CHAPTER IV

AUDIT OF TRANSACTIONS

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

4.1 Misappropriation/losses

COMMERCE AND INDUSTRIES DEPARTMENT

4.1.1 Misuse of loan by a Co-operative Society

As against Government's loan of Rs.6.73 crore released to a Co-operative Society for setting up a Coir Ply Unit, the investment made by the Society in the unit was only Rs.2.04 crore and the Society had not furnished proof of utilisation of the balance, the misuse of which could not be ruled out

State Government approached (August 2000) the National Co-operative Development Corporation (NCDC) for providing loan assistance of Rs.13.46 crore under the Integrated Coir Development Project (ICDP), Phase-II to enable the Coir Industrial Product Co-operative Society Limited (CIPCOS)[⌘], to set up a Coir Ply and Allied Products Manufacturing Unit with project cost of Rs.17.95[⊚] crore. NCDC approved (November 2000) the same. State Government released (November 2002) the first instalment of loan of Rs.6.73 crore received from NCDC to CIPCOS through the Directorate of Industries and Commerce (Directorate). CIPCOS submitted (March 2003) utilisation certificate for Rs.6.73 crore and requested for release of the second instalment of loan. The Directorate, on inspection (June 2003) of records of CIPCOS found that CIPCOS had entrusted the project to a firm, National Composite Development Private Limited, of which the President of CIPCOS was a Director and had released the entire amount of Rs.6.73 crore to the firm without obtaining any performance guarantee.

The Directorate arranged valuation (December 2003) through the Technical and Consultancy Services of Karnataka (TECSOK, a Government Undertaking) of the fixed assets claimed to have been procured by CIPCOS. The valuation report revealed that the machinery installed by CIPCOS was worth only Rs.68.25 lakh and that the total investment in the fixed assets of the project was worth only Rs.2.04 crore as against Rs.6.73 crore released by the Directorate. No action was taken by the Government/Directorate after receipt of the valuation report.

⌘ A Society registered under Co-operative Societies Act

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Loan from NCDC	- Rs.13.46 crore
Subsidy from Coir Board	- Rs.3.59 crore
Contribution from members	- Rs.0.90 crore
Total	**- Rs.17.95 crore**

Audit scrutiny (May 2004) of the records of the Directorate also revealed that the Director while releasing (November 2002) the loan assistance of Rs.6.73 crore did not ensure that the same was within 50 *per cent* of the actual expenditure incurred at any point of time on the project. This was a condition imposed by the NCDC. Quarterly progress reports during construction/ installation period were also not obtained from CIPCOS as per terms and conditions of NCDC.

The first instalment of loan (Rs.1.12 crore) and interest of Rs.1.35 crore due for recovery from CIPCOS as of November 2004 had also not been recovered.

Failure of the Directorate/Government to comply with the terms and conditions while releasing the loan assistance and to initiate action on the valuation report led to a situation where utilisation of the remaining amount of Rs.4.69 crore (Rs.6.73 crore – Rs.2.04 crore) had to be considered doubtful and misuse of the fund could not be ruled out.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.1.2 Defalcation of user charges in Bowring and Lady Curzon Hospital

Non-maintenance of proper accounts and non-reconciliation of user charge balances with the bank resulted in misappropriation of Rs.25.22 lakh

Hospitals associated with medical colleges under the Director of Medical Education recover user charges at rates prescribed by the Government from time to time. A committee comprising the Superintendent of the Hospital as Chairman, the Resident Medical Officer of the Hospital and the Principal of the concerned medical college as members was responsible for collection, utilisation and maintenance of accounts for user charges. These charges were to be deposited in a bank account and separate accounts (cash book, remittance register, *etc*.) maintained.

