

CHAPTER IV

AUDIT OF TRANSACTIONS

Audit of transactions of the Departments of Government, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

4.1 Misappropriation/losses

ANIMAL HUSBANDRY AND VETERINARY SERVICES DEPARTMENT & URBAN DEVELOPMENT DEPARTMENT

4.1.1 Non-recovery of dues from a local body

Dues aggregating Rs.5.55 crore remained un-recovered from Bangalore Mahanagara Palike for periods ranging from two to seven years

Dues from the Bangalore Mahanagara Palike (BMP) had not been recovered by the Bangalore Water Supply and Sewerage Board (BWSSB) and the Animal Husbandry and Veterinary Services Department (AHVS) though the Codal provisions/orders of Government specifically provided for the recovery, as detailed below:

Non-recovery of dues by the BWSSB

According to the Karnataka Public Works Accounts Code (KPWA Code) which the BWSSB had been following for executing works, in the case of the deposit works taken up on behalf of local bodies, the estimated expenditure should be deposited in advance by such local bodies[◇]. The executing authorities were to charge annual interest of 12 *per cent* on expenditure incurred in excess of deposits received[●]. In the case of 65 such deposit works of the BMP executed by the BWSSB during the period 1997-2003, the actual expenditure incurred in each case exceeded the amount deposited by 1 to 1,058 *per cent*. The concerned Executive Engineers (EEs)^{*} of the BWSSB neither obtained prior concurrence of the BMP to incur the expenditure beyond the deposit amount nor did they restrict the expenditure to the deposit received. The total excess expenditure and interest thereof due for recovery from the BMP as of March 2005 was Rs.3.25 crore and Rs.1.36 crore respectively. The system of watching prompt recovery of the balance deposit

[◇] Paragraph 409 of KPWA Code

[●] Paragraph 357 of KPWA Code

^{*} EE, Deposit Contribution (DC) Works Division, South and EE, DC Works Division, North

amount with interest in each deposit work, by maintaining control registers was not prevalent in the BWSSB.

The Government endorsed (November 2005) the reply of the BWSSB (July 2005) that the balance of deposits due for recovery (Rs.3.25 crore) from the BMP had been adjusted in 2002-03 out of funds received for new package scheme of BMP. The fact of adjustment made and details of adjustment were not, however, on record either at the two Divisional offices or in the BWSSB office. The BWSSB further contended that as the assets created out of these deposits would remain with the BWSSB, the question of charging of interest on the deposits due would not arise. The reply of the BWSSB is not tenable since the BWSSB did not resolve to do away with the system of obtaining deposits but continued receiving deposits for works from the BMP in the form of capital receipts. The procedure adopted by the BWSSB was also in contravention to the provisions contained in the KPWA Code.

Non-recovery of dues by AHVS Department

The Government accorded (June 1997) approval for transfer of 1,390 square metres of its land located in Bangalore city belonging to AHVS Department to the BMP, for construction of a flyover. The transfer, which was according to the provisions of the Land Acquisition Act was subject to condition that the BMP in turn, had to pay 50 per cent of the market value of the land to the Government. The AHVS Department transferred the land without recovering the sum of Rs.93.89 lakh being 50 per cent of the market value of land. The dues remained unrecovered for over five years (November 2005). The Government replied (December 2005) that action had since been initiated with the BMP for recovery of the dues indicating that adequate action had not been initiated to recover the dues earlier.

Thus, due to not having adequate systems and controls, dues of Rs.5.55 crore remained un-recovered for periods ranging from two to seven years, affecting the cash flow and ways and means position of the BWSSB/State Government.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.1.2 Non-recovery of processing cost of blood

Four test-checked Government hospitals did not recover subsidised processing cost of blood issued, resulting in loss of revenue of Rs.1.10 crore

The Director, National Blood Transfusion Council, New Delhi issued (January 2002) guidelines to Government blood banks to charge Rs.250 per unit of blood issued to patients towards processing cost (estimated cost: Rs.500) for conducting mandatory tests, storage, etc. The Director, Karnataka State Blood Transfusion Council, Bangalore (KSBTC), directed (February 2002) all blood banks in Karnataka to follow these guidelines.

Scrutiny of records (January 2005 to July 2005) in four Government hospitals revealed that the subsidised processing charges of Rs.1.10 crore had not been recovered from the recipients of 44,186 units of blood during the period from January 2002 to March 2005 as detailed below:

| Serial number | Hospital | Period of issue | Number of units of blood issued | Loss of revenue (Rupees in lakh) |
|---------------|---|-------------------------------|---------------------------------|----------------------------------|
| 1. | Krishnarajendra Hospital, Mysore | January 2002 to December 2004 | 13,062 | 32.66 |
| 2. | Bowring & Lady Curzon Hospital, Bangalore | October 2003 to March 2005 | 2,209 | 5.52 |
| 3. | Victoria Hospital, Bangalore | January 2002 to March 2005 | 26,284 | 65.71 |
| 4. | Karnataka Institute of Medical Sciences Hospital, Hubli | January 2002 to March 2005 | 2,631 | 6.58 |
| Total | | | 44,186 | 110.47 |

The Government endorsed (October 2005) the reply of the Director of Medical Education that the prescribed charges of the blood were not collected from the patients whose annual income was Rs.20,000 and below, as such patients were eligible for free treatment in terms of orders issued (May 2001) by the Government. The reply is not tenable as the directions issued subsequently (February 2002) did not specify non-recovery from such patients. The Director, State Blood Transfusion Council, Bangalore also clarified (October 2005) that in accordance with the guidelines of the National Aids Control Organisation, the amount fixed for issue of blood from Government Blood Banks was Rs.250 per unit.

Non-recovery of subsidised processing charges for issue of blood, thus, resulted in loss of revenue of Rs.1.10 crore to Government.

URBAN DEVELOPMENT DEPARTMENT

4.1.3 Loss due to development and allotment of sites

The Bangalore Development Authority suffered loss of Rs.32.33 lakh due to allotment of sites that were under litigation, on private land, etc., and incurring development expenditure on private land

The Bangalore Development Authority (BDA), an autonomous body, is responsible for land acquisition, its development and allotment of sites to the public in and around Bangalore city. Test-check (November 2004) of the records of BDA for the years 2001-03 revealed that in seven cases the BDA allotted (2001-03) 40 sites which were under litigation, 17 sites located on private land and 84 sites, the layout of which was realigned after allotment. The error was subsequently rectified by the BDA by cancelling original allotments and making alternative allotment of sites to the persons concerned. In the process, the BDA reimbursed cancellation and registration charges of original/alternative sites. This resulted in a loss of Rs.23.89 lakh (**Appendix 4.1**).

Further, in the case of allotment of 17 sites on private land, the BDA issued (March 2001) preliminary notification for acquisition of one acre and 24 guntas of private land. Following objections filed by the land owner, final notification was, however, issued for only 10 guntas of land. Even before the issue of final notification, the BDA developed the entire one acre and 24 guntas of land and formed 40 sites (of which 17 were allotted) incurring expenditure of Rs.8.44 lakh*, due to lack of co-ordination between land acquisition and engineering wings of the BDA.

Thus, due to lack of co-ordination between planning, land acquisition and engineering wings, the BDA developed sites on private land and allotted sites which were under litigation resulting in a total loss of Rs.32.33 lakh which could have been avoided by proper verification of the status of land. Though, the BDA considered (April 2002) recovery of the proportionate developmental charges either from the owner of the private land or from the BDA officials responsible for this irregular expenditure, no action had been initiated so far (October 2005).

The Government endorsed (October 2005) the reply of the BDA which admitted that the sites originally allotted by it had to be cancelled owing to change in alignment, design and location and forming sites on private lands and added that the cancellation/registration charges were paid with the approval of the competent authority. The reply narrated only the factual position and did not dwell on the remedial measures.

WATER RESOURCES DEPARTMENT - TUNGABHADRA PROJECT

4.1.4 Misappropriation of Government money and food grains

Failure of the Divisional Officer to exercise required control checks and comply with the guidelines issued by Government in carrying out scarcity relief works facilitated misappropriation of Government money and food grains valued at Rs.50.29 lakh

For providing gainful employment to the farmers and unemployed agricultural labourers in drought affected districts, Government issued (August 2002) guidelines for carrying out scarcity relief works by the Water Resources Department among others. The guidelines, *inter alia*, provided for execution of only budgeted and labour intensive works as identified by the Department and approved by the respective Deputy Commissioners (DCs). The guidelines prohibited engagement of contractors. The works were to be executed departmentally by engaging labourers on muster rolls and making wage payments in the form of food grains and cash in the ratio of 75:25. The food grains were to be lifted from the Depots of Karnataka Food and Civil Supplies Corporation Limited. The DC was also to act as a coordinating officer and had to release the required food grains and cash to the implementing departments. The implementing officers in the district were to submit daily

* Cost of development of 54 guntas at Rs.15,625 per gunta

reports on progress of works and utilisation certificates on completion of works to the respective DCs.

