CHAPTER III - CIVIL DEPARTMENTS

SECTION 'A' - REVIEWS

CO-OPERATION DEPARTMENT

3.1 Loans and Investments by Government in Co-operative Societies

Highlights

In Karnataka State, 30415 Co-operative Societies were registered as of March 2002 under provisions of Karnataka State Co-operative Act. During 1997-02, State Government had invested Rs.439.93 crore (share capital Rs.177.24 crore, loan Rs.262.69 crore) which included financial assistance of Rs.247.53 crore from National Co-operative Development Corporation-(NCDC). Certain major societies in the fields of Sugar, Textile etc., have been incurring losses since inception due to mismanagement, operational inefficiency, lack of professionalism etc., and defaulted in repayment of loan. With Societies in financial straits, returns on share capital ranged from 1 to 3 per cent.

On invocation of guarantee, Government paid Rs.131.51 crore. Government had to pay 100 per cent of the loan and interest against 50 per cent agreed in the case of 3 spinning mills.

(Paragraph 3.1.4 (ii) and 3.1.5(iv)(b)

Delay in repayment of loan and interest to NCDC resulted in avoidable payment of penal interest of Rs.1.27 crore.

(Paragraph 3.1.5(i) (b)

Commissioner for Sugar failed to encash a cheque for Rs.2 crore issued by Hemavathy Sahakara Sakkare Kharkhane (HSSK). The cheque was not revalidated and HSSK had accumulated huge losses.

(Paragraph 3.1.5(ii)

State Government paid Rs.47.50 lakh in excess to Industrial Development Bank of India (IDBI) under one time settlement.

(Paragraph 3.1.5(iv)(f)

Four Textile Spinning Mills (Mills) with Government investment of Rs.29.22 crore were closed during 1996-02; 7 Mills with State Government investment of Rs.113.55 crore were functioning on contract basis to convert the materials brought from other agencies.

(Paragraph 3.1.5(iv)(g)

State Government furnished guarantee of Rs.41.50 crore on a second occasion to Raibagh Sahakara Sakkare Karkhane a defaulting sugar mill.
(Paragraph 3.1.5(v)

Returns (dividend) on share capital investment ranged from 1 to 3 per cent of investments.
(Paragraph 3.1.6(i)

Three Societies diverted share capital of Rs.4.06 crore received for improving marketing and distribution activities to meet the cost of voluntary retirement scheme and administrative expenses, while one Society did not furnish details of utilisation of Rs.8 crore.
(Paragraph 3.1.6(ii)

3.1.1 Introduction

Co-operative Societies (Societies) provide services to community and play a vital role in extending finance and marketing services especially to the farming community. As of March 2002, there were 30415 Societies in Karnataka regulated under the provisions of Karnataka State Co-operative Act, 1959. Funds from State Government flow to these Societies through various institutions viz., State Apex Bank, Karnataka State Co-operative Agricultural and Rural Development (KSCARD) Bank, Primary Co-operative Agricultural and Rural Development (PCARD) Bank and District Central Co-operative (DCC) Bank.

3.1.2 Organisational Set up

Secretary to Government of Karnataka, Department of Co-operation administers/releases financial assistance to the Societies. Registrar of Co-operative Societies (RCS) is the Head of the Department. Functions of Co-operative Textile Mills and Sugar Mills are monitored by Commissioners of Textiles (CT) and Sugar (CS) respectively. Individual Societies are coordinated and supervised by an elected body from amongst members of the Society. In some Societies, an officer of Co-operation Department is appointed as Managing Director on deputation basis.

3.1.3 Scope of Audit

Records covering the period from 1997-98 to 2001-02 of Co-operation, Sericulture, Commerce and Industries, Animal Husbandry, Fisheries and Finance Departments, CS, CT, RCS and Director of Co-operative Audit were reviewed during January to June 2002.

3.1.4 Release of Financial assistance to Co-operative Societies

(i) Norms/policy not prescribed

Scrutiny of sanctions for financial assistance revealed the following:

(a) Administrative departments had negotiated with National Co-operative Development Corporation (NCDC) for financial assistance without consulting Finance Department.

(b) Guarantees were furnished by Government to defaulting Societies.

(c) Differential treatment to Societies in the matter of discharge of loan liability as a guarantor.

(d) Differential treatment to Societies in granting share capital/interest free loan/guarantee or subsidy.

Evidently, State Government had no definite norms for administering financial assistance.

(ii) Details of assistance released

State Government provided financial assistance in the form of share capital, loans, guarantees and subsidy, in addition to loans obtained from NCDC. Financial assistance from NCDC was initially credited to State Government and subsequently released to societies through personal deposit (PD) account of RCS, KSCARD and PCARD. Budget provision and financial assistance released with sector-wise details were as follows:

(Rupees in crore)

Year	Budget Provision (As per Accounts)		Expenditure (As per Accounts)	
	Share Capital	Loans	Share Capital	Loans
1997-98	10.85	11.72	14.53	33.90
1998-99	14.06	47.40	21.35	57.80
1999-00	10.61	14.85	10.39	30.09
2000-01	18.26	18.75	18.09	37.75
2001-02	10.32	28.65	14.38	62.77
Total	64.10	121.37	78.74	222.31

Name of the Sector	Sectorwise details of assistance		Total
	Share capital	Loan	
Credit	15.89	35.77	51.66
Marketing	10.02	1.25	11.27
Processing	123.51	214.17	337.68
Milk processing	Nil	Nil	Nil
Service & etc.,	27.82	11.50	39.32
Total	177.24	262.69	439.93

(i) Excess over budget provisions was due to discharging loan liability under one time settlement and sanction of interest free loans for which there was no budget provision.

(ii) Share capital of Rs.98.50 crore released from NCDC and deposited in Apex Bank was released therefrom to newly set up sugar mills (1998-99-Rs.11 crore, 1999-2000-Rs.12.50 crore, 2000-01-Rs.46.39 crore and 2001-02-Rs.28.61 crore).

(iii) Loan of Rs.40.38 crore was also released to various societies under other heads of account. Thus, total funds invested aggregated Rs.439.93 crore (loan-Rs.262.69 crore, share capital-Rs.177.24 crore).

(iv) Total investment of Rs.439.93 crore included NCDC loan of Rs.247.53 crore.

Out of investment of Rs.439.93 crore, Rs.131.51 crore (30 per cent) was spent on repayment of loan

Out of total investment of Rs.439.93 crore, State Government spent Rs.131.51 crore for discharging loan liability as a guarantor for 14 Co-operatives. Thus, 30 per cent of funds invested was guarantee money.

3.1.5 Sanction/Release of loan

State Government released loan assistance of Rs.262.69 crore during 1997-02 besides outstanding accumulated loan assistance of Rs.402.56 crore as of March 2002. Scrutiny of records revealed the following:

(i) Procedural lapses

(a) RCS, CT, CS and Heads of other departments disbursing loans to Societies did not maintain accounts and records such as Loan Ledger, Demand-cum-balance statements etc. In the absence of these records, loan management was not possible. Loans outstanding for recovery from Societies was Rs.402.56 crore as of March 2002. Details are furnished below:

(Rupees in crore)

Year	Opening Balance	Loan disbursed	Loans repaid	Closing balance
1997-98	229.76	33.90	8.15	255.51
1998-99	255.51	57.80	8.57	304.74
1999-00	304.74	30.09	10.02	324.81
2000-01	324.81	37.75	10.90	351.66
2001-02	351.66	62.77	11.89	402.56

Out of this, Rs.38.36 crore overdue as of April 1992 had not been recovered in the last 10 years from 14 Societies (Karnataka Milk Federation-Rs.20.40 crore, 6 sugar factories⁂ - Rs.13.46 crore, 7 other cases-Rs.4.50 crore).

Penal interest of Rs.1.27 crore suffered by Government due to administrative procedures

(b) Departments were to ensure adequate budget provision for repayment of instalment of loan and interest to NCDC on due dates (October each year) so as to avoid penal interest. Due to non-maintenance of accounts/ records, these authorities depended solely on demand schedules furnished by NCDC and initiated the process of repayment thereafter. Thus, there were delays resulting in avoidable payment of penal interest of Rs.1.27 crore as detailed below:

Name of the Society	Instalment of loan and interest	Due date	Actual date of payment	Extent of delay	Penal interest paid
Pandavapura SSK*	Rs.3.31 crore	5.4.2001	5.10.2001	6 months	Rs.57.18 lakh
Pandavapura SSK	Rs.3.13 crore	5.10.2001	4.4.2002	6 months	
Bhadra SSK*	Rs.0.65 crore	5.10.2001	29.3.2002	6 months	Rs.0.60 lakh
Karnataka Co-operative Coir Federation	Rs.5.11 crore	5.10.2000	11.11.2001	1 year	Rs.69.44 lakh
				Total	Rs.127.22 lakh

* Sahakara Sakkare Karkhane

⁂ One each at Haveri, Hassan, Brahmavar, Kollegal, Kampli and Bijapur

(c) There were abnormal delays ranging from 1 to 4 years in prescribing terms and conditions for repayment of loan of Rs.18.87 crore to five Societies.

(d) Terms and conditions had not been prescribed even after 7 to 12 years, for the loans of Rs.113.01 crore released to 14 Societies.

(ii) Commissioner for Sugar forfeited opportunity for recovery of loan

Failure to encash a cheque jeopardized recovery of loan of Rs.2 crore

Hemavathy SSK (HSSK), Hassan repaid (December 1998) entire bridge loan of Rs.2 crore through cheque and requested State Government to waive interest. However, State Government decided (September 1999) not to waive interest. CS who received the cheque, failed to encash it and violated financial regulations which prescribed that money received on behalf of Government should be brought to account immediately.

Subsequently, HSSK requested State Government (November 1999) to convert bridge loan into share capital on the plea that State Government had conceded in May 1999 a similar demand from another co-operative society (Bhadra SSK), and did not revalidate the cheque. Failure of CS to encash the cheque resulted in non recovery of Rs.2 crore and chances of recovery have receded as HSSK had accumulated huge losses.

