Chapter- II
Subject Specific Compliance Audit and Other Compliance Audit Paragraphs

Chapter-II

Department of Skill Development Entrepreneurship and Livelihood

2.1 Subject Specific Compliance Audit on Implementation of Chief Minister's Kaushalya Karnataka Yojane

2.1.1 Introduction

The Chief Minister's Kaushalya Karnataka Yojane (CMKKY), a flagship training scheme of the Department of Skill Development, Entrepreneurship and Livelihood (SDEL) was launched in May 2017 to skill five lakh[8] youth annually. The scheme aimed at skill development through short term vocational skilling to enable employment, self-employment and entrepreneurship of youth in Karnataka. Under this scheme, youth in the age group of 18-35 years can register for free skill training in nearly 3,000 National Skill Qualification Framework (NSQF)-aligned job roles from over 37 sectors[9] with 719 job roles and industries to empower them with the necessary skills required for both traditional and emerging industries, fostering entrepreneurship and self-employment opportunities.

According to CMKKY guidelines, the training is to be provided by vocational Training Providers (TP) through the Training Centres (TC) under the Government, Private Sector and Industrial establishments. The Training Providers (TP) and the Training Centres/Mobile Training Centre (TC and/ MTC) should be registered online with the Department and should be accredited by the prescribed Agency/ Body/ Committee[10]. Only duly accredited TCs shall be eligible to impart training. After completion of training, the assessment of trainees will be done by an independent assessing body that would not be involved in conduct of the training program to ensure that it is done impartially. The Assessing and Certification Body/Bodies will be appointed and monitored by the Skill Mission under the guidance of Karnataka Skill Development Authority (KSDA). It was also envisaged in the guidelines to bring about placement of at least 70 *per cent* of the trainees for which special assistance for placement would be provided by the Skill Mission.

2.1.2 Organisational Setup

At the State level, the Additional Chief Secretary is the administrative head of SDEL who controls and coordinates the entities/offices under the department.

The organizational setup of SDEL is shown in **Chart 2.1**.

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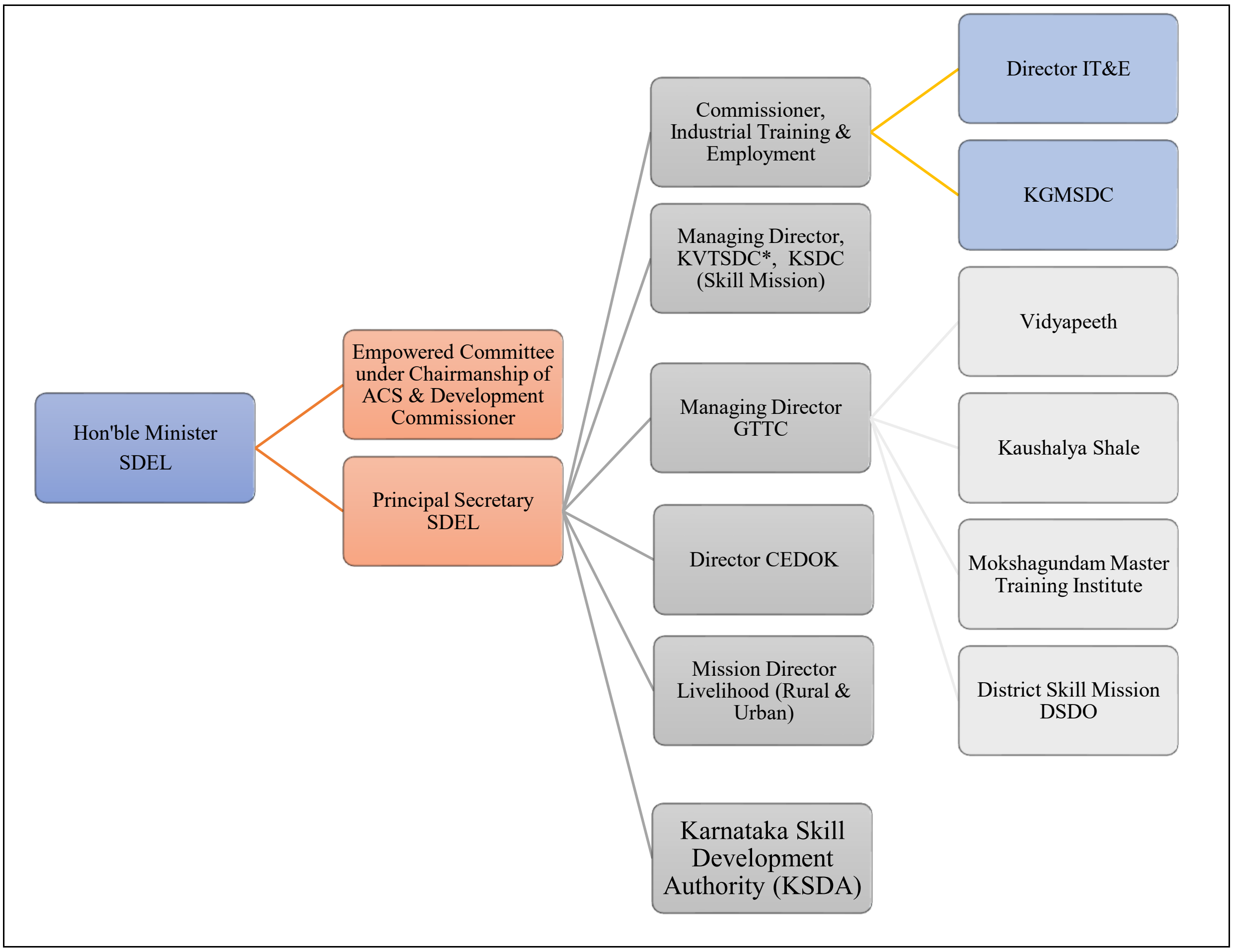
8 2.5 lakh youth under schemes implemented directly by SDEL (Channel-I) and 2.5 lakh under schemes implemented by other Government departments and Government bodies (Channel-II).

9 Tourism and Hospitality, Textiles, Apparel, Home Furnishing, ITES, Electronics, Healthcare, Life Sciences *etc*.

10 The prescribed entities are the accrediting bodies appointed by the department to accredit a TP/TC based on parameters prescribed in the CMKKY Guidelines.

Chart 2.1-Organisation set up of the SDEL Department.



**KVTSDC was a separate entity functioning under one Managing Director of skill mission which was renamed as KSDC vide G.O. SDEL 79 SDE 2019 dt: 10-01-2020.*

2.1.3 Audit Objectives

The Compliance Audit aimed to ascertain whether the department complied with the scheme guidelines for effective planning, utilisation of allotted funds, implementing and monitoring the scheme in achieving its intended objectives.

2.1.4 Audit Criteria

CMKKY guidelines[11] and Standard Operating Procedure issued (May 2017) by the Department of Skill Development & Entrepreneurship; Codes, Manuals, Instructions, Circulars, Government Orders issued by the Government of Karnataka (GoK) and the Nodal agencies at the State and district levels formed the criteria for Audit.

[11] CMKKY guideline version 1 – November 2018; version 2 - February 2019; final version - September 2021.

2.1.5 Audit Coverage and Sample

The Compliance Audit covered transactions for the period 2017-18 to 2022-23 through examination of records of the State Skill Mission office {renamed as Karnataka Skill Development Corporation (KSDC)}, eight[12] out of 30 District Skill Development Offices along with physical inspection of 46 Training Centres (42 private and four Government) selected through stratified sampling method. In addition, records of other Government training institutes as detailed in **Appendix 2.1** were also test checked during July 2023 to November 2023.

Entry conference was held on 19 May 2023 where Audit objectives, methodology and scope were discussed. The Audit findings were communicated (February 2024) to the Government for comments. An exit conference was held on 04 July 2024 with the Additional Chief Secretary - Skill Development (ACS) where Audit findings were discussed. The reply received from the Government (December 2024) is incorporated suitably.

2.1.6 Audit findings

Audit observed deficiencies in planning, utilisation of funds, implementation and monitoring of the scheme as discussed in succeeding paragraphs.

2.1.7 Planning

In order to effectively implement the scheme, SDEL had issued CMKKY guidelines and the Standard Operational Procedure which focuses on planning at various stages like identification of skill gaps, registration of candidates, registration of Training Providers (TPs) and Training Centres (TCs), accreditation of TPs/TCs *etc*.

The Government directed (April 2017) to form the State Skill Mission, District Skill Missions and Taluk Skill Missions and listed out the roles and responsibilities of these Missions. The deficiencies observed in respect of planning are brought out in succeeding paragraphs.

2.1.7.1 Non-preparation of Action Plan

As per the operational guidelines, the Taluk Skill Missions were required to meet Gram Panchayats and Urban Local Bodies in March every year to determine skill training needs and submit data to the respective District Skill Missions. The District Skill Missions were to prepare an Annual Action Plan for the respective districts which were to be approved by the State Skill Mission.

The following deficiencies were noticed in the preparation and approval of the Annual Action Plans:

- The Taluk Skill Missions, mandated for skill gap assessment and coordination at the Taluk level, were not constituted in any of the

[12] Bengaluru Urban, Bidar, Dharwad, Gadag, Hassan, Kalaburagi, Mysuru and Shivamogga.

236 Taluks. Without these missions, the intended coordination and bridging of the skill gap at the Taluk level remained unaddressed. Consequently, the inputs which were required to be provided to the District Skill Mission by the Taluk Skill Missions, were found lacking.

- The District Skill Missions were required to consolidate candidate lists, job roles, and training provider-wise plans and prepare a District Annual Action plan before April each year. However, the District Action Plans were found to be prepared considering the targets set at the State level.
- The State Skill Mission submitted a financial outlay of the activities proposed to be undertaken during the ensuing year to the Government after the announcement of the budget. The Government approved the proposals as such and this was treated as an Action Plan for the Skill Mission for the year. The districts were directed to submit their job role-wise, training provider-wise proposals for utilization of the amounts earmarked for them. The State Skill Mission was preparing Annual Action Plan at State level without obtaining inputs from the grass root level *i.e.,* taluk level and district level.

The Government, while accepting (December 2024) that there are no official representations at Taluk level, stated that the DSDOs were tasked with the responsibility of coordinating with stakeholders at Taluk level. The Government also accepted that in the absence of the Taluk Skill Missions, comprehensive Taluk-level skill development plans were not drafted. Further, the State has encouraged the preparation of District Skill Development Plans (DSDPs) in line with the Ministry of Skill Development and Entrepreneurship’s SANKALP Programme.

The reply indicated that planning for preparation of the State Annual Action Plan did not account for the requirements of skill development at the Taluk/grassroots level. Further, the Government admitted that comprehensive Taluk-level skill development plans were not drafted, however did not indicate that the Taluk Skill Missions would be formed in line with the operational guidelines.

2.1.7.2 Non-consideration of Industrial Profile of the districts for aligning skill training programs

Clause-14 of Standard Operating Procedure stipulated that gap analysis on availability of skills *vis-a-vis* demand for skills as per industry demand was to be conducted periodically. However, no such gap analysis was done at any stage before identifying the skill requirements of the district/taluk. Audit identified a significant gap in the provision of skill training and skill training initiatives which were implemented without a comprehensive understanding of the geographic characteristics of the targeted regions. To illustrate this concern, the Audit focused on two specific districts *viz*., Shivamogga and Bidar out of eight sampled districts. The analysis covered various aspects to highlight the shortcomings in aligning skill training programs with the unique attributes of these regions as shown in the Case Study.

Case Study

The industrial profile of the Shivamogga district consists of sectors such as Automobile and Auto components, IT/BT/ITES, BPO, Engineering Re-rolling mills, forging units, Tourism, Agriculture, Food Processing, Energy, Wood carving clusters in Sagar, Shivamogga and Soraba Taluks and Wood turning cluster in Bhadravathi Taluk, Cane and Bamboo cluster in Agumbe Taluk, Shopping bags/Fancy items and Toys clusters in Shivamogga Taluk.

Audit analysis revealed that the industrial profile of the district was not considered while identifying the job roles within each of the sectors. The training in specific sectors like BPO, engineering, rerolling mills, carving and wood turning, cane and bamboo etc., were considered. Further, within the sectors, focus was placed only on limited job roles which were between one and seven as against the identified job roles in each sector, which ranged between 11 to 62 job roles as shown in ***Appendix 2.2****. Consequently, the placement record fell significantly as no training was imparted in a majority of roles in line with the industrial profile of the districts.*

Similarly, Bidar district is known as the "Pulse Bowl of Karnataka" with an industrial base for agro and food processing, garments, sugar and wine industries etc. Audit analysis revealed absence of training attention to these key sectors with focus being limited to the job role of gardener. The other job roles for which training was imparted were Hand Embroidery, Self-employed Tailor etc. The number of job roles covered ranged from one to three against the broader spectrum of five to 25 within the designated sectors leading to the placement record falling significantly short of the requirement. The details of candidates trained and placed in both districts are outlined in ***Appendix 2.2****.*

The training programs were not focused on the local needs based on the industrial profile of Shivamogga and Bidar districts.

The Government stated (December 2024) that the job roles mentioned under the case study are met by institutions such as engineering degree, diploma, ITI and other institutions *etc*. Further in Shivamogga a full-fledged Agriculture University was catering to the relevant job roles and the aspirations of candidates for the agriculture sector were very few. Hence introducing such job roles under the skilling scheme will be duplication of efforts.

Reply is not acceptable as the institutions and the agriculture university mentioned above were providing regular diploma/graduation and post-graduation courses on a long-term basis. The objective of the scheme was to impart a short-term vocational skill development training program which would enable the candidates to develop the skills suited for specific jobs which could enable them to be placed in these industries.

2.1.7.3 Lack of a Convergence Plan

As per the Standard Operational Procedures of the Scheme, SDEL department had identified departments/bodies/corporations/boards **(Appendix 2.3)** under Channel-II, which are required to undertake trainings related to their respective functions. The Skill Department was to co-ordinate with these departments and obtain the list of skill trainings imparted and prepare a convergence plan to integrate with CMKKY[13] to maximize resources, avoid duplication, and improve beneficiaries' quality of life.

However, Audit observed that no convergence plan was prepared by the Skill Mission. In the absence of adequate documentation related to the convergence plan, Audit could not ascertain the potential overlap and duplication with other Governmental programs. However, Audit observed from the Scheme Guidelines (Para 10.7) that the training under *Jai Kaushal Jawan* (Ex-servicemen, widow ex-servicemen and war widows) would be conducted without any overlap with programs of Ministry of Defence, Government of India (GoI). In spite of clear instructions, Government had released (during 2018-19 and 2019-20) funds of ₹1.50 crore towards *Jai Kaushal Jawan* scheme without obtaining inputs from Defence Ministry. The details of training imparted under *Jai Kaushal Jawan* were not produced to Audit and hence the extent of overlapping of training with the Ministry of Defence, GoI could not be ascertained.

The Government stated (December 2024) that several measures to enhance convergence and co-ordination among various Government departments at district and State level have been taken. Further, it was also proposed to draft a comprehensive state-level skill convergence plan in consultation with other departments to address the concerns. However, the Government did not furnish the details of such measures which were taken to Audit.

2.1.8 Financial Management

SDEL created "The State Skill Mission" in the month of April 2017. The mission was mandated to approve the annual action plan, to receive funds from Centre, State, Corporate Social Responsibility (CSR) *etc*., and to review overall progress of skill development schemes and to provide guidance and policy direction for effective implementation of the scheme. However, Audit observed that the Skill Mission, since inception, was solely dependent on the grants provided by the State Government and funds were operated through the State Treasury and no attempts were made to augment finance from other sources, including CSR.

[13] Under Subcomponent-1, which is termed as Channel-I, the SDEL Department would be implementing programs namely, skill department programs, KVTSDC training programs, GTTC training programs, KGMSDC training programs, NULM training programs, NRLM training programs, Karnataka Building Workers Academy training program.

2.1.8.1 Ineffective utilisation of released funds

Budget allocation and actual expenditure of the CMKKY Scheme for the period from 2017-18 to 2021-23 are given in **Table 2.1**.

Table 2.1: Financial outlay and actual expenditure during 2017-23

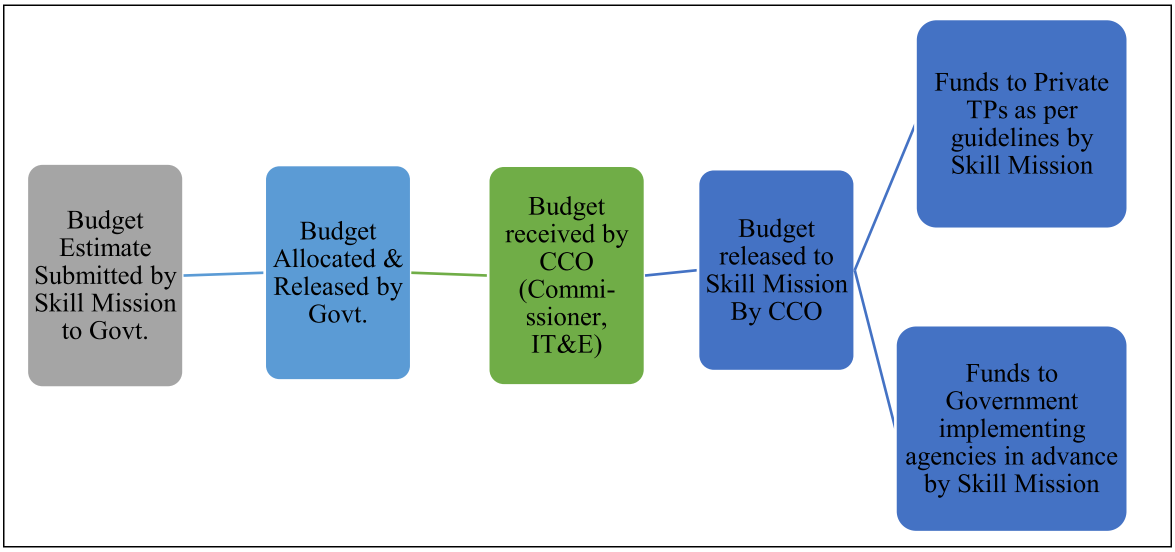
(₹ in crore)

Year	Budget Allocated	Budget Released	Expenditure	*Per cent* Utilised
2017-18	200.00	200.00	68.42	34.21
2018-19	58.00	57.18	30.47	53.29
2019-20	73.08	65.81	50.56	76.82
2020-21	65.42	65.47	65.32	99.77
2021-22	75.00	74.97	74.35	99.17
2022-23	77.68	77.68	77.64	99.95
Total	**549.18**	**541.11**	**366.76**	

Source: Information provided by the Mission.

The process of flow of funds from Government to Skill Mission to the Training Providers/Training Centres is detailed in **Chart 2.2** below:

Chart 2.2: Flow of funds from Government to Skill Mission



Source: Information provided by the Mission.