Audit scrutiny (December 2004) of records of the Executive Engineer, No.5, Tungabhadra Canal Division, Yermarus (EE) (Raichur district) revealed that 7,572 quintals of rice released by the DC, Raichur to the Division during May 2003 to February 2004 were lifted by three sub-divisions^ψ for use on work. However, the receipt and issue account of food grains was not maintained in any of the three sub-divisions. Instead the rice was purported to have been utilised in execution of 90 works of desiltation and jungle clearance, as per the details furnished by the sub-divisional officers to audit. Of these, 15 works (estimated cost: Rs.12 lakh) were contended to have been executed departmentally in Gillesugur sub-division and remaining 75 works (estimated cost: Rs.54 lakh) through piecework contractors in other two sub-divisions[⊕]. Records further revealed that only 15 works (Gillesugur sub-division) were approved by the DC and the other 75 works had not been approved by any authority. The works were not shown as executed in the records of the Divisional Office nor were any work orders issued to the piecework contractors. Entries in the measurement books, nominal muster rolls, works abstracts, paid vouchers in respect of contractor's claims *etc.*, were not available in the three sub-divisions. The cash component of Rs.2.96 lakh received from the DC and paid (August 2003) to two Section Officers of Gillesugur sub-division as temporary advance was also outstanding against them as at the end of March 2005. No action had been taken by the EE for its recovery/adjustment. The daily progress reports of work done as required to be furnished under the guidelines of the Government (August 2002) were neither furnished by the sub-divisional officers nor insisted upon by the EE. No utilisation certificates were furnished to the DC despite reminders by him.

Failure of the Divisional Officer to exercise the required control checks and comply with the guidelines issued by Government in carrying out scarcity relief works facilitated misappropriation of Government money and food grains valued at Rs.50.29 lakh.

Government in reply, while admitting (October 2005) that the measurement of works were not recorded and the accounts of food grains and cash components were not submitted by the Section Officers even after an year of their receipt, however, contended that the misappropriation of food grains and cash is ruled out as the works were executed under the supervision of higher authorities. The reply is not tenable, as the EE failed in recording the measurement of works executed and monitoring the accounts of the food grains. The DC also did not obtain utilisation certificates on completion of the works. As the works were not susceptible to *post facto* check, misappropriation of the food grains could not ruled out.

^ψ 1,384 quintals to Rajolibanda Diversion Scheme sub-division, Gillesugur; 3,588 quintals to No.2, Canal sub-division, Yermarus and 2,600 quintals to No.1, Canal sub-division, Kallur
[⊕] No.1 Canal sub-division, Kallur and No.2 Canal sub-division, Yermarus

4.2. Infructuous/Wasteful expenditure and overpayments

INFORMATION TECHNOLOGY AND BIO-TECHNOLOGY DEPARTMENT & URBAN DEVELOPMENT DEPARTMENT

4.2.1 Wasteful expenditure on preparation of Master Plan

Entrustment of work of preparation of Master Plan for Information Technology Corridor without specific Legislative sanction for the Corridor and failure to prevent construction activity inconsistent with the Master Plan resulted in the fee of Rs.1.34 crore paid to a firm becoming wasteful

The Millennium Information Technology (IT) policy envisaged (March 2000) planning of a special IT corridor in and around Bangalore with the assistance of reputed international agencies, which had complete experience in IT parks. The corridor was to be self-contained with the state-of-the-art facilities of international standards. A Singapore based firm* expressed interest in developing the Master Plan for the IT corridor. The Information Technology and Bio-technology (IT&BT) Department signed (June 2000) a Memorandum of Understanding with the firm. The Urban Development Department responsible for implementation of the project accorded (May 2001) *post facto* approval for entrusting the work to the firm, in relaxation of the provisions of the Karnataka (Transparency in Public Procurement) Act, 2000 which required invitation of open tenders for jobs/services costing more than Rs. one lakh.

A consultation fee of US \$ 3,60,000 (equivalent to Rs.1.64 crore) was fixed with the firm. The Bangalore Development Authority (BDA) which was appointed nodal agency for the project entered (July 2001) into an agreement with the firm for preparation of the Master Plan stipulating submission of the final report by April 2002. The firm submitted draft report and drawings of the Master Plan in March 2003. The BDA observed (July 2004/January 2005) that the drawings required corrections in terms of legibility, colour scheme, notations, *etc.*, and also were not in conformity with the provisions of the Karnataka Town and Country Planning (KTCP) Act. The firm had not submitted the corrected final drawings in terms of the KTCP Act and in line with the decision of the BDA (October 2005). The BDA neither extended the time stipulated for completion of the Master Plan beyond April 2002 nor did it levy penalty of US \$ 120 per day of delay, as agreed to. A total payment of Rs.1.34 crore was made to the firm (October 2005). Further, though the project was conceived in anticipation of Legislative sanction for the IT Corridor Bill, the IT&BT Department introduced the Bangalore IT Corridor Bill in the Legislature only in 2004, after a delay of three years of signing of contract agreement with the firm for preparation of Master Plan. This Bill was withdrawn due to lack of time for discussion and did not get Legislative sanction (October 2005).

* M/s. Jurong Town Corporation International (Singapore) Private Limited

In the absence of Legislative sanction and consequent non-initiation of land acquisition proceedings by the BDA for the project, hectic construction activities not in conformity with the Master Plan in the specified IT Corridor area by the land owners took place un-checked. As of March 2004, 32 *per cent* (44.6 square kilometres) of the area became built up with unplanned structures and blocked the approach to the hinterland of the project. Besides, an area of 66 square kilometres included in the Master Plan by the firm was found to be in green belt area where no developments excepting construction of places of worship, schools, *etc.*, could take place. Acquisition of lands for industrial purposes was also going on in terms of the existing Comprehensive Development Plan.

Considering these factors, the BDA decided (December 2004) that the project had become uneconomical and un-viable and sought (September 2005) approval of the Government for discontinuance of the project and termination of contract. The BDA stated (September 2005) that the Master Plan prepared by the firm had since been partially incorporated (*i.e.* planning element and zoning element) in the Revised Comprehensive Development Plan (RCDP)-2015 for the city of Bangalore prepared by a French consultant. The Government endorsed (December 2005) the reply of the BDA and added that since the anticipated Legislative sanction for the IT corridor Bill did not come through, continuation of the project was not feasible and hence the BDA discontinued the project. The reply is untenable as the BDA itself admitted that the drawings submitted by the firm were sketchy and not compatible with the KTCP Act.

Thus, entrustment of work of preparation of Master Plan for IT corridor without the support of a Legislative sanction for the creation of the IT corridor and failure to prevent construction activity in the area identified for IT corridor coupled with delay in finalisation of the Master Plan resulted in the fee of Rs.1.34 crore paid to the firm becoming wasteful.

PUBLIC WORKS DEPARTMENT – COMMUNICATION AND BUILDINGS

4.2.2 Wasteful expenditure on a road work

Inaction of the Government and its failure to issue appropriate direction to forestall the execution of the improvement works in selected reaches of Bangalore-Nilgiri State Highway (SH 17) in Mandya district while converting it into a four lane carriageway resulted in a wasteful expenditure of Rs.61.39 lakh

Improvement to Bangalore-Nilgiri two-lane road (SH 17) from km 71.20 to 131 in Mandya district was administratively approved by the Government in October 2002 at an estimated cost of Rs.7.66 crore and technically sanctioned (November 2002) by Chief Engineer, Communication and Buildings (South), Bangalore (CE). The work was allotted (March 2003) to a contractor at his tendered cost of Rs.8.37 crore for completion by September 2003. The work

was completed in August 2003 and an expenditure of Rs.7.74 crore[®] was incurred on it.

Audit scrutiny (September 2004) of records of the Executive Engineer, Public Works Division, Mandya (EE) revealed that when the tenders for the improvement works were under finalisation with the PWD, the Karnataka Road Development Corporation Limited (KRDCL) asked (January 2003) the CE to reconsider the execution of improvement works (km 71.20 to 82.50) as the road was being converted by KRDCL into a four-lane road. The CE in turn, asked (February 2003) Government to issue suitable directions to KRDCL as the tenders for the execution of the improvement works on the stretch were under finalisation. However, no directions in the matter were issued by Government.

Meanwhile, Government approved (June 2003) conversion of the existing two-lane road into a four-lane road from km 0 to 82.50 (Bangalore-Maddur section) by KRDCL at a cost of Rs.188 crore. The road, after improvements, was handed over to KRDCL (February 2004) for lane conversion/widening. During the widening process, the existing concrete pavement on a stretch of 6.7 kms was removed by KRDCL for improving the geometrics of the road and carrying out necessary profile corrections. Records revealed that PWD had spent Rs.61.39 lakh on carrying out re-surfacing works on this stretch of the road. The improvement works, executed by the Department at a cost of Rs.61.39 lakh, for improving the riding quality and for enhancing the life of the existing road by another 8 to 10 years, were thus dismantled by KRDCL in less than a year rendering the expenditure thereon wasteful. Thus, the inaction of the Government and its failure to issue appropriate direction to forestall the execution of the improvement works resulted in a wasteful expenditure of Rs.61.39 lakh.