(iii) Particle Board Manufacturing Co-operative Society, Chiknaragund

Department of Industries and Commerce implements a scheme "Loan to Industrial Co-operatives", under which, loan assistance of upto Rs.2 lakh to each Society was released without norms/guidelines. During 1997-01, 74 Societies were assisted. Notwithstanding this, the Particle Board Manufacturing Co-operative Society (PBMCS) which had earlier received financial assistance of Rs.45 lakh was again sanctioned (March 2001) loan assistance of Rs.15 lakh while 21 other Societies were sanctioned a total loan of Rs.25 lakh. No reasons were furnished for sanctioning more than Rs.2.00 lakh. Even in draft guidelines, parameters were not specified for deciding eligibility of a society for higher financial assistance. Sanction of higher financial assistance to PBMCS without assigning specific reasons, was improper. State Government had not even prescribed terms and conditions for repayment of loan.

(iv) State Government incurred huge losses while discharging loan liability as guarantor under One Time Settlement (OTS) of loans

State Government as guarantor discharged (August 1997 to April 2002) loan liability to the extent of Rs.131.51 crore. Details are given below:

Name of the Society	Loan (Amount Rupees in crore)	Year	Agency from whom borrowed	Principal and Interest paid by Government (Rupees in crore)	Period of payment
1. Malaprabha Co-op Spinning Mill, Soundatti	7.76	1987-88	NCDC through Apex Bank	54.97 unitwise breakup not available	December 1997 to April 2001
2. Venkateswara Co-op spinning mill, Annigeri	11.12	1991			
3. Raithara Sahakara Noolinagirini, Hanumanahatti	14.48	1990-91			
4. Malaprabha Co-op Oil Mill, Naragund	11.34	1990-91			
4A. TAPCMS/PACS	11.46	Not available			

Name of the Society	Loan (Amount Rupees in crore)	Year	Agency from whom borrowed	Principal and Interest paid by Government (Rupees in crore)	Period of payment
5. Tungabhadra Co-op Spinning Mill, Ranebennur	3.85	1987-88	ICICI, IDBI, IFCI	5.31	March 1999 to September 1999
6. Someswara Farmers Co-op Spinning Mill, Lakshmeswara	4.50	1989-90		5.56	August 1997 to March 2000
7. Farmers Co-op Spinning Mill, Hulkoti	4.03	1983-84		4.18	
Co-operative Sugar Factories at					
8. Bidar	46.62	NA	NCDC	17.99	March 2001 to April 2002
9. Raibagh				11.63	
10. Pandavapura (original loan not available)				17.00	
Co-operative Spinning Mills at					
11. Bagalkot	2.20	1972-73	IDBI, ICICI, IFCI	2.42	January 1999 to August 1999
12. Bijapur	2.36	1982-83		2.68	
13. Belgaum	3.46	1983-84		5.92	
14. Raichur	3.91	NA		3.85	
Total				131.51	

It was reported (December 1996) by Managing Director, Karnataka State Co-operative Spinning Mills Federation that performance of the mills was seriously hampered since inception due to lack of professionalism, technical personnel, good labour relations, good management etc. State Government declared spinning mills at Belgaum (April 1994) and Raichur (1996) as sick under Industrial Relief Act. State Government/ Department had not periodically reviewed the working of these mills. Financial institutions had earlier drawn the attention of the State Government to the poor performance of these two mills. Ultimately, financial institutions invoked guarantees and filed (1992-94) cases against State Government. State Government negotiated with financial institutions/NCDC who agreed to receive principal and 40 per cent of simple interest as one time settlement. State Government paid (August 1997 to April 2002) Rs.131.51 crore and balance of Rs.33.96 crore was yet to be paid.

State Government committed following irregularities/lapses after discharging liabilities of mills also:

(a) In the case of 6 Societies/mills at Sl. Nos. 1 to 4A and 14 in the table, State Government discharged liability and treated the expenditure as loan . But the Government failed to prescribe terms and conditions for the loans even after a lapse of four years. In respect of Sl.Nos.1 to 3, State Government decided (April 2000) to convert these loans into share capital disregarding opinion of CT that such an action would result in similar demands from other co-operatives. The share capital investment in these three mills was already exceeding[❖] the prescribed percentage of project cost. Thus, the decision to convert loan into share capital in violation of norms was yielding to unjustified demand of management and was irregular.

(b) In the case of Sl. Nos.5, 6 and 13, the management initially agreed (April 1998) to bear fifty per cent of overdue principal and interest but failed to fulfil their commitment and urged the Government to bear full liability on the ground that similar demands from other co-operatives had been conceded. State Government instead of deciding each case on merit yielded to the

[❖] permissible share capital investment - 45 per cent of the Project cost for establishing these mills - Rs.29.43 crore, Share capital invested including loan - Rs.41.04 crore demands for full payment. This resulted in an extra expenditure of Rs.8.39 crore[*]. The Commissioner opined that it would be improper to discharge entire liability and strict rules should be framed in this regard, but Government disregarded it.

Undue favour to Society by reimbursing repayment of loan

(c) The Farmers Co-operative Spinning Mill (Sl. No.7) discharged (August 1997 to February 1998) its share of liability of Rs.1.39 crore under OTS and demanded (October 1999) State Government to reimburse the same on the ground that such concessions had been granted to other mills. State Government reimbursed Rs.1.39 crore. The decision resulted in undue favour.

(d) In case of three sugar mills at Sl. Nos. 8, 9 & 10, State Government discharged liability (March 2001 to March 2002) of Rs.46.62 crore on the condition that these mills would repay the State Government at Rs.50 per bag of sugar sold. These mills repaid Rs.4.41 crore during 2001-02 which was less than even the interest liability of Rs.6.29 crore per year on Rs.46.62 crore at 13.5 per cent at which Government borrowed funds.

Even after six years of notification, action had not been taken for liquidation of Mills

(e) State Government decided to wind up Bijapur and Bagalkot spinning mills which had accumulated loss of Rs.3.80 crore[Ψ] as of May 1993/June 1993 and appointed (January 1996 to April 1996) liquidators with a time limit of six months to complete liquidation. Even after six years, action had not been taken to liquidate these mills. These mills are not functioning since 1993.

CT paid Rs.47.50 lakh in excess of agreed amount

(f) M/s Belgaum Co-operative Spinning Mill, had paid Rs.47.50 lakh upto March 1998 to IDBI. This amount was to be adjusted against dues payable to IDBI under OTS, as stated (January 1999) by CT. However, State Government sanctioned Rs.5.93 crore without adjusting the amount already paid to IDBI. This resulted in excess payment to IDBI and CT who had proposed adjustment of Rs.47.50 lakh, himself issued the cheque for Rs.5.93 crore and failed to notice the excess payment.

Four mills were closed resulting in loss of investment of Rs.29.22 crore

(g) Four mills[✡] with investment of Rs.29.22 crore were closed during 1996 to 2001. In another seven mills, where the investment was Rs.113.55 crore (loan-Rs.70.38 crore, share capital-Rs.43.17 crore), other agencies process their raw material using machinery and personnel of the mills on payment of conversion charges.

Tata Economic Consultancy Services (TECS) which studied (June 2001) the performance of the mills concluded that substandard machinery had been purchased at higher rates and their maintenance was improper which led to

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[*] Total amount paid by State Government under OTS in respect of mills at sl.nos.5, 6 and 7 of table is Rs.16.79 crore. Half of this was payable by these mills as originally agreed.

[Ψ] Bijapur-Rs.1.85 crore and Bagalkot-Rs.1.95 crore

[✡]

(Rupees in crore)

Spinning Mill at	Year of commencement	Year of closure	State Government investment
Raichur	1971	1996	7.62
Bijapur	1973	1996	5.53
Bagalkot	1972	1996	2.43
Lakshmeswar	1991	2001	13.64
TOTAL			29.22

shortfall (ranging from 35 to 68 per cent) in utilisation of installed capacity in 8 mills and consequently losses were mounting . The study also confirmed that survival of mills seemed uncertain in the context of globalisation. The State Government, however, had not taken any steps regarding future of these mills.

(v) Furnishing guarantee to a defaulting co-operative society

Guarantee was furnished on second occasion to a Society which had defaulted earlier

Raibagh Sahakara Sakkare Karkhane (Raibagh SSK) defaulted in repayment of loans drawn during 1992-93 and 1996-97 and State Government discharged (March 2001) the outstanding liability[⌘] on the basis of its guarantee. Raibagh SSK approached (February 1999) District Central Co-operative (DCC) Bank, Belgaum for rescheduling a pledge loan of Rs.41.50 crore and simultaneously approached (October 1999) Apex Bank and DCC Bank for sanction of fresh loan of Rs.30 crore under consortium arrangements of both banks. Both these banks demanded State Government's guarantee. State Government sanctioned (June 2001) the guarantee disregarding opinion of CS and Finance Department which pointed out (i) liabilities were more than assets and nothing was left for mortgaging, (ii) factory had committed serious irregularities/breaches and (iii) working capital had been diverted towards expansion project. Sanction of guarantee, despite being aware of the default of Raibagh SSK was improper.

3.1.6 Investment of share capital in co-operative institutions

(i) Meagre return on share capital investment

Share capital investment in societies yielded meagre returns

Dividend obtained on share capital ranged from 0.84 to 2.61 per cent as detailed below:

(Rupees in crore)

As at the end of	Share capital invested	Percentage of dividend on share capital(as per Finance Accounts)	Dividend obtained (as per Finance Accounts)
1997-1998	271.34	1.81	4.93
1998-1999	291.38	0.84	2.47
1999-2000	297.35	2.54	7.55
2000-2001	304.57	2.61	7.95
2001-2002	316.15	2.17	6.87

Share capital investment of Rs.211.27 crore in 30 co-operatives (10 spinning mills Rs.69.19 crore, 20 sugar mills Rs.142.08 crore) had not yielded any return since inception. Redemption of share capital of Rs.69.19 crore invested in 10 Textile Spinning Mills had been ruled out as these mills had negative networth.

