

# **CHAPTER-V**

# **FINANCIAL MANAGEMENT**



## CHAPTER V

### Financial Management

*The Budgetary control at the Board level was deficient as the Board did not prepare the budget estimates of its income and expenditure every year and the pace of utilisation of the available funds, tracking of utilisation certificates, monitoring of advances given to implementing agencies etc., needs improvement. The Board lost assistance of ₹387.52 crore from State Government due to non-utilisation of funds already released. The Board did not have a mechanism to monitor the utilisation of advances given to the implementing agencies and did not ensure separate accounting of interest earned on Board's funds held by the implementing agencies and their timely refund. The accounts of the Board were not audited by Chartered Accountant since inception as the State Government is yet to appoint the Auditors and facilitate the Audit Reports to be placed before the State Legislature.*

#### 5.1 Financial status of the Board

According to Clause 21 of the Board Order 2013, the following would form part of the Fund of the Board

- All grants, donations and gifts made by the Central Government, State Government, any local authority, anybody whether incorporated or not
- Amount borrowed by the Board and
- All other sums received by the Board from any source whatsoever

Audit observed that the Board, since inception, was solely dependent on the grants provided by the State Government.

The State Government releases budgetary grants to the Board to implement various works for the development of the KK Region. The fund of the Board was operated through bank accounts held in nationalised banks. The financial position of the Board during 2016-17 to 2021-22 is shown in the **Table 5.1** below.

**Table 5.1 Financial status of the Board during 2016-17 to 2021-22**

Year	Opening balance (a)	Budget allocation (b)	Amount received (c)	Interest earned (d)	Other Receipts (e)	Total funds available (f) a+b+c+d+e	Expenditure (g)	Closing balance (h) =f-g
2016-17	131.34	1,000.00	937.33	17.49	91.52	1,177.68	1,060.72	116.96
2017-18	116.96	1,000.00	840.19	24.71	45.74	1,026.93	740.46	286.47
2018-19	286.47	1,000.00	1,309.96	27.68	144.30	1,768.42	1,330.05	438.36
2019-20	438.36	1,500.00	1,125.00	19.97	1.73	1,585.06	1,245.24	339.82
2020-21	339.82	1,131.86	1,031.86	17.31	7.40	1,396.39	925.81	470.57
2021-22	470.57	1,492.97	NA	NA	NA	NA	NA	NA
<b>Total</b>		<b>7,124.83</b>	<b>5,244.34</b>	<b>107.16</b>	<b>290.69</b>	<b>6,954.48</b>	<b>5,302.28</b>	

Source: Information provided by the Board

The Board prepared the annual action plan belatedly each year after the allocation of funds by the State Government in its budget. The Board could not absorb the available funds in a timely manner resulting in persistent savings. The Board treated the advances made to the implementing agencies also as final expenditure. As large number of works entrusted to implementing agencies were lingering, the amount released towards these incomplete works remained unutilised with the implementing agencies. In the absence of reconciliation, actual unspent balances with the implementing agencies could not be assessed in Audit.

The Government (July 2022) stated that advance release of funds to the implementing agencies was dispensed with from 2017-18 and at present Board releases advances only to non-tendering agencies<sup>19</sup> which undertake works. The reply is not acceptable as the Board did not provide the details about the reconciliation of releases up to 2017-18 and releases to non-tendering agencies.

## **5.2 Deficiencies in financial management**

### **5.2.1 Non-preparation of Budget by the Board**

Clause 29 of the Board Order, 2013 stipulates the Board to prepare every year a budget estimate of its income and expenditure and forward it to the State Government. It was observed that the Board had not been preparing the budget estimate since inception. In the absence of budget proposals from the Board, the Government was not able to assess the extent of budgetary requirements. This resulted in Government proposing a lumpsum budget allocation on its own while preparing the State Budget.

The Government replied (July 2022) that Head of account wise budget requirement was submitted to Government for the years 2019-20 & 2020-21.

Reply is not acceptable as Budget Estimates were not prepared till 2018-19. The budget estimates submitted during 2019-21 was not based on action plans. Instead, a lump sum proposal was prepared by the Board and sent to Government.