Government in reply, however, stated (October 2005) that the works executed by Public Works Department were only of maintenance nature and that the road was being used for nearly 20 months after carrying out repairs during the period of its widening by KRDCL. The reply is not factual as the improvement works executed during March to August 2003 were to last 8 to 10 years but were dismantled in less than a year.

4.2.3 Wasteful expenditure on repairs to a helicopter

Delay in disposing of an old helicopter and injudicious action to overhaul and maintain it resulted in a wasteful expenditure of Rs.2.41 crore

Government purchased (October 1979) a single engine Chetak helicopter from Hindustan Aeronautics Limited (HAL) at a cost of Rs.86.32 lakh for facilitating visits by ministers and VIPs to the interior areas of the State and areas affected by natural calamities. While Department of Personnel and Administrative Reforms (DPAR) looked after the subject of aircrafts for the

[®] Up to 12th running bill

State Government, the Public Works Department (PWD) was in charge of the issues relating to its running and maintenance.

Scrutiny of records in audit revealed (December 2004) that orders for the disposal of the helicopter were conveyed (April 2001) by Principal Secretary to the Chief Minister, to PWD who in turn asked DPAR to take action in the matter. The value of the helicopter was got evaluated from HAL, who, while valuing it at Rs.70 lakh, also offered (August 2001) to purchase it. Neither was any action taken by PWD to invite tenders for the sale of helicopter nor was the offer of HAL responded to till March 2002, when a counter offer of Rs.1.10 crore was communicated to them. As this was not accepted (May 2002) by HAL, the DPAR directed (June 2002) the Executive Engineer, Buildings Division, Bangalore to dispose of the helicopter by auction.

In October 2002, after crash of a Government owned Dauphin helicopter, the Government decided to get the Chetak helicopter overhauled at HAL and keep it as a stand-by helicopter despite the fact that the old single engined helicopter was not, as per DGCA security guidelines, usable for VVIPs. The Chetak helicopter underwent major overhaul at HAL between November 2002 and February 2003 at a cost of Rs.3.21 crore, only to be sold in October 2004 at Rs.1.32 crore.

On pointing out this in audit, Government in reply stated (June 2005) that the earlier decision to sell the helicopter did not materialise due to damage of Dauphin helicopter and the overhaul of the helicopter was inevitable in the circumstances. The reply is not tenable, as the helicopter, being a single engined one, could not be used for the VVIPs even after overhaul.

Thus, the injudicious decision of Government not to sell the helicopter soon after April 2001 and instead get it overhauled at a cost of Rs.3.21 crore resulted in wasteful expenditure of Rs.2.41 crore[⊕].

WATER RESOURCES DEPARTMENT – MINOR IRRIGATION

4.2.4 Excess payment on construction of a bridge-cum-barrage

The unauthorised approval by the Superintending Engineer allowing 15 per cent premium as bridge weightage outside the contractual obligation resulted in excess payment of Rs.2.37 crore to the contractor

The work of constructing a submersible bridge-cum-barrage[^] across river Bhima near Hireanur village of Yadgir taluk in Gulbarga district (estimated cost: Rs.5.18 crore) was allotted (November 2000) to a contractor at his tendered cost of Rs.5.95 crore for completion by December 2002. During execution of the work, its scope was revised (June 2001) providing for a 7.5 metre wide bridge at a height of 5.5 metres from the top of the barrage at a

[⊕] Cost of maintenance and overhaul (Rs.3.73 crore) less sale proceeds (Rs.1.32 crore) of the helicopter

[^] Top width of 4.25 metres of barrage to act as a bridge

revised estimated cost of Rs.14.35 crore. The work was continued (June 2001) to be executed by the same contractor pending approval to the revised estimates, which was subsequently obtained (June 2002) from the Government. A supplementary agreement for a revised contract value of Rs.16.27 crore, arrived at 14 *per cent* premium of the Schedule of Rates of Minor Irrigation Department for 2001-02, was executed (July 2002) with the contractor after negotiations (March 2002) at Government level for completion by April 2004. The work was nearing completion and the contractor had been paid Rs.24.69 crore as of March 2005.

Scrutiny in audit revealed that soon after entering into supplementary agreement, the Executive Engineer (EE) mooted (22 July 2002) a proposal for allowing a premium of 15 *per cent* on the agreed rates as bridge weightage for the items of bridge work with a financial implication of Rs.1.07 crore on the ground that the contractor had demanded (13 July 2002) a weightage at 20 *per cent* of the agreed rates as admissible under the Schedule of Rates of Public Works Department. The proposal was approved (24 July 2002) by the same EE in his capacity as Superintending Engineer, Minor Irrigation Circle, Gulbarga (SE), although such approval was beyond the powers of SE and outside the agreement. The actual payment made on this account was Rs.2.37 crore which was more than estimated earlier as the quantities of bridge work exceeded the estimated quantities and additional items of bridge work such as dewatering and diversion of water course which were also executed. The payment was made despite the fact that the supplementary agreement did not provide for payment of any bridge weightage. Government, while approving (June 2002) the revised estimate, had also directed that the cost of the project should not be allowed to exceed for any reason. Unauthorised approval by SE allowing 15 *per cent* premium as bridge weightage and its payment by the EE outside the contractual agreement and in violation of the directions of the Government resulted in excess payment of Rs.2.37 crore (**Appendix 4.2**). No action on this excess payment had been taken by the Department so far (May 2005).

Government in reply, contended (September 2005) that the payment of bridge weightage was in order as a similar weightage was admissible in the Schedule of Rates of Public Works Department. The reply was not tenable as the Department was not under any contractual obligation to make such payment. Further negotiations and supplementary agreement were made on the basis of rates adopted from Schedule of Rates of Minor Irrigation Department and, as such, Schedule of Rates of Public Works Department was not applicable to the contract.

4.3 Avoidable/Extra expenditure

URBAN DEVELOPMENT DEPARTMENT

4.3.1 Avoidable expenditure in acquisition of land

Issue of separate preliminary notifications, involving a delay of four months, for acquisition of lands by Bangalore Development Authority resulted in extra cost of acquisition of Rs.95.88 lakh, of which Rs.73.90 lakh had already been paid

For payment of land compensation to owners of land acquired for formation of layouts, the Bangalore Development Authority (BDA) is governed by the provisions of the Land Acquisition Act, 1894 (LA Act) and Government orders issued (June 1979) thereunder. According to these provisions, the amount of compensation payable mainly depends on the market value of the land/adjacent land prevailing as on the date of preliminary notification.

With the intention of formation of a new layout called Sir M.Visvesvaraya layout (SMV layout), the BDA arranged (May 2001) inspection of lands in six[∞] villages in Bangalore (South) taluk. Though it was found that lands[°] in all the six villages were suitable for the proposed layout, the Deputy Commissioner of BDA, instead of submitting a single proposal for acquisition of lands covering all the six villages, submitted bifurcated proposals, the first one in June 2001 covering first four villages and the second one in February 2002 covering the remaining two villages. The reasons for this were not apparent on the records of the BDA. The BDA approved (June 2001 and February 2002) these two proposals and issued two separate preliminary notifications (January 2002 and May 2002). This was followed by the issue (October 2002) of a combined final notification for all the six villages and actual acquisition (December 2003).

While cost of acquisition of land in first four villages was fixed at Rs.4.36 lakh[♦] per acre based on the prevailing market rate, the same for the land in the remaining two villages was fixed at Rs.4.49 lakh per acre. The BDA, in its land evaluation report, justified that the cost appreciation in the market value of land between January 2002 and May 2002 was a sequel to the preliminary notification issued earlier in January 2002 for acquiring land in the four adjoining villages. The BDA acquired 519.40 acres of land at the appreciated value of Rs.4.49 lakh per acre, which could have been avoided if it had issued the preliminary notification for the entire lands required in January 2002 itself.

Thus, by not issuing a combined preliminary notification in January 2002 itself, for acquiring land for the layout, there was an avoidable extra cost of

[∞] Ramasandra, Sonnenahally, Kengeri, Kommaghatta, Ullal and Manganahalli

[°] Major portion of land belonged to 'dry land' category

[♦] The land acquisition cost fixed for dry land

Rs.95.88 lakh[♥] towards land compensation, of which Rs.73.90 lakh had already been paid (May 2005).