[⌘] Total loan borrowed from NCDC - Rs.12.63 crore (July 1992-Rs.9.85 crore, September 1996- Rs.1.88 crore, September 1996-Rs.0.90 crore) as of October 2000.
Balance outstanding - Rs.11.63 crore (Principal -Rs.8.70 crore, interest - Rs.2.93 crore) repaid under OTS as mill defaulted

(ii) Release of share capital to ineligible co-operative institutions/non-utilisation and diversion of share capital

Scrutiny of files relating to sanction of share capital investment revealed various lapses as detailed in the table:

	Details of sanction of share capital	Audit Findings
a. b. c. d.	Karnataka State Marketing Federation (KSMF) Rs.18 crore Rs.5 crore as of 4/2000, Rs.8 crore as of 9/2001 Rehabilitation package for improving marketing and distribution activities etc.,	Quarterly review on implementation of rehabilitation package was not conducted as stipulated by Finance Department. No details regarding physical and financial achievements were furnished either by State Government/ RCS regarding utilisation of Rs.8 crore. Further, KSMF had diverted Rs.2 crore to meet expenditure on voluntary retirement scheme of employees. Such diversion of funds was irregular. State Government/ RCS did not initiate any action.
a. b. c. d.	Indian Coffee Marketing Federation Co-operative Ltd., (COMARK) Hassan. Rs.2 crore July 2000 Procurement and Marketing activities	Share capital was released to COMARK though it did not comply with agreed condition that latter was to pledge deposit collected from members to State Government; it had accumulated loss of Rs.6.86 crore, negative net worth of Rs.4.01 crore and also defaulted in repayment of loan of Rs.1.14 crore. Release of share capital was therefore improper. COMARK diverted Rs.24 lakh towards administrative expenses and even balance of Rs.176 lakh had not been utilised for the purpose for which it was released but kept in Hassan DCC bank (Current account)
a. b. c. d.	Weavers Co-operative Society (WCS), Chitradurga Rs.65.30 lakh August 1998 Integrated Co-operative Development Project	Share capital remained unutilised for 3 years with District Central Co-operative Bank, Chitradurga designated as Project Implementation Agency (PIA). PIA released Rs.22.54 lakh during 12/2000 to March 2001 to a few WCS. Balance had not been utilised at all (June 2001) as eligible WCS were not available. Proposal sent to NCDC for further loan/share capital was therefore evidently faulty.
a. b. c. d.	Primary Co-operative Agriculture and Rural Development (PCARD) Bank, Rs.0.59 crore 1998-99 and 1999-2000 To meet lending programmes to members of PCARD.	18 PCARD had adequate resources and the resources ranged from Rs.6.38 crore to Rs.32.60 crore to meet lending programme of Rs.1.31 crore to Rs.3.5 crore during 1998-99 and 1999-2000. Release of share capital assistance was therefore, irregular, as these societies were not eligible.

a - Name of the society, b-Share capital, c-Period of release, d-Purpose

	Details of sanction of share capital	Audit Findings
a. b. c. d.	Raichur Co-operative Spinning Mill (Mill) Rs.25 lakh June 1998 For payment of dues towards power charges, insurance and statutory payments.	The Mill was proposed (1995) for liquidation and had become defunct from 1996. State Government released share capital of Rs.25 lakh of which Rs.12.90 lakh were utilised for statutory payments. Share capital of Rs.12 lakh released in excess of requirement was unjustified as no return accrued on such investment.
a. b. c.	Veerashiva Consumers' Co-operative Society (VCCS) Rs.1 crore Released from NCDC in March 2002 but retained by State Government.	Proposal for getting financial assistance was sent to NCDC without concurrence from the Finance Department. After release of assistance, matter was referred to Finance Department which did not agree on the ground that the society was running at loss and dealing with consumer items for upper section of population. Thus, getting share capital without examining eligibility and concurrence from Finance Department resulted in retention of entire amount with State Government.
a. b. c. d.	Karnataka State Consumers Co-operative Federation Ltd., (KCCF) Rs.1.82 crore April 2001 Procurement and Marketing activities	KCCF diverted entire share capital assistance of Rs.1.82 crore towards expenditure on voluntary retirement scheme for its employees. Such diversion was irregular.
a. b. c. d.	Kodagu Coffee Growers Co-operative Society, Madikeri Rs.2 crore June 2001 Procurement and Marketing activities	State Government obtained (March 2001) NCDC financial assistance and released (June 2001) to Society for procurement of coffee seeds. As procurement was to commence only in December each year, State Government could have postponed drawal of assistance till commencement of season. Premature drawal of assistance resulted in avoidable interest liability of Rs.19.33 lakh from April 2001 to November 2001.
a. b. c. d.	Mandya District Horticulture Produce Growers Marketing and Processing Co-operative Society (society) Rs.36.56 lakh by State Government, Rs.9.16 lakh by Zilla Panchayat, Mandya, out of total project cost of Rs.91.46 lakh June 1995 For establishing cold storage plant	Funds had remained unutilised since June 1995. Society had kept these funds in a Joint account of Executive Director and President of the society. The society had not taken action to acquire the site. Though Director of Horticulture instructed (June 1999 to April 2001) the society to transfer the funds to the Joint account of Executive Director of Society and Chief Executive Officer of Zilla Panchayat, Mandya, latter had not complied with the direction.

(iii) Non-redemption of investment from Societies under liquidation

Details of funds realised in respect of liquidated societies were not available with RCS

According to statement furnished by RCS, 3738[ᵆ] societies were liquidated as of December 2001 wherein State Government had invested Rs.22.88 crore (Share capital-Rs.10.88 crore, loan-Rs.12 crore). However, further details such as funds realised due to liquidation, disposal of such funds, balance of assets, reason for non-recovery of State Government investment etc., were not available with RCS. RCS evidently did not monitor liquidation of societies.

3.1.7 Audit of Co-operative Societies

Director of Co-operative Audit (Director) was to conduct audit of all Co-operative Societies receiving financial assistance from State Government once a year while other Societies were to be audited atleast once in three years besides annual audit by a Chartered Accountant. Out of 30415 Co-operative Societies (inclusive of 22056 Societies with Government financial assistance), 12422 Societies (5754 Societies with Government assistance) were not audited. Further, certain major Co-operative Societies listed below with substantial financial assistance had not been audited for periods indicated against each:

Sl.No.	Name of the Institution	Year from which not audited
1.	Karnataka State Consumer Co-operative Federation, Bangalore	1998-99
2.	Karnataka State Co-operative Marketing Federation, Bangalore	1996-97
3.	COMARK, Hassan	1997-98
4.	Karnataka State Coir Co-operative Federation, Bangalore	1997-98
5.	Apex Bank, Bangalore	1997-98
6.	Karnataka Co-operative Milk Federation , Bangalore	1997-98
7.	Karnataka State Co-operative Oil Seeds Federation, Bangalore	2000-01
8.	Karnataka State co-operative Handloom Federation, Bangalore	1988-89

Director was also to recover audit fees from Societies. It was seen that arrears of audit fees increased from Rs.0.32 crore (12 per cent of total audit fees) to Rs.4.94 crore (41 per cent of total audit fees) during 1997-98 to 2001-02. RCS had not initiated action against 651 Societies (Bangalore-398, Mysore-189, Belgaum-34, Gulbarga-30) where misappropriation amounted to Rs.2.81 crore.

[ᵆ] Division-wise breakup - Bangalore-718, Mysore-410, Hassan-295, Mangalore-138, Davanagere-362, Dharwad-623, Belgaum-650, Gulbarga-542

3.1.8 Monitoring

Secretary to Government, Co-operation Department, RCS, CT and CS were responsible for monitoring and overseeing functions of Co-operative Societies. However, monitoring was not effective for the following reasons:

(a) Details of review of the investments in Co-operative Societies by a Departmental Committee under the Chairmanship of Principal Secretary, Finance Department were not available.

(b) RCS was to submit to State Government, half yearly report indicating number of cases of defects/misappropriations. However, no such reports were furnished to State Government.

(c) In respect of liquidated Societies, details of disposal of assets and application of money realised were not available.

(d) Out of 10907 cases of misappropriations involving an amount of Rs.42.21 crore reported in Audit Report of Director, RCS had not initiated action in 651 cases amounting to Rs.2.81 crore.

(e) Basic data regarding loan overdue for recovery and recovered thereagainst, were not available with RCS/Heads of Departments.

3.1.9. The matter was referred to Government in July 2002; reply had not been received (November 2002).

SECTION 'B' - PARAGRAPHS

FINANCE DEPARTMENT

3.2 Abstract Contingent Bills

3.2.1 Introduction

Under Rule 36 of the Manual of Contingent Expenditure 1958, the Drawing and Disbursing Officers (DDOs) are permitted to draw contingent charges required for immediate disbursement on Abstract Contingent (AC) Bills subject to rendering Non-payable Detailed Contingent (NDC) bills to their Controlling Officers for counter-signature and onward transmission to the Accountant General (Accounts & Entitlement). The detailed procedure for drawal of AC bills and their final settlement is laid down in Rules 36 to 40 of the Manual and circulars issued by Government of Karnataka from time to time.

A review of AC bills was conducted covering an amount of Rs.21.86 crore drawn on 2830 AC Bills during the period from April 1997 to end of December 2001 by 45 Drawing and Disbursing Officers of four departments[•] in three districts[♣]. Important points noticed in review are brought out in the succeeding paragraphs.

3.2.2 Amounts deposited in Banks

Interest earned of Rs.27.79 lakh was not accounted for by the Director of Medical Education

The Director of Medical Education, Bangalore operated current accounts in two Nationalised Banks (Union Bank of India and State Bank of Mysore) for operating letters of credit in favour of suppliers of medical equipments. The amounts drawn on AC Bills were credited to the current account in the first instance and then transferred to short term deposit account. The payment to the firms was arranged by the banks by debit to the short term deposit account on production of delivery challans accepted by the department. During March 2001 to March 2002, an amount of Rs.14.75 crore drawn on 73 AC Bills was deposited in two banks (State Bank of Mysore – Rs.4.99 crore-4 bills and Union Bank of India –Rs.9.76 crore-69 bills) and operated. However, the interest of Rs.27.79 lakh earned/ accrued on deposits with State Bank of Mysore during the period March 2001 to March 2002 was neither accounted for in the books of Director of Medical Education nor credited to Government Account. The particulars of interest earned on the deposits with Union Bank of India were not available with the Department.