During the audit (September 2001, January 2003) of accounts for the years 2000-01 and 2001-02 of Bowring and Lady Curzon Hospital, it was noticed that user charges were accounted for in the general cash book along with other transactions. The cash book was also not written daily or maintained properly and the balance of user charges reflected in the cash book was not reconciled with the bank balance. These omissions were reported (November 2001, April 2003) to the Superintendent of the Hospital and the Director of Medical Education. No remedial action was initiated (June 2003). Following physical verification (July 2003), the Superintendent found cash balance of Rs.4.06 lakh only against the book balance of Rs.29.28 lakh, revealing misappropriation of Rs.25.22 lakh (user charges - Rs.24.69 lakh, others - Rs.0.53 lakh). The official dealing with the account was suspended (August 2003).

Failure of the committee to ensure proper maintenance of accounts of user charges and bank reconciliation of the user charges despite being pointed out by Audit led to misappropriation of Rs.25.22 lakh.

The Secretary to Government, Health and Family Welfare Department (Medical Education) stated (September 2004) that departmental enquiry had been initiated and was in progress (September 2004).

URBAN DEVELOPMENT DEPARTMENT

4.1.3 Financial loss on production of tertiary treated sewage water

Failure to ensure demand through MoU with the identified buyers for tertiary treated sewage resulted in loss of Rs.10.88 crore

Bangalore Water Supply and Sewerage Board (Board) proposed to set-up a tertiary treatment plant (TTP) with a capacity of 60 million litres per day (MLD) based on an assessment of demand (230 MLD) for tertiary treated sewage for industrial and non-potable purposes. The Board identified Karnataka Power Corporation Limited (KPCL) and other agencies as potential buyers and proposed to recover the cost of the TTP by sale of tertiary treated sewage.

Government approved (March 2000) establishing of the TTP. The Board commissioned (May 2003) the TTP at a cost of Rs.41.50 crore with loan assistance from France and the Housing and Urban Development Corporation (HUDCO). The Board, however, did not enter into any Memorandum of Understanding (MoU) with the KPCL or any other potential buyer. In the absence of any firm commitment from the identified buyers, the Board failed to market the treated sewage. In order to keep the TTP in working condition, it was run daily and produced 15 MLD of tertiary treated sewage at a cost of Rs.15 per kilolitre which was let into the valley.

The Board/Government contended (September 2004) that tertiary treatment of sewage was mandatory to reduce the presence of nitrate nitrogen in the treated sewage to the level prescribed under pollution control standards. As per pollution control standards, nitrate nitrogen content should not exceed 10 mg per litre and even according to the Board, this could be achieved by adopting further treatment within the existing secondary treatment plant itself. Besides, had the tertiary treatment been mandatory, the Board would have operated TTP to full capacity. Reduction of nitrate nitrogen content to zero level through tertiary treatment was solely intended for supply to industrial and non-potable purposes as stated in the project report. The contention of the Board that the cost of tertiary treatment worked out to Rs.5.77 per kilolitre was also not correct as the Board itself adopted the rate of Rs.15 per kilolitre considering the capital cost, interest, *etc*., on the project. Evidently, the contention of the Board/ Government was not based on facts.

Failure of the Board to ensure demand for tertiary treated sewage through MoU when potential buyers had been identified resulted in letting treated sewage back into valley and loss of Rs.10.88 crore worked out at Rs.15 per kilolitre on the quantity produced from May 2003 to October 2004 at the rate of 15 MLD.

4.2 Infructuous/wasteful expenditure and overpayment

INFORMATION TECHNOLOGY AND BIO-TECHNOLOGY DEPARTMENT

4.2.1 Wasteful expenditure on Solar Photo Voltaic Wind Hybrid Power Generating System

Award of work without tender and failure of Karnataka State Council for Science and Technology, Bangalore to ensure quality of material and availability of expert services during execution rendered the whole system defunct resulting in wasteful expenditure of Rs.26.91 lakh