The Government endorsed (October 2005) the reply of the BDA that the separate notification issued for acquisition of land in the other two villages was for II Stage of the SMV layout and as planning for layouts would be often done in stages, the action of the BDA was in order. The reply is not tenable as inspection of land in all the six villages was conducted in May 2001 and notification for acquisition could have been issued in January 2002 itself. This was indicative of poor planning and scheduling which resulted in an avoidable extra cost of Rs.95.88 lakh.

4.3.2 Avoidable extra expenditure

The decision of Karnataka Urban Water Supply and Drainage Board to switch over to 200 millimetre diameter stoneware glazed pipes from 150 millimetre diameter pipes for sewer lines in second stage underground drainage work to Bellary city in violation of Central Public Health Environmental Engineering Organisation norms resulted in avoidable expenditure of Rs.61.65 lakh

The Government approved (April 2000) the work of providing Under Ground Drainage (UGD) - Stage-II to Bellary city. The Karnataka Urban Water Supply and Drainage Board (KUWSDB) technically sanctioned the work in November 2000. The sanctioned estimates of the work provided for 94,131 metres of 150 mm diameter stoneware glazed (SWG) pipes for sewer lines, in conformity with the minimum size prescribed in the Central Public Health Environmental Engineering Organisation (CPHEEO) Manual, besides 9,957 metres of 200 mm diameter and 7,336 metres of 250 mm diameter pipes, based on the design requirement of the scheme.

The contractor for the work, while submitting the design of the work for approval, proposed (May 2001) 200 mm diameter SWG pipes (agreed rate Rs.260 per metre) *in lieu* of 150 mm diameter pipes (agreed rate Rs.120 per metre). The Managing Director of the KUWSDB approved (June 2001) the same. The KUWSDB also decided to adopt the minimum diameter of 200 mm *in lieu* of 150 mm diameter pipes for sewer lines in all its future UGD schemes and issued (July 2001) a circular to this effect. The KUWSDB subsequently withdrew (December 2001) the circular after finding that it was not in conformity with the CPHEEO norm. By this time, the contractor had already supplied 44,070 metres of 200 mm diameter pipes involving

| | |
|--|---------------|
| ♥ Increase in land cost per acre | Rs.13,000 |
| Add additional market value at 12 <i>per cent</i> in terms of Section 23 (1-A) of the LA Act | Rs. 1,560 |
| Add statutory allowance at 30 <i>per cent</i> in terms of Section 23(2) of the LA Act | Rs. 3,900 |
| | ----- |
| Total differential cost per acre | Rs.18,460 |
| Total avoidable extra cost = Rs.18,460 x 519.40 acres = | Rs.95.88 lakh |

differential extra cost of Rs.61.70 lakh[⊕], of which Rs.61.65 lakh, was paid (May 2005).

Thus, due to erroneous decision of the KUWSDB to switch over to 200 mm diameter SWG pipes from 150 mm diameter pipes for sewer lines, avoidable expenditure of Rs.61.65 lakh was incurred on the work as of May 2005.

The Government endorsed (October 2005) the reply of the KUWSDB (September 2005) that 200 mm pipes were used in thickly populated areas and 150 mm pipes in other areas. The reply is not tenable as the Executive Engineer of the KUWSDB admitted (April 2005) that by the time the message of withdrawal of earlier circular of July 2001 was conveyed (December 2001) to the contractor, 44,070 metres of 200 mm pipes was already supplied by him and did not mention about the necessity of laying 200 mm pipes in thickly populated areas.

4.3.3 Avoidable payment of escalation charges

Due to not ascertaining clear title and suitability of the work site and delay in deciding on the alternative arrangement for erecting a water treatment plant, there was extra expenditure of Rs.31.80 lakh towards price escalation

The Government approved (May 2000) water supply augmentation scheme to Kollegal town at an estimated cost of Rs.9.19 crore for implementation by the Karnataka Urban Water Supply and Drainage Board (KUWSDB) with loan assistance of the Housing and Urban Development Corporation. The KUWSDB entrusted (March 2001) a part of the scheme (estimated cost Rs.4.62 crore) to a contractor on tender basis, at his tendered cost of Rs.5.08 crore, for completion by July 2002. The work entrusted comprised two main parts, one on construction of intake and jackwells, raising mains, head works, *etc.*, (estimated cost: Rs.4.24 crore) and the other relating to water treatment plant (WTP) (estimated cost: Rs.84.43 lakh). The KUWSDB was to ensure availability of site with clear title, before entrusting the work to the contractor.

The Town Municipal Council (TMC), Kollegal handed over (February 2001) the sites for different components of the scheme including that of WTP, without enclosing site maps and titles for the same. The KUWSDB without inspecting the site and verifying its title, went ahead (February 2001) with the execution of work. The KUWSDB conducted the inspection (May 2001) of the site and noticed it to be low lying and unsuitable for WTP. Besides, the title for the same was held by an Association and not by the TMC, Kollegal. The Association objected (June 2001) to the construction of WTP on its land. The KUWSDB also did not decide alternative arrangement for the WTP for two years (August 2001 to July 2003). The contractor executed works costing Rs.1.50 crore relating to the construction of intake well, jackwell, head works, *etc.*, and could not execute any work relating to WTP (July 2002). He also

[⊕] Differential excess cost of Rs.140 per metre x 44,070 metres = Rs.61.70 lakh

demanded (July 2002) price escalation for executing the balance works in terms of the contract.

In view of these, the KUWSDB then decided (July 2003) to upgrade the existing 4.5 Million Litres per Day (MLD) WTP to 13.5 MLD capacity to meet the requirement of augmented scheme and execute this work by inviting fresh tenders. Accordingly, the KUWSDB withdrew (August 2003 and July 2004) from the contractor, the construction of WTP and other related works and entrusted the same to other agencies (January and October 2004). The KUWSDB also agreed (November 2003) to pay 15 per cent excess over the tendered rates to the contractor for balance works of such items, which had been already commenced. The extra liability to the KUWSDB on this account worked out to Rs.31.80 lakh[♦], of which Rs.12.80 lakh had already been paid (October 2005).

Had the KUWSDB ascertained the suitability and title to the site handed over by the TMC, Kollegal and taken the decision to upgrade the existing 4.5 MLD WTP to 13.5 MLD WTP beforehand, the liability towards 15 per cent price escalation charges of Rs.31.80 lakh could have been avoided. Besides, the work stipulated for completion by September 2002 was still under progress (October 2005).

The Government endorsed (October 2005) the reply of the KUWSDB (September 2005) that the work was taken up for execution in February 2001 only after the receipt of communication of handing over site from the TMC, Kollegal and that the local Association raised (June 2001) objections only when the execution of the work was in progress. The reply is not tenable as the KUWSDB went ahead with the execution (February 2001) of the work without inspecting the site and its title, with due diligence.

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.3.4 Avoidable expenditure on a road work

Inadequate provision in the estimate for rehabilitation of a road work from Shedbal to Sankeshwar in Belgaum district resulted in an avoidable extra cost of Rs.1.61 crore of which Rs.90.35 lakh stood incurred

The work of rehabilitation of a 56 kms road from Shedbal to Sankeshwar (Belgaum district) at an estimated cost of Rs.14.56 crore was selected (1999-2000) by Karnataka State Highways Improvement Project (KSHIP) for execution under its World Bank assisted project of rehabilitating and upgrading State highways. The work was approved by the Project Steering Committee (October 2001) and allotted (February 2002) to a contractor at his tendered cost of Rs.12.29 crore, which was 15.6 per cent below the estimated

[♦] Rs.4.24 crore (tendered cost) – Rs.61.85 lakh (tendered cost of items of work withdrawn from the contractor – Rs.1.50 crore (value of works already executed by the contractor up to July 2002) = Rs.2.12 crore (value of balance works), 15 per cent thereof as price escalation worked out to Rs.31.80 lakh

cost at Departmental Schedule of Rates for 2000-01. The contractor had been paid Rs.10.70 crore as of May 2005. The work scheduled to be completed by December 2003 was under progress (May 2005).

Audit scrutiny of records of the Project Director, Project Implementation Unit, KSHIP, Bangalore revealed that the scope of the work, after its allotment to the contractor, was revised (June 2003) for the stretch km 25 to 56 by raising its formation level and reconstruction from the base. This involved execution of additional items and additional quantities of work by the contractor at higher rates involving an extra financial implication of Rs.5.40 crore for which approval from the World Bank was obtained subsequently (August 2003).

Records revealed that the Project Co-ordination Consultants (PCC) while carrying out investigations for the work had observed (December 1999) that the stretch of the road from km 25 to 56 required reconstruction by raising its formation level as the pavement had poor drainage facilities and was running through black cotton soil amidst irrigated areas where adjoining soil was at a higher level. The Project Empowered Committee of KSHIP, however, decided (December 1999) to take up maintenance works only involving strengthening at the top of the road on the erroneous contention that the rehabilitation unit cost ceiling, which was Rs.45 lakh per km, did not permit KSHIP to take up reconstruction work. The total revised cost of the work (Rs.17.69 crore) after adding cost of additional quantities and extra items of work included subsequently was, however, within the unit cost of Rs.45 lakh per km. Had the additional quantities and extra items of work been included in the original estimates before inviting tenders as proposed by PCC, these items of work could have been got executed at the tender rates. Instead the negotiated higher rates paid to the contractor resulted in an avoidable extra financial burden of Rs.1.61 crore to KSHIP of which Rs.90.35 lakh stood paid to the contractor ending March 2005 as indicated in **Appendix 4.3**.