Payment was made to the supplier without ensuring the supply of goods in full

During September 1999, Rs.14.59 lakh drawn on three AC Bills by the Director of Medical Education were deposited in Union Bank of India for operating inland irrevocable documentary credit in favour of a firm for supply

[•] Health and Family Welfare, Medical Education, Revenue and Water Shed Development
[♣] Bangalore (Urban), Bangalore (Rural) and Gulbarga

of five semi-auto analysers. The firm had supplied only three analysers. However, due to lapse on the part of Health Equipment Officer in signing the delivery challan and wrongly indicating acceptance of all the five semi-auto analysers, the bank paid Rs.13.51 lakh to the firm in October 1999. Thereupon, the Director of Medical Education forfeited the bank guarantee of Rs.1.35 lakh provided by the supplier and credited to Government account (July 2002). The unspent balance of Rs.1.08 lakh was lying with the bank.

3.2.3 Drawal of amounts in excess of limits prescribed

(i) When an advance exceeding Rs.1.00 lakh is to be drawn on AC bill, express permission of Government in Finance Department is required to be obtained by the DDOs. However in Revenue Department, nine DDOs drew Rs.1.31 crore on 40 AC bills, each bill exceeding Rs.1.00 lakh without express permission of Government. The Treasury Officers also in violation of the instructions of the Finance Department passed the bills. In Watershed Development Department five DDOs drew Rs.65.18 lakh in February – March 2001 (out of which Rs.37.18 lakh were drawn by two DDOs on 31 March 2001) through 85 AC bills by splitting the bills to avoid recourse to Finance Department for permission and also to avoid lapse of budget grants.

(ii) When amount to be drawn on AC bill exceeds Rs.500, the DDOs are required to obtain sanction of the Controlling Officer and attach the same with the bill. However, in Health and Family Welfare Department, one DDO drew Rs.1.21 lakh on 26 AC bills during the period from November 1999 to December 2001 for amounts in excess of Rs.500 each without obtaining sanction from the Controlling Officer.

3.2.4 Drawal of amounts without mature claims

Rs.34.82 lakh was drawn by DDOs without mature claims

In Medical Education and Health and Family Welfare Services Departments two DDOs drew Rs.32.40 lakh (6 AC bills) and Rs.2.42 lakh (4 AC bills) respectively during March 1997 to March 2000. The amounts were not utilised by the officers and remitted back to the treasury after 12 to 18 months, indicating that the amounts were drawn without mature claims and retained without any purpose. The Director of Medical Education stated that the amounts were drawn for payment towards supply of medical equipments, but the suppliers failed to supply and hence the remittance back to Treasury. The Director of Health and Family Welfare Services stated that the amount drawn on AC bills were remitted back due to non-implementation of the programmes for which the funds were drawn.

3.2.5 Delayed submission of Detailed Contingent Bills

Detailed contingent bills for Rs.8.03 crore were pending submission to the Controlling Officers/ Accountant General (A&E)

As per the provisions of Rule 37(3) of Manual of Contingent Expenditure the Drawing and Disbursing Officers are required to send the detailed Contingent Bills in respect of AC bills drawn by them to their Controlling Officers before the closure of the first week of the following month in which the AC bills were drawn for onward transmission to Accountant General (A&E) by 15th of the same month. Further the DDOs were also required to enclose with their salary bills a certificate issued by the controlling officers to the effect that the detailed bills for all the amounts of AC bills drawn prior to the current month have been rendered.

In the test checked departments, Detailed Contingent Bills for Rs.802.73 lakh were pending submission as detailed below.

Department	No. of DDOs	No. of AC Bills	Amount (Rupees in lakh)	Drawn during
Medical Education	1	31	765.18	September 1999 to March 2001
Watershed Development	3	49	17.66	July 2001 to January 2002
Health and Family Welfare Services	7	80	10.81	November1999 to December 2001
Revenue	4	6	9.08	August 2001 to December 2001
Total	15	166	802.73	

In these cases the Controlling Officers issued the certificate of submission of detailed contingent bills by the DDOs as a matter of routine which enabled the latter to draw their salaries.

Further the detailed contingent bills in respect of 1328 AC bills amounting to Rs.10.74 crore drawn during April 1997 to December 2001 were forwarded by 31 DDOs with a delay of one month to 23 months to the Controlling Officers/Accountant General.

3.2.6 Overall Assessment

Above observations depicted that while DDOs and Controlling Officers did not adhere to the rules for drawal of AC bills and their settlement, the latter issued clearance certificates to DDOs as a matter of routine without proper examination. Large amounts were drawn on AC bills without adhering to the provisions of the manual and the instructions from Finance Department. DC bills were not submitted within the stipulated period to the Controlling Officers for onward transmission to the Accountant General (A&E). As of March 2002, 4489 AC bills for an amount of Rs.7.47 crore for the period prior to 1994-95 and 52784 bills for an amount of Rs.145.56 crore for the period 1995-96 to 2001-02 were pending clearance in the office of the Accountant General (A&E).

3.3 Inspection of Treasuries

The Treasuries and Sub-Treasuries in Karnataka are under the administrative control of the Director of Treasuries, Bangalore. There are 30 District Treasuries, 184 Sub-Treasuries and Stamps Depot, Bangalore in Karnataka State. All the District Treasuries, Sub Treasuries and the Stamps Depot for the year 2000-01 were inspected by the Accountant General (Accounts & Entitlement) during 2001-02 . The following major irregularities and failure in control were noticed during inspection of the Treasuries.

3.3.1 Excess Payment of Family Pension

Under the provisions of Karnataka Government Servants (Family Pension) Rules 1964, when a government servant dies while in service his/her family is entitled to Family Pension at double the normal rate or 50 percent of the pay last drawn by the deceased government servant at the time of death 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 remained alive, which ever is earlier.

Excess payment of Family Pension of Rs.92.32 lakh in 467 cases

In 467 cases, excess payment of family pension of Rs.92.32 lakh was made by public sector banks at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E) (Appendix 3.1).

In five treasuries[1], inspite of pointing out in earlier inspection, the family pension in 44 cases was continued to be paid at higher rate resulting in further excess payment to the tune of Rs.9.33 lakh for the period 1996-97 to 2000-01.

In one case at Bangalore (Urban) treasury the family pension was paid beyond the period authorised by the Accountant General (Accounts & Entitlement) resulting in irregular payment of Rs.1.38 lakh.

Though these irregularities were pointed out repeatedly no effective steps have been taken by the Treasury Officers/Director of Treasuries to stop the excess payments.

The matter was also brought to the special notice of the Principal Secretary to Government, Finance Department, Government of Karnataka every year. He had stated (August 2000) that the concerned Treasury Officers had been instructed to take appropriate action. However, the excess payments continued and recoveries, where due, have not been effected.

3.3.2 Un-encashed Cheques

Under the provisions of Article 75(1) of Karnataka Financial Code, the Treasury Officers are required to prepare on 15th May each year, a list of cheques outstanding for more than twelve months from the date of issue along with the alteration memoranda duly indicating the debit and credit heads of account and render it to the Accountant General for effecting necessary adjustments in the accounts.

Alteration memos for Rs.27.86 crore not furnished by 18 Treasury Officers

18 Treasury Officers did not furnish the alteration memos in respect of un-encashed cheques amounting to Rs.27.86 crore relating to period 1978-79 to 2000-2001, for carrying out necessary adjustments in the accounts.

In two treasuries (Bellary and Davangere) cheques amounting to Rs.9.91 lakh were drawn in favour of Post Masters for issue of National Saving Certificates. The amount represented the deduction from the pay of individual

[1] Bangalore(Urban), Bijapur, Hubli, Mysore and Tumkur.

Government servants. Non-encashment of these cheques and consequent non-investment of the funds caused financial loss to the government servants from whose pay the amounts were deducted. The matter needs urgent corrective action.

3.3.3 Non-receipt of recovery schedules/paid vouchers of General Provident Fund

GPF Schedules for Rs.27.13 crore did not accompany the vouchers sent by 14 Treasury Officers

Recovery schedules in respect of General Provident Fund (GPF) subscription by the Government Servants, for Rs. 27.13 crore (503 cases) did not accompany the vouchers sent by 14 treasuries• during 2000-2001. This resulted in large number of missing credits in the individual accounts of the subscribers besides delay in finalisation of their claims.

Further, vouchers in support of withdrawals from GPF for Rs.5.84 lakh (26 cases) were not received along with the accounts sent by eight treasuries♣. The omission may result in over payment at the time of final settlement of the account of the subscriber. The matter needs urgent corrective action.

3.3.4 Loss of Judical and Non Judicial Stamps worth Rs. 3.52 crore

Stamps/Stamp papers worth Rs.3.52 crore were lost in transit. Loss of revenue – Risk of misuse

The Central Stamp Depot, Nasik Road in January 1999 despatched Judicial and Non Judicial stamps of different denominations to the Stamp Depot Bangalore by rail. However, at the time of taking delivery of the parcels it was noticed that few parcels were in dilapidated condition and one parcel was fully empty and stamps worth Rs. 1.02 crore were missing. The value of stamps short received was worked as Rs. 603 by the Railway Authorities on the basis of the declared value of each parcel and the claims were settled. Similarly, in July 1999, two cases containing non- judicial stamps worth Rs.2.00 crore were found short delivered by the Railway Authorities and the claim was settled for Rs. 1024 based on the gross weight of the parcels. Thus the total face value of stamps lost worked out to Rs.3.02 crore. Complaint had been filed with Division Security Commissioner, Railway Protection Force, South Central Railway, Guntkal.

In order to overcome the loss of stamps in transit, personal delivery of stamps at the declared nodal points was introduced by the Central Depot from October 1998. Necessary instructions in this regard were stated to have been issued by the Deputy Controller of Stamps, Nasik Road to the Deputy Director of Treasuries, Stamp Depot, Bangalore in July 1998. However, the State Government did not pursue. This had resulted in further loss of stamps worth Rs. 3.02 crore with the attendant risk of misuse of stamp papers lost in transit. The nodal points were, however, identified in May 2000.

In District Treasury, Chitradurga, out of 15 boxes containing non judicial stamp papers worth Rs. 35 crore, one box was found damaged and stamp

• Bangalore (U), Bangalore (R), Bangalore – SHT, Bellary, Dakshina Kannada, Dharwad, Gadag, Hassan, Haveri, Hubli, Kolar, Kodagu, Mandya and Udupi.

