CHAPTER V

INTERNAL CONTROL SYSTEM

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FINANCE DEPARTMENT

5.1 Internal Control Mechanism in Finance Department

Highlights

The Finance Department was responsible for the overall management of the State finances which included mobilisation and collection of revenues and other financial resources, budgeting and proper allocation of available resources to meet the demands of expenditure and day to day management of cash balances. Review of Internal Control Mechanism of the department revealed that the budgetary, expenditure and administrative controls were deficient leading to excess budget provisions, large scale diversion of funds and imprudent open market borrowings.

There were persistent savings during the period 2003-07 due to lack of scrutiny of departmental estimates by the Finance Department. The savings of the departments under the administrative control of the Finance Department itself were Rs. 2,322.58 crore for year ended 31 March 2007.

(Paragraph: 5.1.6.4)

In the absence of expenditure controls by the Finance Department, the Commerce and Industries Department irregularly released Rs. 402.04 crore to the departmental organisations and a statutory corporation resulting in locking up of Government money of Rs. 149.69 crore.

(Paragraph: 5.1.7.2)

The test-checked departments irregularly diverted Rs. 80.02 crore to the departmental organisations or to the savings bank accounts to avoid lapse of funds in the absence of any control by the Finance Department.

(Paragraph: 5.1.7.3)

The Finance Department released Rs. 4.25 crore in excess of the committed liability to departmental organisations.

(Paragraph: 5.1.7.1)

Rupees 22.40 crore were injudiciously released to the Endowment Department leading to accumulation of Rs. 42.57 crore with the Deputy Commissioners at the end of March 2008.

(Paragraph: 5.1.7.4)

Government injudiciously resorted to open market borrowings of Rs. 1,164.92 crore during 2005-08 even though their cash position was comfortable.

(Paragraph 5.1.8.1)

5.1.1 Introduction

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. The Finance Department (FD) is responsible for overall management of the State finances which include mobilisation and collection of revenues and other financial resources, budgeting and proper allocation of available resources to meet the demands of expenditure, efficient spending of resources on specified objectives, careful control over the outflow of funds and day to day management of the cash balances of the State to avoid as far as possible, raising loans and resorting to overdrafts.

5.1.2 Organisational set-up

The Principal Secretary is the head of the FD who is assisted by three Secretaries to manage Budget and Resources, Expenditure as well as Project Monitoring. The Controller (Accounts Management), two Joint Secretaries, eight Deputy Secretaries, six Special Officers and 11 Internal Financial Advisors assist the Principal Secretary in the day to day management of the State finances. Besides, the FD exercises the administrative control over six[1] other departments.

5.1.3 Audit objectives

The internal controls of the FD were reviewed to assess the:

- effectiveness of budgetary controls, expenditure controls, controls on debt servicing, open market borrowings and Government guarantees to institutional loans, *etc*;
- compliance with the Karnataka Financial Code (KFC), Karnataka Budget Manual (KBM), Manual of Contingent Expenditure (MCE) and Karnataka Fiscal Responsibility (KFR) Act, 2002; and
- arrangements for monitoring and adequacy of internal audit.

[1] Commercial Tax Department, Department of Treasuries, State Excise Department, Karnataka Government Insurance Department, State Accounts Department, Department of Small Savings and State Lotteries

5.1.4 Audit criteria

The audit criteria were:

- Karnataka Financial Code,
- Karnataka Budget Manual,
- Manual of Contingent Expenditure,
- Karnataka Fiscal Responsibility Act, 2002,
- Karnataka Ceiling on Government Guarantees Act, 1994.

5.1.5 Scope and methodology of audit

The review was conducted for the period 2003-08 through test-check of records (April-August 2008) of the FD and other selected departments[2] to examine the adequacy of budgetary controls, expenditure controls and administrative controls exercised by the FD. Audit objectives were explained to Secretary (Budget and Resources) at an entry conference held in June 2008 and audit findings were discussed with Principal Secretary in the exit conference held in November 2008. The Principal Secretary agreed to take necessary remedial action in the matter. The reply (November 2008) of the Government has been incorporated in the review.