Government in reply, (September 2005) stated that the additional quantities and extra items of work for reconstruction of the road could not be foreseen clearly at the tendering stage itself. The reply is not factual as the PCC in December 1999 itself had observed that the road required reconstruction.

4.4 Idle investment/idle establishment/blockage of funds

KANNADA AND CULTURE DEPARTMENT

4.4.1 Long delay in construction of a museum-cum-office building

Non-monitoring of the construction led to non-completion of the building for over six years resulting in unfruitful expenditure of Rs.1.05 crore including cost escalation of Rs.65.38 lakh

The Director of Archaeology and Museums (Director), Mysore released during 1992-94, sums aggregating Rs.87 lakh* to the Karnataka State

* 1992-93 - Rs.67 lakh; 1993-94 - Rs.20 lakh

Construction Corporation (KSCC) for the construction of a museum-cum-office-building at Mysore. No suitable land for the construction of the building was handed over to the KSCC till August 1998, due to land disputes, public protests, non-suitability of site, etc.

The KSCC prepared (April 1999) an estimate for Rs.1.50 crore and after obtaining approval of Government for the work, commenced its construction. As of July 2001, the KSCC incurred an expenditure of Rs.57.38 lakh and diverted (1992-2004) the balance of Rs.33.50 lakh^o (Rs.3.88 lakh paid in 2003-04) on construction of other museums, without specific direction from the Director or the Government. The Finance Department intimated (October 2001) that the KSCC would close its operations from January 2002 and advised the administrative departments to entrust incomplete works to new agencies, before December 2001.

The balance work valued at Rs.92.62 lakh was handed over to the Karnataka Land Army Corporation (KLAC) at the agreed rate of Rs.1.58 crore only in March 2004 after a delay of more than two years due to delay in taking decision and sanctioning funds to KLAC at the Government level, resulting in cost escalation of Rs.65.38 lakh. As against Rs.69.37 lakh released by the Government (March 2004), the KLAC incurred an expenditure of Rs.48 lakh (June 2005). The roof portion of the office building was completed and work on the roof of museum was in progress (September 2005).

Thus, the Director, by not watching proper utilisation of funds released to the KSCC, enabled diversion of Rs.33.50 lakh for other works, the full details of which were not available with him. The completion of work after commencement in 1999-2000 was also evidently not monitored, leading to the building remaining incomplete, even after six years.

The Government endorsed (September 2005) the reply of the Director (June 2005) that the progress of work was being closely monitored by the Director and that the work would be completed shortly. The reply is not acceptable as the Government did not even have a definite plan for completion of the building (September 2005) despite long delay in construction, leading to cost escalation of Rs.65.38 lakh^o and investment of Rs.1.05 crore[^] made on the work, remaining unfruitful.

^o Rs.87 lakh and Rs.3.88 lakh less Rs.57.38 lakh

[•] Estimate for balance works Rs.1.58 crore and expenditure of Rs.57.38 lakh by KSCC less original estimate of Rs.1.5 crore

[^] Expenditure of Rs.57.38 lakh by KSCC and expenditure of Rs.48 lakh by KLAC

REVENUE DEPARTMENT**4.4.2 Irregular release leading to blocking of funds**

Release of funds of Rs. one crore by the Deputy Commissioner, Haveri before sanctioning the land for the work and ineffective monitoring led to blocking of funds and its non-utilisation

The guidelines[⊕] issued (September 1999) by the Government of India (GOI) for the implementation of Member of Parliament Local Area Development Scheme (MPLADS) stipulated that the release of funds under the scheme would be regulated according to progress so that at any given time, no excessive money would remain outside Government treasury. The GOI instructed (November 2002) that each work under MPLADS should not normally cost more than Rs.25 lakh. While this limit could be marginally exceeded, projects with substantially higher costs required approval of the GOI.

A Member of Parliament (MP) directed (June 2002) the Deputy Commissioner (DC), Haveri to implement the development works of construction of classrooms and administrative block for a Post-Graduate Centre at Kerimattihalli in Haveri at Rs.25 lakh each, after getting the estimate and plan from the departmental officers. The DC released (July 2002) Rs.50 lakh to the Resident Engineer (RE), Karnatak University (KU), Dharwad with directions to submit plan and estimate for the work for obtaining administrative approval. The DC, however, sanctioned 42 acres 18 guntas[♦] of land for the construction of Post-Graduate Centre only in February 2003. Even this belated sanction was erroneous, as the land had already been allotted to Prison Department in February 1999. The DC set right this error only in February 2004 and the University submitted (May 2005) the plan and estimate for Rs.1.08 crore for the work after a further delay of one more year. Based on a similar direction (January 2003) from the MP, the DC released (February 2004) additional funds of Rs.50 lakh for construction of classrooms for the Post-Graduate Centre. The DC did not obtain the required approval from GOI for the work, the cost of which was more than Rs. one crore.

The Registrar, KU, Dharwad stated (April 2005) that works costing Rs.1.08 crore would be taken up immediately and completed by March 2006. However, even tender process for the work has not yet been initiated so far (October 2005).

Thus, release of funds by the DC before sanctioning the land for the work and without obtaining plan, estimate and approval from GOI resulted in locking up of Rs. one crore for 19 months to 38 months.

[⊕] Paragraph 4.2

[♦] Acres-guntas
 Survey No.130 19-00
 Survey No.131 14-17
 Survey No.139 09-01

The Government admitted (October 2005) the lapses stating that the DC had been instructed to adhere to the procedure of MPLADS without fail, in future.

URBAN DEVELOPMENT DEPARTMENT

4.4.3 Unproductive expenditure on underground drainage system

Inability of the Karnataka Urban Water Supply and Drainage Board to acquire land, get formalities completed on time and identify alternative site for construction in view of public protest resulted in unfruitful outlay of Rs.10.36 crore

The State Government approved (October 1998) the second stage of underground drainage scheme (Scheme) to Hassan city. The Managing Director, Karnataka Urban Water Supply and Drainage Board (KUWSDB), accorded (December 1998) technical sanction for the Scheme for Rs.12.24 crore. The main components of the Scheme consisted of providing and laying internal sewerage system with manholes in Zones 2 and 3 and construction of Sewerage Treatment Plant (STP) of 10 million litres per day capacity.

While the work of providing and laying internal sewerage system with manholes in Zones 2 and 3 was entrusted to a contractor during November 1999 for completion in 22 months (September 2001), the KUWSDB fixed an agency for construction of the STP during June 2004, after a delay of more than four years. The KUWSDB attributed (April 2005) the delay to land acquisition process, agitation by public for the construction of STP, non-payment of compensation to land owners for the construction of sewerage treatment plant and non-payment of the required deposit by the Hassan Municipal Corporation. Evidently, the KUWSDB did not take adequate action to get these formalities completed before or immediately after Government sanctioned the work in October 1998.

The KUWSDB also did not expedite the permission sought for (November 1998) from the Railway authorities for laying Reinforced Cement Concrete (RCC) pipes of 800 millimetre diameter for sewer lines which were to pass through three bridges on railway lines. The KUWSDB could obtain permission for laying pipelines crossing railway line, only in April 2003. The permission was, however, for mild steel pipes as against the RCC pipes estimated by the KUWSDB. This resulted in further delay in execution. This could have been avoided had the KUWSDB consulted the Railway authorities in time and provided for the correct pipeline and obtained the permission before Government accorded approval in October 1998. A total expenditure of Rs.10.36 crore was incurred on the work as of February 2005. Construction of STP which formed a vital part of the Scheme had, however, been held up, according to KUWSDB, due to strong public agitation.

Thus, due to the inability of the KUWSDB to acquire the lands and deposits required for the Scheme on time coupled with avoidable delays in getting permission from Railway authorities for laying pipelines that were to pass through railway lines and apparent inappropriate selection of site for

construction of STP resulted in the Scheme remaining incomplete for nearly seven years rendering the outlay of Rs.10.36 crore incurred on it remaining unproductive.

The Government endorsed (October 2005) the reply of the KUWSDB (September 2005) that there was no lapse on the part of the KUWSDB as it pursued the matter with concerned authorities promptly and persistently. The reply is not acceptable as the KUWSDB did not ensure completion of the formalities on time and had not yet identified an alternative land for construction of STP, following agitation by the public against construction of STP at the originally planned site.