♣ Bangalore (U), Bangalore (R), Bangalore (SHT), Bellary, Dharwad, Kodagu, Kolar and Mandya papers worth Rs. 0.50 crore were found missing. The compensation paid by Railways towards loss was Rs. 300 based on the value of the box declared at the time of booking. It was reported by the Assistant Security Commissioner, Railway Protection Force, Southern Railways, Mysore (June 1999) that the matter was referred to IG and Chief Security Commissioner, RPF of Central Railway, CST, Mumbai as criminal interference was suspected. Outcome of the investigation was stated to be awaited (November 2001).

FOREST, ENVIRONMENT AND ECOLOGY DEPARTMENT

3.4 Faulty Schedule of Rates prepared by two circles in Wildlife Area

Exorbitant rates provided in SSR of Wild Life Circle, Mysore after reorganisation of Wild life wing resulting in extra expenditure of Rs.1.95 crore to Government

Para 122 of Karnataka Forest Accounts Code stipulates that the Sanctioned Schedule of Rates (SSR) for each Circle should be prepared annually to enable the Divisions to prepare dependable estimates for the works. The Principal Chief Conservator of Forests (PCCF) is required to review the SSR of each Circle and correct abnormalities in rates.

As per the guidelines of Government of India (1976), Government of Karnataka formed a separate Wild Life Wing (May 1992) by readjusting the existing forest Circles, Divisions and Sub-divisions. Accordingly, Field Director, Project Tiger was redesignated as Field Director, Project Tiger and Conservator of Forest, Wild Life South Circle, Mysore (FDPT & COF). The Divisions at Hunsur and Chamarajanagar working under the jurisdiction of the Territorial Circles, were redesignated as Wild Life Divisions and attached to FDPT & COF. The FDPT & COF was later bifurcated into two Circles in 1997, as (i) FDPT, Mysore (ii) Conservator of Forests, Wildlife South Circle, Mysore (COF). Control of the above divisions vested with Conservator of Forests, Wildlife South Circle, Mysore.

The FDPT & COF had prepared and approved SSR for the year 1993-94 (effective from 1 July 1993), which continued to be operated without any revision up to the year 2001-02. This SSR was being followed by COF, Wild Life South Circle, Mysore even after its formation (1997).

A comparison of rates provided in the above SSR (1993-94) of FDPT & COF, Wild Life South Circle, for the items '(i) Formation of new view lines/fire lines and (ii) Maintenance of fire line/D line', with similar items in the SSR of Territorial Circle, Mysore revealed that rates incorporated in the SSR of FDPT & COF, Mysore were higher by 323 to 750 per cent in respect of Maintenance of fire line/D line and 70 per cent in respect of New fire lines, as shown below:

Sl No.	Name of the Division	Item of work	Year of execution	Quantity executed (km)	Rate as per SSR of territorial circles (per km)	Rate as per SSR of FDPT (per km)	Difference in rate (per km)	Percentage of increase	Total amount (Rs)
1	DCF, Wild Life Division, Chamaraja Nagar	Maintenance of fire lines/ D line re-cutting and re-clearing of jungles including grass to a length of 10 mtrs	1993-94	249.00	165.95	1410*	1244.05	750	309768
			1994-95	1124.00	178.55	1410*	1231.45	630	1384149
			1995-96	1723.71	244.60	1410*	1165.40	476	2008812
			1996-97	1726.75	127.25	705**	577.75	454	997630
			1997-98	524.76	289.15	1410*	1120.85	388	588177
			1998-99	519.27	289.15	1410*	1120.85	388	582024
			1999-00	581.15	318.05	1410*	1091.95	343	634587
			2000-01	647.34	333.15	1410*	1076.85	323	697088
2		New fire lines	1999-00	93.20	1939.00	3299	1360.00	70	126752
3	DCF, Wild Life Division, Hunsur	Maintenance of fire lines etc	1993-94	1100.45	165.95	1410*	1244.05	750	1369015
			1994-95	779.05	178.55	1410*	1231.45	690	959361
			1995-96	577.32	244.60	1410*	1165.40	476	672809
			1996-97	1373.21	244.60	1410*	1165.40	476	1600339
			1997-98	1877.90	289.15	1410*	1120.85	388	2104844
			1998-99	1843.32	289.15	1410*	1120.85	388	2066085
			1999-00	1103.90	318.05	1410*	1091.95	343	1205404
			2000-01	2025.48	333.15	1410*	1076.85	323	2181138
								GRAND TOTAL	19487982

* Rate for thick growth   ** Rate for thin growth

The higher rates provided in SSR of FDPT&COF resulted in extra expenditure of Rs.1.95 crore between 1994-2001, as detailed above. On this being pointed out (August 1997 and January 2001), the department replied that the works in Wild Life area were comparatively more intense and difficult and having independent rates was justified. The reply is not acceptable because:

(i) Prior to redesignating (1992) of Hunsur and Chamarajanagar Divisions as Wild Life Divisions, these Divisions were carrying out the same items of work as per the SSR of respective Territorial Circles and one Sub-division (Wild Life Sub-division, Mysore) under the control of COF, Wild Life South Circle, Mysore had adopted the rates of the Territorial Circle, Mysore instead of higher rates for these items of work.

(ii) Other Wild Life Divisions in Shimoga, Chickmagalur and Dandeli were executing these works as per the rates in the SSR of their respective Territorial Circles.

(iii) The rates fixed in 1993-94 had continued unchanged upto 2001-02 indicated that the original rates were abnormally high.

It is added here that the data rate analysis while fixing the rate in 1993-94 was not made available to audit on the plea that the file was misplaced. Further, the PCCF had not reviewed the SSR of 1993-94 as required under Code ibid with the result that the fixation of higher rates for these items of work continued unchecked.

The matter was referred to Government in April 2002 and their reply is not received (November 2002).

3.5 Unapproved Higher Specifications led to Wasteful Expenditure

Execution of Elephant Proof Trenches of higher specifications, in Bannerghatta National Park, resulted in wasteful expenditure of Rs.23 lakh

Deputy Conservator of Forest, Bannerghatta National Park, (DCF, BNP), in violation of the specification incorporated in the Sanctioned Schedule of Rates (SSR) for excavation of Elephant Proof Trenches[1] (EPT) excavated the EPT (1999-2001) for a length of 44651 Rmtr, at a total cost of Rs.79.37 lakh[2] (Rs.31.60 per cmtr), with higher dimensions. This resulted in excess excavation of 72558 cmtr, involving wasteful expenditure of Rs.22.93 lakh as detailed below:

Norms for EPT (Metre)		EPT executed (Metre)		Length of EPT executed (Rmtr)	Quantity as per norms (cmtr)	Quantity executed (cmtr)	Excess quantity executed (cmtr)	Excess expenditure (Rs. in lakh)
Top	3	Top	3.0					
Bottom	1	Bottom	1.5	44651	178604	251162	72558	22.93
Depth	2	Depth	2.5					

On this being pointed out, the DCF, BNP replied (March 2001) that EPTs with the specified dimension for trenches were found ineffective to prevent crop depredation by elephants and hence EPTs with higher dimensions were excavated. However, it was observed that the Departmental Committee, which gives technical approval to the SSR had rejected (November 2001) such a proposal for higher dimensions, stating that the specifications in the SSR were quite reasonable and effective and that the higher specification sought for by the DCF, BNP was not in vogue in the State. Further, the Action Plan for Project Elephant also stated that the specifications for EPT prescribed in the SSR had been effective.

Thus, the expenditure of Rs.22.93 lakh on additional excavation of EPT with higher dimensions was wasteful.

The matter was referred to Government in April 2002 and reply is awaited (November 2002).

Outstanding Inspection Reports/Audit observations

3.6 Lack of response by Government to Audit observations

Accountant General (Audit) – AG (Audit) conducts periodical inspection of the Government departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules

[1] Digging of trenches with a view to protect standing crops from elephant menace
[2] Includes pending bills of Rs.4.83 lakh.

and procedures highlighting cases of financial irregularities, fraud, misappropriation etc. These inspections are followed by Inspection Reports (IRs), issued to the Heads of offices inspected with copy to next higher authorities. Government rules provide for prompt response by the Executive to the IRs to ensure corrective action and accountability for the deficiencies, lapses, etc., noticed. Serious irregularities are also brought to the notice of Heads of Department by the Office of the AG (Audit). A half-yearly report of pending inspection reports is sent to the Secretary of the Department to facilitate monitoring.

Out of Inspection Reports issued up to March 2002 pertaining to 78 offices of Forest Department (Assistant Conservator of Forests – 3; Deputy Conservator of Forests – 56; Conservator of Forests – 10; Chief Conservator of Forests – 6 and Principal Chief Conservator of Forests – 3), 1215 paragraphs relating to 342 IRs remained outstanding as at the end of June 2002. Of these, 71 IRs containing 97 paragraphs had not been settled for more than 10 years. Year wise position of the outstanding IRs and paragraphs are detailed below.

Year	Inspection Reports	Paragraphs
Up to 1991-92	71	97
1992-93	32	61
1993-94	32	64
1994-95	27	54
1995-96	25	56
1996-97	31	127
1997-98	16	51
1998-99	25	148
1999-2000	43	321
2000-01	38	221
2001-02	2	15
TOTAL	342	1215

A review of pending IRs revealed that the response of the Department in submitting the replies was very poor, and even where submitted, the replies were incomplete as a result of which these paragraphs could not be settled. Even the initial replies, which were required to be received from the Heads of offices within six weeks from the date of issue, were not received in respect of 34 IRs out of 45 IRs issued between April 2001 and March 2002. Due to this failure, the following irregularities commented upon in these IRs had not been settled as of July 2002.

Serial No.	Nature of irregularities	Number of paragraphs	Amount (Rupees in crore)
1	Extra/excess/infructuous/wasteful/unauthorised/irregular expenditure	254	29.63
2	Irregularities in respect of acceptance of tenders/quotations	4	0.16
3	Losses due to deterioration, shortages, thefts etc., awaiting regularisation	13	0.86
4	Irregular expenditure on purchase/purchase of defective machinery	71	6.72
5	Other miscellaneous irregularities	873	42.79
	TOTAL	1215	80.16

Government failed to examine the matter and ensure that procedure is strictly followed and initiate (a) action against the officials who had failed to send replies to IRs/paragraphs as per the prescribed time schedule, (b) action to recover loss/outstanding advances/over payments in a time bound manner.