Audit findings

5.1.6 Budgetary controls

5.1.6.1 Delay in furnishing budget estimates by Heads of Department

There were delays in receipt of budget estimates in the FD affecting the timely preparation of budget

Paragraph 21 of the KBM prescribes that the FD will prepare the budget based on the estimates furnished by the Heads of Departments (HoD) in the prescribed forms and by the specified due dates. Paragraph 187 of the KBM further stipulates that the FD will scrutinise the estimates item by item, with due regard to the explanations furnished by the HoD as well as the recommendations, if any, of the administrative departments concerned.

It was, however, observed that there was delay in submission of the budget estimates by four[3] out of the eight test-checked departments ranging from 10 to 66 days during the period 2003-08. The FD did not maintain any control register to ensure timely receipt of budget estimates from the departments. The budget estimates of the HoD and the recommendations of the administrative departments received during the period 2003-07 were not produced to audit

[2] Co-operation, Commerce & Industries, Energy, Home & Transport, Housing, Information, Youth Services & Sports, Urban Development

[3] Commerce & Industries, Information, Youth Services and Sports, Registrar of Co-operative Societies.

for verification. Consequently, it could not be verified in audit as to whether these were subjected to any scrutiny in the FD before preparing the budget. Government agreed to maintain a watch register.

5.1.6.2 Excess provision due to lack of scrutiny of departmental estimates

Ineligible proposals for Rs. 10.49 crore were included in the budget due to lack of scrutiny by the FD

Records revealed that the Department of Tourism in their budget estimates for Supplementary Grants for 2004-05 had included ineligible proposals for an amount of Rs. 10.49 crore which comprised repetition of proposals (one case-Rs. 2.88 crore), excess claims (10 cases-Rs. 2.42 crore) and double claims (six cases-Rs. 5.19 crore). These deficiencies were not noticed by the FD as the proposals were not closely scrutinised as required under Paragraph 187 of the KBM resulting in excess provision of funds. Neither the department surrendered the funds nor the FD withdrew these to reallocate to the needy departments.

5.1.6.3 Excess provision of funds due to defective departmental estimates

Failure of the FD to detect the mistakes in budget proposals led to excess provision of funds

The FD released (2006-08) Rs. 38.04 crore to the Department of Handloom and Textiles to waive a portion of the loans taken by weavers from the co-operative credit institutions which in turn, released this amount to the Registrar of Co-operative Societies (RCS) for disbursing the amounts to the co-operative credit institutions. The RCS released only Rs 35.10 crore and retained the balance Rs. 2.94 crore in his Personal Deposit (PD) Account. Records further revealed that the actual liability of Government on this account was Rs. 33.06 crore but the department overestimated the requirement of funds. The co-operative credit institutions retained the balance of Rs. 2.04 crore without surrendering the same to Government. Thus the FD too failed to closely scrutinise the estimates before making provisions in the budget resulting in savings of Rs. 4.98 crore which were not surrendered to Government. The Government replied that the entire amount would be got credited to their account.

5.1.6.4 Persistent savings

There were persistent savings due to lack of close scrutiny of departmental estimates

Paragraph 108 of KBM prescribes that estimation should be as close and accurate as possible and the provisions to be included should be based on what is expected to be actually paid or spent during the year. Any avoidable extra provision in an estimate is as much a financial irregularity as an excess expenditure over the sanctioned estimate.

Contrary to the above provisions, there were persistent savings during the period 2003-07 in the following departments:

Table 1: Persistant savings in selected departments

(Rupees in crore)

Name of the Grant	2003-04		2004-05		2005-06		2006-07	
	Savings	Percentage to Budget allotment	Savings	Percentage to Budget allotment	Savings	Percentage to Budget allotment	Savings	Percentage to Budget allotment
Agriculture and Horticulture	154.26	20.54	209.63	21.00	428.75	39.00	394.01	31.06
Finance	921.18	32.00	1,354.93	25.00	1,586.10	28.00	2,322.58	38.00
DPAR	51.67	23.75	55.60	21.68	44.61	19.86	91.57	24.89
Infrastructure	118.05	65.00	40.49	30.00	20.85	9.13	125.35	32.37
RDPR	586.93	48.00	198.12	13.00	260.17	13.70	455.91	18.38
Forest & Ecology	106.86	28.59	79.82	23.43	52.85	16.16	69.62	16.54
Urban Development	352.83	20.38	224.71	15.48	376.66	19.17	1,175.07	29.43
Health & Family Welfare	145.19	13.17	141.59	12.40	276.39	19.98	311.25	19.25
Kannada & Culture	5.93	12.90	8.98	25.10	5.78	11.85	16.90	14.02
Planning & Statistics, Science and Technology	6.40	23.11	20.96	17.98	88.82	25.02	69.52	13.30