The Ministry of Non-conventional Energy Sources, Government of India approved (November 1997) the proposal of Karnataka State Council for Science and Technology, Bangalore (KSCST) for setting up of a Solar Photo Voltaic Wind Hybrid Power Generating System at Kemmannugundi hill station. Funds aggregating Rs.19.73 lakh (Central Government:Rs.9.60 lakh; State Government:Rs.10.13 lakh) were released (September 1995 to December 2000) to KSCST. KSCST awarded (January 1998) the work of supply, fabrication, erection, commissioning and maintenance of the system for one year, at a cost of Rs.19.50 lakh to a Bangalore based firm without calling for tenders on the plea that the firm had agreed to supply wind generator free of cost (value-Rs.five lakh) and the Director of the firm who was an acknowledged expert in similar systems had recommended the firm and that other experienced agencies were not available. The system was completed at a cost of Rs.26.91 lakh and commissioned in March 2000. The system failed in June 2000 and after repairs re-started functioning from February 2001. However, in June 2001, the tower and the wind generator along with its grouting collapsed due to extremely gusty wind and the wind machine got damaged. With the collapse of the tower and the wind generator, the system could not function.

The Project Engineer and Executive Secretary of KSCST attributed (July 2001) the collapse of the tower and the wind generator to failure of guy wires which were not galvanised and were also of thinner diameter. Evidently, materials were not verified properly and compliance with specifications was not ensured during execution. Besides, KSCST did not enter into any agreement with the firm to ensure availability during execution, of the services of the expert Director on whose recommendation the firm was selected.

As the system collapsed within the performance warranty period (September 2001), the firm agreed (July 2001) to carry out repairs (excluding transportation cost), which was not done due to huge costs involved. Meanwhile the firm was declared (March 2002) insolvent and reported not available at the address given by it.

Executive Secretary of KSCST failed to (i) ensure compliance with specification prescribed for the materials, (ii) verify financial soundness of the firm and (iii) ensure the availability of services of the expert through an agreement. This rendered the whole system defunct resulting in wasteful expenditure of Rs.26.91 lakh.

The matter was referred to Government in June 2004; reply had not been received (September 2004).

PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS

4.2.2 Excess payment of additional market value

Additional market value beyond the date of declaration of land award was paid in violation of the provisions of the Land Acquisition Act resulting in excess payment of Rs.58.86 lakh

Under the provisions of the Land Acquisition Act, 1894, apart from compensation determined on the basis of the market value prevailing on the date of publication of the preliminary notification, an additional amount calculated at 12 *per cent* of the market value is payable for the period from the date of publication of preliminary notification to the date of passing the land award or taking possession of the land, whichever is earlier.

Land award for acquiring 20,415 sqm of land at Peenya village in Bangalore North taluk for widening the Bangalore - Pune Section (km 10 to 13) of National Highway 04 was passed (June 1995) by the Special Land Acquisition Officer, National Highways, Bangalore (SLAO) for Rs.1.22 crore. The possession of the land could not be taken as the land owners approached the High Court to restrain the Department from taking possession of their land until some of the leftover contiguous portions of land were also acquired in accordance with law. Following Court orders (July 1998) to this effect, the acquisition proceedings to acquire the leftover land (2,723 sqm) were initiated in November 1999 and the land award was passed in December 2003. While a compensation of Rs.1.78 crore for the land acquired under the first award was paid to the land owners during May 2002, the compensation (Rs.1.50 crore) under the second land award had not been paid and the land under both the awards was yet to be taken possession of (March 2004).

Audit scrutiny (September 2003) of the records revealed that the land award of June 1995 had clearly stated that the land owners in the said award were entitled to additional market value only for the period from 8 May 1992 to 30 June 1995 (the date of passing the award). However, the SLAO while preferring (February 2002) the Award Bill included an additional claim of Rs.58.86 lakh being additional market value payable to the land owners in respect of the land covered under the first award because of the passage of time between passing of the first land award and the anticipated date of payment of compensation (March 2002). This amount was paid by the Divisional Officer, National Highways, Bangalore irregularly and without any authority resulting in an excess payment of Rs.58.86 lakh.