- As could be seen from the **Table 2.1** above, the Skill Mission could not effectively utilise the available funds during initial three years and there was lapse of funds to the extent of ₹173.55 crore **(Appendix 2.4).**
- The expenditure during the period 2020-23 reflected full utilisation, by the State Skill Mission. However, out of the total expenditure of ₹366.76 crore, an amount of ₹230.01 crore was released to implementing agencies for training and ₹119.89 crore was found lying unused/unspent at the agency level as of March 2023 as detailed in **Appendix 2.5.**

The Government accepted (December 2024) the shortfall in utilisation of funds to challenges in mobilisation of the candidates in the initial years due to lack of awareness as short-term skill trainings did not have substantial penetration as compared to traditional education; limited number of training partners; shortage of manpower at the state and district level and staff at district and state offices working on deputation.

2.1.8.2 Allocation of funds without formulation of a need-based action plan

As per CMKKY guidelines, it was envisaged that in each year 2.5 lakh youth would be imparted skill training through SDEL. However, the target of 1,65,448 fixed by the Government during the period 2018-23 was far below the target envisaged in the guidelines. Further, Para 7 of the operational guidelines of CMKKY, mandates job role-wise action plan for training all categories of candidates by collecting proposals from each district/taluk in March of the previous year and submitting the same to the State Skill Mission for approval before sending the Budget proposal to Government.

Though the Government instructed (May 2017) the Skill Mission to prepare a comprehensive action plan, the Skill Mission instead of preparing a detailed plan, submitted only a financial outlay. This financial outlay was approved by the Government, which subsequently released ₹341.11 crore during the period 2018–2023.

The details of candidates proposed to be trained, and the amount released during the period 2018-19 to 2023-24 are shown in **Table 2.2**:

Table 2.2 Details of candidates proposed to be trained and funds released

Year	No. of candidates proposed to be trained			Total Target	HoA-wise funds released *(₹ in crore)*			
	General	SCP*	TSP#		General	SCP*	TSP#	Total
2018-19	36,400	10,000	3,600	50,000	36.30	11.45	9.43	57.18
2019-20	10,200	5,400	4,400	20,000	40.12	15.07	10.61	65.81
2020-21	15,000	11,135	8,253	34,388	32.51	18.93	14.03	65.47
2021-22	28,393	2,666	1,666	32,725	64.97	6.00	4.00	74.97
2022-23	24,003	2,666	1,666	28,335	67.68	6.00	4.00	77.68
Total	**1,13,996**	**31,867**	**19,605**	**1,65,448**	**241.58**	**57.45**	**42.07**	**341.11**

Source: Information provided by the Mission.
** **SCP**: Special Component Plan (for Scheduled Castes),*
***#TSP**: Tribal Sub-Plan (for Scheduled Tribes)*

The observations of Audit are discussed below:

- The SCP/TSP guidelines of 2005 issued by the Planning Commission mandated States to combat unemployment among SC/ST population through tailored training courses. The States were to create SC/ST-specific plans in line with their respective population. In Karnataka, Section 17 of the Scheduled Castes Sub-plan and Tribal Sub-plan Act, 2013 requires all departments to annually submit SCP/TSP proposals to address development gaps, subject to appraisal by the State Nodal Department. It can be seen from the above table that the State Government approved the allocation of ₹99.52 crore for 138 job roles totaling 31,867 under SCP and 19,605 under TSP during 2018-23. There was, however, no evidence on record to indicate that the Skill Mission obtained the approval of the State Nodal Department for the SCP/TSP sub-plans. Audit, therefore, could not ascertain whether the allocation of SCP/TSP funds was proportionate to their population share.

- The Skill Mission prepared the financial outlay for ₹241.58 crore without collecting job role-wise Action Plan from the districts/taluks, which was considered as Action Plan.
- In the absence of required information from the districts and taluks, Audit could not ascertain the basis for the physical targets and allocations thereon. The release of funds totaling ₹341.11 crore without the formulation of a need-based action plan resulted in unspent/unutilized balance (₹119.89 crore) lying with the agencies as discussed in succeeding paragraphs.

The Government accepted (December 2024) that the SCP/TSP targets were to be estimated based on the interactions with stakeholders including industries and demographic data available as per census statistics. However, neither the State nor the districts were sufficiently equipped and empowered to carry out skill gap surveys in the initial years and channelize the SCP/TSP funds. The Government stated that Skill gap study is being conducted and suitable action would be taken once the evidence and research-based study report is submitted.

2.1.8.3 Utilization of funds by implementing agencies

The funds released by the Government through the controlling officers to the implementing agencies are booked as expenditure. However, Audit observed in the test-checked districts that funds remained unutilized and were lying with the agencies as discussed below:

(a) Retention of funds by implementing agencies - ₹119.89 crore and non-refund of interest of ₹16.68 crore on amount retained

The Skill Mission released ₹230.01 crore, as advance payments, to various implementing authorities[14] for imparting training proposed in the Annual Action Plans of the departments as detailed in **Appendix 2.5**. The Mission neither insisted on maintenance of such funds in separate bank accounts by the implementing agencies nor inserted a clause for refund of interest earned on the unutilized fund, in case of delay in imparting training.

Audit observed that funds released to these agencies were not utilised on time rendering the funds released against such implementation remaining unspent with the implementing agencies for longer periods. As of November 2024, out of the 15 agencies to whom funds were released, four agencies had not

[14] Karnataka Vocational Training Development Corporation (KVTSDC), Government Tool and Training Centre, Apparel Training and Design Centre, Karnataka State Road Transport Corporation, Karnataka German Multi Skill Development Centre, Centre for Entrepreneurship Development of Karnataka, CI.PET, Udyoga Society, BMVNTFSA, MGIRED, KSPCB, Prisons Department, KSDA, Women and Child Development Department, Channapatna Crafts Park, DSDO Koppal *etc*.

incurred/utilised the funds till date. Only three agencies had utilised the funds fully and in the balance eight agencies the utilisation ranged between 16.10 and 98.96 *per cent*. In the absence of an appropriate clause for a refund of interest earned on the unutilized fund, the implementing agencies retained the interest earned in their books of accounts.

Test check of records of implementing agencies showed that these agencies realised an interest of ₹16.68 crore on the amounts not utilised by them. These agencies had either utilised the interest for their own purposes or retained the same with them as illustrated below:

Illustration-I

1. *An amount of ₹103.35 crore was released to KVTSDC during 2017-18 to 2022-23 towards implementation of the Scheme and an amount of ₹16.53 crore was earned as interest. This interest amount was utilized towards outsourced salaries, vehicle expenses etc., rather than training purposes.*
2. *An amount of ₹10 crore was released to Karnataka Udyoga Society from 2017-18 to 2022-23. This amount was neither utilized nor refunded back to the Mission. Interest earned on the funds was parked in the society accounts.*
3. *An amount of ₹1.70 crore was released to Bharat Ratna Sir M Visweswaraiah National Training Facility for All (BMVNTFSA) for imparting training during the year 2019-20 to 2020-21. The amount was not utilized by the institute and an amount of ₹0.15 crore was earned as interest on the funds and the entire amount is still retained.*
4. *An amount of ₹0.50 crore was released to the Women and Child Development Department during the 2018-19 period and was still lying with them as at the end of March 2023.*

Retention of significant amounts together with interest by the implementing agencies highlights the inability of the Skill Mission/Department to effectively monitor the utilisation of funds released or the conduct of training programmes by the implementing agencies, as per the approved action plans, thereby affecting the objective of the scheme.

The Government stated (December 2024) that action is being taken to ascertain from the agencies/institutions concerned for confirmation of the balances and interest thereon. Thus, the Government did not effectively monitor these agencies resulting in agencies holding these funds for a significant period of time.

(b) Funds released to Karnataka Vocational Training and Skill Development Corporation (KVTSDC)

During the year 2019-20, SDEL disbursed (March 2020) an amount of ₹0.75 crore to the Commissioner of Industrial Training and Employment (IT and E) for the training of 441 candidates across 14 ITIs. However, the Commissioner, IT and E refunded (August 2021) the entire amount to KVTSDC, without providing any training and without specifying the reasons for the refund. KVTSDC again released (March 2023) an amount of ₹0.17 crore to three ITIs in Kalaburagi, Udupi and Koppal districts. However, no evidence of utilization of ₹0.17 crore by the ITIs was furnished to Audit. Further, the balance amount of ₹0.58 crore was found (March 2023) still lying with KVTSDC unutilized.

Similarly, the Government released (2018-2020) an amount of ₹2.25 crore to SDEL for skill development of specially-abled children in Government Homes. However, Audit observed that the allocated amount which was released to KVTSDC was not utilized for the intended purpose and amount was still lying with KVTSDC as of March 2023 without any reason for non-utilisation being ascertainable from records produced to Audit.

The Government stated (December 2024) that the ITIs at Kalaburagi, Koppal and Udupi districts had trained 139 candidates. The balances lying in the bank account of KVTSDC would be utilized after issuing orders in this regard.

The reply is silent on the reasons for non-utilisation of the fund released. Further, the Government should ensure that the vulnerable section of the specially abled children are equipped with the skills for employment. KVTSDC must draw up plans and identify candidates for skill training rather than hold funds released four years ago.

(c) Funds released to Central Institute of Petrochemical Engineering Technology (CIPET) - ₹1.16 crore

CIPET received (March 2020) advance payment of ₹2.21 crore for training 350 candidates in four different job roles[15] in the field of plastics. In the absence of specific time frame within which the training was to be completed, CIPET imparted training in a phased manner to 166 candidates during the period 2021-23 who were paid ₹1.05 crore. The balance amount of ₹1.16 crore was remaining unutilized with CIPET.

The CMKKY guidelines have specified that trainings were to be imparted as per the job roles adopting the State norms/Standards. However, if no State standards exist the NSQF standards as prescribed by the Ministry of Skill Development are to be adopted. No State norms were prescribed for the job roles regarding the Rubber Skill Council (RSC). Hence the Institute had to adopt the NSQF standard as per Schedule I of the Gazette Notification 2015. Audit observed that the training provided by the institute was for job roles not included in Schedule 1 listed for the Rubber Skill Council (RSC).

The Government agreed to utilize the balance fund and stated (December 2024) that the work orders were issued to CIPET with the approval of the Empowered Committee.

[15] 1. Machine operator – plastic processing 2. Machine operator- Machine Injection moulding 3. Machine operator & programmer – plastic CNC Lathe and 4. Plastic product and mould designer.

The Government did not ensure that implementing agencies were imparting training for job roles as prescribed in Clause 11 (vi) of the guidelines and while conforming to Schedule I of the NSQF Standards.

(d) Training under Skill on Wheels (Koushalya Ratha) – ₹1.85 crore

Koushalya Ratha Scheme or Skill on Wheels was launched (February 2018) for imparting training to 7,500 candidates in eight districts[16] for which funds amounting to ₹1.85 crore were approved and released (April 2019) by the Government to the Skill Mission during the period 2018-19 to 2019-20. The Scheme was launched to help candidates in most backward/remote areas to access training centres in the districts. Mobile Training Centres (MTCs) would be prefabricated own/leased vehicles with necessary training equipment.

Audit observed that work orders were issued to two[17] agencies to provide training under Skill on Wheels in four[18] districts of which three[19] were not part of the eight districts as envisaged in the Government Order. The Skill Mission allocated the job role of Assistant Beauty Therapist and Basic Electrician Technician with a target of 180 candidates in each district. Audit observed that though the work orders were issued to two agencies, one agency (M/s.Shrishti Infotech) entered into a Memorandum of Agreement in April 2022 and conducted training for only 150 candidates in Yadgiri and Raichur districts. The agency was paid an amount of ₹0.11 crore (March 2023), and balance unutilized amount of ₹1.74 crore is lying with KVTSDC for the past four years.

The Government stated (December 2024) that the job roles were selected due to shorter duration and high demand. Further training was successfully completed in the above districts and balance funds would be utilized.

The reply was silent on the issue of change in the selection of districts from the originally identified ones. Nearly 94 *per cent* of funds released remained unutilized for more than five years. Out of the targeted 7,500 candidates only 150 candidates (two *per cent)* were trained. This shows that no effective program was charted out for imparting necessary skills. Mere allocation of funds with no effective program in place to ensure training to the envisaged numbers tantamounted to non-fulfilment of objective of the scheme.

2.1.8.4 Diversion of funds - ₹7.56 crore

The Government releases funds to various agencies for implementation of the scheme with specific purposes. Audit observed that the funds released for training were diverted for other than the intended purposes. The instances of

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[16] Ballari, Belagavi, Chitradurga, Dharwad, Kalaburagi, Dakshina Kannada, Mysuru and Tumakuru.

[17] Shristi Infotech and Bridgepoint Skills and Network private limited were allocated Asst. Beauty therapist in Yadgiri and Haveri District and Basic Electrician Technician in Raichur and Kalaburagi District.

[18] Haveri, Kalaburagi, Raichur and Yadgiri.

[19] Haveri, Raichur and Yadgiri.

fund diversion and Audit observations along with the response of the Government are detailed in **Table 2.3** below:

Table 2.3: Diversion of funds by various agencies

(₹ in crore)

Sl. No.	Name of the agency	Amount released	Month	Amount diverted	Audit observations
1	Youth Employment Services Centre (YES-PMU)[20]	4.80	Sept. 2020	4.26	The Government directed (September 2020) to spend ₹0.54 crore only towards salaries and other administrative expenses of staff of YES-PMU. However, the YES PMU centres diverted ₹4.26 crore towards salaries of their staff who were under the control of the Commissioner, Industrial Training and Employment (CITE). Further, the Youth Employment Service Centres did not furnish details of youth counselled, dissemination of job opportunities and reports of offered jobs, *etc*., even as these reports were crucial for planning further initiatives. The Skill Mission did not effectively monitor the activities of YES-PMU which undermined the purpose of establishing the centres and deprived beneficiaries of crucial career guidance information. The Government stated (December 2024) that as per the action plan, KSDC was only routing the funds to the agency and the complete implementation and monitoring would be done by the Commissioner, Department of Industrial Training & Employment. However, in the light of Audit observation clarifications have been sought from the Commissioner on the issue.
2	Karnataka Skill Development Authority	2.39	Aug.2018 to May 2023	1.96	The funds were released for preparation of curriculum and standards, training trainers, improving skill program standards, designing labour market information systems *etc*. Out of ₹2.39 crore released ₹1.78 crore was used for payment of remuneration to the chairman, staff salary, telephone bills, maintenance of vehicles *etc*., and ₹0.18 crore, was paid as consultation charges from February 2021 to May 2023 for scrutinizing the revenue and expenditure statement. The Government endorsed the reply of KSDA which stated (December 2024) that Government released quarterly funds that were just sufficient to meet office expenses and remuneration for the outsourced employees alongside covering day-to-day expenses. As such there was no diversion of funds of ₹1.78 crore. As regards ₹0.18 crore, it was stated that the expenditure was incurred on consultancy and vehicle hiring charges in accordance with Government directives. The reply of KSDA was not acceptable as the funds were released for developing curriculum and course content and to establish guidelines for training the trainers. The funds were not to be diverted for administrative purposes, which need to be provided for separately in the budget as the

[20] These centres were intended to offer guidance to beneficiaries regarding eligibility, career selection, available training institutes, entrepreneurial information, and job opportunities. The District Skill Missions were entrusted with monitoring these placement centres.

Sl. No.	Name of the agency	Amount released	Month	Amount diverted	Audit observations
					amount was released under Head 059, meant for CMKKY Scheme.
3	Karnataka Vocational Training and Skill Development Corporation.	2.80	March 2017	1.23	Out of release of ₹10 crore by the Government for establishing Skill Mission, ₹7.20 crore was spent by KVTSDC. The Government directed (October 2020) the Mission to transfer the balance of ₹2.80 crore to KVTSDC specifically for training purposes. KVTSDC utilised ₹1.23 crore for interior works, furniture purchases, and equipment procurement for the State Office and DSDOs and retained the balance amount of ₹1.57 crore in its bank account even as of November 2024. The Government stated (December 2024) that the amount of ₹1.23 crore was dedicated for initial establishment of the Skill Mission. The reply is not acceptable as only ₹7.20 crore was meant for the initial establishment of the Mission and the balance 2.80 crore was transferred to KVTSDC specifically for training purposes. The reply is also silent on the prospects of utilization of the balance amount lying with KVTSDC.
4	Channapatna Crafts park	0.15	Nov. 2021 to March 2022	0.11	An amount of ₹0.15 crore was released to Channapatna Crafts Park for a special project to impart skill training program to artisans, focusing on teaching painting techniques on wooden products to a group of 25 candidates for three months. This initiative aimed to revitalize traditional handicrafts. An amount of ₹0.11 crore was utilised for payment of stipends to trainees contrary to Schedule-I of NSQF Standards 2015, prescribed by the Ministry of Skill Development. The Government stated (December 2024) that clarification has been sought from the Agency.
	Total			**7.56**	

Source: Information provided by the Mission.

2.1.8.5 Excess Release of funds to KVTSDC - ₹12.98 crore

At the inception of the scheme in 2017-18, KVTSDC proposed (February 2018) to impart training to 26,000 candidates with an estimated cost of ₹41.60 crore. The Government prior to according approval to the proposal released (February 2018) an amount of ₹33.28 crore (being 80 *per cent* of the estimated training cost) to KVTSDC. Audit observed that the State Government accorded approval to the proposal in March 2018 for imparting training to only 13,000 candidates by 91 training providers in 23 districts at a cost of ₹20.30 crore (March 2018). Consequently, the post facto approval of the proposal at revised cost resulted in an excess release of grant of ₹12.98 crore to KVTSDC. However, the amount so released was not refunded by KVTSDC and no action was taken by the Government to get back the un-utilised amount.

The Government accepted (December 2024) that the funds were released in accordance with the decision taken in the Board Meeting for conducting training. However, the unspent funds would be utilized for the relevant training in the current year.

2.1.8.6 Excess payment of ₹14.40 lakh to the agency under Job Fair

With a view to providing employment opportunities to the unemployed youth, KSDC (December 2017) issued guidelines for conducting two Mega Job Fairs at State, Regional and District level. Accordingly, an amount of ₹96.00 lakh was released (March 2018-April 2021) to DSDO Mysuru for conducting Mega Job Fair in Mysuru Maharaja College ground, Mysuru from 03 to 05 of March 2018. As per the work order issued to M/s.Talentree People Consulting (P) Ltd., Dharwad, the agency was to conduct a Job Fair and train 14,045 candidates.