There were persistent savings in these departments throughout 2003-07 and savings ranging from Rs. 921.18 crore to Rs. 2,322.58 crore occurred in the FD itself. Records in FD revealed that the effective scrutiny of budget proposals of the departments and monthly review of the expenditure coupled with a careful assessment of the commitments and liabilities for the remaining part of the financial year were not carried out by the FD in terms of Paragraphs 187 and 263 of KBM resulting in savings year after year.

Following factors contributing to the savings were also noticed:

Savings due to budget provisions without any proposal from the department

The FD provided Rs. 26.44 crore (2007-08) for modernisation and restructuring of the State Excise Department without any specific proposal from the department against which only Rs. 63.68 lakh were utilised at the end of March 2008. Action plan for restructuring had not been prepared by the department. Failure of the FD to obtain and scrutinise the budget estimates from the department resulted in unnecessary provision of funds which could have been gainfully utilised for other purposes. The Government, however, could not justify the excess budgetary provisions.

Budget provision for obsolete items of expenditure

Budget provision of Rs. 105.84 crore to Rs. 815.98 crore were made on obsolete items and vacant posts

Paragraph 109 of the KBM stipulates that the Estimating Officer must give his closest personal attention to each and every item and see that the items of expenditure which have become obsolete[4] are omitted. Further, Paragraph 114 of the KBM provides that the salary estimates should be prepared reckoning the pay of the officers and the staff likely to be on duty and the actual pay to

[4] Obsolete items are those in respect of which budget provision is made consecutively over years although no expenditure was incurred during any of the previous years

be drawn by each, irrespective of the sanctioned strength so that budget provision for posts held in abeyance or those which are continuously vacant is avoided.

Contrary to these provisions, budget provisions in respect of obsolete items and posts which were vacant during the period 2004-07 ranging from Rs. 105.84 crore to Rs. 815.98 crore were made by the FD in respect of the departments under its own administrative control. There was no mechanism to closely scrutinise the budget proposals having regard to the expenditure incurred during the preceding years under these obsolete items so as to avoid excess provisioning of funds. No action was also taken to surrender these provisions and reallocate them to the needy sectors. The Government contended that these provisions were essential to avoid supplementary estimates. The action was, however, contrary to codal provisions leading to savings.

Unnecessary supplementary provisions resulting in excess savings

FD released supplementary grants of Rs. 2,022 crore without ensuring their necessity

Paragraphs 283 and 284 of KBM stipulate, *inter alia*, that supplementary grants are to be provided when the amount included in a grant or appropriation authorised by the Appropriation Act is found to be insufficient for the year and that the authority should justify that the increased provision could not be foreseen at the time of preparation of original departmental estimates and also that such supplementary provisions were in the best interest of general public.

Contrary to these provisions, the FD provided supplementary grants of Rs. 2,022 crore during the period 2003-07 to the departments under its own administrative control. These provisions were over and above the original provision of Rs. 20,111.59 crore. The total expenditure, however, was only Rs. 15,963.23 crore. The provision of supplementary grants was therefore, wholly unjustified resulting in more savings. Failure of the FD to closely monitor the progress of expenditure by reviewing monthly statements of expenditure of the departments under its administrative control led to more savings. The Government contended that the total supplementary provisions during the period were only Rs. 483.31 crore. However, as per the Appropriation Accounts (Grant No.3) for the above period the supplementary provisions were Rs. 2,022 crore.

5.1.6.5 Non-surrender of Savings

Paragraph 264 of KBM and Article 314 of KFC provide that all savings anticipated by the Controlling Officers should be reported by them with full details and reasons to the FD immediately after these are foreseen. The FD was required to ensure this by prescribing due dates for surrendering the savings so that these are reallocated to other needy departments, before the end of the financial year while dealing with applications for re-appropriations and supplementary grants.