HEALTH AND FAMILY WELFARE DEPARTMENT

3.7 Undue favour to a supplier firm

Improper rejection of the lowest tenderer in the purchase of sterile water for injection resulted in undue favour to the firm

Joint Director, Government Medical Stores, Bangalore invited (March 1998) tenders for supply of various drugs, chemicals etc., which included "10 ml sterile water for injection in machine made ampoules". Therapeutic Expert Committee and High Power Committee evaluated the following tenders.

Name of the firm♦	Rate per ampoule	Specification
A	Rs.1.40	10 ml sterile water for injection in man made glass ampoules
B	Rs.1.89	10 ml sterile water for injection in machine made glass ampoules
C	Rs.0.81	10 ml sterile water for injection in FFS machine made plastic ampoules

Expert Committee recommended the offer of firm B while High Power Committee observed that Form Fill Sealed (FFS) plastic ampoules were superior, unbreakable and the same were in use in super speciality hospitals but recommended for retendering. However, State Government approved (October 1999) the tender of firm B on the ground that tender specification stipulated supply of sterile water in machine made glass ampoules which was factually incorrect. Further, it was stated that the rate of Rs.0.81 per ampoule offered by firm C, was much lower than the rate of Rs.1.82 quoted by the same firm for India Population Project and the lower rate was only intended to catch the attention of Government.

It was, however, observed in audit that tender documents did not specifically indicate whether container for sterile water should be of glass or plastic. Also, plastic ampoules were used under India Population Project. If the rate quoted by firm C was considered as unworkable by State Government, the right course of action was to retender as recommended by High Power Committee and as required under codal provisions. Therefore, the decision of State Government to place the order on firm B was improper and resulted in extra expenditure of Rs.73 lakh on purchase of 67.59 lakh ampoules during December 1999 to September 2001 at higher rate.

♦ A - Mount Mettur Pharmaceuticals Limited, Chennai
B - Anand Pharmaceuticals, Mudhol
C - Core Health Care Limited, Ahmedabad

The matter was referred to Government in March 2002; reply has not been received (November 2002).

3.8 Erroneous evaluation of bids for supply of ophthalmic equipment

Inequitable decision of the High Power Committee in the evaluation of bids favoured a firm and resulted in extra expenditure of Rs.42.25 lakh on the purchase of ophthalmic equipment

Government of India released (November 1999) grant of Rs.1.32 crore to State Government for purchase of ophthalmic equipment (equipment) under the Centrally sponsored "National Programme for Control of Blindness" (NPCB). While releasing funds, it was stipulated that the prescribed procedure under Karnataka Health System Development Project was to be followed for the procurement of ophthalmic equipment under NPCB also, and fixed unit cost for various items of equipment.

Director of Health and Family Welfare Services invited (June 2000) bids for supply and erection of ophthalmic equipment prescribing inter alia that bidders were to quote comprehensive Annual Maintenance Charges (AMC) for three years and would be responsible for payment of all taxes and duties.

In respect of two items of equipment, viz., Ultrasonic 'A' Scan Bio Meter and Slit Lamp Bio Microscope, out of seven and five bids received, High Power Committee (HPC) rejected six and four bids respectively treating them as non responsive and approved the lone bid of firm 'C' for both the items.

Rate quoted by firm 'C' was abnormally higher than unit cost fixed by Government of India and did not compare well with the quotations of firms 'A' & 'B' as detailed below:

(In Rupees)

Name of the equipment	Quantity	Unit cost fixed by Government of India	Accepted rate of Firm C✚	Rate quoted by	
				Firm A*	Firm B♣
Ultrasonic 'A' scan Bio meter	26	150000	165608	119115	-
Slit lamp Bio Microscope	22	30000	167000 (included AMC)	-	35100 (included AMC for labour only)

Scrutiny of documents for purchase of Ultrasonic 'A' scan Bio Meter revealed that firm 'A' had indicated the price exclusive of customs duty as this equipment was exempt from customs duty on the date of filing the bid, while Firm 'C' indicated their quoted rates was only exclusive of Sales Tax. For this reason HPC treated Firm 'A' as non responsive bidder and approved the offer

✚ Bio-medix Opto Technik & Devices (P) Ltd

* Stesalite Limited

♣ Appaswamy Instruments Associates

of firm ‘C’. Since both bidders (A & C) had included conditions of similar nature, to treat only firm ‘A’ as non responsive was improper. This resulted in extra expenditure of Rs.12.09 lakh on purchase of 26 numbers of the equipment. It was also seen that ultimately no customs duty was paid which means the rate of ‘C’ was higher.

In the case of Slit Lamp Bio Microscope, Firm ‘B’ had quoted a price comparable to the price fixed by Government of India. Though the decision of HPC treating the offer of Firm ‘B’ as non responsive because of quotation for AMC for labour only was correct, Firm ‘B’ fulfilled all other conditions. The rate quoted by Firm C for this equipment was abnormally high when compared with the unit cost fixed by Government of India. HPC should have rejected the bid of Firm ‘C’ considering unreasonableness of rate. However, HPC favoured Firm ‘C’ by accepting its unreasonably high rate and incurred extra expenditure of Rs.30.16 lakh[*] on 22 numbers of equipment.

The matter was referred to Government in March 2002; reply had not been received.

HOME DEPARTMENT

3.9 Failure to recover security and escort charges

Security and escort charges of Rs.5.35 crore due as of July 2002 had not been recovered from user departments/organisations

Police personnel of State Government are deployed, on request, to various departments, autonomous bodies/organisations of State and Central Government for providing security and escort services. The concerned departments/organisations are to pay charges at the rate prescribed by State Government for such services. According to instructions issued (August 1991) by Director General and Inspector General of Police, Bangalore (DG&IGP), every unit office (such as Office of Superintendent of Police, Deputy Superintendent of Police, etc) from where police personnel are deployed for providing security/escort services, is to maintain a demand and collection register and raise demand against user departments/agencies every month before 5th of succeeding month and collect the charges within a

[*] Total cost of 22 Slit lamp Bio Microscope as quoted by firm C = Rs.28.60 lakh
AMC = Rs.8.14 lakh (28.46 per cent)
Total = Rs.36.74 lakh
Add 4 per cent sales tax = Rs. 1.47 lakh
Rs.38.21 lakh
Total cost of 22 Slit lamp Bio Microscope as quoted by firm B = Rs.6.27 lakh
AMC at 28.46 per cent = Rs.1.78 lakh
Total = Rs.8.05 lakh
Extra cost = Rs.38.21 lakh - Rs.8.05 lakh = Rs.30.16 lakh

fortnight of raising such demand. Extract of monthly demand, collection and balance was also to be sent to DG&IGP by 10th of the succeeding month.

Scrutiny of records in five unit offices and DG&IGP revealed that as against Rs.6.74 crore due, only Rs.1.39 crore (July 2002) was recovered as detailed below:

(Rupees in crore)

Sl.No.	Department/Organisation	Amount due	Amount recovered	Balance due
1.	Airport Authority of India	4.92	0.52	4.40
2.	All India Radio	0.24	--	0.24
3.	Nationalised Banks	1.03	0.87	0.16
4.	Archeological Survey of India	0.09	--	0.09
5.	Other non-Government Organisations	0.46	--	0.46
	Total	6.74	1.39	5.35

Reasons for failure to recover the charges of Rs.5.35 crore and details of action taken for the recovery were not furnished to audit. Recovery of security/ escort charges was not monitored effectively.

The matter was referred to Government in March 2002; reply had not been received (November 2002).

PRE-UNIVERSITY EDUCATION DEPARTMENT

3.10 Irregular release of grant-in-aid

531 out of 2083❖ junior colleges in the State conducting Pre-University Course (PUC), received salary grant from the Department of Pre-University Education (Department) headed by the Director. State Government had prescribed (April 1971) norms for junior colleges to quantify the grant admissible on the basis of accommodation facilities, staff strength, library and laboratory facilities etc. Deputy Directors (DDs) at the district level were to inspect and validate the junior colleges for their continued eligibility for grant-in-aid. The records of the Director/Deputy Directors in 7☒ districts and 128 junior colleges out of 531 colleges pertaining to the period 1996-2002 were test-checked (March 2002 to May 2002).

Private colleges without basic facilities received grant-in-aid of Rs.20.48 crore from Government

According to norms, building accommodation was to consist of lecture hall, library room, staff room, Principal room and reading room each measuring 22 feet by 30 feet and Practical hall measuring 25 feet by 45 feet. Building accommodation did not conform to these norms in respect of 30 junior colleges as dimensions of rooms were much lower. Other facilities like playground, sanitation and electrification were also not available in several junior colleges as detailed below:

❖ Government colleges-689, Unaided colleges-678, aided private colleges -705 and others-11 as of March 2002

☒ Bangalore (Urban), Belgaum, Bijapur, Davanagere, Gulbarga, Haveri and Tumkur

Facility prescribed	Number of colleges not having the facility
Play ground	18
Laboratory equipment	06
Water supply	05
Sanitation	07
Electrification/ventilation	10
Building Accommodation	30

Despite non-availability of these basic facilities, these 30 junior colleges continued to receive grant-in-aid aggregating Rs.20.48 crore during 1996-97 to 2001-02. Evidently, the DDs failed to inspect these institutions and report the ineligibility for grant-in-aid. While other DDs did not furnish any reply, DD, Gulbarga stated (May 2002) that he did not inspect the junior colleges under his control due to lack of staff and specific guidelines from the Director. The reply was not tenable as Director had prescribed inspection by DDs in April 1997 and lack of staff was not an excuse for not inspecting any of the aided colleges over a period of time.

