

OVERVIEW

This Report contains Seven chapters of which the first two contain the observations on the Accounts of the State Government for 2001-02 and the other five contain audit comments in the form of 3 reviews and 40 paragraphs on selected schemes and programmes and financial transactions of the Government. A synopsis of the findings contained in the reviews and more important paragraphs is presented in this overview.

1. An overview of the finances of the State Government

For the year 2001-02 the revenue deficit was Rs. 3284.45 crore compared to Rs.1862.23 crore in 2000-01. The increased deficit was mainly on account of release of more subsidies to Karnataka Power Transmission Corporation Limited.

The amount received as State's share of Union Taxes, Duties and Grants-in-aid and contributions increased from Rs.2937.12 crore in 1997-98 to Rs.4374.56 crore in 2001-02 an increase of 49 per cent. But as a share of revenue receipts of the State it increased from 28 per cent in 1997-98 to 29 per cent in 2001-02.

The Plan revenue expenditure increased to Rs.3943.41 crore from Rs.3481.33 crore in 2000-01. The Non-Plan revenue expenditure increased to Rs.14662.29 crore from Rs.13203.62 crore in 2000-01.

The total investment in Statutory Corporations, Government Companies etc., worked out to Rs.4840.34 crore (against Rs.2727.74 crore as at the end of 1997-98). Dividend and interest received thereon (Rs.10.57 crore) were 0.22 per cent of investments.

Public Debt of the State increased by 115 per cent from Rs.10446.60 crore in 1997-98 to Rs.22432.52 crore in 2001-02. The amount of guarantees issued by the State Government stood at Rs.12279.17 crore.

Rs.1384.29 crore including interest of Rs.814.40 crore was overdue for recovery against loans advanced to Local Bodies, Municipalities, Government companies, Public Sector Undertakings etc.

The Balance from Current Revenue, which was positive at Rs. 319 crore in 2000-01 declined to a negative figure of Rs. 879 crore in 2001-02. The revenue deficit increased by Rs. 1422 crore (76 per cent) (including the prior period adjustment of Rs. 138 crore) and the deficit (56 per cent) was largely met out of the borrowings. Book adjustments in the accounts were made towards payment of Rural Electrification subsidies, transfer of infrastructure cess collected without actual cash outflow. The capital expenditure was overstated to the extent it was retained in public account without actual investment in the beneficiary concerns such as Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited etc. The liabilities of the State

Government were mounting while the recovery of loans was insignificant. Resultantly interest payments increased by Rs. 295 crore constituting 15 per cent of the increase in revenue expenditure over the previous year, the return on investment was virtually nil for the past several years. Sixty per cent of the capital receipts was utilised for unproductive obligations and the available balance was retained in public account, to maintain ways and means position. The almost constant ratio of tax receipts to Gross State Domestic Product establishes the State's inclination to meet the deficits by borrowing instead of improving tax compliance. As a result the financial assets of the State Government are being overtaken by its liabilities.

(Paragraph 1.1 to 1.13)

2. Appropriation Audit and control over expenditure

Against total budget provision of Rs. 27056.57 crore (including supplementary), actual expenditure was Rs. 22869.17 crore. Overall savings of Rs.4187.40 crore was the result of saving of Rs.4300.77 crore in 60 grants/appropriation and excess of Rs.113.37 crore in 10 grants/appropriations. The excess of Rs.112.64 crore required regularisation by the Legislature under Article 205 of the Constitution of India.

Expenditure booked in accounts was inflated atleast to the extent of Rs.68.70 crore due to transfer of funds to Deposit account through 'nil' payment vouchers, Rs.317.27 crore relating to the investments/releases made to Krishna Bhagya Jala Nigam Limited and Karnataka Neeravari Nigam Limited was retained in the Public Account.

In 45 cases (27 grants) supplementary provision of Rs. 354.58 crore proved unnecessary.

In 30 cases (14 grants), expenditure of Rs.210.61 crore which attracted the norms of "New Service/New Instrument of Service" was met without obtaining requisite approval of Legislature.

(Paragraph 2.1 to 2.3)

3. Loans and investments by Government in Co-operative Societies.

During 1997-02, State Government had invested Rs.439.93 crore (share capital Rs.177.24 crore, loan Rs.262.69 crore) in the Co-operative Sector which included financial assistance of Rs.247.53 crore from National Co-operative Development Corporation. 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.

State Government as a guarantor discharged loan liability of Rs.131.51 crore in the last five years and four Textile Spinning Mills with investment of Rs.29.22 crore were closed. Return on share capital in co-operative societies ranged from 1 to 3 per cent.

Delay in repayment of loan and interest to National Co-operative Development Corporation resulted in avoidable interest payment of Rs.1.27 crore.

Commissioner for Sugar failed to credit to Government account a cheque for Rs.2 crore received from Hemavathy Sahakara Sakkare Kharkhane and the amount had to be converted into Government contribution as share capital.

State Government paid Rs.47.50 lakh to Industrial Development Bank of India in excess of agreed amount under one time settlement.

Three Societies diverted share capital of Rs.4.06 crore to meet the cost of voluntary retirement scheme and administration, while one Society did not furnish details of utilisation of Rs.8 crore.