### **5.2.2 Loss of assistance due to short-utilisation of funds**

As per conditions of release of funds from Finance Department (FD) 75 per cent of available funds were to be utilised before release of last instalment. As against the total budgetary allocation of ₹5,631.86 crore during the period from 2016-17 to 2020-21, the actual release to the Board by the Government was only ₹5,244.34 crore, thus, resulting in loss of assistance of ₹387.52 crore.

The Government stated (July 2022) that during 2019-20 the progress was slow because of COVID-19 pandemic and hence, fourth quarter instalment was not released. During 2020-21 out of the Board allocation of ₹1,131.86 crore, ₹100.00 crore was released to Kalyana Karnataka Human Resource, Agriculture and Cultural Society Kalaburagi by the Government. Hence, there was no shortfall.

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<sup>19</sup> Non-tendering agencies are agencies which are entrusted works without tendering by way of exemption under Section 4(g) of the Karnataka Transparency in Public Procurement Act.

The reply is not acceptable as it was observed during the years 2017-18 and 2019-20 the fourth quarter funds were not released as the Board had not utilised 75 per cent of the available funds.

### 5.2.3 Utilisation of the funds

Clause 16 (c) of Hyderabad-Karnataka Region Development Board Order, 2013 states that the fund remaining unspent during the financial year shall not lapse, and such balance amount shall be carried forward to the next financial year. Such carried forward funds from one year to another shall never be more than 20 per cent of the funds earmarked in such financial year.

Audit observed that the Board retained unspent amounts beyond the limit specified in the Board Order, 2013 as detailed in **Table 5.2** below:

**Table 5.2: Details of closing balance**

(₹ in crore)

Year	Total funds available	Expenditure	Closing balance	20 per cent limit
2016-17	1,177.68	1,060.72	116.96	235.54
2017-18	1,026.93	740.46	286.47	205.39
2018-19	1,768.42	1,330.05	438.36	353.68
2019-20	1,585.06	1,245.24	339.82	317.01
2020-21	1,396.39	925.81	470.57	279.28

Source: Information provided by the Board

From the above table it was observed that the Board retained more funds every year except 2016-17 as against the permissible limit of 20 per cent. Such persistent savings results in non-implementation of development works approved in the Annual Action Plan.

### 5.2.4 Utilisation of Micro Funds

Micro funds are allotted to Taluk based on the CCDI index. Works taken up under Micro funds have direct impact on the respective taluk in improving its socio-economic condition. Expenditure of funds (as on March 2022) under Micro category was as shown in **Table 5.3**

**Table 5.3: Details of expenditure under micro funds**

(₹ in crore)

Year	No. of Works	Allocation	Expenditure	Expenditure (per cent)
2013-14	782	136.59	106.96	78.31
2014-15	2,217	582.80	423.93	72.74
2015-16	2,965	647.51	479.96	74.12
2016-17	2,428	488.43	373.07	76.38
2017-18	3,325	714.66	565.39	79.11
2018-19	3,224	637.63	521.46	81.78
2019-20	2,994	914.24	691.82	75.67
2020-21	1,729	685.39	265.63	38.76
2021-22	1,836	882.97	80.50	9.12

