



# **Chapter - I**

## **Introduction**



## Chapter-I

### Introduction

#### 1.1 About this Report

The report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Compliance Audit of Government Departments and Autonomous Bodies.

Compliance Audit refers to examination of the transactions of the Audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with.

The primary purpose of the report is to bring important results of the Audit to the notice of the State Legislature. The Audit findings are expected to enable the executive to take corrective actions as also to frame policies and issue directives that will lead to improved management, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of Audit, provides a synopsis of the follow-up on previous Audit Reports. Chapter II contains observations arising out of Compliance Audit in Government Departments and Autonomous Bodies.

#### 1.2 Budget Profile

The position of budget estimates and actual expenditure thereagainst by the State Government during the period 2018-19 to 2022-23 is given in **Table 1.1** below:

**Table 1.1: Budget and actual expenditure of the State during 2018-19 to 2022-23**

(₹ in crore)

| Expenditure                  | 2018-19         |                 | 2019-20         |                 | 2020-21         |                 | 2021-22         |                 | 2022-23         |                 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                              | BE              | Actual          | BE              | Actual          | BE              | Actual          | BE              | Actual          | BE              | Actual          |
| General services             | 45,744          | 42,655          | 50,492          | 48,824          | 59,602          | 55,018          | 66,802          | 62,669          | 70,759          | 71,816          |
| Social services              | 70,226          | 67,935          | 71,350          | 66,373          | 65,046          | 61,726          | 67,730          | 79,804          | 79,124          | 81,011          |
| Economic services            | 44,152          | 48,285          | 52,907          | 52,636          | 48,536          | 53,629          | 46,905          | 60,339          | 48,653          | 57,095          |
| Grant-in-aid & contributions | 6,167           | 5,425           | 6,856           | 6,425           | 6,590           | 5,681           | 5,966           | 6,616           | 6,050           | 5,662           |
| <b>Total (1)</b>             | <b>1,66,289</b> | <b>1,64,300</b> | <b>1,81,605</b> | <b>1,74,258</b> | <b>1,79,774</b> | <b>1,76,054</b> | <b>1,87,403</b> | <b>2,09,428</b> | <b>2,04,586</b> | <b>2,15,584</b> |
| Capital outlay               | 35,246          | 34,659          | 40,080          | 35,530          | 43,059          | 45,406          | 41,358          | 47,874          | 43,573          | 57,349          |
| Loans & advance disbursed    | 5,817           | 4,487           | 2,503           | 4,069           | 3,452           | 2,669           | 2,879           | 4,209           | 3,382           | 3,250           |

| Expenditure                  | 2018-19  |          | 2019-20  |          | 2020-21  |          | 2021-22  |          | 2022-23  |          |
|------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                              | BE       | Actual   | BE       | Actual   | BE       | Actual   | BE       | Actual   | BE       | Actual   |
| Repayment of public debt     | 11,136   | 11,083   | 9,964    | 10,180   | 11,605   | 11,016   | 14,564   | 13,972   | 14,179   | 15,942   |
| Contingency fund             | 5        | 0        | 5        | 0        | 5        | 0        | 5        | 0        | 5        | 0        |
| Public accounts disbursement | 5,10,667 | 2,34,330 | 5,19,964 | 2,45,292 | 4,57,018 | 2,66,193 | 4,50,450 | 3,13,096 | 4,51,439 | 3,30,004 |
| Closing balance              | 0        | 22,004   | 0        | 34,463   | 0        | 47,143   | 0        | 63,412   | 0        | 83,629   |
| Total (2)                    | 5,62,871 | 3,06,563 | 5,72,516 | 3,29,534 | 5,15,139 | 3,72,427 | 5,09,256 | 4,42,563 | 5,12,578 | 4,90,174 |
| Grand Total (1 + 2)          | 7,29,160 | 4,70,863 | 7,54,121 | 5,03,792 | 6,94,913 | 5,48,481 | 6,96,659 | 6,51,991 | 7,17,164 | 7,05,758 |

BE – Budget Estimates.

Source: Annual Financial Statement and State Finance Audit Reports for respective years.

### 1.3 Application of Resources of the State Government

As against the total budget outlay of ₹7,17,164 crore, the application of resources was ₹7,05,758 crore during 2022-23. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 36 *per cent* from ₹2,03,446 crore to ₹2,76,183 crore during the period 2018-19 to 2022-23 while the revenue expenditure increased by 31 *per cent* from ₹1,64,300 crore to ₹2,15,584 crore during the same period. The revenue expenditure constituted 78 to 81 *per cent* of the total expenditure while capital expenditure was 19 to 22 *per cent* of the total expenditure, during the period from 2018-19 to 2022-23.