Savings of Rs. 7,124.39 crore only were surrendered by the departments against the total savings of Rs. 23,300.20 crore

Records revealed that the FD did not prescribe any due date to the Controlling Officers for surrendering the anticipated savings. On the contrary, the FD itself had issued (April 2008) directions to the Controlling Officers to surrender the savings by 15 April 2008. Consequently, the savings were communicated by the departments after the closure of the year rendering the re-appropriations ineffective. It was observed that during the period 2003-07 although the total savings were Rs. 23,300.20 crore, the actual amount surrendered was Rs. 7,124.39 crore only. Out of these, the savings pertaining to the FD were Rs. 6,184.80 crore and those actually surrendered by the FD were Rs. 2,557.35 crore only. The Government contended that this could not be ensured due to non-availability of reconciled expenditure figures and the savings even by the end of financial year. The reply was not tenable as necessary remedial action was required to have been taken as per the codal provisions.

5.1.7 Expenditure controls

The rules governing expenditure out of Government funds provided that no money shall be drawn from the treasury unless it is required for immediate disbursement and the drawal of money to prevent lapse of budget grants is irregular. Funds required for immediate use shall be drawn by the Drawing and Disbursing Officer on specified treasury bills. Keeping Government money in savings bank accounts of the banks was prohibited under the KFC. There were deficiencies in exercise of expenditure controls by the FD leading to release of excess funds to departmental organisations and keeping Government money in banks to avoid lapse of funds as detailed below:

5.1.7.1 Excess release of funds

The FD released Rs. 4.25 crore in excess of the committed liability to BMRDA, TECSOK and CEDOK

Under the Bangalore Metropolitan Region Development Authority (BMRDA) Act, 1985, the BMRDA was entitled to reimbursement of the administrative expenses by the Government till it was able to meet these expenses from its own resources. Records revealed that the FD released (2003-08) Rs. 1.93 crore to the BMRDA although the BMRDA had generated enough internal resources (Rs. 15.83 crore) during this period and could have met their administrative expenses (Rs. 3.26 crore) on their own. The FD did not verify the financial position of BMRDA despite the fact that their annual reports and financial statements showed availability of funds. Similarly, Rs. 1.40 crore was released (2003-08) to Technical Consultancy Services of Karnataka (TECSOK[5]) towards their administrative expenses as against Rs. 15 lakh agreed to (August 1976) by the FD (at the rate of Rs. three lakh per annum) resulting in excess release of Rs. 1.25 crore. Failure of the FD to restrict the reimbursement to the agreed sum by closely monitoring the releases to the TECSOK by the Commerce and Industries (C&I) Department resulted in excess releases.

In another instance of reimbursement of administrative expenses (2003-08), Rs. 1.30 crore was released as against the committed Rs. 22.50 lakh to Centre

[5] A departmental organisation rendering consultancy services to the C&I Department

for Entrepreneurship Development of Karnataka (CEDOK), Dharwad causing extra financial burden on the Government.

5.1.7.2 Unauthorised release of funds by C&I Department

The C&I Department irregularly released Rs. 402.04 crore to KCTU, KUM and KSFC resulting in locking up of Government money of Rs. 149.69 crore

Records revealed that funds were released by the C&I Department to the following organisations without the concurrence of the FD resulting in parking of funds outside the Government account as detailed below:

