

OVERVIEW

This report includes two chapters containing observations on Finance and Appropriation Accounts of the Government of Karnataka for the year 2006-07 and three chapters comprising nine reviews/long paragraphs and 25 paragraphs dealing with the results of performance audit of selected programmes, internal control system in Government departments as well as audit of the financial transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgment basis. The audit conclusions have been drawn and recommendations made taking into consideration the views of the Government.

A summary of the financial position of the State and the audit comments on the performance of the Government in implementation of certain programmes and schemes as well as internal control system in the Department of Printing, Stationery and Publications are given below:

1. Financial position of the State Government

The State's revenue receipts during 2006-07 grew by 24 *per cent* over the previous year as against 19 *per cent* growth of revenue expenditure, resulting in increase of revenue surplus by Rs.1,841 crore from Rs.2,311 crore in 2005-06 to Rs.4,152 crore in 2006-07. Fiscal deficit increased by Rs.1,001 crore from Rs.3,687 crore to Rs.4,688 crore due to increase in capital expenditure (including loans and advances) and reduction in non-debt capital receipts.

As at the end of 2006-07, total investment of the State Government in Government companies, statutory corporations etc., was Rs.18,699 crore but the returns (Rs.20 crore) were negligible.

Outstanding liabilities of the State increased from Rs.32,566 crore in 2001-02 to Rs.57,682 crore in 2006-07 and their ratio to GSDP was 30 *per cent* during the current year. The amount guaranteed by the State Government on behalf of statutory corporations, Government companies, etc and outstanding as of March, 2007 was Rs.9,879 crore.

(Paragraphs 1.1.2, 1.6.2, 1.7.1 and 1.7.2)

Against total budget provision of Rs.52,492.16 crore including (supplementary grants), actual expenditure was Rs.44,669.03 crore. Overall unspent provision of Rs.7,823.13 crore was the result of unspent provision of Rs.8,306.58 crore in 29 grants/appropriations and excess expenditure of Rs.483.45 crore in five grants/appropriations. The excess expenditure of Rs.483.45 crore during the year required regularisation by the Legislature under Article 205 of the Constitution of India.

(Paragraphs 2.2 and 2.4)

2. Modernisation of State Police Force

Modernisation of State Police Force Scheme approved by Government of India as a Centrally assisted scheme aimed at providing additional infrastructure to improve the efficiency of the State police forces. The utilisation of funds provided for the modernisation of state police force was not efficient due to release of funds by GOI at the fag end of the year and procedural delays. The construction of residential and non-residential buildings was delayed. The communication and computerisation projects taken up under the scheme could not be completed due to lack of coordination with the executing agencies and inadequate monitoring by the Department. Equipment costing Rs.2.96 crore were lying idle for want of consumables, trained manpower, or were not required for immediate use. The vacancies in various cadres ranged between 25 to 100 *per cent*. Procurement of modern weapons without training the police personnel in their usage left the department under-prepared for eventualities. Lack of trained manpower in Forensic Science Laboratories and Fingerprint Bureaux impeded the pace of gathering foolproof evidence.

(Paragraph: 3.1)

3. Implementation of Urban Poverty Alleviation and Town Development Schemes by Director of Municipal Administration

The Directorate of Municipal Administration (DMA) was set up in February 1984 as the nodal authority for the Urban Local Bodies (ULBs) in the State and was responsible for supervising and coordinating the implementation of the poverty alleviation and town development schemes by these local bodies. Retention of funds and delay in release of grants by the DMA, irregular diversions and non-mobilisation of funds by the ULBs coupled with improper survey of the scheme beneficiaries and lack of comprehensive town development plans slowed down the pace of scheme implementation. Non-observance of the prescribed rules and procedure led to irregular payment of advances to subordinate officials and their non-adjustment over long periods besides non-maintenance of basic records in the ULBs. While the number of vacancies was 45 *per cent* of the sanctioned strength in the ULBs, many ULBs did not optimally use the available human resources for effective implementation of the schemes. Lack of monitoring of scheme implementation by the DMA led to denial of intended benefits to the targeted beneficiaries, idle investments and cost and time overruns. Quality control measures were non-existent.