(Paragraph 3.1)

4. Working of the Public Works Department

Several weaknesses in financial and programme management, irregularities in the execution of works, defects in Human Resources Management and wastage in stores management affected the working of the Department. Budgeting and cash management through the Letter of Credit system was ineffective. Failure to provide sufficient grants and delay in withdrawal of works from the first agencies, resulted in wasteful expenditure of Rs.1.83 crore and cost escalation of Rs.1.54 crore. In respect of 42 incomplete works, the time overrun ranged from 1 to 8 years and the entire outlay of Rs.18.07 crore remained unfruitful.

In 59 works, Rs.17.51 crore was incurred in excess of the original estimate during the period 1999 –2002.

Letter of Credit to the extent of Rs.10.21 crore was released out of turn for payments to contractors preferred by Ministers, MLAs and Secretary to Government.

In 3 Divisions, works to the extent of Rs.43.17 crore were executed without prior approval to the programme of works.

In the case of NABARD assisted Road projects, execution of unnecessary item resulted in wasteful expenditure of Rs.0.89 crore.

In respect of tender for Toll fee collection, the reduction in upset price, reduction / waiver of penalty resulted in loss of Rs.0.75 crore.

(Paragraph 4.1)

5. Cauvery Water Supply Scheme - Stage IV - Phase I

Bangalore Water Supply and Sewerage Board (Board) took up Cauvery Water Supply Scheme - Stage IV – Phase I (Project) for execution with loan assistance from Overseas Economic Co-operation Fund, Japan (OECF). The Project which was scheduled for completion by March 2002 witnessed serious slippages in execution of water supply and sewerage works on account of delays in acquisition of lands and finalisation of survey and other investigations. Board's mismanagement of contracts facilitated several irregularities in award of contracts and the consequent financial loss, extra expenditure and undue favour to contractors.

Board paid avoidable consultancy charges of Rs.6.04 crore on reworking of various data on account of defective survey, changes in location of different components etc.

Board's failure to obtain OECF's concurrence before allowing the tenderers to regularise their non-responsive tenders and further failure to rectify the wrong grading of the four tenders as initially responsive by the consultant provided scope to OECF for dictating the acceptance of a tender which was costlier by Rs.17.05 crore than the lowest tender.

Board's failure to reject the late tender facilitated award of the contract to the company after rejecting the lowest offer on untenable grounds. In the process, Board had to bear extra expenditure of Rs.9.36 crore.

Board's unjustified rejection of the lowest tender received for clear water transmission mains and award of these contracts to a financially weak company resulted in wasteful expenditure of Rs.40.14 crore.

(Paragraph 6.1)

6. Excess payments

Public Sector Banks and five treasuries made excess payment of family pension of Rs.1.03 crore during 1996-02.

(Paragraph 3.3)

Exorbitant rates in sanctioned schedule of rates of Wild Life Circle, Mysore after reorganisation resulted in extra expenditure of Rs.1.95 crore.

(Paragraph 3.4)

State Government improperly rejected the lowest tenderer for the purchase of sterile water for injection resulting in undue favour of Rs.73 lakh.

(Paragraph 3.7)

High Power Committee of the Department of Health and Family Welfare favoured a firm in the evaluation of bids resulting in extra expenditure of Rs.42.25 lakh.

(Paragraph 3.8)

Department of Pre-University Education paid excess grant of Rs.3.49 crore to 31 Junior colleges in violation of norms.

(Paragraph 3.10)

District Registrar, Bangalore (Urban) misused his authority and transferred excess additional stamp duty of Rs.239.84 crore to City and Town Municipal Councils, during 1994-95 to 2000-01.

(Paragraph 3.12)

Delay in acceptance of tender resulted in avoidable extra expenditure of Rs.2.21 crore in respect of construction of bridge-cum-barrage across Bhima river at Deval Ghanagapur.

(Paragraph 4.2)

Rs.92.85 lakh was paid by Executive Engineer, Minor Irrigation Division, Bijapur towards cost of ring bund and de-watering charges in violation of contractual provisions.

(Paragraph 4.4)

Divisional Officer, Minor Irrigation Division, Gulbarga purchased MS gates, Sponge Rubber and Transformer oil at exorbitant rates resulting in loss of Rs.65.43 lakh.

(Paragraph 5.2)

7. Wasteful expenditure/financial loss

Stamp/stamp papers worth Rs.3.52 crore were lost in transit between Central Stamp Depots, Nasik, Bangalore and Chitradurga District Treasury.

(Paragraph 3.3)

Director, Employment and Training bypassed the tender procedure and purchased tools and equipment at exorbitant rates resulting in wasteful expenditure of Rs.5.92 crore.

(Paragraph 3.13)

The Director General of Police purchased poly-carbonate shields without Government sanction and tender procedure resulting in extra expenditure of Rs.2.12 crore. Similarly, Tear Smoke Ammunition Shells were purchased without Multi Barrel Launcher resulting in wasteful expenditure of Rs.69.07 lakh.

(Paragraph 5.1)

Karnataka Industrial Area Development Board (Board) allotted land at concessional rate without proper justification and incurred loss of Rs.46.81 crore. The Board failed to collect maintenance charges of Rs. 9.83 crore, an unfruitful expenditure of Rs. 6.71 crore incurred on acquisition of land for single unit complexes. Infrastructural buildings/tenements, truck terminal,

commercial complex etc., created by the Board at a cost of Rs.32.31 crore had not been put to use for periods ranging from 1 to 8 years.

(Paragraph 6.2)

8. Unfruitful outlay

Executive Engineer, National Highways, Bangalore Division incurred avoidable and unfruitful expenditure of Rs.1.85 crore on shifting electrical utilities and providing under ground cable.

(Paragraph 4.5)