- Rupees 5.94 crore were released to Karnataka Council for Technological Upgradation (KCTU) during the period 2003-08 for conducting workshops and seminars in connection with technology transfer, quality management and technological upgradation. The release of funds by the C&I department was not need based resulting in accumulation of savings (Rs. 3.25 crore) which were invested by the organisation in fixed deposits and appropriating the interest (Rs. 1.38 crore) thereon. The release of funds, their utilisation and surplus left with the KCTU were being reported to the FD by both the C&I Department and the KCTU through approved action plans, release orders, annual reports, *etc*. However, no action was taken by the FD against such irregular releases leading to retention of Government money outside the treasury.
- Rupees one crore was released (2005-08) to Karnataka Udyog Mitra (KUM) a departmental organization by the C&I department for modernisation of technology and training purposes. These releases were not authorised by the Government as the concurrence of FD had not been obtained and the funds were not utilised by the KUM for the specified purpose. The failure of the FD to detect such unauthorised release of Government funds resulted in diversion of voted grants.
- Rupees 395.10 crore[6] were released (2004-08) with the concurrence of the FD to the Karnataka State Financial Corporation (KSFC) on behalf of C&I department to disburse industrial subsidy to 19,555 identified industrial units. It was, however, observed that the KSFC had distributed subsidy of Rs. 249.65 crore only upto the end of March 2008 retaining the balance amount (Rs. 145.44 crore) although the subsidy claims had not been fully settled as envisaged. Inadequate monitoring of expenditure resulted in accumulation of excess funds with the KSFC.

5.1.7.3 Transfer of funds from the Government treasury to avoid their lapse

Failure of the FD to restrict the funds to their immediate requirement as provided in Article 161(2) of the KFC and Rule 17 of MCE resulted in their excess drawal by the departments and keeping outside the Government account to avoid their lapse as instanced below:

[6] 2004-05 – Rs. 146 crore, 2005-06-Rs. 84.10 crore, 2006-07-Rs. 30 crore, 2007-08-Rs. 135 crore

Transfer of funds to Savings Bank Accounts

Rs. 12.61 crore was irregularly deposited in savings bank accounts by the Government departments

Article 76 of the KFC prohibits a Government servant from opening an account with a bank in his official capacity to deposit government money. In addition, specific orders were issued (July 2003) by the Government instructing the department not to open savings accounts with banks without the permission of the FD.

Records revealed the following instances of operating savings bank accounts with huge sums of government money without the concurrence of FD:

- The Directorate of State Education, Research and Training was operating eight savings bank (SB) accounts and the closing balance held in these SB accounts was Rs. 8.69 crore as at the end of March 2008.
- The Department of Youth Services was maintaining five SB Accounts and the closing balance held in these accounts at the end of March 2008 was Rs. 3.92 crore.

No monitoring mechanism such as periodical returns on the maintenance of SB accounts, the reasons therefor, the amount held in the SB accounts at the end of the financial year, the reasons for not crediting the unspent amounts to the Government *etc.*, was devised by the FD to effectively watch the Government moneys lying outside the treasury. Consequently, the FD had no effective control over such money exposing them to the risk of misuse.

Transfer of funds to other Departments/Organisations

Rs. 31.42 crore was diverted to other departments/ organisations to avoid their lapse

Funds drawn by the Government departments were transferred to other Organisations/Departments to avoid their lapse as detailed below:

- The C&I department parked Government funds of Rs. 21.54 crore released (2003-08) for execution of various schemes with TECSOK. The funds were drawn by the C&I department on Payees' Receipts to avoid their lapse and transferred to TECSOK who in turn invested these in fixed deposits and earned interest thereon. The unspent money lying with TECSOK at the end of March 2008 was Rs. 12.19 crore and the interest earned thereon by TECSOK was Rs. 1.53 crore which was not credited to Government account.
- The Department of Youth Services released (2003-07) Rs. 10.54 crore to various Deputy Commissioners (DCs) in the State to distribute Rs. 10,000 each to Rajiv Gandhi Yuva Shakthi Sanghas for undertaking Sports, Cultural and Community Development activities under the Rajiv Gandhi Yuva Shakthi Programme. The funds were drawn in lump on payee's receipt and passed on to DCs. Records revealed that only Rs. 5.39 crore had been spent and the balance Rs. 5.15 crore was still held by the DCs as of March 2008.
- The Department of Handloom and Textiles drew (2004-06) Rs. 45 lakh for establishment of powerlooms and transferred the entire amount to the Karnataka State Powerloom Development Corporation (KSPLDC). The KSPLDC could spend only Rs. 8.53 lakh and the balance amount (Rs. 36.47 lakh) was not refunded to the Government (March 2008).