Further, as per guidelines (October 1979) and instructions (September 1997), number of teachers admissible vis-a-vis student strength was as follows:

Number of teachers admissible	Minimum student strength
1	40 in a Section for Science Combination*
1	40 in a Section for Arts and Commerce Combination*
1 for each language	10 students in each language
2	301 to 640 for all sections in both PUC I and II year•
3	641 and above for all sections in both PUC I and II year

* Maximum students not to exceed 90 in a section

• Where student strength of all sections of PUC I and II year range between 301 to 640 and above 640, two and three teachers respectively were admissible

Scrutiny revealed the following:

(a) In respect of 11 colleges, salary grant of Rs.1.69 crore for 30 teachers was released although, the condition of 40 students in a section was not fulfilled.

Grant-in-aid of Rs.3.49 crore was released for salary of excess teachers/ staff in 31 junior colleges

(b) In respect of 6 colleges, salary grant of Rs.0.33 crore for 6 language teachers was released although the required norm of 10 students was not attained.

(c) In respect of 9 colleges, salary grant of Rs.1.26 crore for 28 excess teachers was released without adhering to the norm of one additional teacher in each language/elective subject for 301 students in the combined strength of PUC I & II years.

(d) In 5 other colleges, salary grant of Rs.0.21 crore for 8 posts of non-teaching staff in excess of the scale prescribed was released.

Thus, failure to apply the norms/guidelines resulted in irregular release of salary grant of Rs.3.49 crore to 31 aided colleges. Director also failed to ensure inspection of grant-in-aid colleges by the DDs. This resulted in continued subversion of controls in the administration of grant-in-aid.

Director stated (July 2002) that most of the colleges referred to were located in rural areas and run by SC/ST/Religious Minority Groups and sufficient time was required for improvement of their infrastructural facilities and student strength. The contention was not tenable as the rules for release of grant-in-aid were subverted and there was no scope for any relaxation of norms.

The matter was referred to Government in July 2002; reply had not been received (November 2002).

REVENUE DEPARTMENT

3.11 Fraudulent payment of rehabilitation grant

Fraudulent payment of rehabilitation grant of Rs.14.70 lakh on account of faulty dates of birth in the transfer certificates

Government of India sanctioned (1986) establishment of Naval Base called Sea Bird in Uttara Kannada district. State Government sanctioned from time to time (April 1989 to September 2000) several packages for rehabilitation and resettlement of families whose land was acquired for establishing naval base. These packages as modified during August 1998 inter alia provided for payment of rehabilitation grant (grant) of Rs.70000 to each adult member of affected families subject to a maximum of 2 adult members in each family whose age was 18 years or above as on 31 December 1997. The General Manager, Land Acquisition and Resettlement, Naval Base, Karwar (GM) sanctioned grant on the basis of transfer certificates (TCs) issued by the Head Masters of the schools. Following oral complaints on the veracity of such certificates, GM stayed sanction in certain cases but Special Tahsildar released the grants as reported (April 2002) by Deputy Commissioner, Karwar. Consequently, GM did not arrange further verification. In respect of 21 out of 400 cases reviewed in audit (March 2002 to April 2002) the following lapses/irregularities were noticed.

(i) TCs produced by 15 persons were found to be fictitious as these persons had never been admitted to the school from where TCs were obtained, as confirmed by Headmasters of those schools.

(ii) In six cases, the age of claimants was less than 18 years as on 31 December 1997.

Failure of GM/Special Tahsildar, Karwar to ensure the correctness of date of birth mentioned in TCs resulted in fraudulent payment of Rs.14.70 lakh in 21 cases.

The Deputy Commissioner, Karwar stated (July 2002) that in seven cases the TC issued by the schools were found to be false. In other cases, investigation was yet to be initiated.

The matter was referred to Government in March 2002; reply had not been received (November 2002).

3.12 Excess transfer of Additional Stamp Duty to Urban Local Bodies in Bangalore District (Urban)

Failure of State Government to monitor transfer of Additional Stamp Duty to Urban Local Bodies facilitated misuse of authority and District Registrar transferred Rs.239.84 crore in excess

Karnataka Panchayat Raj Act 1993 and Karnataka Municipality Act 1964 (Act) inter alia provided levy of Additional Stamp Duty (ASD) under Karnataka Stamps Act 1957. ASD was leviable upto July 1997 at 1 per cent of value in Municipal areas. ASD was increased to 2 per cent from August 1997.

According to procedure prescribed, Sub-Registrars were to furnish to District Registrar, a quarterly report indicating inter alia ASD collected in respect of each Municipal area. The District Registrar was to authorise transfer of ASD so collected in each quarter to concerned District Treasury Officer (DTO) and Chief Officer (CO) of City Municipal Council (CMC)/Town Municipal Council (TMC). The CO thereafter preferred the claim for transfer of ASD to Personal Deposit (PD) account of CMC/TMC. The District Registrar was to maintain a check register indicating the amount of ASD collected, transferred, date of transfer etc., in respect of each CMC/TMC and also monitor the transfer of ASD against budget provisions.

During central audit of payment vouchers of ASD and scrutiny of records in the Office of District Registrar/Sub-Registrar and District Treasury, Bangalore and CMC Pattanagere during October 2001 to January 2002, the following lapses and irregularities were revealed:

(i) Though the District Registrar was to maintain records/accounts regarding ASD collected and transferred, he failed to keep any records/accounts. District Registrar did not maintain Check Register also.

(ii) Sub-Registrars levied ASD at 3 per cent as against permissible rate of one per cent upto July 1997. ASD was levied at 2 per cent from August 1997. State Government decided (December 1998, January 1999) to transfer the entire ASD collected at 3 per cent upto July 1997, and at 2 per cent thereafter. Following the decision (December 1998 and January 1999) of State Government, District Registrar issued authorisations for transfer of ASD in arbitrary manner. Details of ASD collected, transferred during 1994-95 to 2000-01 as compiled by audit on the basis of details obtained from District Treasury, Sub-Registrars were as follows:

(Rupees in crore)

Sl.No.	Municipalities	ASD collected	ASD transferred	Excess
1.	Krishnarajapuram	9.33	76.40	67.07
2.	Mahadevapura	5.66	39.62	33.96
3.	Bommanahally	15.32	30.10	14.78
4.	Pattanagere	14.39	40.34	25.95
5.	Dasarahally	6.18	33.97	27.79
6.	Byatarayanapura	3.38	40.25	36.87
7.	Yelahanka	1.46	26.54	25.08
8.	TMC,Kengeri	1.60	9.94	8.34
	Total	57.32	297.16	239.84

Thus, unauthorised and excess ASD of Rs.239.84 crore was transferred during 1994-95 to 2000-01.

(iii) On one day i.e., 5 June 2000, 21 authorisations were issued for Rs.15.02 crore covering 2 to 13 months in each authorisation. It was seen ASD was authorised more than once for the same month on several occasions as illustrated below:

Period	Number of times authorised/transferred
December 1994 and June 1995	5 times each for two months
January to April 1995 and July 1995	4 times each for five months
July to November 1994 and August-October 1995	3 times each for nine months

(iv) State Government/Inspector General of Registration & Commissioner for Stamps (IGR&CS) did not prescribe any periodical returns to be furnished by District Registrar indicating ASD collected and transferred to CMCs/TMC. Even basic data regarding amount of ASD authorised/ transferred was not available with IGR&CS. Also, IGR&CS did not monitor payments of ASD against budget provision. This resulted in excess transfer over the budget estimates of successive years as indicated below:

(Rupees in crore)

Year	Budget estimates	ASD transferred to CMCs/TMC	Excess over Budget estimates	Percentage of excess
1998-1999	44.60	100.46	55.86	125
1999-2000	9.22	170.94	161.72	1754
2000-2001	10.65	247.60	236.95	2224

(v) ASD excess transferred to these eight CMCs/TMC alone constituted 46 per cent[*] of the total of Rs.519 crore transferred to all local/urban bodies in the entire state during 1998-99 and 2000-01. Thus, IGR&CS grossly neglected monitoring of transfer of ASD with reference to Budget provision and actual amount collected. Absence of monitoring facilitated misuse of authority by the District Registrar.

(vi) Though expenditure reported to Finance Department under various Heads of Account included inter alia payment made to local bodies towards ASD under the Head of Account 030 - Stamp Duty indicated huge excess, no action

[*] Total ASD transferred for entire state - Rs.519 crore
Total ASD transferred to 8 CMCs/TMC - Rs.239.84 crore
Percentage of ASD transferred to 8CMCs/TMC - 46

was taken by the Finance Department to investigate the same. Payment of ASD to local bodies was also reflected in Finance Accounts.

The matter was referred to State Government in May 2001. No reply had been received so far (November 2002). However, State Government suspended (October 2001) four officers pending further enquiry. Details of progress of enquiry had not been furnished.

LABOUR DEPARTMENT

3.13 Irregular purchases of tools and equipment at exorbitant rates

Director bypassed the tender procedure and purchased huge quantities of tools and equipment from shortlisted suppliers resulting in wasteful expenditure of Rs.5.92 crore

Government constituted (September 1991) a Purchase Committee in the Directorate of Employment and Training with Director as Chairman to handle large scale purchases of tools and equipment required for Industrial Training Institutes (ITIs). For Purchases costing Rs.10000 and above the Purchase Committee was to invite open tenders and make selection for registration and short-listing of suppliers before placing orders for supplies. However, scrutiny revealed sub-version of this procedure by the Director who made huge purchases during 2000-01 at exorbitant rates by resorting to quotation system from 10 to 15 suppliers arbitrarily short-listed by him out of 51 firms registered with Directorate. Open tender system was not followed at any stage of the purchase process.

Director purchased tools and equipment costing Rs.18.33 crore as approved by Purchase Committee during July 2000 to March 2001 for use in 94 ITIs. Purchase of 28 items of equipment at a cost of Rs.9.80 crore were test-checked. Quantity ordered in respect of each of these 28 equipment ranged from 7 to 581. Failure of Director to follow open tender system and arbitrary short listing of suppliers resulted in purchase of tools and equipment at exorbitant rates and excess payment of Rs.5.92 crore as detailed below:

(i) In respect of 4 items costing Rs.2.27 crore, price paid by the Director based on lowest quotations was 45 to 326 per cent higher than those offered by Karnataka State Forest Industries Corporation, Bangalore and Karnataka State Electronics Development Corporation, Bangalore. The excess payments aggregated Rs.1.28 crore.