As per the terms of fund release orders, full amount was to be released if the placement rate exceeds 50 *per cent* of total trained and only 85 *per cent* of the amount was to be released if placement rate fell short of 50 *per cent*. However, scrutiny of records revealed that out of 14,045 candidates trained, only 4,597 candidates were successfully placed. The agency was to be paid ₹81.60 lakh for the services rendered as the placement was below 50 *per cent* of the total trained. However, it was observed that the entire amount of ₹96.00 lakh was released to the agency resulting in excess payment of ₹14.40 lakh.

The Government did not furnish any reply on the observation.

2.1.8.7 Pending Utilization Certificates

The Skill Mission was to furnish Utilisation Certificates (UCs) against releases made by the State Government each year duly indicating the amount released and expenditure incurred as stipulated in the Government release order. Between 2017-18 and 2022-23, the Skill Mission drew a total amount of ₹366.76 crore, out of which ₹230.01 crore was released to various departments, Boards, Corporations, and Agencies for conducting training programs under Channel-I. The Mission was to obtain the UCs from these Agencies and submit a Consolidated UC to Government. However, Audit observed that although UCs for an amount of ₹93.47 crore were submitted **(Appendix 2.5)** by the implementing agencies, the Mission could not obtain UCs for the balance amount of ₹136.54 crore released to the agencies.

Further, the Mission was required to submit consolidated UCs for the total expenditure of ₹366.76 crore **(Appendix 2.6)**. However, these consolidated UCs were also not submitted by the Skill Mission to the Government.

The Government stated (December 2024) that necessary directions have been issued to the implementing agencies.

2.1.9 Implementation of the scheme

The scheme is implemented in collaboration with Government and private training providers. The observations on implementation of the schemes at various levels are brought out in succeeding paragraphs.

2.1.9.1 Registration of Trainees

As per Clause 2 of the guidelines, all the eligible candidates seeking skill training, employment, entrepreneurship & livelihood, and apprenticeship should register on *www.kaushalkar.com* web portal of the department, with registration being free of cost. Though the online web portal was designed for selection of registered trainees (Aadhaar linked) to avoid duplication and ensure they are resident in Karnataka, discrepancies were observed in the registration of candidates such as ineligible candidates getting registered, besides non-adherence to the reservation policy which are detailed in the succeeding paragraphs.

a) Selection of ineligible candidates.

Clause 2.2. of CMKKY guidelines prescribed the age spectrum for the registrants as detailed below:

Jai Kaushal Jawan (Ex-servicemen)	33 to 50 years
Widows of ex-servicemen, war-widows	18 to 50 years
Specially challenged	14 to 50 years
Juvenile delinquents	14 to 18 years
Jail inmates (Kaushal Karagruha)	18 to 50 years
Trainees for short-term Agricultural & Animal Husbandry courses	18 to 50 years
All others	18 to 35 years

Thus, the guidelines envisaged imparting training to unemployed youth or school dropouts (catergorised as others) of Karnataka in the age group of 18 years to 35 years only. The primary method for scheme registration was through the official website *kaushalkar.com*. The Standard Operating Procedure (SOP) specifies that TPs and TCs hold the responsibility for enrolment of authentic trainees in batches. Payment for training is to be disbursed in three tranches, based on specified output parameters outlined in Clause 12(1) of the guidelines which mandates TC/TPs to upload the details of the candidates based on the age criteria.

Analysis of data of candidates registered in *kaushalkar.com* revealed that out of 13,15,669 registered, 1,15,822 candidates were trained during the period from 2018-19 to 2022-23. Out of the trained candidates, 3,487 were ineligible as they exceeded the age limits specified in the guidelines. The cost of training these overaged candidates amounted to ₹3.91 crore, as shown in **Table 2.4**:

Table 2.4: Payment made to ineligible candidates during 2018-19 to 2022-23

Year	No. of candidates trained	No. of overaged trainees	Cost of training overaged trainees (First and second tranche in ₹)
2018-19	4,970	185	22,45,856
2019-20	10,860	420	51,14,616
2020-21	23,626	832	94,58,396
2021-22	41,410	738	79,12,478
2022-23	34,956	1,312	1,42,88,650
Total	**1,15,822**	**3,487**	**3,90,78,537**

Source: Data from kaushalkar.com portal.

Audit observed that there was a generally growing trend of enrolling ineligible candidates each year. This indicated that due diligence was not exercised while checking the eligibility of the candidate during registration (Aadhaar, birth certificate *etc*.). Training Providers/Centers facilitated enrollment by approving batches without effectively verifying the age criteria of the candidates. District Skill Development Officers (DSDOs) on their part did not verify the eligibility of candidates before commencing training of batches.

The Government acknowledged the observation and stated (December 2024) that overaged candidates were selected on humanitarian grounds considering economic background. There was wrong entry of dates while registering candidates and assured that the Mission would strictly comply with the norms in future.

b) Selection of candidates in violation of reservation policy

According to the Government Order (April 2017), the selection of beneficiaries is the responsibility of the District Skill Missions, which must follow Government reservation policies and link them with Socio-Economic Caste Census data.

However, the Audit observed that in 88 training centres (TCs), covering 165 batches with a total of 4,652 candidates, the prescribed reservation quotas were not adhered to. Specifically, the number of Scheduled Caste (SC) and Scheduled Tribe (ST) candidates was significantly below the mandated 20 *per cent* (930) and seven *per cent* (325), with only 458 SC and 176 ST candidates registered for training. The District Skill Missions during their inspections also did not verify and ascertain whether the TCs were complying with the reservation policy.

The Government stated (December 2024) that all TCs are aware of the reservation policy and its importance. Regular monitoring by DSDOs would be ensured for compliance with the policy. Government further stated that updating the *kaushalkar* portal using reservation software could help to automate the reservation process and track compliance with the policy.

2.1.9.2 Registration and Accreditation of TPs/TCs

As per clause 3 of the Scheme guidelines, all the Training Providers (TPs) desirous of providing skill training under the scheme shall register on the web portal of the department. Upon successful registration of TP, the evaluation of applications for accreditation of TP shall be done as per the evaluation process prescribed in para 3.3.4 and scoring matrix as per para 3.3.6, by the Accreditation Evaluation Sub-Committee (AESC). The AESC, based on evaluation, shall issue a provisional accreditation to the TPs and TCs and intimate the TPs to deposit the accreditation fees[21] and other charges and forward/submit its recommendations to SLEC as and when the provisionally accredited agencies deposit their fees (not later than three working days). The SLEC shall take the final decision within seven days. This Accreditation Certificate will be valid for a period of three years[22].

As per clause 4 of the guidelines, Training Centers (TCs)/Mobile Training Centres (MTCs) can be registered only by a Training Provider that is registered in the web portal of the department. TCs should not be franchisees but maybe in Joint Venture / Lease Agreement / Contract with TP. TPs can add MTCs at any time for special projects of CMKKY. Once TC is registered by TP after completing all the requisite formalities, the TC shall be eligible for evaluation for its accreditation. The district level inspection team constituted by the Government will inspect the TC and submit the report as prescribed by the Government. Based on the evaluation of the application and final decision of SLEC, status of accreditation shall be communicated online to the registered email ID of TP and TC. Printable Certificate will be uploaded. Accreditation of TC will be per job role registered by the TC and will be valid for a period of three years per job role per TC. The SLEC shall consider the recommendation of the AESC to assign grading to TP. Unless a TP or TC separately achieves a grading of B+[23] they will not be considered for final accreditation.

Audit observed deficiencies in the Accreditation of the TCs such as lack of infrastructure, equipment, incorrect grading of TCs as detailed in **Appendix 2.7**. Audit conducted Joint Physical Verification of 46 sampled TPs/TC in eight districts as detailed in **Appendix 2.8** to verify adherence to norms prescribed in the scheme guidelines and observed that:

- Lack of seating space, non-availability of equipment, absence of final accreditation, non-adherence to NSQF Standards *etc.,* as detailed in **Appendix 2.7**. The evaluation of recommendations by SLEC lacked transparency as the TPs/TC had been provisionally accredited and given a grading of B+ and above in spite of not meeting the prescribed criteria as can be seen from the photographs:

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[21] Accreditation fee for TP is ₹50,000 and for TCs/MTCs is ₹10,000 per job role. Government organisations are exempted from payment of fees. Accreditation fee shall be 50 *per cent* of accreditation fee for TPs fully owned by SC/ST/Women/PwD/Minority.

[22] Renewal of accreditation by paying a non-refundable fee for TPs & TCs per job role of ₹50,000 and ₹10,000 respectively. This renewal of accreditation will be valid for another three years.

[23] for Scores 80 *per cent* and above Grading is A+, for 70-79 *per cent* grading is A, for 60-69 *per cent* Grading is B+, for 50-59 *per cent* grading is B and below 49 *per cent* is C.

Picture1: Image Infocom, Dharwad without basic infrastructure and space

Picture 2: Annapurneshwari Vidya Samsthe, Hassan without basic equipment to impart training

Picture 3: Jai Mata Grandeur, Shivamogga without basic infrastructure for training

Picture 4: RLP Farms, Hassan, a small shed located in isolated farm area

- Work orders are issued to accredited Training Providers (TPs) by KSDC based on its approved annual action plan. Following this, TPs are required to sign a MoU with the Managing Director of KSDC, specifying the batches and job roles for each accredited Training Center (TC) that the TPs and their TCs commit to train within the financial year. The training batch formation is to be done as per clauses 6 and 7 of the guidelines[24]. However, work orders were issued before batch approvals, violating the prescribed guidelines. Additionally, all TCs operated solely on Provisional Accreditation Certificates, as neither the TCs nor the TPs had obtained final accreditation. Despite this, SLEC permitted TPs and TCs to operate without securing the mandatory final accreditation.
- In all test-checked TCs, biometric attendance was not Aadhaar-linked, creating risks of impersonation, and attendance data was editable and uploaded in MS Excel, heightening the risk of tampering.
- None of the TCs maintained the required video recordings of training sessions and assessments.
- The district inspection teams were not inspecting the TP/TCs at regular intervals to check the veracity of the information and to ascertain the progress of the training being imparted. The Skill

[24] Only accredited TCs shall be eligible to select trainees. Trainees will be allocated to TC based on targets provided and availability of batches. A trainee once selected by a TC will not be available to other TCs for selection till such time the trainee is not reverted to selection pool.

Mission released payments to the agencies only on the recommendation of the DSDOs concerned without exercising necessary checks.

- The target of the scheme was to train five lakh candidates every year. Out of this, 2.5 lakh candidates were to be trained by SDEL (Channel-I) and another 2.5 lakh candidates were to be trained (Channel-II) by other Government Departments and Government Bodies. The shortfall in the achievement of the target has been discussed in Para 2.1.9.9.

The Government, while accepting the Audit observation stated (December 2024) that work orders were not issued since March 2023. The Government in the Budget Speech of 2023-24, had stated that trainings would be mandatorily conducted by Government Training Institutions such as GTTC, KGTTI/KGMSDC and ITIs *etc*. Further, the DSDOs have stated that the TCs were complying with the standards. As regards observations pointed out during joint verification, it was stated that the TPs were in the stage of closing down as no work orders were issued during 2023-24.

2.1.9.3 Deficiencies noticed in web portal *kaushalkar.com*

As per the operational guidelines, a comprehensive, integrated statistical information system was to be established for collecting, processing, analysing and disseminating official statistics, policy and decision-making. Hence SDEL took up the initiative to create *www.kaushalkar.com* web portal. This endeavor is geared towards empowering youth with ample employment opportunities and providing easy access to diverse job avenues.

The process for Training Providers (TPs) and Training Centers (TCs) to obtain accreditation involves registration on *www.kaushalkar.com*, followed by the issuance of TP numbers. The District Inspection Team uploads inspection reports to the Scrutiny Committee, which grants Provisional Accreditation Certificates (PAC) to the TPs and TCs. After the accreditation fee is paid, the State Level Evaluation Committee (SLEC) grants final accreditation.

However, Audit identified the following critical issues in the web portal application.

- The accreditation process lacks a unique ID for fully accredited TPs and TCs, leaving them with only a PAC, which is identical to those not yet accredited. This creates a risk of misuse for other Government training schemes.
- The portal also lacked key modules for accreditation renewal, management of blacklisted or rejected institutes, and tracking of an institute’s accreditation attempts, all of which are essential for transparency and efficient MIS.
- The student registration module does not include Aadhaar authentication, leading to potential multiple registrations using fake Aadhaar numbers, thus compromising data integrity. Audit observed instances of accepting the candidature with incorrect Aadhaar numbers

such as 'zero' or with four, 11, 15 digits *etc*. The inadmissible payment made to TPs/TCs due to training ineligible candidates in the test-checked districts amounted to two lakh rupees.

- Some job roles required specific educational qualifications. Since the Web Portal did not have a module for verifying the educational qualification of a candidate, the eligibility of the candidate for training in a job role could not be tracked.
- The Aadhaar Enabled Biometric Attendance System module has not been implemented, which opens the possibility of tampering of attendance record.
- A critical follow-up module to monitor trainees' progress in their job roles for at least three years post-employment had not been integrated into the portal.
- The current system does not effectively verify the age of the candidates, leading to instances of under-aged and over-aged participants enrolling in the program. The absence of an adequate age verification mechanism poses risk of misuse under the scheme, allowing ineligible individuals to access benefits intended for specific age groups. On an analysis of data in respect of test-checked districts, we observed the enrolment of under/over-aged candidates as stated in **Illustration-II** below:

Illustration-II

Underage:

- *In the year 2018-19, the Yediyuru Sri Siddalingeshwara Vidyapeetha Trust Bellari (CAAF ID 0007732) formed a batch for the job role Field Technician, Networking and Storage under the Electronics Sector and enrolled a candidate Santhosh (SAF 0888381) whose date of birth was 18 June 2018 (one year).*
- *In the year 2019-20 Renuka Education Society Dharwad (CAAF ID 0009773) formed a batch for the Job Role Asst Beauty Therapist and enrolled two candidates aged one year Rukhaiya (SAF No.0988669)and Kanisha (SAF No.0988500) whose dates of birth were 25 August 2019 and 21 February 2019 respectively.*

***Overage**:*

- *In the year 2018-19 Compusoft Education Academy, Dakshina Kannada (CAAF* ID 0007893*) formed a batch for the Job Role DEO and enrolled a candidate Kalavathi (SAF 0890394) whose date of birth was 19 January 1965 (53 years)*
- *In the year 2019-20 Renuka Education Society Dharwad (CAAF ID 0009773) formed a batch for the Job Role Sewing Machine Operator and enrolled a candidate Saherabanu (SAF No.0960268) whose date of birth was 01 January 1913 (106 years).*

The Government stated (December 2024) that the Accreditation was given to the TC with the job role. This does not require Unique ID as one TC can have multiple job roles. The portal has TC as well as the job status which facilitates the log-in to the portal. As such, no separate module was required in the portal to track the TC accreditation, blocking/rejection *etc*. As regards issues relating to Aadhaar authentication, it was stated that the same would be addressed in the upcoming days.

The reply about accreditation is not acceptable, as the operational guidelines specifically detailed the procedures for accreditation of TPs/TCs. Audit observed that the TPs/TCs were continuing with the provisional accreditation without applying for or getting the final accreditation as provided in the guidelines. Further, the present portal does not provide enough validation controls/MIS to ensure that the accreditation process is completed in all respects.

2.1.9.4 Inability to create awareness resulted in underutilisation of Future Skills courses

At the Skill Summit 2019, the Government of Karnataka took the pioneering step of integrating Future Skills into short-term skill development, focusing on emerging technologies like Artificial Intelligence, cybersecurity, Big Data analytics *etc*. Recognizing the immense value for students, the Government approved (July 2020) the proposal of M/s RV Skills to develop content, curriculum, virtual labs, and a learning management system for these Future Skills for ₹3.99 crore (excluding GST).

In line with the memorandum of understanding (MOU), RV-Skills undertook the development of content for 30 online courses[25] aligned with industry needs. Additionally, they were responsible for designing the virtual lab architecture and procuring necessary commercial software, to be hosted on portal *www.kaushalkar.com*. Total payment of ₹4.70 crore was made to the agency including GST.

The first 15 courses were successfully hosted (March 2021), followed by the completion of the remaining 15 courses on May 28, 2022, as detailed in **Appendix 2.9**. Audit observed that despite the modules being available for over a year, only 1,344 candidates completed the training. The number of candidates per course remained less than 50.

Audit identified a critical gap in publicity efforts by the Karnataka Skill Development Corporation (KSDC). While candidates did enrol in the training, there was a noticeable absence of initiatives from KSDC to publicize these modules, resulting in underutilization of the infrastructure created at the cost of ₹4.70 crore.

The Government, while accepting the observation stated (December 2024) that the courses were promoted at job fairs to help job seekers to enhance their qualifications. The courses were promoted at Saras Melas to reach diverse audiences in rural areas to contribute to their professional growth. It was further stated that letters were addressed to Additional Chief Secretaries, Higher Education, Universities, Government First Grade Colleges for the promotion of the courses.

[25] The content for each course should be of 40 (forty) hours, which should comprise eight hours of textual, 23 hours of video and nine hours of animation as per SWAYAM (Study Webs of Active Learning for Young Aspiring Minds) guidelines of MHRD, GoI.

2.1.9.5 Outcome of the scheme

Mission Directorate at the State Level imparted training through the accredited Training Providers (TPs) /Training Centers (TCs) selected through an accreditation process[26]. The training imparted in the TPs/TCs is inspected by the District Skill Development Offices (DSDOs). The trainings are also entrusted to implementing agencies[27] established by the State Government. Deputy Commissioners of each district delegated the powers for training 20 *per cent* of the total targets allocated to the District Skill Mission. Year-wise details of training taken up by the Mission since its inception and the status as of October 2023 are as shown in **Table 2.5** below:

Table 2.5 Details of candidates registered, trained and placed

Year	Candidates Registered	Candidates Trained	*Per cent*	Candidates Placed	*Per cent*
2017-18	8,10,928	0	0	0	0
2018-19	1,05,064	4,970	0.54	299	6.02
2019-20	1,32,863	10,860	1.03	1,304	12.01
2020-21	71,403	23,626	2.10	1,598	6.77
2021-22	97,987	41,410	3.40	7,614	18.39
2022-23	97,424	34,956	2.66	10,240	29.29
Total	**13,15,669**	**1,15,822**	**8.80**	**21,055**	**18.18**

Source: Information provided by the Mission.

As indicated in the table above, among the 13,15,669 individuals registered between 2017-18 and 2022-23, there were 7,52,741 men, 5,62,439 women, and 489 from other gender categories. The distribution across different categories includes 8,99,722 candidates from the General category, 3,05,239 from SC, 1,10,708 from ST. Out of these 11,897 individuals were identified as physically handicapped across all categories.