During the period 2018-19 to 2020-21 the rate of growth of total expenditure decreased to 4.95 *per cent*. It increased to 16.68 *per cent* during 2021-22 and decreased to 5.61 *per cent* during 2022-23. The rate of growth of revenue receipts decreased from 6.34 *per cent* to (-)10.67 *per cent* during the period 2019-20 to 2020-21. It increased to 24.92 *per cent* during 2021-22 and again decreased to 17.02 *per cent* during 2022-23.

### 1.4 Persistent Savings

During the last five years, 9 out of 29 grants showed persistent savings of more than ₹10 crore, amounting to five *per cent* or more of the total grant amounts as detailed in **Table 1.2**:

**Table 1.2: Grants indicating persistent savings***(₹ in crore)*

| Sl. No.  | Number and name of Grant / Appropriation              | Amount of Savings and Percentage during the years |                 |                |                |                 |
|----------|---|---|-----------------|----------------|----------------|-----------------|
|          |   | 2018-19   | 2019-20         | 2020-21        | 2021-22        | 2022-23         |
| <b>1</b> | 1- Agriculture and Horticulture                       |   |                 |                |                |                 |
|          | Revenue Voted   | 1,340.72<br>(17)                                  | 1178.55<br>(14) | 869.74<br>(10) | 443.26<br>(5)  | 535.43<br>(6)   |
| <b>2</b> | 3- Finance  |   |                 |                |                |                 |
|          | Capital Voted   | 34.52<br>(30)                                     | 19.32<br>(15)   | 24.98<br>(19)  | 24.98<br>(7)   | 11.98<br>(13)   |
| <b>3</b> | 4- Department of Personnel and Administrative Reforms |   |                 |                |                |                 |
|          | Revenue Voted   | 165.94<br>(13)                                    | 104.29<br>(10)  | 114.66<br>(14) | 129.73<br>(14) | 78.88<br>(7)    |
|          | Revenue Charged                                       | 22.67<br>(15)                                     | 56.52<br>(34)   | 32.67<br>(20)  | 19.14<br>(11)  | 11.97<br>(7)    |
| <b>4</b> | 12- Information, Tourism and Youth services           |   |                 |                |                |                 |
|          | Revenue Voted   | 98.11<br>(16)                                     | 42.50<br>(9)    | 132.59<br>(23) | 26.95<br>(5)   | 36.32<br>(4)    |
| <b>5</b> | 21- Water Resources                                   |   |                 |                |                |                 |
|          | Revenue Voted   | 125.31<br>(12)                                    | 290.53<br>(27)  | 195.63<br>(19) | 91.55<br>(10)  | 79.61<br>(8)    |
| <b>6</b> | 22- Health and Family Welfare                         |   |                 |                |                |                 |
|          | Revenue Voted   | 427.44<br>(5)                                     | 755.99<br>(9)   | 519.62<br>(5)  | 871.50<br>(7)  | 1715.63<br>(14) |
| <b>7</b> | 23- Labour and Skill Development                      |   |                 |                |                |                 |
|          | Revenue Voted   | 204.81<br>(16)                                    | 222.91<br>(16)  | 366.76<br>(22) | 150.79<br>(7)  | 113.69<br>(6)   |
| <b>8</b> | 27- Law   |   |                 |                |                |                 |
|          | Revenue Voted   | 59.28<br>(6)                                      | 61.67<br>(6)    | 159.06<br>(14) | 106.58<br>(9)  | 177.98<br>(12)  |
| <b>9</b> | 28- Parliamentary Affairs and Legislation             |   |                 |                |                |                 |
|          | Revenue Voted   | 34.33<br>(18)                                     | 14.46<br>(8)    | 34.11<br>(13)  | 23.30<br>(8)   | 25.95<br>(7)    |

*Source: Appropriation Accounts for relevant years.**Note: Figures in brackets indicate percentage of savings to total provision.*

### 1.5 Grants-in-aid from Government of India

Grants-in-aid from Government of India showed an increasing trend during the years 2018-19 to 2019-20, whereas the grants decreased during 2020-21 to 2021-22 and increased during 2022-23 as shown in **Table 1.3**:

**Table 1.3: Grant-in-aid received from Government of India<sup>1</sup>***(₹ in crore)*

| Particulars                            | 2018-19       | 2019-20       | 2020-21       | 2021-22       | 2022-23       |
|--|---------------|---------------|---------------|---------------|---------------|
| Grants for Centrally sponsored Schemes | 10,393        | 12,214        | 9,852         | 12,659        | 11,629        |
| Other transfers/Grants to States       | 11,714        | 17,593        | 14,667        | 11,064        | 21,744        |
| Finance Commission Grants              | 3,374         | 4,673         | 5,557         | 6,239         | 3,495         |
| <b>Total</b>                           | <b>25,481</b> | <b>34,480</b> | <b>30,076</b> | <b>29,962</b> | <b>36,868</b> |

Source: State Finance Audit Reports of respective years.