(ii) In respect of 2 items costing Rs.73.54 lakh, price paid respectively was 432 and 544 per cent higher than those paid by a private ITI receiving grant-in-aid from State Government resulting in excess payment of Rs.61.00 lakh.

(iii) In respect of 18 items (cost Rs.6.10 crore) price paid was 9 to 601 percent higher than the market price of these items resulting in excess payment of Rs.3.32 crore.

(iv) In respect of 4 items (cost Rs.68.50 lakh) both Audit and Stores Purchase Department of Government ascertained the market rates separately. The price paid was 136 to 1140 per cent higher resulting in excess payment of Rs.54.32 lakh as per market rates ascertained by stores purchase department.

(v) In respect of another 19 items of equipment for which the Stores Purchase Department ascertained the market rate, the price paid by Director exceeded the market rate by 16 to 555 per cent resulting in excess payment of Rs.17.31 lakh.

Details of these purchases are furnished in Appendix 3.2.

Besides, 13 firms bagged the contracts for supply of 28 equipment based on their lowest quotations. The following firms with the same addresses bagged contracts valued Rs.1.79 crore.

(a) Advantage Electricals, Bangalore and Imations (Private) Limited, Bangalore
(b) Instrument House, Bangalore and Instruments and Systems, Bangalore

Thus, possibility of a syndicated operation cannot be ruled out.

From the above, it was evident that materials were purchased in violation of rules and public funds were wasted. State Government stated (August 2002) that a decision had been taken to initiate disciplinary action against the Director and request Lokayuktha for further enquiry.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

3.14 Diversion of grant released by Government of India in terms of Tenth Finance Commission

State Government, in violation of norms, diverted grants for payment of electricity bills

In conformity with recommendations of Tenth Finance Commission, Government of India released (March 2000) grant of Rs.110.89 crore pertaining to years 1998-99 and 1999-2000 to State Government to supplement the resources of Panchayat Raj Institutions and the grant was to be utilised for development of infrastructure like roads, drains, environment sanitation, drinking water etc. State Government released the same to 27 Zilla Panchayats during March 2000 (Rs.55.44 crore) and August 2000 (Rs.55.45

crore). Though the grant was required to be utilised for development of infrastructure, Secretary, Rural Development and Panchayat Raj Department issued (July 2000) instructions to Chief Executive Officers of Zilla Panchayats to utilise these funds to pay pending power bills in respect of street lights and water supply. In respect of 27 Zilla Panchayats, Rs.40.87 crore out of Rs.69.88 crore of these grants were diverted (October 2000 to December 2000) for payment of bills of street lights and water supply. The diversion of the grant was violative of the prescribed norms which resulted in denial of funds for infrastructure development.

State Government stated (September 2001) that decision was taken to pay pending electricity bills out of Tenth Finance Commission grants as supply of water was part of infrastructure work. The reply was not tenable as payment of electricity bills was a foreseen, recurring and non-plan expenditure and this was not covered within the scope of activities defined by Government of India for improving physical infrastructure.

GENERAL

3.15 Misappropriations, losses, defalcations, miscellaneous irregularities, etc.

At the end of September 2002, 295 cases of misappropriations, embezzlements etc., involving a sum of Rs.15.63 crore relating to periods upto September 2002 were outstanding as shown below:

	Number of cases	Amount (Rupees in lakh)
Cases as on 30 September 2001	273	1339.48
Cases reported during 1 October 2001 to 30 September 2002	23	223.74
Cases disposed during 1 October 2001 to 30 September 2002	1	0.23
Cases outstanding as on 30 September 2002	295	1562.99

The year-wise break-up of the outstanding cases is furnished hereunder:

Year	Number of cases	Amount (Rupees in lakh)
Upto 1996-97	165	308.21
1997-1998	33	531.39
1998-1999	40	270.37
1999-2000	19	89.22
2000-2001	15	140.06
2001-2002	23	223.74
Total	295	1562.99

Department-wise details of 295 cases are given in Appendix-3.3. Out of 295 outstanding cases, while 186 cases were awaiting completion of investigation, 20 cases were pending in courts and action initiated was not intimated in the remaining 89 cases, involving a sum of Rs.3.10 crore.

3.16 Follow-up on Audit Reports

According to the Hand Book of Instructions (Finance Department) for speedy disposal of audit paragraphs and Rules of procedure (Internal working), 1995 of Public Accounts Committee, all the departments of Government should prepare and send to the Karnataka Legislature Secretariat detailed explanations i.e., Action Taken Notes (ATNs) on the audit paragraphs featured in audit report within four months of its being laid on the table of Legislature duly furnishing copies of these explanations to Audit as well.

It was however, noticed that though the Audit Reports for the years 1994-95, 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000 and 2000-01 were presented to the State legislature on 12 June 1996, 27 March 1997, 14 May 1998, 1 July 1999, 3 May 2000, 24 July 2001 and 22 March 2002 respectively, a few Departments had not submitted ATNs as of October 2002, as detailed in Appendix-3.4.

In respect of the following important irregularities which featured in the Audit Reports 1997-98, 1998-99 and 1999-2000, ATNs have not been received even after a lapse of 10 to 34 months.

Audit Report 1997-98

1. Horticulture Department

3.3 Review on working of Horticulture Department

Misappropriation of Government Funds to the extent of Rs.3.36 crore by Shri Pandit Noola, incharge Assistant Director of Horticulture, Narayanpur during April 1994 to May 1997. ATNs have not been received. Results of Lokayukta enquiry initiated in July 1997 are also awaited (September 2002).

Audit Report 1998-99

2. Social Welfare Department

3.16 Fictitious payment of scholarships

District Social Welfare Officer, Bangalore Urban District failed to 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. ATNs have not been received.

Audit Report 1998-99

3. Public Works Department (National Highways)

5.4 Shortages in Stores and Stock account in National Highway Division

Divisional Officer failed to conduct proper checks at the time of physical verification and to monitor submission of half-yearly return of stores resulting in shortage of store articles valued Rs.64.66 lakh. ATNs not received.

Audit Report 1999-2000

4. Youth Services and Sports Department

3.2 Fourth National Games

State Government conducted fourth National Games during May-June 1997. Due to delay in providing budgetary support by State Government, major part of expenditure was met through overdrafts availed from Banks resulting in fruitless payment of interest of Rs.18.59 crore. ATNs have not been received.

5. Irrigation Department

4.2 Unproductive outlay on Irrigation Project

Non-synchronisation of dam and canal work and failure to acquire land in Chiklihole Project rendered expenditure of Rs.15.06 crore unproductive. ATNs have not been received.

3.17 Outstanding Inspection Reports

Lack of responsiveness of Government to audit

Accountant General (Audit) (AG) arranges to conduct periodical inspection of the Government Departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). When important irregularities detected during inspection are not settled on the spot, these IRs are issued to the Heads of Offices inspected with a copy to the next higher authorities. The Hand book of Instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the IRs issued by the AG 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 and rectify the defects and omissions promptly and report their compliance to the AG.

A half-yearly report of pending IRs is sent to the Secretary of the Department to facilitate monitoring of the audit observations in the pending IRs.

Details of the outstanding IRs and paragraphs relating to Medical Education and Police Department are as follows:

Year	Number of IRs		Number of paragraphs	
	Medical Education	Police	Medical Education	Police
Upto 1992-1993	28	58	43	145
1993-1994	09	12	16	35
1994-1995	02	11	06	45
1995-1996	11	4	30	20
1996-1997	05	17	13	93
1997-1998	09	13	42	57
1998-1999	12	13	73	96
1999-2000	17	37	126	345
2000-2001	10	20	112	161
2001-2002	05	02	50	15
Total	**108**	**187**	**511**	**1012**

As seen from the table, 511 paragraphs relating to 108 IRs and 1012 paragraphs relating to 187 IRs issued to Medical Education Department and Police Department respectively were outstanding at the end of June 2002. Of these 28 IRs containing 43 paragraphs and 58 IRs containing 145 paragraphs respectively had not been replied for more than 10 years. Even the initial replies have not been received in respect of 196 paragraphs of 18 IRs (5 IRs issued during 2001-02), 753 paragraphs of 60 IRs (27 IRs issued during 2001-02) issued to Medical Education and Police Departments respectively.

As a result, the following serious irregularities commented upon in these IRs had not been settled as of May 2002:

Sl. No.	Nature of irregularities	Department of Medical Education		Police Department	
		Number of paragraphs	Amount (Rupees in lakh)	Number of paragraphs	Amount (Rupees in lakh)
1.	Improper maintenance of initial records, and records of reconciliation with treasury etc.	33	116.80	72	81.27
2.	Extra/infructuous and unauthorised/irregular expenditure	117	842.74	95	303.88
3.	Irregular purchase of defective machinery	44	336.56	84	664.37
4.	Withdrawal of funds to avoid lapse of grants and blocking up of Government capital	27	814.94	31	338.14
5.	Over payment/misutilisation of grants, loans and subsidies	15	41.10	21	1126.04
6.	Wanting payees' receipts/Utilisation Certificates and non-receipt of completion certificates of buildings	03	11.95	63	619.20
7.	Objection relating to service registers of Government servants	16	0.31	239	51.97
8.	Non-furnishing of NDC bills	06	508.77	8	385.58
9.	Misappropriations, losses, defalcations, etc.	04	4.71	10	110.83
10.	Miscellaneous	246	1365.78	389	3617.19
	Total	511	4043.66	1012	7298.47

A review of the IRs which were pending due to non-receipt of replies, in respect of the above two departments revealed that the Heads of Offices whose records were inspected by AG, the Director of Medical Education and the Director General and Inspector General of Police failed to discharge due responsibility as they did not send any reply to a large number of IRs/ paragraphs indicating their failure to initiate action in regard to the defects, omissions and irregularities pointed out in the IRs of the AG.

The above also indicated inaction against the defaulting officers thereby facilitating the continuation of serious financial irregularities and loss to the Government though these were pointed out in Audit.

It is recommended that Government should have a re-look into this matter and ensure that procedure exists for (a) action against the officials who failed to send replies to the IRs/paras as per the prescribed time schedule, (b) action to recover loss/over payment in a time bound manner and (c) revamping the system of proper response to the audit observations in the department.