SDEL had set an annual target of training 2.5 lakh youth under schemes to be implemented directly by SDEL (Channel-I) and 2.5 lakh under schemes implemented by other Government departments and Government bodies (Channel-II). The target envisaged by the Department/Skill Mission was found to be unrealistic as during the period 2017-2023 only 1,15,822 individuals were trained. Further, only 21,055 candidates (18 *per cent*) secured placements post-training, falling far short of the mandated 70 *per cent.*

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[26] As per Clause 3.3 of the CMKKY guidelines, Accreditation is a process of quality assurance and improvement. It provides quality assurance that the aims and objectives are honestly pursued and effectively achieved by the resources available, and that the TC demonstrated capabilities of ensuring the effectiveness of the programme, over the validity period of accreditation.

[27] Government Tool and Training Centre (GTTC), Apparel Training and Design Centre (ATDC), Karnataka State Road Transport Corporation (KSRTC), Karnataka German Multi Skill Development Centre (KGMSDC), Centre for Entrepreneurship Development of Karnataka (CEDOK), CIPET, Udyoga Society, BMVNTFSA, MGIRED, KSPCB, Prisons Department, KSDA, Women and Child Development Department, Channapatna Crafts Park, DSDO Koppal *etc*.

Audit observed the following discrepancies in registration, training, and placement/self-employment of candidates:

(a) Registration and Training:

There was a decreasing trend in the registration of candidates and the percentage of candidates trained as against candidates registered ranged from zero to 3.4. Further, the number of candidates trained was only 1,15,822 (3.86 *per cent*) as against the scheme target of 30 lakh for 6 years as detailed in **Table 2.5**.

(b) Placements:

As per Clause 11(viii) and sub-clause (b) of the guidelines, in addition to an independent third-party certification of the skilled individual, the outcomes of the Skill development programme shall be employment (both wage and/or self) on an annual basis of at least 70 *per cent* of the successfully certified candidates within three months of completion of training with at least 50 *per cent* of trainees placed in wage employment. Such candidates should continue to be in jobs for a minimum period of three months, from the date of placement with the same or any other employer. In the case of self-employment, candidates should be employed gainfully in livelihood enhancement occupations which are evidenced in terms of trade license or setting up of an enterprise.

Audit observed that the percentage of candidates placed against trained ranged from zero to 29 *per cent* between 2017-23. Despite the training imparted, a notable portion of Training Providers/Training Centers showed limited commitment to placing the trained candidates. This indicated a lack of rigorous monitoring by the Mission in implementing the scheme, with only 18 *per cent* of trained candidates being successfully placed. This discrepancy undermines the intended goal of employing 70 *percent* of the youth, highlighting a significant gap in achieving the Mission's objectives.

The Government, while accepting the observation stated (December 2024) that in the first year of the scheme (2017-18) an overwhelming response was received and therefore the registration numbers were on the higher side. In the subsequent years, the registration figures declined due to the COVID-19 pandemic, insufficient skill training centres, slow pace in training, low investment by private TCs *etc*. The Government had proposed and resolved a change in the implementation model issued *vide* resolution of January 2024 which included mandatory letter of intent from the Training Partners, establishment of Industry Linkage Cell, payments to TPs/TCs only after submission of three months tracked data of candidates either self-employed or wage employed.

Out of the 1,15,822 trained candidates, 21,055 candidates were placed during 2017-23. As per the guidelines the Skill Mission was to make payment to TC after obtaining 3 months' pay slip of the employed trainees before making payment to the TCs. However, the Skill Mission made payments without ensuring that the trainees were actually employed.

Thus, it is evident that the scheme did not meet its intended objective due to unrealistic targets, a decrease in the registration of trainees and deficiencies in the placement of trainees as out of 1,15,822 candidates trained, only 21,055 were placed during the period 2017-23.

2.1.9.6 Wasteful expenditure of ₹4.60 lakh on development of Mobile app for student registration

Mobile apps offer users swift and convenient access to information, services, and various functionalities. Considering the widespread adoption of mobile phones in recent years, the creation of a mobile app would likely lead to a surge in student registrations, enhancing accessibility and user engagement.

Audit observed that the mobile app designed for student registration did not materialize as per the plan. The agency responsible for developing the mobile application was paid ₹4.60 lakh for an application that was only partially developed. Consequently, the intended services of the mobile app like allowing the public to register and avail benefits from various implemented schemes, were not made available.

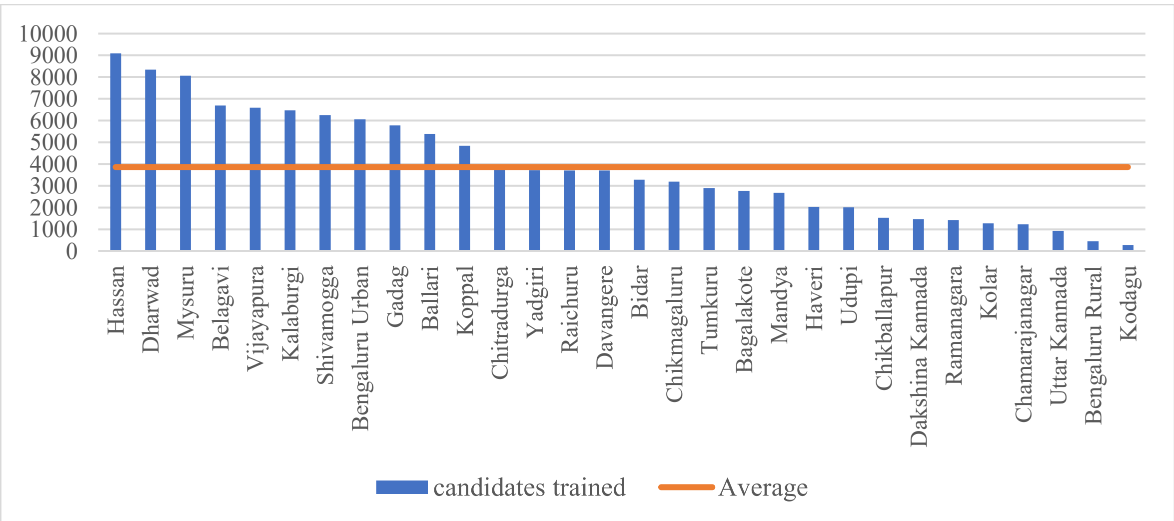
The Government accepted that (December 2024) the mobile application development for student registration is now outdated and it is essential to reassess whether further investment would be justified or to explore alternative solutions.

2.1.9.7 Regional disparity in imparting training

Karnataka faces the challenge of diverse population demographics and vast geographical distances.

Audit observed that 1,15,822 candidates were trained under the scheme during the period of 2017-18 to 2022-23. The district-wise details of candidates trained under the scheme are detailed in **Appendix 2.10** and **Chart 2.3**:

Chart 2.3: District wise Candidates trained and Average



The data illustrates a noticeable regional disparity in the implementation of training programs by the Skill Mission across various districts of Karnataka (**Chart 2.3**). Specifically, in Bengaluru Rural, Kodagu, and Uttara Kannada districts, the proportion of candidates trained amounted to less than one *per cent* of the total trained in all districts over five years. Whereas Hassan district exhibited a substantially higher figure, with a training rate of eight *per cent*. This significant variance underscores the uneven distribution of training opportunities and resources, raising concerns about equity within and accessibility to the Skill Mission's initiatives.

The Government accepted (December 2024) that many training institutions may lack necessary infrastructure such as classrooms, labs, equipment and qualified trainers to deliver high quality skill training to meet accreditation requirements. Further, regions with better infrastructure may have easier access to skill programs, distribution of industries across different regions can significantly impact the demand for specific skills leading to variations in skill development initiatives across regions. The Government had issued directives (February 2024) to provide skill training in 150 upgraded ITIs under Karnataka Innovation Udyoga Society and Industries Associations.

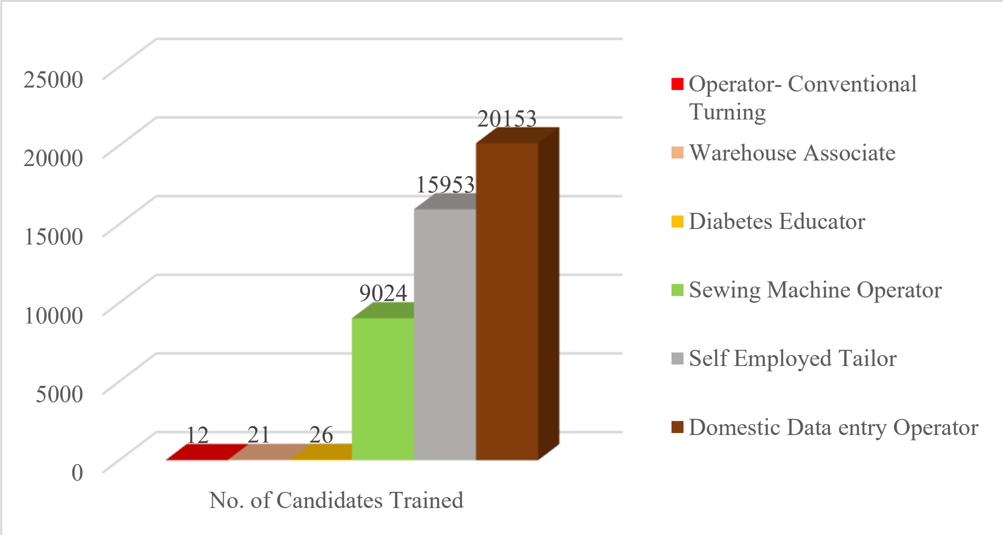
2.1.9.8 Funneling of funds towards training in limited job roles

The Department was to identify the job roles relevant to the industry demand in the local area after assessing skill gaps and impart training to the aspirants. Audit noticed that 719 job roles in 37 sectors were identified by the department in different sectors but training was imparted only in 170 job roles leaving the remaining 549 job roles with no training imparted.

Audit observed a significant disparity in the number of beneficiaries trained across different job roles during the period from 2017-18 to 2022-23, as, out of a total of 1,15,822 candidates trained, the number of beneficiaries ranged from as low as 12 in one job role to as high as 20,153 in another. This disparity in training allocation resulted in a significant portion of the training expenditure being concentrated on a few specific job roles, as illustrated in **Chart 2.4**[28]:

[28] Out of 170 job roles in which training was imparted, chart depicts three job roles in which least number of candidates were trained and three job roles with the highest number of candidates trained for comparison of disparity.

Chart 2.4 Job roles and number of candidates trained



The Government stated (December 2024) that the decision to allocate funds based on accredited job roles was made to align with the accreditation process and the demand for specific job roles by the DSDO. Since the implementation of CMKKY relies on private training partners who have discretion to choose the job roles they want to train, the DSDOs as well as the State can only reject or accept the application but cannot mandate that training be taken up in the job roles proposed by the districts.

2.1.9.9 Non-achievement of targets in Training under DC Quota

As per paragraph 7.5 of the Guidelines, the Deputy Commissioners (DC) of each district oversee the training and placement of 20 *per cent* of the beneficiaries assigned to their districts under Channel-I of the Scheme. Additionally, the District Skill Mission (DSM) is empowered with financial authority to approve training projects up to rupees one crore. In selecting prospective Training Providers (TPs) or Training Centers (TCs) and sanctioning projects, the DCs must adhere to the guidelines, obtaining approval from the Empowered Committee.

The Commissioner of Employment and Training allocated an amount of ₹29.16 crore during 2019-20 to Deputy Commissioners of 30 Districts and released ₹21.87 crore. The total target fixed for the 30 Districts was 21,600 candidates. Scrutiny of records revealed that the achievement was only 5,135 (23.77 *per cent)*. The un-utilised amount of ₹18.91 crore[29] (₹5.11 crore *plus* ₹13.80 crore) in this regard was lying with the DCs and not refunded to the Mission.

Audit observed that the Skill Mission allocated targets to the DCs only in 2019-20 though it was envisaged in guidelines to allot targets to DCs every year since inception *i.e.*, 20 *per cent* of the total target allotted to respective Districts. Further, records revealed that an allocation of ₹6.68 crore was made to train 6,600 candidates across eight test-checked Districts under the DC Quota. There

[29] This is total amount released to 30 districts for training under DC quota as detailed in **Appendix 2.11 and 2.12.**

were inconsistencies in scheme implementation, including underutilization of funds, lack of accreditation for Training Centers (TCs), deviation from assigned training roles and poor achievement against targets *etc*., as detailed in **Appendix 2.11**.

In respect of the remaining 22 Districts, a target of training 15,000 candidates was fixed, with an allocation of ₹15.19 crore. However, the actual training involved only 2,854 candidates (19 *per cent*) by incurring an expenditure of ₹1.39 crore. Out of 22 Districts, 10 districts did not conduct any training sessions. Consequently, ₹13.80 crore remained unutilized by the DCs over the past three years, as detailed in **Appendix 2.12**. The Skill Mission did not take any effective measures to reclaim these unused funds.

The Government accepted (December 2024) that Audit had highlighted critical areas that require immediate attention to ensure proper utilization of allocated funds. Further, it was stated that measures would be taken to ensure that future allocations adhere to prescribed guidelines, allowing for a more structured and continuous approach in training.

2.1.9.10 Irregularities in Koushalya Bhagya Events

The Government directed (January 2018) the department to conduct Information, Education, and Communication (IEC) activities to raise awareness about the scheme and mobilize beneficiaries to register on the department's web portal. Analysis of the Koushalya Bhagya events and job fairs undertaken under IEC activities by the Department revealed the following deficiencies.

The Government released (January 2018) ₹1.64 crore to 30 districts for implementing Kaushalya Bhagya events, to organize 15 camps, training 600 beneficiaries per camp. However, Audit observed in the test checked eight districts that only three districts conducted events, training 4,234 beneficiaries and spending ₹4.86 lakh. The remaining five districts incurred expenses of ₹19.14 lakh, with beneficiary details not ascertainable. Irregularities were observed, including drawl of money through self-cheques, lack of expenditure details, fund diversion, and non-conduct of IEC activities *etc*., as detailed in **Appendix 2.13**. Consequently, the intended objectives of conducting 15 camps to train 600 candidates each were not achieved, affecting the purpose of the scheme as the achievement was only 4,234 out of the target of 9,000 (47 *per cent)* to be trained.

The Government stated (December 2024) that a letter has been addressed to the DSDOs concerned to provide details relating to Audit observations.

2.1.9.11 Non-furnishing of records to Audit - ₹3.80 crore

During Audit, it was observed that the following records/documents related to scheme expenditure were not furnished for verification. The details of non-production of records/vouchers are narrated in **Table 2.6**:

Table 2.6: Details of non-production of records/vouchers[30]

Sl. No.	Name of the Agency	Amount/ Month of Release	Purpose of release	Audit remarks
1	KVTSDC	₹174.00 lakh October 2018	₹94.00 lakh towards SCP (40 TPs) and ₹80.00 lakh TSP (22 TPs) was disbursed under the SCP/TSP component	No evidence of or supporting documents like invoices, vouchers, bank payments details were made available to Audit.
2	DSDO Bangaluru Urban	₹65.00 lakh March 2018	To conduct of Job Fair	The Utilisation Certificate for ₹45.00 lakh was furnished to Audit. However, no records/vouchers in support of the expenditure shown were furnished to Audit. In the absence of event-specific details correctness of expenditure incurred could not be ensured in Audit.
3	DSDO Gadag	₹50.00 lakh March 2018	To conduct job fair in March 2018 and March 2020.	₹63.59 lakh (₹41.44 lakh plus ₹22.15 lakh) was incurred for job fairs. ₹13.59 lakh was diverted from the other savings and spent. However, details of diversion, vouchers, bills and details of the shortlisted and placed candidates for the entire expenditure were not produced to Audit.
4	DSDO Shivamog ga	₹50.00 lakh January 2020	To conduct job fairs.	₹49.86 lakh was utilized for organizing the District Level Udyoga Mela. However, detailed bills and invoices from the agency responsible for these arrangements were not presented.
5	DSDO Hassan	₹50.00 lakh/ February 2019	To conduct job fairs during February 2019	It was stated by the incumbent DSDO that an amount of ₹47.83 lakh was spent on the job fair during February 2019 by the previous DSDO. Though the present DSDO requested the Officer to furnish details of expenditure on conducting the Mela, no details/vouchers were furnished.

Source: Information provided by the Mission.

The non-production of vouchers raises concerns about transparency, accountability, and adherence to prescribed standards.

The Government did not furnish any specific reply.

2.1.9.12 Training under *Jai Kaushal Jawan* Scheme- ₹1.50 crore

An amount of ₹1.50 crore was approved and disbursed by the Government to the Skill Mission as part of the *Jai Kaushal Jawan* Scheme between 2018-19 and 2019-20. The intended purpose was to provide skill training to Ex-servicemen and widows of Ex-servicemen. Despite allocation of funds, there was no evidence of training imparted to the Ex-servicemen and their widows. Skill training is a crucial tool for empowerment of ex-servicemen and widows.

The Government stated (December 2024) that efforts were made to provide training. However, due to lack of co-ordination between the various stake holders the program was not implemented. Several promotional activities were

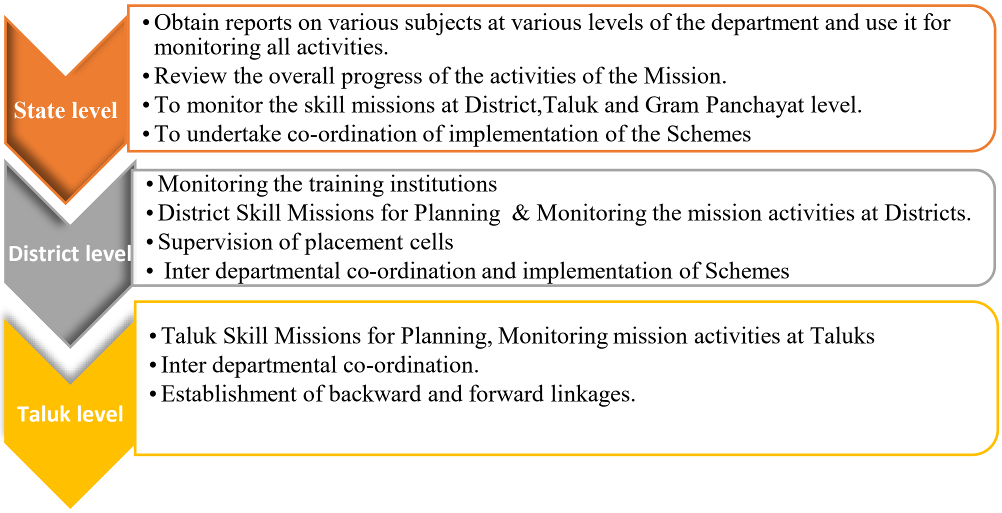
[30] Records called for on 31 July 2023, 28 November 2024 and 16 December 2024.

conducted to register ex-servicemen and widows for the courses despite which, no registrations were received.