WATER RESOURCES DEPARTMENT - MINOR IRRIGATION

4.4.4 Unfruitful outlay on a minor irrigation tank

Failure of the Government to provide funds for completion of balance works resulted in denial of irrigation facilities to 165 hectares of land even though Rs.5.53 crore was spent on the project

The work of constructing a minor irrigation tank (estimated cost: Rs.1.15 crore) near Gollahalli village in Kolar district for providing irrigation facilities to 101 hectares of land was administratively approved by Government in March 1998 and technically sanctioned by Chief Engineer, Minor Irrigation (South), Bangalore in May 1998. The work was entrusted (July 1998) to Karnataka State Construction Corporation Limited (KSCC) at a cost of Rs.1.22 crore* for completion by July 2000. The estimate was subsequently revised (October 2000) to Rs.5.65 crore for providing irrigation to additional 64 hectares of land. All the components of the work except the canals and the allied cross drainage works were completed (October 2000) by KSCC at a cost of Rs.5.12 crore. The left-over works were withdrawn (January 2001) from the KSCC at their request. The left over works estimated to cost Rs.29.55 lakh were allotted (May 2001) to a contractor at a cost of Rs.31.31 lakh for completion within three months. The work was not, however, taken up as of March 2005 and the irrigation facilities had not been made available to farmers.

Audit scrutiny of records revealed that while the tank bund and allied works were executed by the Department on private land (44 acres) with the consent of the land owners, no expeditious action was taken to acquire them and pay compensation to the owners. The acquisition proposals were sent to the Land Acquisition Officer only in March 1999 and the land award was passed in July 2003. Meanwhile, the land owners obstructed (June 2001) the execution of canal works demanding payment of compensation. Consequently, the contractor withdrew (July 2001) his men and machinery from the construction site. No action was taken by the Department to resume the balance works thereafter. No funds were also released by the Government except for releasing Rs.0.30 lakh during 2000-03.

* 12 per cent above the estimated cost

Government in their reply (August 2005) to the audit observations did not state reasons for non-release of funds and delay in completion of work.

Thus, failure of the Department to acquire land before taking up the work and non-provision of funds for completion of balance works resulted in denial of irrigation facilities to 165 hectares of land, even after spending Rs.5.53 crore.

4.4.5 Unfruitful outlay on a minor irrigation project

Non-execution of the balance works of a minor irrigation project resulted in non-realisation of the intended objective of providing direct irrigation to 222 acres of land despite spending Rs.1.21 crore

The work of constructing a minor irrigation tank at Bevanoor village in Athani taluk of Belgaum district for irrigating 222 acres of land was administratively approved (July 1998) by Government and technically sanctioned (January 1999) by Chief Engineer, Minor Irrigation (North), Bijapur at an estimated cost of Rs.99.14 lakh. Karnataka State Construction Corporation Limited (KSCC) to whom the work was entrusted (February 1999), executed the tank bund and allied works and stopped the work (January 2001). The balance works of executing right and left bank canals with cross drainage works estimated to cost Rs.3.80 lakh were not executed by the Department (September 2005). The tank on which an expenditure of Rs.1.21 crore had been spent was yet to be commissioned (September 2005).

Audit scrutiny of the records of Executive Engineer, Minor Irrigation Division, Belgaum (EE) revealed that though the land required for construction of the project was secured with the consent of the land owners pending legal acquisition, the EE sent (1998-99) proposals to acquire only 39.09 acres as against the requirement of 72.10 acres. Further, only part payment (Rs.24.55 lakh) of the assessed compensation of Rs.53 lakh was deposited (November 2002). The acquisition proceedings were initiated by the Assistant Commissioner and Land Acquisition Officer, Chikkodi (LAO) in June 2003. However, as EE failed to deposit the balance amount (Rs.28.45 lakh) due to non-release of funds, further proceedings were dropped (August 2004)[⊕].

Reasons for incorrect assessment of the land requirement at the time of finalising initial acquisition proposals were stated (June 2005) to be possibly due to misclassification of private land as Government land. Thus, failure of EE to assess the actual requirement of land before furnishing the acquisition proposals to LAO and the non-release of funds by Government vitiated the initial acquisition proceedings and delayed the acquisition, which will have to be made at higher rates. No action was taken by EE to execute the balance works although the possession of the required land had been taken by the Department with the consent of the landowners in 1999 itself.

[⊕] Extant instructions (December 2000 and October 2001) of the Government in Revenue Department require deposit of the whole assessed amount of compensation before the due date for issuing the final notification under the Act

Government in reply stated (September 2005) that there was no budget provision to complete the balance works and that the tank was currently serving as a storage tank recharging the ground water. The reply was not tenable as the intended objective of providing direct irrigation to 222 acres of land was not achieved even after a lapse of six years despite spending Rs.1.21 crore due to failure of Government to prioritise the completion of this ongoing work.

4.4.6 Idle investment

Execution of a project without proper survey and investigation resulted in idle investment of Rupees two crore of which Rs.50.14 lakh was undue benefit to the contractor

The work of constructing a 6.54 km long feeder canal for feeding water from Haludyamavvanahally storage tank to Uduvally tank, for supplementing irrigation in about 400 acres of land, was administratively approved by Government (March 2001) and technically sanctioned by Chief Engineer (September 2001) at an estimated cost of Rupees two crore. The civil works estimated to cost Rs.1.65 crore was allotted (October 2002) to a contractor at his tendered cost of Rs.90.75 lakh[▼] for completion by October 2003. The site was handed over to the contractor only in June 2003 owing to delay in clearance of forest land for the first five kms of canal work. The execution of the work, pending sanction to the revised estimate, was stopped (November 2004) after incurring an outlay of Rupees two crore.

Records revealed that the quantities of earth excavation work increased enormously (from 1.83 lakh to 5.34 lakh cubic meters) due to not adopting the actual ground levels at the time of preparation of estimate for the work. Besides, execution of an additional item of work *viz.*, excavation in medium rock requiring blasting (MRB) was found necessary. Department, therefore, prepared a revised estimate (September 2004) for Rs.6.55 crore and the approval of the Government to the revised estimate was awaited (March 2005). The increase in estimated cost depressed the work's cost benefit ratio from 2 to 0.83, thereby rendering the project economically unviable. The contractor was also directed (November 2004) not to execute any work beyond the sanctioned limit of Rs. two crore. Action to fix responsibility for carrying out faulty survey and investigation had not been taken except for issue of a notice (November 2003) to one official.

Audit scrutiny also revealed that part payment[♣] for extra item of excavation work in MRB executed up to 15 October 2003 was made to the contractor at the data rate of Rs.110 per cum approved (November 2003) by the Superintending Engineer, Minor Irrigation Circle, Bangalore (SE). The rate was approved on the ground that there was no rate available for this item of work either in the agreement or in the Departmental Schedule of Rates. The contract, however, provided for deriving the rate for extra items on the basis

[▼] 44.89 per cent below the cost of work (Rs.1.65 crore) put to tender

[♣] At an average rate of Rs.92.50 per cum

of rates applicable to similar items of work included in the contract. Accordingly, the rate for MRB was required to be worked out from similar items of work in the contract *viz.*, excavation in ordinary rock, soft rock and hard rock for which the tender rates varied from Rs.45 per cum to Rs.60 per cum. This unjustified decision of the SE to work out a separate data rate resulted in extra contractual benefit to the contractor. Even at the highest rate of Rs.60 per cum applicable to hard rock, the avoidable extra benefit to the contractor worked out to Rs.50.14 lakh[#].

Failure of the Department to ensure proper survey and investigation before taking up the work and delay in sanctioning revised estimates resulted in suspension of the work leading to idle investment of Rs. two crore on an economically unviable project of which Rs.50.14 lakh was undue benefit to the contractor.

Government in reply, stated (October 2005) that financial assistance was being sought from National Bank for Rural Development for completion of the project and contended that the higher rate was paid to the contractor in the interest of continuity of work as he had refused to accept the rate derived from the agreement. The reply is not tenable as the contractor was legally bound by the tender agreement and the Department failed to enforce the contractual provisions.

4.5 Violation of contractual obligation/undue favour to contractors

WATER RESOURCES DEPARTMENT - KARANJA PROJECT

4.5.1 Undue benefit to contractors

Failure of the Department to enforce the contractual obligations in execution of excavation works of a canal resulted in an undue benefit of Rs.35.69 lakh to two contractors

Construction of Karanja Right Bank Canal in km 106 and km 107 was entrusted (February 2002) to two contractors at their tendered cost of Rs.40.10 lakh and Rs.44.32 lakh respectively for completion by August 2002. The works were completed in June/May 2003 incurring an expenditure[¶] of Rs.59.84 lakh and Rs.64.05 lakh, respectively. The detailed contract specifications governing earthwork excavation for these works stipulated that at all stages of excavation, the contractor shall take precaution to preserve the rock below and beyond the line of excavation in the soundest possible condition. All excess excavation, if any, performed for the convenience of the contractor and whether or not due to his fault, shall be refilled with suitable material at his own expense so as to restore the canal to the approved section.