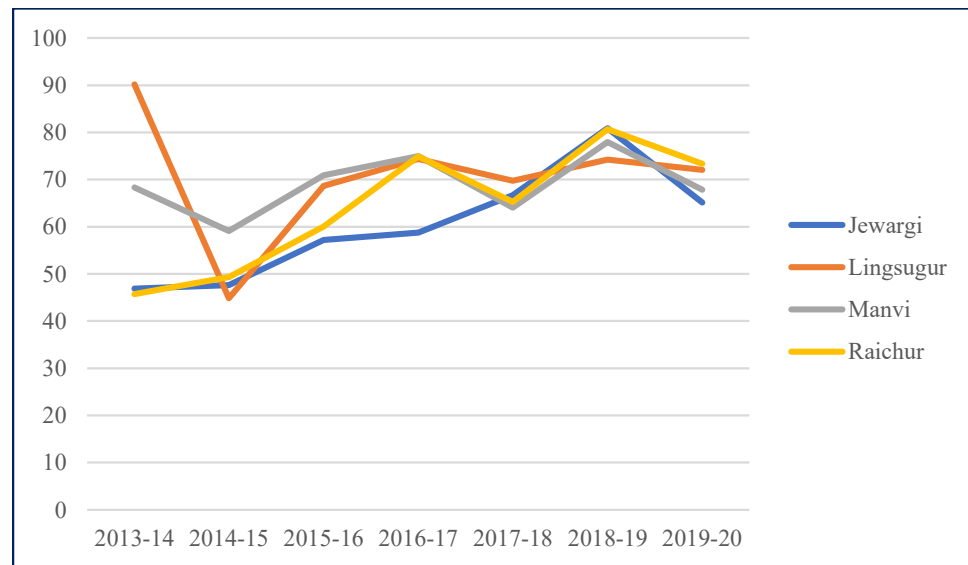
Source: Hykasoft database provided by the Board

It can be observed from the above table that the expenditure under micro funds was below 80 per cent in all the years except during 2018-19.

Audit analyzed the expenditures of micro funds in each taluk up to 2019-20. It was observed that four taluks viz., Jewargi, Raichur, Manvi and Lingsugur are spending less than 70 per cent and 19 Taluks were spending between 70 to 80 per cent of the available funds. Percentage of expenditure of Taluks is shown in **Appendix 5.1**.

The year wise expenditure details of least four taluks with total expenditure of below 70 per cent were as shown in **Chart 5.1** below.

**Chart 5.1: Percentage of Expenditure under Micro funds in four Taluks with least utilisation levels**



Source: Hykasoft database provided by the Board

The reasons for lower level of expenditure in these taluks were not analysed by the Board.

### 5.2.5 Non-submission of Utilisation Certificates by the implementing agencies

The Board was to furnish utilisation certificates (UCs) against the releases to the State Government each year duly exhibiting the interest accrued on the bank accounts. Verification of financial statements of the Board showed that utilisation certificates for ₹64.07 crore was pending submission to the State Government, as at the end of March 2022.

The Board replied (July 2022) that consolidated UCs would be submitted to Government on receipt of UCs from all implementing agencies. Government also endorsed the reply of the Board.

### 5.2.6 Non-accountal/refund of interest on funds released to implementing agencies

Audit observed that the Board released funds, as advance payments, to various implementing authorities like Karnataka Rural Infrastructure Development Limited, Sarva Shiksha Abhiyan, Nirmithi Kendra, Public Works Department, Panchayat Raj Engineering Divisions, Karnataka Slum Development Board (KSDB), Sri Jayadeva Institute of Cardiovascular Sciences and Department of

Commerce and Industries etc., for executing development works proposed in the AAPs of the Board. However, the Board neither insisted for maintenance of such funds in separate bank account by the implementing agencies nor inserted a clause for refund of interest earned on Board's fund, in case of delay in completion of work.

Audit observed that the large number of works entrusted to these agencies were inordinately delayed for various reasons rendering the funds released against such delayed work remaining unspent with the implementing agencies for longer periods. In the absence of an appropriate clause for refund of interest, the implementing agencies subsumed the interest earned in their books of accounts. This failure of the Board resulted in undue benefit to the implementing agencies.

#### ***Illustration***

*The Board released an amount of ₹49.28 crore (March 2019 and January 2020) to State Project Director, Sarva Shiksha Abhyan (SSA), Bangalore towards implementation of TALP. Audit observed that the SSA delayed the implementation of the programme and thus, funds remained in their bank account for long and interest was accruing on remaining unspent balance.*

*However, the Director, SSA did not refund the interest earned to the Board. As worked out by Audit adopting a nominal interest rate of 3 per cent per annum, the SSA had earned an interest of ₹1.55 crore (**Appendix-5.2**)*

In the absence of comprehensive details of release of funds to the implementing agencies, audit could not work out the exact loss of interest amount.

