.
- iv. Since the work of laying of roof is carried out after the foundation work followed by columns and beams, the question of simultaneous pouring of concrete would not arise.

The State Government should fix responsibility on the officials responsible for preparation and approval of the injudicious estimate.

2.8 False certification of works not actually executed

The Assistant Engineer, Health and Family Welfare Engineering sub-division, Kalaburagi recorded execution of items of work in the Measurement book which were not actually executed. This was certified by the Assistant Executive Engineer and approved by the Executive Engineer. This resulted in irregular payment of ₹97.59 lakh besides extending undue benefit to the contractor.

The provisions of Karnataka Public Works Departmental (KPWD) Code stipulate the following:

Rule	Provision
109	The measurement book is the basis of all accounts of quantities and Assistant Executive Engineer (AEE) is responsible for ensuring that all measurement books in his jurisdiction are carefully accounted and kept and measurements are properly recorded.
110 (8)	Measurements recorded by the field engineer shall be check measured by AEE in order to detect errors in measurement, to prevent fraudulent entries and to check or verify whether the works carried out at site and measured are in accordance with the sanctioned plans and estimates and prescribed specifications. The AEE shall exercise such checks as may be necessary to satisfy himself that the measurements recorded are accurate and are devoid of either over measurements or under measurements or omissions. Check measurements should therefore be conducted with discretion and diligence. After check measurement, the AEE shall record in his handwriting and under his signature with date about the correctness of the measurement. A false certificate either by the field engineer or by the AEE who is a check-measuring officer, can be construed as an attempt to fraudulent claim payment from Government by unfair means and invites penal action.

Tenders were invited (February 2017) for the works of construction of 100 bedded Mother and Child Hospital at Bidar at an estimated cost of ₹20.00 crore. The contract was awarded to the lowest bidder M/s Eranna Mamadapur, for a contract price of ₹19.93 crore. The work was completed in March 2019 and the buildings were handed over (November 2019) to the department.

Scrutiny of the records *viz.*, Measurement Books and Running Account Bills in the office of the AEE, Engineering sub division, Kalaburagi with reference to the above work revealed the following:

1. The contractor had submitted (July 2018) two Running Account (RA) Bills (5 and 6) claiming to have executed the items of work shown therein and the Assistant Engineer (AE) in charge of the work certified that he has check measured (14 April 2018 to 23 June 2018) the works and they have been actually carried out by the contractor and recommended the bills for payment. The measurements taken by the AE were recorded in Measurement Book bearing number GIB-343.
2. The check measurements of the AE were approved (28 April and 23 June 2018) by the AEE and countersigned (31 July 2018) by the Executive Engineer (EE). An amount of ₹2.94 crore (RA Bill 5) and ₹1.70 crore (RA Bill 6) amounting to ₹4.64 crore was paid (September 2018) to the contractor.
3. The RA bills contained the items of work such as supplying, installing, testing and commissioning of (i) Passenger/hospital lift, (ii) Diesel Generating Set, 62.5 Kilovolt Amps (KVA) and (iii) Modular General Operation Theatre.
4. However, as per the invoice copies accessed by audit
 - the various components of the passenger/hospital lift were supplied between March 2018 and February 2019 but was stated to have been handed over in working condition on 28 March 2018;
 - the Diesel Generating Set was supplied on 17 July 2018; installed and commissioned on 2 January 2019;
 - the equipment for Modular OT were supplied on 18 August 2018 and installed on 20 September 2018.

Hence, the works which was certified as having been executed was in fact not carried out at the time of payment of the bills but was actually done later on.

Audit further noticed that both the AE who had certified the measurements and the AEE who had approved the check measurements were transferred (June 2018 and July 2018 respectively). The new AE who had taken charge of the work inspected (August 2018) the progress of work and brought it to the notice of the new AEE with photographs that the structural works were in progress and the items of works claimed to have been executed, check measured and paid were not actually executed. Subsequently, the AEE served (August 2018) a show cause notice to the previous AE with a copy marked to the EE. The action taken thereon by the EE and the reply, if any, furnished by

the earlier AE was neither forthcoming from the records nor was explained to audit which indicates that no action was taken on the concerned.