[#] Rs.1,36,79,965 for 1,44,432.48 cum of MRB *minus* Rs.86,65,979 admissible @ Rs.60 per cum
[¶] Final bills not drawn up and paid

Scrutiny in audit (December 2004) revealed that the two contractors, while carrying out excavation works with blasting caused over-breakages beyond the approved canal section and the Department got the canal restored to the approved section with uncoursed rubble masonry (3,650 cubic metres). Cement plastering of 20 millimetre thickness (1,720 cubic metres) was also provided to achieve a stable slope. The expenditure (Rs.32.98 lakh) on these restoration works, instead of being borne by the respective contractors in accordance with their contractual obligations, was however met (July 2003) by the Department as an extra item of work with the approval of the Superintending Engineer, Irrigation Project Construction Circle, Bidar. Besides, an inadmissible payment of Rs.2.71 lakh was made to the contractors towards the over-breakages caused by them. Failure of the Superintending Engineer/Executive Engineer to enforce the contractual obligations resulted in an undue benefit of Rs.35.69 lakh to the contractors.

Government in reply stated (October 2005) that the Chief Engineer was being directed to recover the payment of Rs.35.69 lakh from the contractors.

4.6 Regularity issues and other topics

FINANCE DEPARTMENT

4.6.1 Inspection of Treasuries

Public Sector Banks made excess payment of family pension of Rs.1.10 crore in 656 cases

The treasuries and sub-treasuries in Karnataka are under the administrative control of the Director of Treasuries, Bangalore. All district treasuries (30), sub-treasuries (184) and stamps depot were inspected by the Accountant General (Accounts & Entitlement) during 2004-05. The following major irregularities and failure in control were noticed during inspection of the treasuries.

Excess payment of family pension

The Karnataka Government Servants (Family Pension) Rules, 1964 provide that when a Government servant dies while in service, his/her family is entitled to family pension at double the normal rate or 50 *per cent* of the pay last drawn by the deceased Government servant whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he/she remained alive, whichever is earlier.

In 656 cases, family pension amounting to Rs.1.10 crore (**Appendix 4.4**) was paid in excess by public sector banks because of payment at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (Accounts and Entitlement).

In respect of 20 treasuries, family pension was continued to be paid at a higher rate by the banks in 200 cases resulting in further excess payment of Rs.29.90 lakh (**Appendix 4.5**).

Though, excess payment of family pension was pointed out repeatedly in the Inspection Reports of the concerned treasuries and in successive Audit Reports, effective steps had not been taken by the Treasury Officers/Director of Treasuries to prevent further excess payments.

Non-receipt of paid vouchers and recovery schedules of General Provident Fund

Paid vouchers in support of withdrawals from General Provident Fund (GPF) for Rs.2.15 crore (93 cases) were not received along with the accounts sent by eight treasuries during 2003-04 (**Appendix 4.6**). The omission might result in non-accountal of the withdrawals and consequent overpayments at the time of final settlement of the accounts of the subscribers. The matter needs urgent corrective action.

Further, recovery schedules of GPF subscriptions by Government Servants for Rs.8.45 crore (4,456 cases) did not accompany the vouchers sent by 29 treasuries during 2003-04 (**Appendix 4.7**). This resulted in large number of missing credits in the accounts of individual subscribers, besides delay in finalisation of their claims.

4.6.2 Abstract Contingent Bills

Introduction

The Manual of Contingent Expenditure, 1958, (Manual) permitted the Drawing and Disbursing Officers (DDOs) to draw contingent charges required for immediate disbursement on Abstract Contingent (AC) bills subject to rendering detailed bills to their Controlling Officers for countersignature and onward transmission to the Accountant General (Accounts and Entitlement). The Controlling Officers should ensure that no amounts are drawn from the treasury unless required for immediate disbursement.

Review of 7,842 AC bills covering Rs.22.77 crore drawn during the period 2000-05 by 151 DDOs of three* departments in nine^ districts was conducted during April – June 2005. Important points noticed are brought out in the succeeding paragraphs.

Non- submission/delayed submission of Detailed Contingent bills

According to Rule 37(3) of the Manual, the DDOs are required to send the detailed bills in respect of AC bills drawn by them to their Controlling

* Agriculture, Sericulture and Women and Child Development

^ Bangalore (Rural), Bangalore (Urban), Bijapur, Gulbarga, Hassan, Madikeri, Mandya, Tumkur and Uttara Kannada

Officers before the closure of the first week of the following month in which the AC bills are drawn for onward transmission to Accountant General (Accounts and Entitlement) by the 15th of the same month. Further, the DDOs are also required under Rule 36(vi) of the Manual to enclose with their salary bills, a certificate issued by the Controlling Officers to the effect that the detailed bills for all amounts of AC bills drawn prior to the current month have been rendered.

As of July 2005, detailed contingent bills for Rs.96.99 lakh drawn by 74 DDOs during 2001-05 were pending submission to Accountant General (Accounts and Entitlement) as detailed in Table 1.

Table 1: Details of pending AC bills

| Department | Number of DDOs | Number of AC bills | Amount (Rupees in lakh) |
|-----------------------------|----------------|--------------------|-------------------------|
| Agriculture | 42 | 156 | 27.73 |
| Sericulture | 16 | 116 | 65.85 |
| Women and Child Development | 16 | 194 | 3.41 |
| Total | 74 | 466 | 96.99 |

Of these, 253 AC bills for Rs.56.72 lakh submitted by the DDOs were pending acceptance by the Controlling Officers, while 213 bills for Rs.40.27 lakh were yet to be forwarded to the Controlling Officer by the DDOs. The Controlling Officers stated (June 2005) that pendency was due to the delay in compliance by the DDOs to the objections raised. Non-receipt of sub-vouchers from the programme coordinators/subordinate officers was the reason given by the DDOs for the pendency. In all these cases, the Controlling Officers[®] disregarding the system of internal control issued the certificate of submission of detailed contingent bills by the DDOs as a matter of routine.

Delay up to four years was noticed in forwarding detailed contingent bills to the Accountant General (Accounts & Entitlement) by 83 DDOs of the test-checked departments as detailed in Table 2.

Table 2: Details of delay in forwarding detailed bills

| Delay upto | Number of AC bills | Amount (Rupees in lakh) |
|--------------|--------------------|-------------------------|
| One month | 56 | 30.82 |
| Six months | 1,664 | 475.69 |
| One year | 1,565 | 1,086.57 |
| Three years | 893 | 354.24 |
| Four years | 137 | 71.20 |
| Total | 4,315 | 2,018.52 |

[®] Joint Directors of Sericulture – Bangalore and Hassan
Deputy Director of Sericulture – Magadi
Joint Directors of Agriculture – Bangalore (Rural), Bijapur, Karwar and Mandya
Deputy Director, Women and Child Development – Bijapur and Madikeri

Non-observance of procedures by Controlling Officers and Treasury Officers

In the light of observations in earlier Audit Reports, the Government, in order to streamline the procedure of drawal of AC bills and their settlement, directed (September 2004) the Controlling Officers to route all detailed contingent bills through treasuries to enable the latter to enforce the submission of detailed bills by not honouring further AC bills till the clearance of all outstanding AC bills. The treasuries were also required to build up a database of AC bills and their settlement and forward monthly/quarterly reports thereon to the Finance Department.

Detailed bills for Rs.67.22 lakh drawn on 603 AC bills by 96 DDOs between October 2004 and March 2005 were not routed through the respective treasuries. Instead, the Controlling Officers of the test-checked departments forwarded these bills after countersignature directly to Accountant General (Accounts & Entitlement) as detailed in Table 3.

Table 3 : Details of AC bills not routed through treasuries

| Department | Number of DDOs | Detailed bills not routed through the treasuries | |
|---------------------------|----------------|--|-------------------------|
| | | Number | Amount (Rupees in lakh) |
| Agriculture | 52 | 100 | 13.66 |
| Women & Child Development | 28 | 435 | 10.55 |
| Sericulture | 16 | 68 | 43.01 |
| Total | 96 | 603 | 67.22 |

The Treasury Officers*, in violation of the procedure, honoured 37 AC bills for Rs. 25.16 lakh drawn between November 2004 and March 2005 by 14 DDOs, though 29 AC bills amounting to Rs.8.88 lakh drawn by them earlier were outstanding for settlement.

Treasuries also did not build up the database of AC bills and their settlement, nor did they furnish the monthly/quarterly reports to the Finance Department.

Drawal of AC bills for amounts in excess of the limit prescribed

DDOs were required to obtain permission of Finance Department for drawal of AC bills for amounts exceeding Rupees one lakh. In the departments of Sericulture and Agriculture, however, eight DDOs[♦] drew Rs.96.49 lakh on 29 AC bills, each bill exceeding Rupees one lakh without permission of Finance Department. The Treasury Officers, in clear violation of the instructions of the Finance Department, also passed the bills.