#### ***Illustration***

*I) Board released ₹35.96 crore to Karnataka Slum Development Board, Bangalore (2021) towards the construction of hostels. However due to slow pace in construction the funds amounting to ₹29.99 crore remained unspent in the account accumulating interest without refund to the Board.*

*II) The Board was releasing 99 per cent of the estimated cost of works entrusted to the KRIDL withholding the third party inspection charges. During the year 2013-14 to 2021-22, 486 works were entrusted to KRIDL-I, Kalaburagi at an estimated cost of ₹104.56 crore, 841 works were entrusted to KRIDL-II Kalaburagi at an estimated cost of ₹163.20 crore and ₹146.26 crore was released, 638 works were entrusted to KRIDL Raichur and ₹258.65 crore was released. Audit noticed during check of sampled works that an unspent balance of ₹1.44 crore (Raichur 0.52 and Kalaburagi 0.92) as on February 2022 was accumulated in the account of the agency which were kept in a pooled account along with other funds. Interest earned on the funds were not refunded to the Board.*

*III) Board released ₹33.37 crore during 2019-20 and ₹62.63 crore during 2020-21 to Sri Jayadeva Institute of Cardiovascular Sciences, Bengaluru for construction of proposed 300 bedded SJICR Hospital at Kalaburagi. Unspent Balances of ₹60.62 crore (₹55.05 crore General and ₹5.57 crore SCP) was lying in their bank account as on March 2021. Interest earned was not refunded to the Board.*

The Government replied (July 2022) that State Project Director, Sarva Shikshana Abhiyan (SSA), Bangalore was requested to refund the bank interest accrued on the Board grant. Action would be taken to get back the interest from the agencies by constantly following the issue.

The reply, however, did not mention about the measures taken by the Board to track, account and realise the interest earned by other implementing agencies out of Board Funds from time to time.

### 5.2.7 Utilization of interest earned on Government grants

Government permitted the Board to utilise the interest amount for undertaking action plan works. During the period 2016-17 to 2020-21, ₹107.86 crore was earned as interest. The Board, however, did not prepare any action plan for utilisation of these interest amount leaving the interest amount unutilised.

### 5.2.8 Loss due to non-claiming of refund from Income Tax Department

According to Section 10(46) of Income Tax Act, 1961 the income arising to any notified body/authority/Board/ Trust/Commission which has been established or constituted by or under a Central, State or Provincial Act, or has been constituted by the Government or a State Government with the object of regulating or administering any activity for the benefit of the general public and is not engaged in any commercial activity and is notified by the Central Government in the Official Gazette for the purposes of this clause is exempt from tax. Further, the circular No.4 of 2002 dated 16 July 2002 of the Central Board of Direct Taxes had also clarified that the local authorities falling under Explanation to Section 10(20) are exempted from Tax Deduction at Source (TDS).

It was observed that Bank had deducted tax at source amounting to ₹4.39 crore as detailed in **Table 5.4** below.

**Table 5.4: Statement showing tax deducted at source**

Funds	Year	Bank Account Number	Amount of TDS (₹ in crore)
General	2018-19 to 2020-21	37130780690	3.77
SCP	2018-19	37130944640	0.40
TSP	2018-19	37130974346	0.22
<b>Total</b>			<b>4.39</b>

Source: Information submitted by the Board

However, the Board neither took up the issue with bank for re-credit quoting codal provisions nor initiated action to claim refund of TDS amount from the Income Tax Department (October 2021). Thus, the inaction of the Board resulted in avoidable loss of ₹4.39 crore.

The Government replied (July 2022) that an application is filed under section 10 (46) for claiming refund (December 2021) and the exemption is awaited from Income Tax authorities.



### 5.2.9 Delay in settlement of claims to contractors

As provided in the Karnataka Public Works Department (KPWD) Code (Rule 202) the work done and measured in one month shall ordinarily be paid for during the next month. It is also stated that in time payment increases the quality of the work and exhibits the effectiveness of Government developmental activities.

On a test-check of 23,772 bills paid by the Board during 2016-21, audit observed that there were delays in settlement of bills of contractors/ suppliers. The details of time taken for settlement of claims of contractors is shown in **Table 5.5** below.