2.1.10 Monitoring and Evaluation

Monitoring and evaluation are essential for ensuring efficient utilization of resources so that the envisaged outcomes are achieved within the planned timeframes. The Scheme guidelines provide for establishing a decentralized monitoring system for all activities in this system, to deepen the flow of information spread over all levels, *viz*., State, District and Taluk levels as given in **Chart 2.5** below:

Chart 2.5: Flow diagram of Decentralized Monitoring System



Source : CMKKY guidelines.

As stated earlier, no Taluk skill missions were formed. Consequently, there was no monitoring activity done at Taluk level. The observations relating to monitoring at State and District level are brought out in succeeding paragraphs:

At State Level

2.1.10.1 Non-constitution of Governing Council

The Government ordered (April 2017) that the State Skill Mission be constituted with a Governing Council comprising 27 members and chaired by the Hon'ble Chief Minister to ensure convergence of skill development activities and capacities of various departments at the apex level. The primary objective was to provide overall guidance and policy direction, review overall progress and development of Mission activities. It was to oversee convergence of all skill development initiatives/ schemes across Ministries/ Departments with objectives and to set criteria for the selection of beneficiaries and supervision under any of the skill development programmes in the State run by any department.

However, Audit observed that the Governing Council was not constituted till date (November 2024). In the absence of the stipulated Governing Council, the

Annual Action Plans (AAPs) were not prepared by converging all skill development schemes across the departments.

The Government, while accepting the absence of a Governing Council, stated (December 2024) that the State had set up an Empowered Committee (EC) and its primary objective was to provide overall guidance and review the progress of development of Mission activities.

The reply cannot be accepted, as the Governing Council was established to ensure the convergence of various schemes across different departments. In contrast, the Empowered Committee, headed by the Additional Chief Secretary of the SDEL department, has jurisdiction limited to that department. Its decisions may not be enforceable on schemes implemented by other departments. Consequently, the intended convergence of schemes may not be effectively achieved.

2.1.10.2 Lack of concurrent and comprehensive evaluation of the Scheme

As per Section 15 of operational guidelines, a concurrent evaluation is to be undertaken after two years of implementation of the scheme and a comprehensive evaluation after five years, to assess the impact of the scheme. The scheme guidelines are to be changed as per the recommendations of evaluation reports to achieve the objectives of the scheme. As such, concurrent evaluation was to be done in the year 2019-20 and impact assessment study was to be conducted during 2022-23.

However, Audit observed that neither concurrent nor comprehensive evaluation of the Scheme were carried out even after six years of launching the Scheme.

The Government stated (December 2024) that a letter was addressed in this regard to the Karnataka Evaluation Authority/University during 2024-25.

2.1.10.3 Non-release of payment to Training Providers by the State Skill Mission

As per Clause 12 A (i) of the guidelines, Payment shall be made to the training providers, not later than 60 days following submission by the TP of invoices in duplicate to the concerned through following conditions and procedure.
Audit analyzed 2,694 bills of first tranche[31], 2,152 of the second tranche[32] and 103 bills of the third tranche[33] to ascertain the time taken for payment after assessment of the training imparted. The delay in settlement of claims is explained in **Table 2.7**.

[31] Under Guidelines 1.0 Clause 12 payment to training provider was to be made towards first tranche of 50 *per cent* on commencement of training after inspection by District inspection team within 15 days of commencement of training.

[32] Second tranche of 30 *per cent* would be paid on successful assessment and certification of the trainees.

[33] Third tranche of 20 *per cent* would be paid on placement of 70 *per cent* of candidates.

Table 2.7: Details of delay in settlement of claims

Tranche	Delay in No. of days	No. of bills
First tranche	More than 60 days up to 180 days	1,973
	More than 180 up to 365 days	612
	More than 365 days	109
Second tranche	More than 60 days up to 180 days	881
	More than 180 up to 365 days	900
	More than 365 days	371
Third tranche	More than 60 days up to 180 days	20
	More than 180 up to 365 days	71
	More than 365 days	12

Source: Information provided by the Mission.

Though the guidelines prescribed 60 days to process the bills, the Skill Mission did not adhere to the timelines despite the availability of funds. It was also noticed that the Skill Mission did not institute any mechanism for the settlement of bills on a first-come, first-serve basis as stipulated in the guidelines.

The Government stated that (December 2024) the treasury would not accept the invoices beyond March 31 and bills were to be resubmitted for next year. Several errors found in the invoices were to be reconciled which were kept pending and hence delayed the payments. However, non-release of funds in time may result in discontinuation of training as TCs are fully dependent on funds. Hence, it is essential that the impediments in timely reimbursements of claims are dealt with.

At District Level

2.1.10.4 Lack of supervision by DSDOs

As per the guidelines relating to functioning of DSDOs issued (September 2017) by the Government, the DSDO is responsible for the implementation and overall supervision of the scheme at district level, inspection and uploading of the inspection report of the TCs, conducting District Skill Mission meetings under chairmanship of the DC, monitoring of TCs during training to ensure quality training being imparted, redressal of complaints against TCs, conducting Job Fairs in District, mobilization of candidates *etc*.

However, apart from the shortcomings observed in the paras listed under Planning, Financial Management, Implementation and during Joint Physical Verification as discussed in Para 2.1.9.2, the DSDOs did not effectively perform their duties and responsibilities as envisaged in the guidelines. The poor performance of DSDO is directly attributed to the poor outcome of the scheme benefits as discussed below:

- The DSDOs were also responsible for inspecting the TPs/TCs to ensure that certified candidates were placed in gainful employment before recommending the TP/TC for the third tranche of their claims. Audit observed that payments of ₹1.53 crore were made (March 2023) to 20 TCs, without obtaining the details of placements by these TPs/TCs.

There were instances where candidates were placed in sectors unrelated to their training. Further, the TCs did not maintain any records or details regarding self-employment outcomes.

- The DSDOs also could not ensure the placement of trained candidates within the stipulated 3 months of completion of the training as outlined in the guidelines. The Mission also fell short in evaluating the performance of training providers, leading to an inability to withhold approval for future training batches in instances of non-performance.

The Government stated (December 2024) that regular review meetings are being conducted to oversee the work of DSDOs to assess the progress of implementation of schemes. However, no documentary evidence was furnished to Audit in support of the claim.

2.1.10.5 Non-conduct of District Skill Mission Meetings

The District Skill Missions were established in each district under the Chairmanship of Deputy Commissioners, to oversee and facilitate planning, monitoring, and implementation of Skill Development, Entrepreneurship, and Livelihood activities. These Missions were expected to hold meetings at least once in two months. As such 34 meetings were to be conducted during 2017-18 and 2022-23.

However, Bidar, Dharwad, and Gadag districts had not held any meetings during this period. Yadgiri district conducted 17 meetings, Vijayapura 13, and Tumakuru and Chikkaballapur held 12 meetings each. The remaining districts convened less than 10 meetings throughout this timeframe as detailed in **Appendix 2.14**. The non-conduct of stipulated number of meetings in districts raises concerns about the effectiveness and functioning of the District Skill Missions.

While accepting the observation Government stated (December 2024) that the DSDOs would be instructed to conduct meetings once in 2 months to streamline the co-ordination and execution of skill development programs at the grass root level.

Conclusion

- The Taluk Skill Missions, mandated for skill gap assessment and coordination at the Taluk level, were not constituted in any of the 236 Taluks. Consequently, planning for preparation of the State Annual Action Plan did not account for the requirements of skill development at the Taluk level. Additionally, skill gaps were not addressed in consultation with industries and candidates' demands, as their inputs were not considered while preparing the State Plans.
- No convergence plan was developed, resulting in missed opportunities to prevent duplication and enhance the efficiency of programs as observed in the cases of *Jai Kaushal Jawan* Scheme, trainee placements, *etc*.

- Instances of lapse of funds (₹173.53 crore), retention of funds (₹119.89 crore), diversion of funds (₹7.56 crore) and excess release of funds (₹12.98 crore) were also observed rendering the scheme ineffective as seen from the cases of implementing agencies.
- SDEL had set an annual target of training 2.5 lakh youth under schemes to be implemented directly by SDEL (Channel-I) and 2.5 lakh under schemes to be implemented by other Government departments and Government bodies (Channel-II). The target envisaged by the Department/Skill Mission was found to be unrealistic and only 1,15,822 individuals were trained during the period 2017-2023. Further, only 21,055 candidates (18 *per cent*) secured placements post-training, falling far short of the mandated 70 *per cent.*
- The scheme faced several shortcomings in monitoring and evaluation such as the non-constitution of a Governing Council, lack of concurrent cum comprehensive evaluation of the scheme, inability of DSDOs to fulfil their responsibilities in conducting regular inspections, *etc*. Overall, the scheme did not lead to training the intended number of beneficiaries which impacted individuals seeking skill development and employment opportunities, leading to missed chances for economic empowerment and growth.

Recommendation 1

The State Government may

- ***form Taluk level missions to coordinate at field level and prepare the action plan in accordance with the scheme guidelines.***
- ***formulate a Convergence Plan to coordinate efforts with schemes of other Government departments and prevent duplication or overlapping of programs to maximize efficiency and impact of training initiatives.***
- ***set realistic annual training targets ensuring that regional imbalances are addressed and achieve these targets through effective monitoring.***
- ***regularly review outstanding balances with the implementing agencies to ensure financial prudence in utilisation of funds.***
- ***conduct effective Information, Education, and Communication (IEC) activities at the grassroots level to ensure widespread dissemination of information about the scheme and highlight the benefits of Future Skills modules.***
- ***strengthen the monitoring mechanism by implementing regular and systematic monitoring protocols to track the progress and performance of the scheme's implementation***.

Department of Labour

2.2 Compliance Audit on Labour Boards – Labour Department

In Karnataka, the Department of Labour plays a pivotal role in ensuring labour welfare and maintaining smooth industrial relations. It enforces labour laws, promotes industrial peace, and implements social security measures. Its activities align with labour policy to protect workers' rights and interests while fostering industrial growth. By nurturing labour resources, it lays the groundwork for comprehensive development and inclusive industrial relations in the State.

The Labour Department extends welfare measures to labourers through Boards like the Karnataka Labour Welfare Board (KLWB), the Karnataka Building and Other Construction Workers' Welfare Board (KBOCWWB) and the Karnataka State Unorganised Workers' Social Security Board (KSUWSSB).

The Compliance Audit of the KSUWSSB and the KLWB was conducted covering the period from April 2018 to March 2023 and the observations made are brought out in succeeding paragraphs.

Karnataka State Unorganized Workers' Social Security Board

The term '*unorganized worker*' has been defined under the Unorganized Workers' Social Security Act, 2008, as a home-based worker, self-employed worker or a wage worker in the unorganized sector and includes a worker in the organized sector who is not covered by any of the Acts mentioned in Schedule-II of Act. The Karnataka State Unorganized Workers' Social Security Board (KSUWSSB) was formed in the year 2009 in accordance with Clause 6 of the Central Unorganized Workers' Social Security Act, 2008 (Central Act).

The functions of KSUWSSB as envisaged in the Central Act include recommending to the State Government to formulate suitable schemes for different sections of the unorganized sector workers. The Board was also required to review expenditure from the funds under various schemes, the progress of registration, issue of cards to the registered workers and record keeping at the district levels. Additionally, the Board would undertake such other functions as are assigned to it by the State Government from time to time.

2.2.1 Schemes implemented by the Board

The Board implemented the following State schemes during the period covered by audit:

a) Ambedkar Karmika Sahaya Hasta Scheme which focused mainly on the registration of unorganized workers across the State,
b) Accident Benefit scheme which included financial assistance for death or injury to drivers, conductors and cleaners of commercial vehicles and educational assistance to wards of deceased drivers, conductors and cleaners.

c) Asha Deepa which focused on providing employment opportunities in private sector factories and establishments to candidates belonging to Schedule Castes and Schedule Tribes, thereby improving their socio-economic condition. The role of the Board in implementation was limited as the scheme was being implemented by Karnataka State Workers Welfare and Social Security Society.

d) During the Covid pandemic, the State Government entrusted the Board with the work of payment of cash assistance to unorganized workers.

e) Apart from the above, the Board was implementing Central schemes such as National Pension System (NPS Lite), Atal Pension Yojana and registration under *e-Shram*[34] portal.

2.2.2 Non-appointment of Board members

The members to the Board were first appointed during October 2009 and further nominated from time to time until 2018-19 when the Government cancelled the nominations in August 2019. No members were appointed to the Board during the three years from 2019-20 to 2021-22 and the Board is yet to be reconstituted as of 31 March 2024.

In the absence of a constituted Board, the Chairman and the Member Secretary undertook the responsibility of monitoring expenditure and scheme execution. However, the lack of a constituted Board meant inadequate representation from stakeholders, including employees and employers of the unorganized sector, in the functioning of the Board and the welfare schemes.

The Government replied (August 2024) that due to State elections and implementation of election code of conduct, the nominees to the Board were withdrawn during August 2019 and proposals for Board formation are now under consideration by the State Government.

2.2.3 Funding of the Board

The funding of the Board is dependent on budgetary support provided by both Central and State Government for implementation of its activities. The details of the budget received and expenditure incurred are detailed in **Table 2.8** below:

Table 2.8: Details of budget received and expenditure incurred by the Board

(₹ in crore)

Year	Opening balance	Budget released	Consolidated Balance	Interest received	Expenditure	Closing Balance*
2018-19	36.29	35.79	72.08	2.49	12.48	62.09
2019-20	62.09	16.37	78.46	3.36	22.42	59.41
2020-21	59.41	49.13	108.54	1.32	79.63	30.22
2021-22	30.22	362.68	392.90	2.60	288.94	106.57
2022-23	106.57	5.77	112.34	2.47	19.75	95.06

Source: Data furnished by the Board.

** The Closing balance does not include the NPS subscriptions received from the beneficiaries and retained in the Board's Bank account which have been commented in Paragraph 2.2.7.3.*

[34] This portal is an online platform launched (August 2021) by the Government of India to create a comprehensive database of unorganized workers across the country which aimed to improve the welfare and social security of workers in the unorganized sector by integrating them into various government schemes.

From the table, it is evident that the expenditure increased during 2021-22 which was attributable to Covid pandemic.

2.2.3.1 Huge unspent balance of ₹97.13 crore lying in the Board's bank accounts

The Board submits budget proposals to the Government of Karnataka seeking financial assistance to implement schemes like Ambedkar Karmika Sahaya Hastha scheme/registration and issue of smart card, commercial drivers' accident/death assistance, educational assistance for the children of deceased drivers, COVID assistance and National Pension Scheme. Accordingly, after the approval of beneficiary applications, the board disburses the sanctioned amount through DBT.

Audit review of the Board's bank accounts at SBI and Union Bank revealed that substantial funds including accrued interest (excluding administrative expenses) amounting to ₹97.13 crore were held as of March 2023. These unutilized funds were related to grants released for discontinued schemes, such as the COVID scheme (2021-22) and the NPS Lite scheme (March 2017). The Board neither utilized these funds nor returned them to the Government of Karnataka.

The Government replied (August 2024) that out of the amount of ₹88.71 crore remaining unspent under COVID, an amount of ₹29.15 crore would be utilized for the payment of DBT applications (1.39 lakh), which were pending due to inactive accounts and non-linkage of bank accounts to Aadhaar numbers. The Government further stated that an amount of ₹10.00 crore was approved for utilization towards identification of 52 lakh unorganized workers and for IEC activities in the State. It added that the balance in the NPS bank account was retained in the Board to enable pension payments till the last registered beneficiary attains 60 years of age.

This action is an afterthought as these payments could have been processed during relevant years. Moreover, in the absence of necessary details, DBT payments cannot be made to inoperative bank accounts. Further, documents made available did not reflect any concrete plans for IEC activities. Therefore, the justification given by the Government is far from the ground reality and cannot be implemented in the near future.

The Government also did not provide a detailed analysis or projection of the pension liability, making it unclear as to whether the retained amount was appropriate or excessive. Without this information, the decision to retain such a large sum remained unjustified.

Implementation of schemes

The scope of the compliance Audit of the Board was limited to five[35] welfare schemes of the Board. The observations are brought out:

[35] Ambedkar Karmika Sahaya Hasta Scheme, Accident Benefit Scheme, National Pension System (NPS Lite), Atal Pension Yojana and Covid Assistance.

2.2.4 *Absence of survey to identify unorganized workers*

Unorganized workers are the vast majority of the working class who fall under different categories with few institutions/associations to represent them. Information about the number of unorganized workers in the State was found not available with the Board or the State Government. In the absence of data relating to unorganized workers, it was necessary for the Board to conduct a survey to identify the number of unorganized workers under each category and to develop a comprehensive database for formulating policies or schemes required for their benefit.

Audit observed that the Board had not conducted any survey to identify the unorganized workers belonging to different trades. However, the Board had collected data on drivers, conductors and cleaners of commercial vehicles, thus limiting the reach of the welfare schemes to only these beneficiaries. Thus, the Board not only could not ensure that the welfare schemes were implemented for all eligible categories of unorganized workers but also did not review the progress of registration and issue of cards to unorganized sector workers as envisaged in the Act/Rules of the Board.

2.2.5 *Ambedkar Karmika Sahaya Hasta Scheme*

The objective of the scheme was to register and issue identity cards under one title and one logo to 11 categories of unorganized workers belonging to Hamalis, Domestic Workers, Rag Pickers, Tailors, Mechanics, Washer men, Barbers, Gold Smiths, Iron Smiths, Potters and Kiln Workers. As per Rule 12 of The Unorganized Workers Social Security (Karnataka) Rules, 2009, the Board initially notified five categories of unorganized workers for registration. The Karnataka State Unorganized Workers' Social Security Board launched the Ambedkar Karmika Sahaya Hastha Scheme in September 2018 wherein six additional categories were identified and all the 11 categories were considered for registration. The grants received and expenditure incurred on the scheme are detailed in **Table 2.9**.

Table 2.9: Year wise Budget received and expenditure

(₹ in crore)

Year	Opening Balance	Budget Released	Expenditure	Closing Balance
2018-19	11.07	22.17	7.29	25.94
2019-20	25.94	10.35	8.92	27.37
2020-21	27.37	0.01	27.91	-0.53$
2021-22	3.01#	5.00	3.92	4.09
2022-23	4.57#	0.01	4.35	0.23

Source: Data furnished by the Board.
$ *The actual closing balance was positive due to interest credited in the Bank accounts.*
#Includes the interest earned in the bank account.

2.2.5.1 Non-coverage of major categories of workers

As of March 31, 2022, the Board had data for only 2,51,385 workers, whereas cross verification of *e-Shram* portal showed that there were 20,97,593 unorganized workers across 29 categories (other than Agriculture and construction workers) registered in Karnataka. The Board not only did not take action to identify the workers of all categories and notify them for registration but also could not ensure that even the registration of the 11 notified categories of workers had been fully completed. Thus, the non-conduct of surveys and the lack of a comprehensive database hindered the registration of unorganized workers, undermining efforts to extend social security benefits.