(Paragraph: 3.2)

4. IT systems of Bangalore Water Supply and Sewerage Board

The Bangalore Water Supply and Sewerage Board is responsible for providing water supply and sewerage system and sewerage disposal in Bangalore Metropolitan Area. The Board had implemented two major computerisation packages. A Geographical information System (GIS) was implemented to digitise details of water supply and sewerage systems and a billing software

package to handle revenue of over Rs. 300 crore annually. As the GIS database created was incomplete and unreliable, the Board could not achieve the intended objective of digitisation of GIS data. Inadequate IT controls in planning and maintenance of data in revenue billing had resulted in sub optimal realisation of objectives of computerisation.

(Paragraph: 3.3)

5. Computerisation of Land Records in Karnataka – BHOOMI

‘Bhoomi’ was implemented with the objective of digitisation of spatial data, as also creation of a land information system to facilitate issue of accurate record of rights by updating changes like transfer of ownership, creation of irrigation facilities, natural calamities etc., for effective revenue administration, land reforms and development planning at grassroot level. While digitisation of spatial data was yet to be completed, the project implemented with incomplete original records and inadequate Information Technology controls did not aid issue of accurate record of rights and other objectives such as planning at grassroot level etc. Inadequate physical and logical access controls were noticed which exposed the system to the risk of unauthorised access. Further, lack of adequate controls to ensure proper data backup and emergency responses were also noticed.

(Paragraph: 3.4)

6. Afforestation programme including compensatory afforestation

Afforestation was taken up in the State under various State and Centrally sponsored schemes and also externally funded projects. The Government had not formulated any forest policy for sustainable management of forests. The targets set in Annual Plans of Operations for afforestation were quite lower than those planned in the Working Plans due to insufficient budget allocations. Afforestation was adversely affected due to absence of quality checks on seeds procured, raising and planting of seedlings in deviation of ‘package of practices’/norms and planting exotic species without site specific plans. Inventory of plantations was not maintained in all the test-checked divisions. Plantation journals were maintained, did not record the survival rate beyond the planting year. Ineffective monitoring and non-utilisation of compensatory afforestation funds also affected the implementation of the scheme.

(Paragraph: 3.5)

7. Evaluation of Internal Control System

Internal controls are an integral component of the management processes of an organisation which are established to provide reasonable assurance that the operations are carried out efficiently and effectively, financial reports and operational data are reliable and the applicable laws and regulations are complied with so as to achieve the objectives of the organisation. Evaluation of the internal control system in the Department of Printing, Stationery and Publications disclosed that budgetary controls were not effective as there were instances of diversion of funds to incur expenditure on unauthorised works. The Department did not prepare *pro-forma* accounts to know the financial

performance of its operations. Production controls were also ineffective resulting in printing of excess forms, issue of excess quantity of paper, reprinting of textbooks and discarding excess printed material leading to large scale wastage of raw material and labour. The manpower and monitoring controls and Internal Audit arrangements were also wanting in the Department.

(Paragraph: 5.1)

8. Grant-in-Aid for Technical Education

Government framed (October 1966) Grant-in-Aid Code for Technical Education Department (Code) to encourage private enterprises in technical education. The Director of Technical Education did not ensure that the *ad hoc* grants released to the grantee institutions was limited to only 85 *per cent* of the approved maintenance expenditure and that the grantee institutions remitted 50 *per cent* of the fees collected by them to the Government resulting in accumulation of excess grants with the institutions. No mechanism was also devised to watch their expeditious recovery/adjustment.

(Paragraph: 3.6)

9. Administration of Calamity Relief Fund

The Government of India (GOI), based on the recommendations of the Ninth Finance Commission approved (January 1991) the Calamity Relief Fund (CRF) Scheme to provide immediate relief to the victims of cyclone, drought, earthquake, fire, flood, hailstorm, *etc.* The administration of CRF was not effective as the funds were not invested in Government securities. Further, funds were released to the Deputy Commissioners and Implementing Officers in excess of their requirements leading to accumulation of unspent balances with them. Non-maintenance of cash books, non-reconciliation of expenditure with the bank/treasuries and non-submission of utilisation certificates for over Rs.300 crore together with large scale diversion of funds indicated poor monitoring of the scheme by the State Level Committee.

(Paragraph: 3.7)

10. Working of the Karnataka Residential Educational Institutions Society

The Karnataka Residential Educational Institutions Society, (Society) was established (October 1999) by the Government for management of the residential schools of the Department of Social Welfare, Backward Classes and Minorities. The Society was mainly engaged in construction of residential schools and hostel buildings and releasing maintenance grants to schools resulting in non-realisation of the objective of providing better administration of residential schools. Release of funds by Government without ensuring the availability of proper infrastructure and technical expertise with the Society and their ability to fully utilise the funds resulted in accumulation of funds with the Society. The inept financial management by the Society resulted in avoidable payment of recurring interest on loan despite availability of surplus funds.