**Table 5.5: Time taken for settlement of claims of contractors**

Delay	No. of Bills	Percent of Bills	Amount (₹ in crore)
0-15 days	9,196	38	1,022.72
16-30 days	4,652	20	623.57
31-60 days	4,407	19	443.87
61-90 days	1,849	8	156.43
91-180 days	2,248	9	164.17
181-365 days	1,081	5	61.81
366-730 days	322	1	11.06
More than two years	17		0.37

Source: Hykasoft Database provided by KKRDB

It could be observed from the table that 58 *per cent* of the claims submitted to Board were settled within the stipulated period and there was delay in respect of the remaining 42 *per cent* of the bills. In respect of 17 bills, the delay was beyond two years and 322 bills were delayed more than one year. It is pertinent here to refer to the observations of Central Vigilance Commission that the delay in settlement of bills is an unhealthy practice. The Board did not explain the reasons for delay in settlement of claims.

The Government replied (July 2022) that using the Hykasoft application the Running Account/ Part bills are being settled within 3-4 days and final bills within 5-7 days. The payments are made through NEFT / RTGS and credited to contractors account within 24 hours since March 2018. Any technical defects in the bills needs to be verified and resubmitted in few cases.

Reply is not acceptable as the data captured by the Hykasoft application showed delay in settlement of bills.

### **5.2.10 Irregular supplies to Nirmithi Kendra**

Nirmithi Kendra, a registered society established by State Government, was also an implementing agency which was executing the works of the Board on direct entrustment under 4(g) exemption of KTPP Act or through participating in tender process as other contractors. Therefore, it was obligatory for Nirmithi Kendra to mobilise labour, equipment and machinery required for execution of works entrusted to it.

However, Audit observed that the Board procured (2016-17 and 2017-18) various machinery/equipment<sup>20</sup> at a total cost of ₹65 lakh and supplied them in phases to Nirmithi Kendra, which was irregular. Item-wise list of machinery/equipment supplied to Nirmithi Kendra is furnished in **Appendix 5.3**.

The Government replied (July 2022) that in order to enable infrastructure and technology development of Nirmithi Kendras to improve their capacities it would be possible to achieve environmentally friendly, cost effective and innovative technology in construction of government infrastructure. Hence, the supplies were made to the agency.

Reply is not acceptable as the Nirmithi Kendra was entitled only for service charges for mobilising the resources and granting machinery/equipment to Nirmithi Kendra out of Board funds was gratuitous in nature.

### **5.2.11 Irregular release of Funds to KRIDL in violation of KTPP Act**

The Government of Karnataka granted (February 2014) exemption under Section 4(g) of the KTPP Act for works entrusted to KRIDL up to ₹2.00 crore. Thus, KRIDL was authorized to undertake the works up to ₹2.00 crore only. For works above ₹2.00 crore, the Board was to follow the provisions of the KTPP Act and invite open tender through e-procurement portal.

Audit scrutiny of the two sampled works undertaken by KRIDL in Raichur and Kalaburagi revealed that the Board released an amount of ₹4.97 crore for the improvement works of providing metalling to road from Murki Gudda to Narbanda in Manvi taluk, Raichur and from Wadi to Balawadagi village in Chittapur taluk, Kalaburagi.

Audit noticed that as the estimated cost of the works exceeded the exempted limit of ₹2.00 crore, the agency was not authorized to undertake the works directly. Thus, the Board had released the funds to KRIDL in violation of the provisions of the KTPP act.

### **5.2.12 Irregular payments to Project Support Office**

The Board established a Project Support Office (PSO) during July 2020 at contract price of ₹9.97 crore. The PSO was to provide support services to the Board on all its on-going activities viz., overall review, monitoring and supervision of deliverables, ensure effective implementation of the programs/projects at the district level.

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<sup>20</sup> 2.0 Cum ACE Box Tipper BS4, quality control equipment, total station survey equipment, etc.

Further the Master Service Agreement (MSA) provided that the PSO would develop a Strategic Development Plan (SDP), Standard Operating Procedures (SOP), develop a road map of infrastructure projects, advise on all technical and commercial matters, support the Board in the overall governance and controls etc. The agreement provided that, if the Service Provider does not deploy all the key consultants such as procurement expert, finance expert, senior IT expert within a period of 45 days of execution of MSA, the contract would be terminated with applicable penalty.