The Government stated (August 2024) that the *e-Shram* portal, implemented by the Government of India, registers 379 categories of unorganized workers, including the 43 identified by the Government of Karnataka. Once complete, this data would be used for scheme implementation, eliminating the need for separate registration by the Board or the State Government.

The conduct of surveys could help in the identification of unregistered workers and promote registration on both the Board's portal and *e-Shram*.

2.2.5.2 Unproductive expenditure on *Karmika Seva Kendras* (KSKs)

On the directions of the Labour Department, the Board established *Karmika Seva Kendras* (KSKs) under Ambedkar Karmika Sahaya Hasta scheme to assist workers in the registration process and to enable availing benefits. The KSKs were opened at taluk level and in each KSK, *Karmika Bandhu*/(s) were appointed on a voluntary basis for collection of application from the beneficiaries, co-ordinating with the Labour offices for registration and issue of smart cards to the registered beneficiaries. The *Karmika Bandhus* were paid on a commission basis for the service rendered by them. Each registered beneficiary was to receive a unified Smart Identity Card, enabling access to welfare schemes[36]. The KBs were responsible for conducting surveys and registering workers under a joint initiative by the Board and KBOCWWB.

KSUWSSB instructed (February 2019) 34 District Labour Officers to establish KSKs and released ₹4.36 crore to them for purchase of office equipment like Laptop, Printer, Computer table & chair, Almirah *etc.,* with an expenditure of ₹2.41 crore having been incurred.

Audit observed that during the year 2017-18, a total of 169 KSKs (out of 175 proposed) were established and 1,123 *Karmika Bandhus* (KBs) were appointed for running these KSKs. An additional expenditure of ₹1.74 crore was incurred on maintaining the KSKs which included expenditure on rent for the premises, consumable items *etc*. The Board did not fix any annual targets for the number of surveys and registrations to be done by the KBs. Consequently, there was no mechanism in place for the Board to verify the quantum of surveys undertaken by the KBs and monitor the number of beneficiaries enrolled by the KBs. The effectiveness of KSKs as such was not assessed regularly by the Board.

[36] Ambedkar Karmika Sahaya Hasta, Accident Benefit Scheme and Asha Deepa scheme.

Audit observed that as of July 2021, out of the appointed 1,123 KBs, only 243 KBs in five[37] districts were actively working. Further, only 3,052 applications were generated and finalized by these KBs. Thus, the KBs in the remaining 25 districts, which included the test checked districts, did not register any beneficiaries. The Board in September 2023 after considering the poor performance of the KBs and various public complaints, decided to abolish their services and scrap the scheme of KSK.

It was observed that 19 Labour Officers had not furnished the details of fund utilization amounting to ₹1.15 crore to the Board till date (March 2024). The Board also did not ascertain the funds utilised for setting up the KSK and did not verify records of the stock of assets along with conducting their physical verification.

Thus, ineffective assessment of the working of the KBs and KSKs by the Board resulted in non-generation of comprehensive data on total beneficiaries across the State despite spending ₹6.10 crore on the *Karmika Seva Kendras*.

The Government replied (August 2024) that *Bapuji Seva Kendra* and *Gram-one* of Rural Development and Panchayat Raj (RDPR) department catered to dissemination of information to the beneficiaries of various welfare schemes and provided assistance in getting the benefits from the Labour department as well as various Labour Boards and hence, Govt ordered the closure of these KSKs. Further, it was stated that the unspent balances would be recovered from the labour officers concerned.

Thus, the KSKs were formed with the objective of catering to the requirement of registration of workers towards providing them various benefits/assistance, however, the Board did not effectively achieve the objectives, rendering the expenditure unproductive.

2.2.5.3 Shortfall in issue of Smart Cards by KEONICS and blocking of funds of ₹1.75 crore

The Board decided under "Ambedkar Karmika Sahaya Hasta" scheme to identify, register and issue smart cards to the notified 11 categories of the unorganized workers. The Board accepted (December 2017) the proposal of KEONICS and a Memorandum of Understanding (MoU) was signed. The work was entrusted in a staggered manner for issuing 11,76,504 smart cards through four work orders issued between December 2017 and February 2019 at the rate of ₹54.10 per card. Advance payments of ₹2.11 crore (April 2018, Jan 2020 and Nov 2020) were made against the above work orders.

Audit observed that the Board initially received 90,315 smart cards from KEONICS against the first work order but returned them since they were defective. After rectification of the defects, 66,607 cards were received (December 2018 to February 2020) by the Board. The balance number of 11,09,897 cards were not delivered by KEONICS. As of March 2022, the Board

[37] Chitradurga, Kodagu, Mandya, Raichur and Tumakuru.

had registered 2,51,385 workers. However, KEONICS was entrusted with the work of issuing smart cards to 11,76,504 workers in December 2017. As the Board did not conduct any survey to identify the number of unorganized workers, the basis for arbitrarily specifying the number of cards to be issued which were more than the actual available registrations, was unjustified.

Further, the cost of undelivered cards, amounting to ₹1.75 crore, was to be recovered from KEONICS. However, the Board took no action to recover the amount. Due to the absence of penalty clauses in the MOU for delays in or non-completion of the work assigned, the Board had no leverage over KEONICS to enforce timely implementation.

The Board, instead of formulating schemes for all the 11 identified categories of un-organised workers, spent ₹2.11 crore on issuing smart cards. Possession of the smart card alone does not entitle the beneficiaries to any benefits, as the Board offered only one scheme, specifically for commercial vehicle drivers, conductors, and cleaners. Even for drivers, a valid driving license was necessary for obtaining benefits and registration with the Board was not mandatory.

The Government replied (August 2024) that the Board had sent letters to KEONICS (February 2024) demanding the immediate completion of the work or a refund of the remaining amount. The Government also stated that legal action would be initiated if KEONICS failed to comply with these demands.

2.2.6 Accident Benefit Scheme for drivers, conductors and cleaners of commercial vehicles

The scheme was introduced by the Government to be implemented through the Board from 2012-13. The objective of the scheme was:

- to provide accident benefit of five lakh rupees in case of death of driver or conductor or cleaner of commercial vehicles.
- In case of permanent disability compensation up to two lakh rupees and medical reimbursement of up to one lakh rupees would be paid to cover hospitalization expenses.
- Educational assistance of ₹1,000 per year up to 12th standard would be paid to the children of the deceased beneficiaries.

The requirement for claiming benefits by the commercial drivers was to submit a valid commercial driving license and registration with the Board was not mandatory. For availing benefits under the scheme, the conductors and cleaners were required to be registered with the Board. The details of grants and expenditure on the scheme are detailed in **Table 2.10**:

Table 2.10: Year wise Budget received and expenditure for Accident Benefit Scheme

(₹ in crore)

Year	Opening Balance	Budget Released	Expenditure	Closing Balance
2018-19	16.92	13.13	4.97	25.07
2019-20	25.07	5.00	6.68	23.38
2020-21	23.38	0.01	10.01	13.38
2021-22	15.73#	0.01	10.87	4.87
2022-23	5.18#	4.76	8.70	1.25
Total		**22.91**	**41.23***	

Source: Data furnished by the Board.
 # Includes the interest earned in the bank account.
**Excess expenditure was met out of earlier years' accumulations and interest received.*

Audit observed that only 1,399 beneficiaries, with expenditure of ₹52.18 crore (since inception), were covered under Accident Benefit and 1,273 beneficiaries were covered under educational assistance with an expenditure of ₹1.27 crore. Though the scheme was implemented since 2012-13, the scheme was restricted to only one category of unorganized workers. The Board had not assessed and explored the possibilities of widening the scope of the scheme to other categories of unorganized workers.

2.2.7 National Pension System (NPS) lite Swavalamban Scheme and Atal Pension Yojana

NPS lite *Swavalamban* Scheme was launched by Government of India (GoI) in the year 2010 to provide old age income security to economically weaker/ disadvantaged sections of society. KSUWSSB was registered as an Aggregator for the scheme and enrolled unorganized workers under the scheme. As per the scheme, a general subscriber shall contribute ₹1,200 *per annum* with a matching contribution of ₹1,000 *per annum* from the Central Government and ₹1,200 *per annum* from the State Government. For Scheduled Caste /Scheduled Tribe subscribers, the matching contribution was ₹2,000 *per annum* from the Central Government and ₹2,400 *per annum* from the State Government.

The Ministry of Finance, Government of India, launched (01 June 2015) the Atal Pension Yojana (APY) for those unorganized sector workers in the age group of 18 to 40 years. The Operational Framework was established by Government of India and the Scheme was administered by Pension Fund Regulatory and Development Authority (PFRDA) and National Security Depository Ltd (NSDL) would act as Central Record keeping Agency (CRA). APY guarantees a minimum monthly pension for the subscribers ranging between ₹1,000 and ₹5,000 per month. GoI will also co-contribute 50 *per cent* of the subscriber's contribution or ₹1,000 *per annum*, whichever is lower. Government co-contribution was available for the first five years of the scheme with certain conditions.

Consequent to the launch of Atal Pension Yojana (APY) in 2015, fresh enrolment under the NPS Lite *Swavalamban* Scheme was ceased by the State Government from the year 2015. NPS-Lite *Swavalamban* subscribers aged between 18 and 40 years were allowed to migrate to the Atal Pension Yojana (APY) scheme. NPS-Lite subscribers aged above 40 years who cannot migrate to APY, were allowed to continue in the scheme till they attain the age of 60 years.

2.2.7.1 Auto-migration of existing NPS Lite *Swavalamban* Subscribers to Atal Pension Yojana

Audit observed that the Pension Fund Regulatory and Development Authority (PFRDA) instructed (December 2015) Central Recordkeeping Agency (CRA) to auto migrate the existing *Swavalamban* subscribers in the age group of 18-40 years to APY. The Board was to take up the work of migration, educate, guide and assist the subscribers on the migration process and seek information on the targeted pension and the preferred mode of payment from the subscribers.

Audit observed that out of a total of 50,655 subscribers of the NPS Lite scheme, 24,839 subscribers in the specified age group were eligible for migration to the Atal Pension Yojana (APY). However, only 8,224 subscribers were migrated, leaving 16,615 subscribers in the old NPS Lite scheme. The Board did not auto-migrate all the eligible subscribers to APY. These 16,615 subscribers could not reap the benefit of assured pension under APY scheme and were exposed to the risk of market linked NPS Lite pension scheme.

The Government replied (August 2024) that willing subscribers were migrated from NPS to APY. Further, it was also stated that due to the penalty clause for non-payment of timely subscription in APY, the subscribers were not willing to migrate to the new Pension scheme.

The reply is not acceptable as the notification specified that all eligible subscribers were to be migrated to APY except those who opted out. The Board was required to educate and guide its' beneficiaries about the advantages of minimum guaranteed pension in the Atal Pension Yojana, however ineffective action on the part of the Board resulted in non-migration of more than 50 *per cent* of the beneficiaries of NPS.

2.2.7.2 Non-reconciliation of Bank accounts by the facilitators for NPS Lite-*Swavalamban* Scheme

The Board appointed five agencies approved by PFRDA as facilitators for managing the NPS-Lite scheme. The prime responsibility of the facilitator is to collect application forms along with initial contribution, capture data from the filled application, upload the subscriber details, carry out Banking and reconciliation, remittance of funds as per Board's authorization to the NPS Trust.

Audit observed (December 2023) that a sum of ₹13.50 lakh for 1,009 NPS subscribers was lying unreconciled in the designated bank account (facilitator-wise bank account). It was further observed that the facilitators did not collect details of challans from banks and remit subscriptions received to the PRAN account of the subscriber after reconciliation every month. The details of the unreconciled amount remaining with the bank are provided in **Table 2.11** below:

Table 2.11: Unreconciled amount lying with the Bank

Sl. No.	Account No.	No. of NPS subscribers	Un-reconciled amount (in ₹)
1	510101005422255	224	2,82,900
2	510101005422281	Not furnished	27,100
3	510101005422298	545	5,91,639
4	510101005422441	60	1,00,400
5	510101005422591	180	3,48,319
	Total	**1,009**	**13,50,358**

Source: Data furnished by the Board.

Contributions lying idle in the facilitators' bank account instead of being invested in NPS resulted in lost opportunities for compounded growth besides impacting the future corpus of the subscribers. The pension payable to the subscribers was directly dependent on the subscription paid to the PRAN account of the beneficiary and hence, the amounts collected but not remitted from the NPS subscribers and not credited to their PRAN accounts, will result in reduced pension to the subscribers.

The Government replied (August 2024) that the Board had sought details of the beneficiaries from the local branches of the banks and stated that the amounts would be reconciled and credited to the beneficiaries concerned PRAN accounts, if they came forward with the payment details.

The reply is not acceptable as it is the responsibility of the facilitators to remit subscriptions received from the beneficiaries to their PRAN accounts. The Board on its part, could not ensure that the remittances were reconciled and transferred by the facilitators. Delayed remittance of subscription will impact the corpus and growth of fund of the NPS subscribers.

2.2.7.3 Retention of ₹2.69 crore pertaining to NPS Lite scheme in Bank Account

The Board operates a Savings Bank Account for crediting matching grants of NPS Lite scheme to the beneficiaries and an amount of ₹2.69 crore was lying in the account as of March 2023. Government of Karnataka (GoK) stopped releasing matching grants from 2016-17 and the matching grants released in earlier years were not credited to subscribers' accounts due to the absence of data with KSUWSSB. The facilitators did not reconcile the amounts credited by the subscribers to the bank account and did not specify the matching grant to be credited to the subscribers' account periodically. The non-credit of matching grants deprived subscribers of their entitled additional funds, adversely affecting their overall benefits and financial security.

The Government replied (August 2024) that out of ₹2.69 crore, an amount of ₹8.34 lakh pertained to incentives meant for the facilitators and the balance amount is required to meet the administrative expenditure till the end of the scheme.

The reply is not acceptable as the amount pertaining to the incentives meant for the facilitators and the administrative expenses need to be spent from the budget grants and not from the matching grants meant for the subscribers.

2.2.8 Non-implementation of International Migration Centre-Karnataka (IMCK) Project

In response to numerous reports of harassment faced by skilled, semi-skilled, and unskilled workers traveling abroad for employment, the Government of Karnataka decided in March 2018 to establish an International Migration Centre-Karnataka (IMCK). The Board was designated as the Recruitment Agency (RA) for semi-skilled and unskilled workers, with ₹100.00 lakh earmarked for setting up the Centre. It was also decided to impart pre-departure orientation training to skilled and unskilled workers. The Board incurred (January 2019) an expenditure of ₹0.25 lakh for registration of the Centre with the Protector General of Emigrants (PGE), Ministry of External Affairs and had given (July 2019) a bank guarantee of ₹50.00 lakh to the PGE. The Board was nominated by the Ministry as the recruitment agency in October 2019.

The Board/IMCK was required to maintain registers for recording enquiries from foreign employers; sign Memorandum of Understanding (MOU) with them; post and advertise the vacancy details on website *etc.* The Board/IMCK was thus, required to act as a facilitator between foreign employers and unorganized workers. However, audit observed that the Board/IMCK did not initiate necessary action to either register foreign employers or impart training to the semi-skilled and unskilled workers. The tie-ups with foreign employers were not established and no registered worker was sent abroad till date (May 2024).

The Government replied (August 2024) that creation of the website (for providing IMCK information) and setting up of four Information centres in Yadgiri, Davanagere, Vijayapura and Udupi districts had already been made by the Board. It was also stated that IEC activities and training programs for the labour officers and staff under the IMCK program were being taken up in these Information centres. It further stated that suitable action was being initiated to ensure foreign employment to the aspirants in accordance with their skills and 182 housemaids were already sent abroad for work.

Audit observed that the Board did not enter into MOU with any of the foreign employer employing these housemaids to ensure their safety and to prevent exploitation of workers. Further, the establishment of information centres was limited to only four districts, instead of being implemented across the entire State. The very objective of setting up IMCK was thus affected, the role of which was to ensure safety and security of workers.

Karnataka Labour Welfare Board

The Karnataka Labour Welfare Board (KLWB) was established (1969) under the Karnataka Labour Welfare Fund (KLWF) Act, 1965 and the Karnataka Labour Welfare Fund Rules 1968, to provide social welfare and other benefits to workers/labourers in the organized sectors such as factories and establishments; co-operative societies; plantation workers and omnibus motor services. The Board consists of 14 members with the Minister of Labour as the ex-officio Chairman with the Secretaries of Labour and Finance departments and Labour Commissioner, four members each from the representatives of the registered organized employees (trade unions) and registered organized employers and two female independent members nominated by the State Government. The term of the Board is three years, and it is stipulated to meet every quarter of a year.

The Karnataka Labour Welfare Fund was constituted under Section 3 of the KLWF Act, 1965 for financing and conducting activities to promote the welfare of contributing employees. The employees working in various establishments, their dependents and children are eligible for benefitting from welfare schemes.

According to Section 3 of the KLWF Act, "Karnataka Labour Welfare fund" shall include all contributions paid under section 7A and unpaid accumulations transferred to the fund {to be kept in a separate account as specified in section 7(2)}. It shall also consist of all fines realised from employees, penal interest paid under section 7B, fund transferred under sub section (5) of section (8); voluntary donations and sums borrowed under section 9 of the Act.

2.2.9 Welfare schemes implemented by the Board

The benefits provided by the Board for workers aged 18 to 60 years included the following:

a) **Educational assistance:** This is provided to children of the workers drawing monthly salary of below ₹35,000.
b) **Medical Assistance**: Workers are provided with medical assistance ranging from ₹1,000 to ₹25,000 for the treatment of major ailments such as heart surgery, kidney transplantation, cancer treatment, angioplasty, eye and orthopedic surgeries, uterus operations, gall bladder issues, kidney stone removal, and brain hemorrhage. Additionally, assistance for medical check-ups is provided at ₹500 to ₹1,000 per case.
c) **Accident Benefit:** under this scheme benefit of ₹1,000 to ₹10,000 is paid to workers who meet with accidents at the workplace. The application is to be submitted within three months of the occurrence of the accident with medical records.
d) **Maternity benefit for women (July 2021):** This scheme provides financial assistance of ₹10,000 to female laborers for maternity benefits for their first two children. The application must be submitted within six months of delivery.

e) **Funeral Expenses:** This scheme provides ₹10,000 to the deceased worker's dependents. The application is to be submitted within six months of death of the worker.
f) **Medical Check-up Camps:** This scheme provides ₹1,00,000 financial assistance to each Trade union/ workers' association, on their request, for conducting annual medical check-up camps for workers.
g) **Annual Sports activity:** This scheme provides ₹1,00,000 financial assistance to each registered trade union, on their request, for conducting an annual sports activity for workers at the district level.
h) The Board provided financial assistance to physically handicapped workers to purchase artificial limbs.