## 1.6 Authority for conducting Audit

Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971, give the C&AG of India the authority for conducting Audit. C&AG conducts an Audit of expenditure of the Departments of the Government of Karnataka under Section 13<sup>2</sup> of the C&AG's (DPC) Act. C&AG is the sole Auditor in respect of three Autonomous Bodies, which are Audited under Sections 19(2)<sup>3</sup> and 19(3)<sup>4</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts an Audit of other Autonomous Bodies, under Section 14<sup>5</sup> of C&AG's (DPC) Act, which is substantially funded by the Government. Principles and methodologies for various Audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007<sup>6</sup>, issued by the C&AG.

## 1.7 Organisational Structure of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru

The State Offices of the C&AG of India were restructured (March 2020) on the basis of allocation of clusters, each cluster containing departments with inter-connected outcomes and linkages. The Principal Accountant General (Audit-I), Karnataka, Bengaluru is responsible for Audit of expenditure incurred by 50 Departments under the Government of Karnataka, 8 State Autonomous Bodies, 43 Public Sector Undertakings and 1,842 Grant-in-Aid Institutions under Finance, Health and Family Welfare, Education, Skill Development and Employment, Agriculture, Food and Allied Industries, Water Resources, General Administration and Rural Development clusters. This report includes

<sup>1</sup> This does not include devolution.

<sup>2</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.

<sup>3</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

<sup>4</sup> Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>5</sup> Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year are not less than one crore rupees.

<sup>6</sup> Amended during 2020.

observations relating to departments under the jurisdiction of the Principal Accountant General (Audit-I).

## **1.8 Planning and Conduct of Audit**

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

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

During 2022-23, the number of party days used to carry out Audit of 722 units to conduct Performance Audit and Compliance Audit were 8,725 days. Similarly, 1,356 party days were used to carry out financial (certification) Audit of 349 units.

## **1.9 Significant Audit Observations and Response to Audit**

Audit has reported significant:

- deficiencies in the implementation of various programmes/activities.
- lapses in internal controls in selected departments, as well as
- observations noticed during Compliance Audit of Government departments/organisations.

The four paragraphs and one Subject Specific Compliance Audit included in this report were forwarded demi-officially to the Principal Secretaries / Secretaries of the Departments concerned between November 2023 and March 2024 with a request to send their responses within six weeks. Government replies have been received for two Compliance Audits, one paragraph and are pending for two paragraphs. The replies of the Department/Government have been suitably incorporated in the Report.

## **1.10 Responsiveness of Government to Audit**

### ***1.10.1 Outstanding Inspection Reports***

The Handbook of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General

(AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG, who forwards a half yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the Audit observations.

As on 31 March 2023, 8,522 IRs (44,174 paragraphs) were outstanding against 47 Departments<sup>7</sup>. Age-wise details of pendency are given in **Table 1.4**:

**Table 1.4: Age-wise details of pendency of IRs and paragraphs**

| Sl. No.      | Age        | Number of IRs | Number of paragraphs |
|--------------|------------|---------------|----------------------|
| 1            | < 1 year   | 303           | 2,676                |
| 2            | 1-2 years  | 381           | 3,473                |
| 3            | 2-5 years  | 1,714         | 13,253               |
| 4            | 5-10 years | 3,047         | 14,946               |
| 5            | >10 years  | 3,077         | 9,826                |
| <b>Total</b> |            | <b>8,522</b>  | <b>44,174</b>        |

Source: Information derived from IR Registers maintained in Office of PAG (Audit I).

A review of the pending IRs issued up to March 2023 showed that while 3.5 *per cent* i.e., 303 IRs (2,676 paragraphs) of the total IRs were pending for less than one year, 5,142 IRs (31,672 paragraphs) were pending for more than one year but for less than 10 years. However, around 36 *per cent* of IRs i.e., 3,077 IRs (9,826 paragraphs) were pending for more than 10 years. Further, review of IRs pending for more than 10 years revealed that Rural Development and Panchayat Raj (RDPR), General Administration (Revenue) Department, Primary and Secondary Education, Corporations under Social Welfare Department, Women and Child Development and Urban Development Department had the highest pendency of IRs at 1,005, 302, 376, 203, 219, and 150 respectively. Year-wise and department-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

### **1.10.2 Follow-up action on Audit Reports**

The Handbook and the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provide for all the departments of the Government to furnish detailed explanations in the form of Departmental Notes to the Audit observations which featured in Audit Reports, within four months of their being laid on the Table of the Legislature.