It is clear from the above that the items of work recorded as executed in Measurement book/RA bills were actually not executed during the months of April 2018 and June 2018 but were carried out subsequently. This indicates that the concerned officials had falsely certified these items of works as executed during the period of check measurement and approved the payment of ₹97.59 lakh for these works as detailed in **Appendix-2.13**, which was highly irregular. This also indicates the possibility of collusion by the AE/AEE with the contractor.

Thus, violation of the KPWD codal provisions by the Engineers of the Engineering wing of the Health and Family Welfare Services department resulted not only in false certification of fictitious measurements but also led to irregular payment of ₹97.59 lakh for works not actually executed.

The State Government replied (April 2021) that as per the report of EE, Engineering Division, Kalaburagi, the work was executed as per Bill of Quantity specifications, payments were made to the recorded items after satisfactory completion and handed over the completed work to the Hospital authorities within the agreed rates without any additional financial implication.

The reply is not acceptable as it does not address the specific audit observation regarding the recommendation for payments of bills for items of works that were actually not executed but were check-measured and recorded in the measurement books. The reply is also silent on the complaint raised by AE and action taken by EE thereupon.

The State Government should fix accountability on the officers concerned for false certification of check measurements and payments made thereon on the basis of such certification.

Department of Rural Development and Panchayat Raj

2.9 Avoidable expenditure on payment of Goods and Services Tax for inadmissible services

Payment of Goods and Services Tax (GST) by the Zilla Panchayats for service rendered by Manpower Agencies which fall under 'Pure Services' with nil rate of GST resulted in avoidable expenditure of ₹1.29 crore on inadmissible service.

The Government of India, Ministry of Finance (Department of Revenue) vide its Notification No. 12/2017- Central Tax (Rate) dated 28 June 2017 notified that the intra-state supply of services including 'Pure Services'(excluding works contract service or other composite supplies involving supply of goods) provided to the Central Government, State Government or Union territory or Local Authority or a Governmental authority by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution

or in relation to any function entrusted to a Municipality under Article 243W of the Constitution, is exempt from Central tax leviable with effect from 1 July 2017.

As per the Notification, the supply of services without involving any supply of Goods would be treated as supply of 'Pure Services'. Accordingly supply of man power for cleanliness of roads, public places, architect services, consulting engineer services, advisory services and like services provided by business entities not involving any supply of goods would be treated as supply of pure services and do not attract levy of Central and State Goods and Service Tax (GST).

Audit scrutiny of records in Zilla Panchayats (ZPs) of Dakshina Kannada, Davanagere, Dharwad, Gadag, Mysuru and Raichur for the period 2017-18 to 2019-20 revealed that the ZPs entered into contract with manpower service providers to provide services of Technical Assistants, computer operators, drivers, attenders, cleaners, security guards, gardeners and toilet cleaners, etc., for the day to day administrative functioning of the ZP, its maintenance and under the different welfare schemes of the Government like Mahatma Gandhi National Rural Employment Guarantee Scheme, Akshara Dasoha. The ZPs made payments to the service agencies towards wages of the outsourced staff as per the bills claimed by them, which was inclusive of 18 *per cent* GST. This resulted in additional payment of ₹1.29 crore by the six ZPs to the manpower agencies as detailed in the **Appendix 2.14** which was avoidable as 'pure services' are exempt from GST.

The ZPs of Gadag, Mysuru and Raichur replied that the matter would be examined and taken up with the service providing agencies. ZP, Dakshina Kannada replied that they had not received any order or circular from Rural Development and Panchayat Raj (RDPR) department that manpower services were exempt from GST and that they will bring it to the notice of RDPR department and take necessary action in due course.

The matter was referred to the Government in March 2021 and reply of the Government is still awaited.

The departmental officers should initiate action to get back the incorrect payment made towards GST and in future ensure the correctness of the tax rates as specified in the Act or Rules before making payments to the claimants.