The observations of audit on the functioning of the Board are discussed in succeeding paragraphs:

2.2.10 Non-maintenance of fund contributors' database

Section 7A of the KLWB Act mandates that contributions to the Board, comprising employer, employee, and State Government contributions, are to be paid for each employee in an establishment. The rates of fund contribution were revised by the Government with effect from 06 April 2017, and accordingly the Board received contribution at the rate of ₹20 from the employee, ₹40 from the employer and ₹20 from the Government per worker, *per annum*.

Audit observed that:

- The Board, since its inception had not compiled a comprehensive list of establishments liable to contribute. As a result, it was unable to estimate the total amount receivable from both workers and establishments. Consequently, the State was unable to release its corresponding share of the contribution as it lacked accurate data on the number of workers and could not factor the share stipulated under the Act. However, data compiled by the Board as of March 30, 2018, indicated that there were 47,703 establishments, shops, and factories in Karnataka, employing a total of 86,73,028 individuals. Audit observed a significant shortfall in collection of employee and employers' contribution from these establishments amounting to ₹109.27 crore, as at the end of March 2022. It was also observed that the Board had not initiated any effective action to collect the balance amount.
- The Board maintained a database of only voluntary contributors to the fund.

The Government, while accepting (August 2024) the audit observation stated that the KLWB does not register factories and establishments and clarified that the data would be obtained from the Director of Factories and Boilers and Commissioner of Labour. Further, it was also clarified that the Board was making efforts to collect the contribution amounts from the defaulting factories/ establishments by issuing written notices and through e-mails.

2.2.11 Receipts and Expenditure of the Board

The Board receives contributions to the fund from workers and employers of factories and establishments, IT/BT institutions, trusts, plantations, co-operative societies and motor omni-bus service companies in addition to Government grants.

A summary of the Board's total receipts and expenditure is presented in **Table 2.12** below:

Table 2.12: Receipts and expenditure of the Board

(₹ in crore)

Year	Receipts						Payments				
	O.B.	Contri-bution to the Fund	GoK grants	Other Receipts	Fixed Deposit Maturity	Total	Expr. on welfare schemes	Other Expr.	Investment in Fixed Deposit	Total	C.B.
2018-19	25.17	23.50	5.00	10.88	54.49	119.04	8.48	10.28	97.46	116.22	2.82
2019-20	2.82	29.77	7.18	14.24	106.42	160.42	10.36	10.43	107.60	128.39	32.04
2020-21	32.04	23.63	6.00	15.33	107.59	184.59	5.95	7.31	143.17	156.43	28.15
2021-22	28.15	27.12	36.00	14.36	137.20	242.84	5.27	10.52	86.58	102.37	140.46
2022-23	140.46	30.31	20.00	16.66	86.58	294.01	11.78	85.82	0	97.60	196.41
Total		**134.33**	**74.18**	**71.47**	**492.28**	**1,000.90**	**41.84**	**124.36**	**434.81**	**601.01**	

Source: Data furnished by the Board.

Audit observed that:

- The Board received ₹279.98 crore towards contributions to the fund, Government grants and other receipts during the period 2018-23. However, the expenditure on welfare schemes amounted to ₹41.84 crore which was only 14.94 *per cent* of the total receipts.
- As of March 31, 2023, the Board had a closing balance of ₹196.41 crore in the savings bank account. The total investments in Fixed deposits by the Board were ₹434.81 crore during 2018-22 which included surplus funds for the year and reinvestment of matured Fixed deposits of earlier periods. Thus, the Board invested major chunk of the funds in Fixed deposits.

2.2.12 Minimal repayment of unpaid accumulations

Whenever an employee quits the job without proper intimation and his/her whereabouts are not traceable, the amounts due to him/her such as unpaid salaries, gratuity *etc.,* become unpaid accumulations in the factories and after following the Act's provisions, the employers concerned are required to transfer the unpaid accumulations to KLWB. The Board is required to take action in this regard to trace the said employees and make payment to them.

According to the Act, "unpaid accumulations" mean all payments due to the employees but not made to them within a period of three years from the date on which they become due whether before or after the commencement of this Act including wages, and gratuity legally payable but not including the amount of contribution, if any, paid by an employer to a provident fund establishment under the Employees' Provident Funds Act, 1952.

Section 7 of the Act deals with the procedure relating to unpaid accumulations and claims thereto. According to Sub-section (3), after payment of any unpaid accumulations to the Board, a notice shall be issued as soon as possible, containing the prescribed details. The notice must be:

- Displayed on the notice board of the factory or establishment where the unpaid accumulation was earned.
- Published in the Official Gazette and
- Published in at least two newspapers circulating in the area where the factory or establishment is located, depending on the claim amount, to invite employees to file claims for any payments due to them.

The notice must be published in June and December each year for three consecutive years from the date of payment of the unpaid accumulation to the Board. Furthermore, as per Subsection (9), if no claim is made within the timeframe specified under Subsection (5), or if a claim is duly rejected by the Authority or the Court on appeal, the unpaid accumulations pertaining to such a claim shall be transferred to the Fund.

Audit observed that the Board had received ₹33.65 crore as unclaimed accumulations for the period 2017-18 to 2022-23. As against the unclaimed accumulations received, the Board had refunded (between October 2021 and September 2022) only ₹4.56 lakh relating to seven employees. Notably, these refunds were only made upon submission of requisitions by the employees. The amount refunded was significantly low compared to the total fund accumulation with the Board. The poor response to the refund of unclaimed accumulations was attributed to the lack of effort on the part of the Board in publishing the names of the employees in the official gazette and leading newspapers as required under the Act. The Board also did not take suitable action in respect of time barred unclaimed accumulation as envisaged in sub section 9 *ibid*.

The Government replied (August 2024) that efforts are being made by the management of the establishments/factories to reach employees who left the organization by exhibiting the names of those employees on the notice board of factory/establishment *etc*. It also added that action would be taken to refund unpaid accumulations after receipt of requisitions from the employees.

The reply is not acceptable since records made available indicated that the Board did not take any effective action for tracing the individual employees by issuing newspaper notifications *etc*., as specified in the Act. The Board and the employers need to make better efforts to trace the employees and release the deserving payments.

2.2.13 Inadmissible expenditure from Board funds by Karnataka State Labour Institute (KSLI) - ₹42 lakh

The Board released (February 2020) ₹100 lakh to the Karnataka State Labour Institute (KSLI) for conducting training programmes for Board staff and training on IEC programmes. The utilisation certificates (UCs) furnished by the Labour Institute to the Board showed the following expenditure:

- ₹64.59 lakh was utilized for printing multi-colour tags with identity cards for COVID warriors, purchase of COVID kits and payment of internship stipend.
- ₹25.50 lakh was paid as stipend to seven trainees.

Audit observed that out of the total released amount of ₹100 lakh, an amount of ₹41.97 lakh was deemed inadmissible as ₹25.50 lakh was spent on trainees who were not the staff of KLWB, and ₹16.47 lakh was utilized on "International conference of the Government of Karnataka on Vision Zero" solely covered by KBOCWWB. The Board accepted the utilization certificate without exercising any check on fund utilitsation. The utilization of funds on purposes not on the Board's agenda was in violation of the Board's functions.

The Government stated (August 2024) that refund of ₹42 lakh was already sought by the Board (March 2023) from KSLI, but the institute is yet to respond. The reply cannot be accepted since the administrative control of KSLI falls under the Labour Department which is equally responsible for ensuring the refund. The reply is, however, silent on the acceptance of UCs, which were produced in support of inadmissible expenditure.

2.2.14 Non-utilisation of welfare funds for the purpose envisaged in the Act

According to Section 8(1) of the Karnataka Labour Welfare Fund Act, 1965 the fund shall be utilized by the Board to defray the cost specified by the State Government from time to time to promote the welfare of labour and of their dependents. Section 8(2) further stipulated that the fund may be utilized by the Board to defray expenditure on the following:

- Community and social education centres including reading rooms and libraries.
- Community necessities; Games and sports; Excursions, tour and holiday homes.
- Entertainment and other form of recreation; Home industries and subsidiary occupations for women and unemployed persons; Corporate activities of social nature.
- Cost of administrating the Act including the salaries and allowances of the staff appointed for the purposes of the Act.
- Such other objects as would in the opinion of the State Government improve the standard of living and social conditions of labour.

Audit observed that the welfare schemes/programs implemented during 2018-2023 covered eight categories of schemes detailed in **Table 2.13** and did not cover activities like excursions, tour and holiday homes, entertainment and other form of recreation, home industries and subsidiary occupations for women and unemployed persons and corporate activities of social nature *etc*.

The Board utilised a major chunk of its funds (ranging between 90 *per cent* and 98 *per cent* during 2018-23) on implementation of Educational Assistance to Children of the workers and there was minimal progress in seven welfare schemes. The scheme-wise and year-wise expenditure, along with the Board's administrative costs, is presented in **Table 2.13**:

Table 2.13: Scheme-wise expenditure during the years 2018-19 to 2022-23
(₹ in lakh)

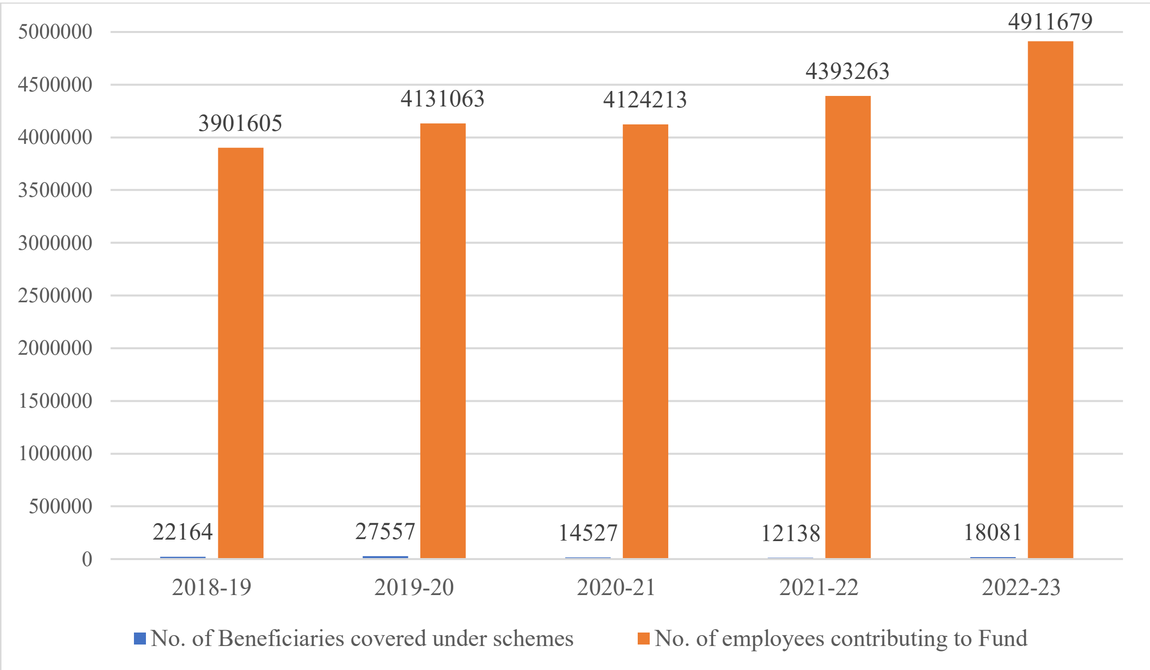
Sl. No.	Particulars	Year				
		2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
1	Educational Assistance to Children of the workers	857.34	1051.98	601.48	451.76	1251.15
2	Medical Assistance to workers	0.74	0.45	0.70	0.30	0.48
3	Accident Benefit to workers	0.03	0.00	6.03	12.15	0.01
4	Maternity Benefit for Women (scheme introduced in July 2021)	0.00	0.00	0.00	2.00	42.90
5	Funeral Expenses to the deceased workers dependents	16.30	14.75	19.35	33.30	41.20
6	Financial assistance for annual medical check-up camps sponsored by Trade Union/Association for workers	0.00	0.60	0.60	2.00	2.73
7	Financial assistance for annual sports activity by registered Trade Unions	0.50	1.00	0.00	0.00	2.00
8	Financial Assistance to Physically handicapped workers to purchase artificial organs	0.05	0.00	0.00	0.00	0.00
	Total amount expended on welfare schemes	**874.96**	**1,068.78**	**628.16**	**501.51**	**1,340.47**
	Total number of beneficiaries under all schemes	**22,164**	**27,557**	**14,527**	**12,138**	**18,081**
9	Administrative expenses (Including Developmental expenses)	977.00	992.00	730.00	1,052.00	3,988.00*

Source: Data furnished by the Board.

**This included developmental expenditure of ₹3,261.00 lakh on construction of Samudaya Bhavans, compound walls etc.*

The analysis of the Board's schemes with reference to coverage of beneficiaries is detailed in **Chart 2.6**.

Chart 2.6: Comparison of the number of beneficiaries covered under all schemes with total employees contributing to the fund



Source: Data furnished by the Board.

As can be seen from the chart, the Board's coverage of welfare activities amongst the beneficiaries was negligible compared to the number of employees contributing to the fund. The percentage of beneficiaries covered under the scheme to the total number of employees contributing to the fund ranged between 0.28 and 0.67 during the period from 2018-19 to 2022-23.

The scheme-wise audit observations are brought out below:

2.2.14.1 Educational Assistance to Children of workers

Educational Assistance[38] is provided to the children of workers earning a monthly salary of less than ₹35,000. The scheme covers students across various educational levels, offering financial support and eligibility criteria require a minimum of 50 *per cent* marks for students in the general category and 45 *per cent* for those in the SC/ST category. The assistance is restricted to one child per family.

Audit observed that the initial salary limit for claiming educational assistance, set at ₹15,000 per month, was increased to ₹21,000 in April 2021 and further to ₹35,000 in September 2022. Despite these enhancements, the number of beneficiaries under the scheme decreased significantly, from 21,127 in 2018-19 to 15,657 in 2022-23.

A comparison with a similar scheme by the Karnataka Building and Other Construction Workers Welfare Board (KBOCWWB) under the Labour Department revealed a key difference: KBOCWWB provides educational benefits to two dependent children of registered construction workers each year, whereas the Karnataka Labour Welfare Board (KLWB) limits assistance to only one child per family requiring a review and possible realignment of the scheme to enhance its reach and impact.

2.2.14.2 Maternity benefit scheme to female workers

The Maternity Benefit Scheme, launched in July 2021, aimed to support women workers during their maternity period. Financial assistance of ₹10,000 to female workers for maternity benefits for their first two children is provided under the scheme. The application must be submitted within six months of delivery. During the year 2021-22, the scheme benefit was extended to only 20 beneficiaries and 429 women workers during 2022-23.

Audit observed that no IEC activities were planned to create awareness among the beneficiaries. Dissemination of information among intended beneficiaries would result in more pregnant women workers availing the scheme.

[38] High School (8th to 10th standard): ₹6,000, PUC/ITI/Diploma/Technical Courses: ₹8,000, Degree Courses: ₹10,000, Post-graduate Courses: ₹12,000 and Engineering/Medical Courses: ₹20,000.

2.2.14.3 Schemes implemented through trade unions

The scheme of financial assistance for the annual medical check-up camps and annual sports activity was implemented by the Board through the trade unions. Audit observed that the coverage of beneficiaries for annual medical check-up camps was very small and all the employees contributing to the fund did not benefit from the scheme.

The expenditure incurred on the annual medical check-up camps scheme during the five years was a mere ₹5.93 lakh. Similarly, financial assistance for sports activity was only to the extent of ₹3.50 lakh during the five years. Thus, the Board did not effectively promote the schemes through the trade unions and workers' associations in ensuring optimum coverage of beneficiaries under the said schemes.

2.2.14.4 Other schemes

The medical assistance and accident benefit scheme was extended to only 27 and 11 beneficiaries respectively during the audit period. The funeral benefit to the deceased workers' dependents covered a total of 1,960 beneficiaries in five years. Under the scheme of providing financial assistance to physically handicapped workers to purchase artificial limbs, only one beneficiary during 2018-19 was covered.

Audit observed that the Board's IEC activities were inadequate since only calendars, handbills, banners and stickers were printed to create awareness. The activities like bus/auto hoardings, media advertisements, street plays and scheme melas in industrial areas across the state were not undertaken to publicize the schemes among the establishments and employees contributing to the labour welfare fund. Poor publicity and deficient awareness about the welfare schemes resulted in a minimal number of beneficiaries reaping the benefits of the welfare schemes.

The Government replied (August 2024) that the number of beneficiaries benefiting from the welfare schemes cannot be compared to the total number of employees contributing to the fund. It also stated that during 2023-24, the expenditure towards educational assistance was ₹25.70 crore which was almost 75 *per cent* of the total contribution for that period. The Government also assured that steps would be taken to cover all welfare scheme activities as outlined in Section 8(1) of the Act.

2.2.14.5 Utilization of *Samudaya Bhavans*

The Board constructed five *Samudaya Bhavans* (SBs) - three in Bengaluru[39] and one each in Gadag and Vijayapura. These constructions were based on the decisions in various Board meetings and meant for the welfare of the labourers/ staff of factories/establishments for conducting functions.

[39] Bagalagunte, Bapujinagar and Peenya.

- Out of the five completed SBs, in the SBs at Peenya and Bapujinagar (both in Bengaluru), only one floor was utilised for conducting functions. The remaining floors of these SBs were leased out for commercial purposes.
- The SB at Bagalgunte, Bengaluru, initially built at a cost of ₹5.01 crore and handed over in December 2020, was converted into COVID care centre by the Bruhat Bengaluru Mahanagara Palike (BBMP) in July 2020. The SB was handed back to the Board by BBMP in June 2023 after persistent requests. The Board had also spent ₹46.57 lakh (January 2020) on procurement of utensils and furniture. As of March 2023, the SB remained unutilized and so were the furniture and utensils.
- The SB constructed in Gadag at a cost of ₹1.34 crore (July 2012) was not handed over till 2017. The Board incurred an additional expenditure of ₹25.00 lakh on repairs (September 2019), but the SB was not put to use till date (January 2024).
- The SB constructed at Vijayapura was completed at a cost of ₹1.30 crore in June 2012 and was let out for commercial purposes without being utilised for the welfare of labour class.

Audit observed that the construction of SBs while incurring an expenditure of ₹8.37 crore can be considered a community necessity in accordance with Section 8(2) (b) of the Act, however these SBs were not effectively utilised by the Board for labour welfare despite lapse of more than three to ten years rendering the expenditure unfruitful.

It was also observed that the Board approved construction of further SBs in the State[40], incurring a total expenditure of ₹55.18 crore as of March 2023 although the existing SBs were not utilized for the intended purposes. Audit observed that these new projects were initiated without conducting a need-based assessment. The Board did not conduct any effective Information, Education, and Communication (IEC) activities to raise awareness in labour communities about the existence of the SBs and their potential benefits for labor welfare.