Audit noticed that the PSO had neither provided the important deliverables to the Board (SDP, SOP, monitoring and tracking of funds, taluk wise data collection, Real-time dash Board of expenditure) nor appointed the procurement expert, finance expert and senior IT expert as required under the MSA. However, the Board had not terminated the services of the PSO and instead paid an amount of ₹6.07 crore to the firm during December 2021 to March 2022. Since the firm had not deployed the key personnel the responsibilities of these experts could not be performed and payment of ₹6.07 crore was irregular.

The Government replied (July 2022) that they had prepared a strategic plan for the next 30 years. The strategic plan covered a study of the Dr. Nanjundappa Committee Report, the major sectors it addressed, the proposed sectors for focus, the projects that could be implemented in the proposed sectors, phasing of investment in these projects, how these projects could be taken up based on participation of the Government and the Board. The reports were approved by the Board and had written letters to various Departments to consider the proposals.

However, the Board was silent on the appointment of the experts as required under the MSA.

### ***5.2.13 Absence of documentation of assets and liabilities of the Board***

The Hyderabad Karnataka Region Development Board came into existence as a separate legal entity during November 2013 on the basis of the Order of the Governor. The Board was permitted to take over the assets and liabilities of the earlier Hyderabad Karnataka Development Board (HKDB). It was therefore mandatory for the Board to ascertain the assets and liabilities of previous Board and incorporate the assets and liabilities in the books of accounts of the new entity. However, no such exercise was done by the Board. As a result, there was no proper inventory of assets created for the development of the region. This is fraught with the risk of unauthorised encroachment/occupation on the assets of the Board going unnoticed.

The Government replied (July 2022) that Chartered Accountant was appointed by the Board to prepare the balance sheet for the year 2016-17, incorporating all the assets and liabilities of the Board since inception of the Board.

## **5.3 Accounts and Audit of the Board**

### ***5.3.1 Non appointment of auditor***

Clause 27 of Board Order 2013 specifies that the Board shall prepare an annual statement of accounts in such form as may be prescribed and the accounts of the Board shall be audited annually by such auditor as the State Government may

appoint. After the receipt of the report of the auditor, the Board shall send a copy of the annual statement of accounts, together with a copy of the report of the auditor to the State Government and shall cause to be published the annual statement of accounts in such manner as may be prescribed. Further, Clause 27 (7) states that the State Government may after perusal of the report of the auditor give such directions as it thinks fit to the Board and the Board shall comply with such directions.

Audit however, observed that the State Government has not appointed auditor for audit of the accounts of the Board since the constitution of the Board. Instead of arranging for a comprehensive audit of accounts of the Board as a whole, the Board appointed (February 2016), two<sup>21</sup> Chartered Accountants (CA) as internal auditors. The CAs submitted their audit report to the Board. However, the Board had not submitted the audited financial statements to Government for placing in the State Legislature, as required.

The Government replied (July 2022) that to have the internal financial control and discipline the Board has appointed the Chartered Accountants for conducting internal audit of Board office and all the implementing agencies. It was stated that while the internal audit was completed up to 2020-21 and the reports have been issued, the audit for 2021-22 has commenced. It was further communicated that the internal audit reports for the period 2017-18, 2018-19 and 2019-20 have been submitted to Government.

Reply is not acceptable as the auditor was appointed by the Board for preparation of accounts and undertaking internal audit. The State Government should appoint an independent third party auditor not involved in the preparation of accounts exercising the powers under the Board Order 2013.

***Recommendation 7: The Board should regulate release of funds to implementing agencies and insist for refund of interest accrued on funds released by the Board.***

***Recommendation 8: State Government should ensure timely completion of Board's accounts and certification by audit.***

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<sup>21</sup> K.K. Attal & Associates for Bidar, Koppal and Ballari districts for 2015-16 and 2016-17 and Shekar Patel and Co. for Raichur, Yadagiri and Kalaburagi districts for 2014-15 and 2015-16.