(Paragraph: 3.8)

11. Audit of Transactions

Fraudulent drawal/ Misappropriation/Loss of Government money

- The Director of Printing, Stationery and Publications fraudulently withdrew Rs.1.67 crore from the treasury on the basis of fabricated documents and by subverting the prescribed rules and procedure.
(Paragraph: 4.1.1)
- Failure of the Director of Printing, Stationery and Publications to assess the actual requirement of paper for printing 2.06 crore copies of school text books resulted in issue of excess quantity (5,461.04 metric tones) of paper valued at Rs.17.09 crore and its suspected misappropriation. Besides, there was inordinate delay in supply of the text books to the schools.

(Paragraph: 4.1.2)

Infructuous/Wasteful expenditure/Overpayment

- The Divisional Offices of the Public Works Department made payments on loose quantities of metal instead of the compacted quantities resulting in excess payment of Rs.4.54 crore in respect of 1,444 road works.
(Paragraph: 4.2.3)
- Despite increasing the slope of a tank work at Arjanal village of Indi taluk in Bijapur district which increased its cost by Rs.4.64 crore, the tank could not be made viable and functional due to non-availability of command area rendering the expenditure of Rs.9.45 crore on the work wasteful.
(Paragraph: 4.2.4)
- The erroneous designing and estimation of a water supply scheme to Sravanabelagola village in Hassan District by the Karnataka Urban Water Supply and Drainage Board to provide a separate pipeline to a nearby milk powder plant resulted in a wasteful expenditure of Rs.83.29 lakh. Further, there was an avoidable expenditure of Rs.34.52 lakh on procurement of pipes for the scheme.
(Paragraph: 4.2.5)
- The injudicious action of the Karnataka Urban Water Supply and Drainage Board to make payments for earthwork excavation and construction of embankment for an impounding reservoir at Naval Gund town in Dharwad district at higher rates resulted in excess payment of Rs.1.32 crore to the contractor.

(Paragraph: 4.2.6)

Avoidable/extra/unfruitful expenditure

- Failure of the Executive Engineer, National Highways Division, Hubli to deposit 50 *per cent* of the enhanced compensation in the lower court, as directed by the High Court, resulted in dismissal of appeal of the Department and payment of enhanced compensation of Rs.6.04 crore including avoidable interest of Rs.61 lakh.

(Paragraph: 4.3.2)

- The injudicious action of the Bangalore Development Authority to fill the low lying sites with earth from borrow areas despite availability of loose earth at site in Sir M.Vishweshwaraiah Layout in Bangalore South and North taluks resulted in an avoidable expenditure of Rs.68.54 lakh.

(Paragraph: 4.3.4)

- Delay in issue and finalisation of tenders, non-inclusion of appropriate cloud seeding technique in the agreement and lapses in providing infrastructural and technical support by Water Resources Development Organisation (WRDO), Bangalore adversely affected the cloud seeding operation for augmenting rainfall during south-west monsoon rendering the expenditure of Rs.9.37 crore largely unfruitful.

(Paragraph: 4.3.5)

- Execution of the work without acquiring the required land by the Water Resource Department resulted in an unfruitful expenditure of Rs.1.21 crore on the construction of the irrigation tank at Buddini village, Lingasugur taluk of Raichur district.

(Paragraph: 4.3.6)

Idle investment/Idle establishment/Blockage of funds

- The injudicious decision of the Karnataka Industrial Area Development Board to buy a land not suitable for setting up the Export Promotion Industrial Park at Mangalore and pay the project funds to an agency to commission a water supply scheme even before acquiring the land resulted in locking up of Government funds of Rs.5.42 crore.

(Paragraph: 4.4.1)

Regularity issues and other points

- Excess payment of family pension of Rs.1.41 crore was made by Public Sector Banks beyond the indicated period in 576 cases relating to 27 district treasuries.

(Paragraph: 4.5.1)

- Failure of the Government to ascertain the exact amount of bills pending settlement in the Food and Civil Supplies Department resulted in release of surplus funds and consequent diversion of Rs.1.67 crore.

(Paragraph: 4.5.2)

- The Director of Scheduled Tribe Welfare drew funds from the treasury to avoid their lapse at the end of the financial year which resulted in huge deposit of Rs.12.81 crore in a bank in contravention of the prescribed rules and procedure.

(Paragraph: 4.5.3)