The administrative departments did not comply with these instructions and six departments as detailed in **Table 1.5** did not submit Departmental Notes for 11 paragraphs for the period 2020-21 even as on 31 December 2023.

<sup>7</sup> Information pertains to the departments under the jurisdiction of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru post-restructuring.



**Table 1.5: Details of Departmental Notes pending as of 31 December 2023 (excluding General and Statistical Paragraphs)**

| Sl.No. | Department                                     | 2020-21   | Total     |
|--------|--|-----------|-----------|
| 1      | Education                                      | 02        | 02        |
| 2      | Health and Family Welfare Services             | 01        | 01        |
| 3      | Planning, Programme, Monitoring and Statistics | 01        | 01        |
| 4      | Revenue  | 01        | 01        |
| 5      | Women and Child Welfare                        | 01        | 01        |
| 6      | Stamp and Registration                         | 05        | 05        |
|        | <b>Total</b>                                   | <b>11</b> | <b>11</b> |

Source: Information derived from PAC watch Registers maintained in Office of PAG (Audit I).

### 1.10.3 Paragraphs to be discussed by the Public Accounts Committee

A review of the position of paragraphs pending discussion by the Public Accounts Committee as of 31 December 2023 showed that 127 paragraphs (including Performance Audits and Reviews) were yet to be discussed. Department-wise details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of 31 December 2023 are detailed in **Appendix 1.2**.

## 1.11 Status of Placement of Separate Audit Reports of Autonomous Bodies in the State Legislature

Several autonomous bodies have been set up by the Government in the fields of Education, Labour Welfare and Child Welfare. The Audit of accounts of three autonomous bodies in the State, under the jurisdiction of Pr. Accountant General (Audit I), has been entrusted to the CAG. The status of entrustment of Audit, rendering of accounts to Audit, issuance of Separate Audit Reports (SARs) and their placement in the Legislature is given in **Table 1.6** below:

**Table 1.6: Status of entrustment of Audit, rendering of accounts and issue of Separate Audit Reports**

| Sl. No. | Name of the Autonomous Body  | Period of entrustment of Audit of accounts to CAG | Year up to which accounts rendered                                      | Year up to which Audit report issued | Placement of Audit reports before the Legislature | Year up to which accounts due | Period of delay in submission of accounts (up to 30 June 2023) |
|---------|--|---|---|--------------------------------------|---|-------------------------------|--|
| 1       | Karnataka Building and Other Construction Workers Welfare Board, Bengaluru | As per Section 19(2) of DPC Act                   | 2022-23   | 2017-18                              | --  | 2023-24                       | -  |
| 2       | Karnataka Textbook Society, Bengaluru                                      | 2020-21   | 2022-23   | 2009-10                              | --  | 2023-24                       | -  |
| 3       | Karnataka State Commission for Protection of Child Rights, Bengaluru       | From 2019   | Established in July 2009. Accounts yet to be submitted since inception. |                                      |   |                               |  |

Source: Information derived from Registers maintained in the Office of PAG (Audit I).

The Karnataka State Commission for Protection of Child Rights (established in July 2009) has yet to submit the annual accounts since inception. Delay in finalisation of accounts carries the risk of financial irregularities going undetected, and therefore, the accounts need to be finalised and submitted to Audit at the earliest.

### 1.12 Year-wise details of Performance Audits and paragraphs which appeared in Audit Report

The year-wise details of Performance Audits and paragraphs that appeared in the Audit Report for the last three years along with their money value are given in **Table 1.7** below:

**Table 1.7: Details regarding the Performance Audits and Paragraphs that appeared in the Audit Report during 2019-20 to 2021-22**

| Year    | Performance Audit |                             | Paragraphs |                             | Replies received  |            |
|---------|-------------------|-----------------------------|------------|-----------------------------|-------------------|------------|
|         | Number            | Money Value<br>(₹ in crore) | Number     | Money Value<br>(₹ in crore) | Performance Audit | Paragraphs |
| 2019-20 | ---               | ---                         | 09         | 68.90                       | ---               | ---        |
| 2020-21 | 02                | 156.18                      | 08         | 88.70                       | 02                | 08         |
| 2021-22 | 01                | 12.63                       | 06         | 9.17                        | 01                | 06         |

Source: Audit Reports (General and Social Sector Audit, now Audit-I) of 2019-20, 2020-21 and 2021-22.

During 2022-23, four Paragraphs involving ₹41.58 crore and one SSCA have been included in this Report.