- The Department of Information, Tourism and Youth Services released (March 2005) Rs. 34.88 crore received from Government of India for promotion of tourism to the Karnataka State Tourism Development Corporation (KSTDC) with the concurrence of the FD. The funds were meant for executing tourism development works and the Department of Tourism was directed to spend the funds by 30 June 2005. The Department, however, could spend Rs. 21.16 crore only and the balance Rs. 13.72 crore was held by the KSTDC (March 2008). The injudicious action of the FD to release large sums of money at the close of the financial year with provision to keep them outside the Government account was against the principles of sound financial management coupled with the risk of misuse of Government money.

5.1.7.4 Injudicious release of funds under Aradhana Scheme

Rs. 22.40 crore was injudiciously released by the FD to the DCs resulting in accumulation of funds of Rs. 42.57 crore

Article 161(2) of the KFC provides that only so much of grant-in-aid be paid by the Government as is likely to be spent during the financial year. Government released (2003-08) Rs. 47.55 crore as grant-in-aid to the DCs to carryout repairs, renovation and construction of places of worship in areas populated by the members of Scheduled Caste and Scheduled Tribes under the Aradhana Scheme. Records revealed that the funds could not be fully utilised due to non-setting up of Aradhana Committees, non-selection of places for construction of temples, non-preparation of estimates, *etc*., and Rs. 20.75 crore remained unspent at the end of March 2007. Government in fact, had ordered (March 2007) the DCs to surrender the unspent money but the DCs did not comply with the orders. However, an additional Rs. 22.40 crore was released by Government during 2007-08. The amount spent (2007-08) was only Rs. 58 lakh and balance Rs. 42.57 crore remained with the DCs (March 2008).

Government in reply to the paragraphs 5.1.7.1 to 5.1.7.4 above stated that immediate action would be initiated to withdraw the funds available in SB accounts/fixed deposits and credit it to Government account.

5.1.8 Administrative controls

During the period 2003-08, Government resorted to open market borrowings to mobilise funds for public spending besides standing guarantee to the loans raised by the Statutory Boards and Corporations. The FD also monitored the operation and maintenance of the PD accounts where the ordinary system of accounting was not found suitable for the transactions. Failure of the FD to exercise proper administrative controls in these areas resulted in imprudent market borrowings, invoking Government guarantees by financial institutions and irregular retention of Government funds in PD accounts as detailed in the succeeding paragraphs.

5.1.8.1 Avoidable Market Borrowings

Open market borrowings of Rs. 1,164.92 crore were resorted to despite a comfortable cash position

The Karnataka Fiscal Responsibility Act, 2002 provides that the debts are maintained at prudent levels and Government should ensure that borrowings are used for productive purposes and are not applied to finance current expenditure. Contrary to these provisions, the FD raised Rs. 1,164.92 crore through open market borrowings between May 2005 and March 2008 although the cash position of the Government was comfortable at Rs. 2,029.83 crore on 1 April 2005 and at Rs. 2,907.19 crore on 1 March 2008. The Government contended that it was necessary to go in for borrowings as the liability at the end of March 2008 was of the order of Rs. 8,271 crore. The reply was not tenable as the Government invested Rs. 572.98 crore in the treasury bills during the month of March 2008 and the cash position as at the end of 31 March 2008 was Rs. 3,480.16 crore. The Government did not also furnish the details to substantiate that the borrowings were used for productive purposes.

5.1.8.2 Guarantees given by Government

The guarantees given by the Government on behalf of the Government Departments, Public Sector Undertakings, Local Authorities, Statutory Boards and Corporation and Co-operative Institutions stood at Rs. 9,879.47 crore as at the end of March 2007. Review of records revealed:

Non-maintenance of records of Guarantees

Neither the FD nor the respective Administrative Department maintained any record of the guarantees given by the Government to various loanee institutions. The FD was compiling this information for the Budget Memorandum on the basis of the details furnished by the loanees directly which was not fool proof. Consequently, the FD could not ensure authenticity of the information incorporated in the Budget Memorandum.

Non-submission of statement of assets and liabilities

The Karnataka Ceiling on Government Guarantees Act, 1999 includes a condition for submission of periodical statement of assets and liabilities and annual accounts by the borrowing departments to the Administrative Departments and the FD. In six[7] test-checked institutions, it was noticed that no such periodical statement was submitted to the Administrative Department and the FD. No instructions were issued by the FD to the borrowing departments in this regard.