* Bangalore (Rural), Maddur, Sirsi, Somawarpet and Tumkur
 ♦ Assistant Directors of Sericulture – Hassan, Holenarsipura, Madikeri, Sirsi
 Deputy Director of Sericulture – Tumkur
 Assistant Directors of Agriculture – Pavagada, Shahpur
 Joint Director of Agriculture - Mandya

Three DDOs of Agriculture Department drew Rs.12.79 lakh on 24 AC bills by splitting the bills to avoid recourse to Finance Department for permission.

Locking up of funds drawn on AC bills

In Gulbarga district, 11 DDOs of Women and Child Development Department drew Rs.99.73 lakh on 42 AC bills in January 2004 (Rs.5.30 lakh) and March 2004 (Rs.94.43 lakh). The amount was deposited with the Karnataka State Food and Civil Supplies Corporation (KSF&CSC) between March 2004 and May 2004 for distribution of rice among the undernourished adolescent girls, expectant and nursing mothers under National Nutrition Mission Project implemented during 2003-04.

Audit scrutiny revealed that:

- Food Corporation of India did not release rice to KSF&CSC for want of orders from their central office for release of rice beyond the validity period of the project, which expired on 31 March 2004. The DDOs did not obtain the refund of amount of Rs.99.73 lakh deposited with KSF&CSC to credit it to the Government account, resulting in locking up of Government money with KSF&CSC for 15 months as of July 2005.
- Government of India extended (June 2005) the validity period of the project after a gap of 15 months from the date of expiry. As a result, the eligible beneficiaries, particularly the expectant and nursing mothers were deprived of their quota of rice for two months (March and April 2004) resulting in non-achievement of stated objective of the project.
- The detailed bills for all these amounts drawn on AC bills submitted by the DDOs enclosing merely the acknowledgement of receipt of deposits by KSF&CSC were accepted by the Controlling Officers disregarding the principles of regularity and canons of financial propriety.

4.7 General

4.7.1 Follow-up on Audit Reports

Action taken notes

The Hand Book of Instructions issued by the Finance Department in 2001 for speedy settlement of audit observations and the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provide for furnishing by all the departments of Government, detailed explanations in the form of Action Taken Notes (ATNs) to the audit observations featured in Audit Reports within four months of their being laid on the table of Legislature, to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Audit Reports for the years 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02 and 2002-03 were presented to the State Legislature on 27 March 1997, 14 May 1998, 1 July 1999, 3 May 2000, 24 July 2001, 22 March 2002, 28 March 2003 and 21 July 2004 respectively.

Twenty-one Departments as detailed in **Appendix 4.8** had not submitted ATNs, as of October 2005.

ATNs were not received even after 11 to 61 months to the following important irregularities, which were featured in the Audit Reports 1998-99, 1999-2000, 2000-01, 2001-02 and 2002-03.

Audit Report 1998-99

Paragraph No.3.16: Fictitious payment of scholarships - Social Welfare Department

The District Social Welfare Officer, Bangalore (Urban) District did not exercise checks on sanction/disbursement of scholarships, resulting in payment of scholarship of Rs.6.65 lakh to fictitious students during 1997-98 and 1998-99. Genuineness of disbursement of scholarship for Rs.3.10 lakh was also doubtful.

Audit Report 1999-2000

Paragraph No.3.2: Fourth National Games - Youth Services and Sports Department

The Government conducted Fourth National Games during May-June 1997. Due to delay in providing budgetary support by the Government, major part of expenditure was met through overdrafts availed of from banks, resulting in avoidable payment of interest of Rs.18.59 crore.

Audit Report 2000-01

Paragraph No.6.3: Extra contractual/excess payments and undue favours to a contractor - Commerce and Industries Department

The Chief Executive Officer and Executive Member/Chief Development Officer of the Karnataka Industrial Areas Development Board did not enforce the contractual provisions. This, compounded by departmental lapses, facilitated excess payments and undue favours aggregating Rs.17.97 crore to the contractor causing huge financial loss to the Board.

Audit Report 2001-02

Paragraph No.3.12: Excess transfer of Additional Stamp Duty to Urban Local Bodies in Bangalore District (Urban) - Revenue Department

The Government did not monitor transfer of Additional Stamp Duty to Urban Local Bodies resulting in misuse of authority by the District Registrar who transferred Rs.239.84 crore in excess.

Audit Report 2002-03

Paragraph No.4.1.8: Unauthorised works – Water Resources Department

The action of the Chief Engineer, Irrigation Central Zone, Munirabad to incur irregular expenditure on an irrigation canal led to an unwarranted financial burden of Rs.1.86 crore to Government.

Paragraphs to be discussed by Public Accounts Committee

Comments on Appropriation Accounts appeared in Audit Reports for the years 1989-90 and onwards are pending discussion by the Public Accounts Committee. Details of paragraphs (excluding General and Statistical) pending discussion as of October 2005 are detailed in **Appendix 4.9**.

4.7.2 Outstanding Inspection Reports

Lack of responsiveness of Government to Audit

The Hand Book of Instructions issued by Finance Department for speedy settlement of audit observations, provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspection. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the Accountant General, who forwards a half yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the audit observations.

Year-wise details of outstanding IRs and paragraphs and serious irregularities therein relating to Health and Family Welfare, Animal Husbandry and Veterinary Services and Minor Irrigation Departments are detailed in **Appendix 4.10** and **Appendix 4.11** respectively.

A review of the IRs which were pending due to non-receipt of replies, in these three departments revealed that the Heads of Offices whose records were inspected by the Accountant General, failed to discharge due responsibility as they did not send even the initial replies to 49 IRs (269 paragraphs), three IRs (14 paragraphs) and 21 IRs (267 paragraphs) pertaining to Health and Family Welfare, Animal Husbandry and Veterinary Services and Minor Irrigation Departments respectively, thereby indicating their failure to initiate action in regard to the defects, omissions and serious financial irregularities as pointed out in audit.

It is recommended that Government may look into this matter and see that procedure exists for (a) action against the officials who failed to furnish replies to the IRs/paragraphs within the prescribed time schedule; (b) action to recover loss/overpayment in a time bound manner; and (c) strengthen the system for proper response to the audit observations in the departments.

Government, in its reply (September 2005) stated that suitable remedial measures would be taken by convening adhoc committee meetings and fixing a time frame to furnish replies to outstanding paragraphs in the IRs.

4.7.3 Non-receipt of accounts

Annual consolidated accounts of stores and stock are required to be furnished by various Departments to the Accountant General by 15 June of the following year. Delays in receipt of stores and stock accounts have been commented upon in successive Audit Reports. The Public Accounts Committee (1978-80) in its First Report (Sixth Assembly) presented in February 1980 had also emphasised the importance of timely submission of accounts by the Departments. Nevertheless, the delays persist. The Departments from which the stores and stock accounts had not been received by Audit as of October 2005 are mentioned below:

| Serial number | Department | Year(s) for which accounts are due |
|---------------|--|--|
| 1. | Agriculture - Director of Agriculture | 2003-04 and 2004-05 |
| 2. | Animal Husbandry and Veterinary Services - Director of Animal Husbandry and Veterinary Services | 2004-05 |
| 3. | Commerce and Industries - Director of Industries and Commerce | 2002-03 to 2004-05 |
| 4. | Health and Family Welfare - (i) Director, Health and Family Welfare Services (ii) Director of Medical Education (iii) Joint Director of Government Medical Stores (iv) Indian System of Medicine and Homoeopathy | 2003-04 & 2004-05 2004-05 1999-2000 to 2004-05 2002-03 to 2004-05 |
| 5. | Information, Tourism and Youth Services - Director of Information and Publicity | 2003-04 and 2004-05 |
| 6. | Revenue (Registration) - Inspector General of Registration and Commissioner of Stamps | 2001-02 to 2004-05 |
| 7. | Public Works, Water Resources and Minor Irrigation | *1998-99 to 2004-05 |

* Accounts due from:

- (a) Two Divisions - for 14 half-yearly periods (1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05)
- (b) One Division - for 10 half-yearly periods (2000-01, 2001-02, 2002-03, 2003-04 and 2004-05)
- (c) One Division - for nine half-yearly periods (October 2000 to March 2001, 2001-02, 2002-03, 2003-04 and 2004-05)
- (d) Two Divisions - for six half-yearly periods (2002-03, 2003-04 and 2004-05)
- (e) Two Divisions - for five half-yearly periods (October 2002 to March 2003, 2003-04 and 2004-05)
- (f) Six Divisions - for four half-yearly periods (2003-04 and 2004-05)
- (g) 12 Divisions - for three half-yearly periods (October 2003 to March 2004 and 2004-05)
- (h) 12 Divisions - for two half-yearly periods (2004-05)
- (i) 32 Divisions - for one half-yearly period (October 2004 to March 2005)