The Government replied (August 2024) that the *Samudaya Bhavan* at Gadag was let out to Government Boys Balamandira with effect from October 2023 at ₹35,000 per month and all the floors of the SB at Vijayapura were let out to Government offices in accordance with PWD rates. It was also stated that the details of availability of *Samudaya Bhavans* to beneficiaries are published in the Board's website and through trade/labour unions to create awareness among the laborers to utilize the same.

However, leasing of SBs for commercial purposes amounted to deviating from their original objective of supporting labor welfare. Moreover, constructing additional SBs without utilizing them for their intended purpose results in the blocking of Board's funds. It is evident that the SBs were constructed without any need analysis or plans for utilizing them for Labour welfare activities.

[40] Ballari, Bhadravathi, Dandeli, Mundagod, Nargunda, Rattihalli, Yellapur *etc*.

2.2.15 Human Resource Management

2.2.15.1 Drawl of salaries to staff posted outside the Board – Avoidable expenditure of ₹9.62 crore

As per the Cadre & Recruitment Rules, the Board had a sanctioned strength of 126 posts against which 53 staff were working in 2022-23. Out of these, 51 Board staff belonging to the cadres of First Division Assistants, Supervisors and Group D were deputed on office duty (OOD) basis in different offices like offices of Assistant Labour Commissioner (ALC), Labour offices across the State and Labour Department Secretariat *etc.,* during the audit period. As on 31 March 2023, there were 32 employees on OOD whose salary expenditure amounting to ₹9.62 crore, was met out of Board funds

The expenditure on salaries for personnel on external deputation was met from the Board's funds, despite these individuals not serving the Board. The primary objective of KLWB is to provide welfare measures to the labour class such as employees of factories/co-operatives/plantations *etc*. Section 8 of the KLWB Act explicitly outlines the vesting and application of the Welfare Fund. Hence, the payment of ₹9.62 crore in salaries for regular staff assigned outside the Board, was avoidable.

The Government replied (August 2024) that the regular KLWB staff working earlier in welfare centres that were closed, were posted to other offices of Labour Department to work as assistants to officers engaged in collecting contribution to KLWB.

The reply is not acceptable, as the Board did not furnish any documentary proof or records/reports to justify that the officers/officials, posted on OOD in various offices of the Labour Department such as Secretariat, ALC office, Labour Officer's office *etc*., were involved in collecting contributions to the Karnataka Labour Welfare Fund. Further, an amount of ₹109.27 crore remained to be collected from the establishments towards contributions during 2018-23 for which no effective action was taken by the Board apart from issuing notices. Therefore, the reply stating that these officials assisted the Labour Department in collecting the contributions is not acceptable.

Conclusion

The Government, after dissolving the Karnataka State Unorganized Workers' Social Security Board in August 2019 did not reconstitute the same. The Board did not conduct any survey to identify unorganized workers belonging to different trades. The welfare schemes implemented by the Board were found to benefit only a limited category of workers. As a result, the Board had over ₹97 crore as unutilized funds in its bank accounts.

The Karnataka Labour Welfare Board did not prepare a comprehensive list of establishments from which contributions were to be collected. The Board therefore could not project the total receivable amount from the workers and the establishments. The Board's coverage of welfare activities amongst the beneficiaries was negligible compared to the number of employees contributing to the fund as only 0.28 to 0.67 *per cent* of beneficiaries were covered under the scheme. A substantial portion of the funds received were invested in Fixed Deposits by the Board. There was irregular expenditure on staff salaries and underutilization of '*Samudaya Bhavans*', *etc*., which points to inadequate implementation of the provisions of the Karnataka Labour Welfare Fund Act.

Recommendation 2

The State Government may

- ***reconstitute KSUWSSB by nominating members and consider coverage of the welfare activities to all the 43 identified categories of workers.***
- ***instruct KLWB to maintain a comprehensive database of workers/establishments from which contributions are to be collected.***
- ***direct both Boards to increase Information, Education, and Communication (IEC) activities and actively promote the respective Board's schemes to ensure that they reach a larger number of beneficiaries.***
- ***Convey to both Boards that it is equally important to have well designed schemes which are not restricted to only education or accidents.***

Department of Social Welfare

2.3 Undue benefit to KEONICS and unfruitful expenditure

Non-ascertaining of the market price while placing orders for supply of Semi-Automatic Chapati Making Machines for hostels run by the Department of Social Welfare resulted in an extension of undue benefit of ₹14.04 crore to KEONICS and unfruitful expenditure of ₹0.71 crore due to non-assessment of requirement by hostels.

As per Canons of Financial Propriety stipulated under Karnataka Financial Code, 1958 (KFC), it is the duty of every Government servant not merely 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.

To maintain hygiene and to overcome the shortage of cooks in student hostels, the Social Welfare Department (SWD) proposed to procure 550[41] semi-automatic chapati-making machines. The procurement orders were placed (between November 2019 and June 2021) with Karnataka State Electronics Development Corporation Limited (formerly known as KEONICS), a Government of Karnataka Undertaking.

On scrutiny of records, Audit observed the following:

- ***Irregular entrustment of work:***

Section 4(g) of the Karnataka Transparency in Public Procurements (KTPP) Act, 1999, allows certain exemptions from the standard tendering process for public procurements. This provision permits government departments to award contracts directly to specific agencies without competitive bidding, typically in situations deemed necessary by the government.

The GoK accorded exemption to KEONICS for institution-specific purposes such as procurement of services like IT Software/Hardware and Human Resources for data entry operations.

Though the procurement of semi-automatic chapathi making machines was outside the functions established for KEONICS, the Social Welfare Department, without ensuring the scope of the exemption under Section 4(g), entrusted the work directly to KEONICS bypassing standard tendering procedures. As a result, the department lost the opportunity to get competitive quotes from open bidding.

[41] 1) Supply order (November 2019) by Joint Director, SWD, Bengaluru (Urban) for 26 machines@ ₹3,83,500 per unit (inclusive of GST). 2) supply order (April 2021) by the Commissioner, SWD, originally proposed for 272 but only 252 were given approval for release (in two batches of 126 each for eight and six Districts separately) @ ₹3,95,300 per unit (inclusive of GST). 3) supply order (June 2021) by the Executive Director, Karnataka Residential Educational Institutions Society (KREIS) for 252 machines @ ₹3,95,300 per unit (inclusive of GST).

➢ ***Procurement at exorbitant rates without ascertaining market rate leading to undue benefit of ₹14.04 crore to KEONICS:***

The semi-automatic chapati making machines are consumer-durable items commonly available in the open market with a variety of specifications. The buyers can access various models easily from the websites of manufacturers and procure items directly without the involvement of middlemen.

To create an open and transparent procurement platform for Government buyers, the Ministry of Commerce and Industry, Government of India launched (August 2016) the Government e-Marketplace (GeM), an e-commerce portal. In that, there were more than 2000 varieties of chapati-making machines available in GeM from different vendors.

Despite having these options, the department made no effort to determine the prevailing market rates for chapati making machines, either from original equipment manufacturers or the GeM portal. Instead, it had arbitrarily procured the chapati making machines through KEONICS, an organization whose technical expertise was primarily for IT-related procurements, for which an exemption under clause 4(g) was granted.

Besides this, scrutiny of internal correspondence during the purchase tenure revealed that the Assistant Director of Social Welfare Department, Gauribidanur, alerted (June 2021) the Deputy Director in Chikkaballapur district that the market rate for chapati making machines supplied to them by KEONICS was worth only ₹66,200 per unit (excluding taxes and transportation charges). Inspite of the huge variation between the market rate and the price quoted by KEONICS, no correspondence was made with the agency by the Social Welfare Department.

Further, as seen from the purchase order and related files, scrutiny of the GST invoices revealed that the actual price of the equipment was found to be only ₹1,29,800 as against ₹3,83,500 offered by KEONICS.

The department relied upon the rates quoted by KEONICS for the proposed models without any examination/market survey and awarded contract worth ₹20.92 crore for supply of 550 units, which resulted in the extension of undue benefit to KEONICS while procuring the chapati making machines at exorbitant rates, requiring investigation to be initiated immediately by the Government. The details are given in **Table 2.14**:

Table 2.14: Quantity ordered, market price and rates quoted by KEONICS for the proposed models

Ordered by	Quantity ordered	Rate paid per unit (₹)	Market price per unit (₹)	Difference per unit (₹)	Undue benefit to KEONICS (₹)
J.D./SWD, Bengaluru (U)	26	3,83,500	1,29,800	2,53,700	65,96,200
Executive Director/KREIS	252	3,95,300	1,29,800	2,65,500	6,69,06,000
Commissioner /SWD	252	3,95,300	1,29,800	2,65,500	6,69,06,000
Total	**550**				**14,04,08,200**

Source: Information provided by department.

From the table above, it is evident that an amount of approximately ₹14.04 crore had been paid to KEONICS, which could have been avoided had financial propriety stipulated under KFC been obeyed in letter and spirit.

Further, it was also observed that in respect of KREIS, KEONICS supplied chapati making machines of lower specifications than those agreed to and the department did not quantify or restrict excess payments.

- ***Non-utilisation of the machines resulting in unfruitful expenditure of ₹0.71 crore in test checked units:***

The procurement is to be done based on absolute necessity of the items to be procured duly conducting a survey and assessment. Records revealed that no proper assessment was done before placing orders for semi-automatic chapati making machines. The indents for procuring the machines were not obtained from the hostels and the department could not produce records in support of assessment carried out before placing orders.

To verify the utility of semi-automatic chapati making machines, Audit selected hostels maintained by SWD in Mandya and Chikkaballapur districts for test checking. Audit selected 37 hostels in these two districts and conducted Joint Physical Verification (March 2023) involving departmental officers. During inspection, it was observed that:

- only three hostels (eight *per cent*) were using the machines for making chapatis.
- 18 hostels (49 *per cent*) were not using the machines and had dumped them in the storeroom, kitchen *etc*., resulting in unfruitful expenditure of ₹0.71 crore[42].
- In the remaining 16 hostels (*43 per cent*), it was noticed that regular tawa was used for frying chapatis leaving the baking unit of chapati maker idle.

Picture 5 : Idle Chapati maker in Government Pre-matric Girls Hostel, Chintamani Town

Therefore, the main objective of modernisation and the intent of overcoming staff shortages in hostel kitchens were not met despite spending a significant amount on procurement.

Thus, the department did not determine market prices before placing orders and neglected the utilization of supplied machines which not only granted an undue benefit of ₹14.04 crore to KEONICS but also led to unproductive expenditure of ₹0.71 crore, as revealed from the Audit of test-checked cases.

[42] 18 units x ₹3,95,300 = ₹71,15,400.

The State Government replied (August 2024) that the Administrative Reforms Commission had only recommended to automate the hostel kitchens and hence procurement was made limiting allocation of one crore rupees per district.

The reply is silent about the reason behind the excessive outlay for the procurement of machines that resulted in significant financial loss as well as lack of competitive advantage to the department thereby violating provisions of KFC.

Recommendation 3:
The Government should initiate a comprehensive investigation into the procurement of machines at exorbitant prices. Further, a reassessment of requirements should be conducted, and necessary action should be taken to relocate the machines to deserving hostels.

Department of Urban Development

2.4 Avoidable extra expenditure in laying of water supply pipeline

Karnataka Urban Water Supply and Drainage Board procured mild steel pipes of higher shell thickness in three water supply projects resulting in avoidable extra expenditure of ₹5.12 crore.

Karnataka Urban Water Supply and Drainage Board (KUWS&DB) implements water supply schemes (WSS) and underground drainage schemes in the urban areas of Karnataka except in Bengaluru city.

In determining the thickness of mild steel (MS) pipes for water supply projects, the Board follows ISO codes: 3589-2001[43] and 5822-1991[44]. The calculation involves incorporating a corrosion allowance of 1.5 mm. Ultimately, the thickness of pipes is determined by selecting the immediate higher thickness available in the schedule of rates (SR) of the Board.

The adoption of pipe shells with greater thickness than what was actually required for the intended purpose in water supply schemes leads to unnecessary financial burden to the State exchequer. During Audit scrutiny of records of divisions of Mandya, Bengaluru, and Mysuru for the period 2017-23, it was noticed that the Board, during the project execution of three works[45], opted for

[43] Calculation of thickness is made using following formulae:
$T = (2*H*D + 1.50) / 2*S*100$
Where T = Thickness of the pipe, H = Head, D = Outer Diameter, S = Yield stress (141 mpa), a= design factor, e= welding efficiency of joint, f = specified minimum yield stress in N/mm^2, P= internal design pressure in N/mm^2
Considering Corrosion allowance, additional 1.5 mm is added to the T value.

[44] $T = \frac{Pd}{2*a*e*f+P} + 1.50$

[45] Proving WSS to Ramanagara city & eight enroute villages with Netkal Reservoir {Water Treatment Plant (WTP) to Intermediate Pumping Station (IPS)}, Providing water supply to Ullala city and enroute villages as Nethravathi river as source {Feeder main from Thokkottu junction to Thalapady} and Providing water supply facilities to Mandya City under AMRUT (Jack-well to WTP).

higher thicknesses of MS pipes than required (10mm instead of 8.7 mm in respect of PWSS Ramanagara city and Ullal scheme and 6mm instead of 4.8 mm in RWS Maddur). This was deviated from the standard practice of selecting the immediate higher value available in the Schedule of Rates (SR) based on the calculated thickness. Instead of selecting pipes that met the technical specifications and pressure requirements of the project, pipes with higher shell thickness were procured and utilised. This decision lacked proper justification and did not contribute to any added functional or structural advantage. The adoption of higher shell thickness than required resulted in an avoidable extra expenditure of ₹5.12 crore as detailed in **Appendix 2.15**.

The Board accepted (January 2023) the Audit observation concerning the 'water supply scheme for Ramanagara city and surrounding villages with the Netkal balance reservoir as the source' which was for a length of 24.86 kilometers and stated that the contractor had already procured and laid 10 mm thick pipe for 13.66 kilometers. To alleviate the financial burden, the agency was directed to lay 8.7 mm thick pipe for the remaining 11.2 kilometers.

However, Audit observed that despite clear instructions, 10 mm thick pipes were laid (June 2023) for an additional 1.50 kilometers, resulting in avoidable extra expenditure of ₹27.80 lakh. Regarding the 'remodeling of the water supply system in Maddur, Mandya district', the Board stated that it adopted higher thickness to avoid corrosion anticipated from pesticides used in the agricultural field and to withstand vibrations generated by the heavy vehicular traffic along the State Highways.

Reply cannot be accepted as the specification for laying of pipeline included outer coating of 25 mm with cement mortar to avoid the impact of chemicals on the water supply pipelines. Further, records revealed that the Board had maintained adequate depth of one to 1.5 metre as per CPHEEO norms while laying pipelines to avoid vehicular traffic vibrations. The Board did not furnish reply regarding 'providing water supply scheme to Ullala city and enroute villages as Nethravathi river as source'.

Thus, the action of the Board to adopt thickness more than the requirement has resulted in avoidable extra expenditure of ₹5.12 crore.

The matter was brought to the notice of the Government (February 2024) and reply is still awaited (December 2024).

Recommendation 4:
The Government may direct KUWS&DB to fix responsibility on the officers involved in approving the use of pipes with higher shell thickness to prevent the recurrence of such instances in future projects.

2.5 Avoidable Interest burden

Non-exercise of financial prudence in utilizing funds earmarked for loan repayment led to an avoidable interest burden to the tune of ₹22.42 crore by Karnataka Urban Water Supply and Drainage Board.

The Karnataka Urban Water Supply and Drainage Board (KUWS&DB). executes various Water Supply and Underground Drainage Projects/Schemes in the urban areas of Karnataka State except Bengaluru city. KUWS&DB gets financial assistance from the Government of India, the Government of Karnataka, and contributions from Urban Local Bodies (ULBs) and borrows loans from Financial Institutions/Banks on behalf of ULBs and repays through the State Finance Commission (SFC) Grants assigned to respective ULBs for implementation of schemes. The Board prepares estimates for the release of debt servicing grants periodically and the Urban Development Department (UDD) releases grants based on the requisition. As per the SFC guidelines, no diversion of Grant is permissible other than loan repayment.

KUWS&DB raised loans from institutions such as the Housing and Urban Development Corporation (HUDCO), the Life Insurance Corporation of India, and nationalized banks, to implement its schemes and projects. Between 2015-16 and 2022-23, KUWS&DB estimated a State Financial Corporation (SFC) grant of ₹2,054.24 crore and received ₹2,020.93 crore towards debt servicing. The Board repaid loans with interest amounting to ₹1,910.49 crore, leaving a balance of ₹110.44 crore in its bank account as shown in **Appendix 2.16**.

As of March 2023, KUWS&DB had an unutilized balance of ₹150.41 crore in its flexi-deposit account, which earned an interest of ₹22.20 crore over the period from 2015-16 to 2022-23. Additionally, an interest payment of ₹82.38 crore was made on loan accounts during the same period.

Scrutiny of records revealed that despite having excess funds in the debt servicing account, KUWS&DB had not taken steps to reduce the outstanding loan liability to mitigate interest payable on borrowed funds. Instead, it maintained a substantial balance in the flexi deposit account and earned lower interest. Considering the availability of funds, Audit calculated the interest amount avoidable if debt prepayment was done with the available funds by exercising financial prudence and observed that the Board suffered a loss of ₹22.42 crore **(Appendix 2.17)** between 2015 and 2023.

Records also revealed that the UDD disbursed grants for debt servicing to KUWS&DB from 2016-17 to 2022-23 without insisting on Utilization Certificates. Consequently, the unutilized grant held by KUWS&DB was not accurately reported to the Government. It was further observed that during the year 2016-17, KUWS&DB diverted ₹77.74 crore of the debt servicing grants to settle contractors' bills without obtaining approval from the Government.

Thus, non-exercise of the option of early debt repayment despite the availability of sufficient funds led to an avoidable interest burden amounting to ₹22.42 crore.

KUWS&DB accepted (February 2024) the observation and stated that it repaid loan of ₹70.20 crore over the grant received during the year 2023-24 and sought direction (October 2023) from the Government for utilizing the balance amount lying in debt servicing account. However, the reply was silent on the loss of ₹22.42 crore suffered by KUWS&DB in the past five years due to not exploring the option of pre-closure of the loan with the available funds.

The matter was brought to the notice of the Government (March 2024) and Reply is still awaited (August 2024).

Recommendation 5:
The Government may direct KUWS&DB to adopt a proactive approach to managing its finances, particularly by prioritizing the reduction of outstanding loan liabilities in advance to mitigate higher interest rates on borrowed funds.

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Countersigned

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The **Comptroller and Auditor General of India**