Default in repayment of loan guaranteed by Government

The financial institutions resorted to invoking Government guarantees due to default in loan repayment

It was observed that in respect of a loan drawn by Sahakari Sakkare Karkhane Niyamitha in Gulbarga District on the Government guarantee, the Industrial Finance Corporation of India and the Industrial Bank of India, Bangalore brought (July 2004) an attachment order from the Debts Recovery Tribunal, Bangalore and recovered Rs. 49.94 lakh from the Co-operation Department. The fact was also communicated (September 2004) to the FD. But the FD did not take any action although a mention was also made in the Report of The Comptroller and Auditor General for the year ended March 1999 [Paragraph 3.6.2(ii) & (iii)] that the guarantees were given as a matter of course without ensuring the credit worthiness/solvency of the loanee institutions.

[7] Directorate of Municipal Administration, Karnataka Slum Clearance Board, Bangalore Water Supply and Sewage Board, Rajiv Gandhi Rural Housing Corporation, Bangalore Metropolitan Region Development Authority and Registrar of Co-operative Societies

A separate department *viz.,* Directorate of Investment Tracking and Realisation was created in the FD only during 2007-08 to regulate Government guarantees.

5.1.8.3 PD Accounts

Article 286 of KFC provides for opening of PD Accounts with the special permission of Government where the ordinary system of accounting is found not suitable for the transaction. However, the administrators of the PD accounts should close them at the end of the financial year by intimating the closing balance to the treasury officer for transferring them to the Consolidated Fund.

Non- surrender of unspent balances

Huge balances were retained in PD accounts against the provisions of KFC

Review of PD Accounts of the Director of Municipal Administration (DMA) and the Commissioner, State Excise Department revealed that the DMA had accumulated unspent balances ranging from Rs. 7.10 crore to Rs. 32.19 crore[8] in his PD account during the period 2005-08. Similarly, the Commissioner, State Excise Department had irregularly retained Rs. 70.79 lakh in his PD account since June 2006 without intimating the treasury officer to transfer them to the Consolidated Fund as required under rules. Government stated that the amount in the PD account of the Excise Commissioner will be remitted to the Consolidated Fund immediately.

Non-withdrawal of excess credit to PD accounts

Records revealed that the State Huzur Treasury had credited (2004-05) an excess amount of Rs. 50 lakh to the PD Account of DMA and Rs. 7.07 lakh to the PD Account of the Controller of State Accounts (2004-05). However, no action was taken to withdraw the excess credits and to transfer them to the Consolidated Fund even after three years.

5.1.9 Conclusion

The budgetary, expenditure and administrative controls were not effectively enforced. There were persistent savings during the period 2003-07 due to lack of scrutiny of departmental estimates by the FD. Non-adherence to the prescribed rules and procedure resulted in withdrawal of funds from the Consolidated Fund and keeping them outside the Government Account exposing them to the risk of misuse. Resorting to open market borrowings when the cash position of Government was comfortable was against the principles of a sound fiscal management. Huge balances were retained in PD accounts against the provisions of KFC.

[8] 31.3.2006-Rs. 7.10 crore, 31.3.2007-Rs. 11.54 crore, 31.3.2008-Rs. 32.19 crore

5.1.10 Recommendations

- The FD should ensure that the budget estimates are scrutinised strictly in accordance with the KBM to avoid excess provisioning of funds.
- The FD should ensure that savings are surrendered by all the Controlling Officers well in advance so that timely re-appropriations could be effected by the FD to utilise the available financial resources.
- The FD should exercise appropriate expenditure controls to ensure that Government moneys are not drawn by the departments in lumpsum and diverted to their organisations or SB account to avoid their lapse.
- The FD should take immediate action to review all outstanding guarantees and prescribe periodical returns to avert liabilities on the revenues of the State.

BANGALORE **(USHA SANKAR)**
THE **Principal Accountant General**
(Civil and Commercial Audit)

COUNTER SIGNED

NEW DELHI **(VINOD RAI)**
THE **Comptroller and Auditor General of India**