Government in their reply (October 2004) stated that the additional market value was paid to the land owners in lieu of interest payable on compensation, had possession of land been taken. The reply was not tenable as interest was not payable at all under the Act as possession of the land had not been taken by the Department.

4.3 Violation of contractual obligations/undue favour to contractors

PUBLIC WORKS DEPARTMENT - PORTS AND INLAND WATER TRANSPORT

4.3.1 Excess payment due to incorrect application of contractual stipulations

Failure of the Department to regulate payments as per contract resulted in excess payment of Rs.2.35 crore to the contractor

The Government approved (April 1992) construction of Breakwater (estimated cost: Rs.5.07 crore) for safe berthing of ships and overcoming siltation at Karwar sea port. The work based on the designs finalised (1989) by Central Water Power Research Station, Pune (CWPRS) with reference to the sea bed level prevailing at that time, was allotted (February 1994) to the contractor at his tendered cost of Rs.7.16 crore[⊕] for completion by October 1998. By the time the work was taken up (February 1994), the bed level at the port had gone down by nearly two metres necessitating revision of the designs. A revised estimate for Rs.14.89 crore incorporating additional quantities of work based on the modified designs furnished (February 1998) by CWPRS was approved (July 1998) by Government. The work slated for completion by April 2003 was in progress and expenditure of Rs.18.26 crore had been incurred (March 2004).

Audit scrutiny (January 2004) of records of the Ports Division, Karwar revealed that the agreement with the contractor provided for payment of quantities executed in excess of 125 *per cent* of tendered quantity at rates to be determined on the basis of the observed data on labour, material and overheads (data rates) as the Departmental Schedule of Rates (DSR) did not provide rates for the items of work included in the construction of Breakwater. Accordingly, the Division worked out data based rates payable for quantities in excess of 125 *per cent* of tendered quantities and then added a premium of 21.60 *per cent*. This percentage was same as that allowed in the original contract above the departmental estimates. The original contract also permitted a further weightage of 15 *per cent* because of the difficult working conditions in the area. As against this, while working out the revised data based rates, the Division loaded a further weightage of 20 *per cent* in order to arrive at the rate actually payable to the contractor. The addition of 21.60 *per cent* was not admissible since the data based rates had been worked out on the basis of actual market prices inclusive of the element of contractor's profit. The further weightage of 20 *per cent* was also not justified against 15 *per cent* permitted as per the DSR.

[⊕] With a premium of 21.60 *per cent* of the estimated cost of work

Failure of the Department to regulate the payments as per the conditions of contract and in accordance with the Departmental Schedule of Rates resulted in excess payment of Rs.2.35 crore to the contractor (**Appendix 4.1**).

Government in reply (October 2004) stated that the rates paid to the contractor were as per the agreement and no excess payment was made. The reply was not based on facts as the agreement did not provide for any premium on the data rates.

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.3.2 Extra expenditure

Injudicious acceptance of additional claims on account of idle charges towards plant and machinery and centering material, interest on delayed payments, *etc*., resulted in extra contractual payment of Rs.39.55 lakh

The work of constructing the District Office Complex at Gulbarga (estimated cost: Rs.1.02 crore) was allotted (August 1990) to a contractor at his tendered cost[Ψ] of Rs.1.43 crore for completion by September 1994 (which was extended subsequently up to December 1996) for providing granite stone facing all around the building and a grand stair case in front of the building. The work was completed in December 1996 incurring an expenditure of Rs.2.55 crore.

Scrutiny of the records of Gulbarga Public Works Division revealed that payment of additional claim of Rs.39.55 lakh was made (July 2002) to the contractor on account of idle charges on plant and machinery and centering materials (Rs.33.82 lakh), additional overheads, water charges and interest on delayed payments (Rs.5.73 lakh). Such extra payment was not provided in the contract.

In reply, Government stated (October 2004) that although the additional claim was not admissible as per the agreement, yet the same was paid on considering various pros and cons of the case, which were, however, not spelt out.

PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS

4.3.3 Avoidable expenditure on construction of a bridge

Delay in providing approved drawings to the contractor and injudicious extension of time resulted in an avoidable extra expenditure of Rs.52.17 lakh

The work of constructing a bridge across river Netravathi at km 327 of National Highway 48 was approved (January 1992) by Government of India, Ministry of Surface Transport (MOST) for an estimated cost of Rs.4.05 crore. After inviting tenders (June 1992) Chief Engineer, National Highways, Bangalore (CE) sought approval (April 1993) from the Ministry to the acceptance of the offer of the contractor for a value of Rs.7.04 crore. Before

[Ψ] At a premium of 40.47 *per cent* of the Departmental Schedule of Rates for 1998-99 the offer was accepted, it was noticed (July 1993) that there was increase in the low-water level at the proposed site due to construction of a vented dam downstream. The Ministry on being informed directed (September 1993) the Department to cancel the tender and redesign the bridge. Accordingly, the work was redesigned (February 1994) and allotted (April 1995), after re-tendering, to the same contractor at a cost of Rs.6.65 crore for completion by April 1998. The work was completed in March 2003 at a cost of Rs.6.95 crore excluding Rs.1.08 crore for additional items of work and due to escalation in prices for which approval of Government of India was awaited (November 2004).

Scrutiny of records (May 2000) of the National Highways Division, Mangalore revealed that delay in execution of work was owing to delay in supply of approved modified designs to the contractor and delay in execution of work by him. The delay in supply of approved designs and drawings by the Department ranged from five to 35 months which was attributed by the CE to delay in supply of drawings by the consultants and their approval by the Ministry.

The extension (49 months) in completion period was granted by the Chief Engineer from time to time up to June 2002 despite the Divisional Officer and the Superintending Engineer bringing unjustified delays to his notice and recommending (March 2000 to February 2001) rescinding of the contract and execution of the balance of the work by any other agency at the risk and cost of the contractor. The work was not completed by the contractor even by June 2002. The date was extended further up to October 2002 and the work was finally completed in March 2003. Inordinate delay in the completion of the work resulted in payment of price escalation charges of Rs.52.17 lakh beyond the originally stipulated date (April 1998) for completion of work.

Thus, owing to the delay of 35 months attributable to delay in providing modified designs and drawings to the contractor, price escalation of Rs.52.17 lakh had to be paid to the contractor.

Government in reply stated (October 2004) that the delays were inevitable due to delay in receipt of designs and drawings from the consultants and their approval by the Chief Engineer and clearance by the Ministry. The reply was not tenable as the Department had 19 months' time for obtaining modified detailed designs and drawings from the consultants before allotting the work to the contractor.

SOCIAL WELFARE DEPARTMENT

4.3.4 Undue gains to construction agencies

Non-enforcement of contractual terms resulted in undue gains to agencies and extra expenditure to Government – Rs.79.64 lakh

The Government established (October 1999) "Karnataka Residential Educational Institutions Society" (Society) with the objective, *inter alia*, to construct buildings for Navodaya, Morarji Desai and other residential schools and their administration and maintenance. The construction of 44 school buildings under the first phase was allotted (July 2000 to August 2000) to five Government agencies on turn-key basis at the negotiated cost of Rs.1.85 crore per school building. An amount of Rs.42.82 lakh was payable towards sanitary and electrical work including light fittings. As of February 2004, Rs.75.51 crore were spent on the project.

As the works were entrusted on turn-key basis, agencies were to necessarily execute all items of work which would make buildings fit for occupation. The agencies, however, refused (March 2003) to provide electrical light fittings in the school buildings contending that electrical work did not include electrical light fittings. The Chief Engineer, Bangalore Electricity Supply Company (a State Government Undertaking), with whom Executive Director of Society discussed (February 2003) the matter, had opined that electrical work includes fittings also. As the agencies refused to provide light fittings, the same were provided (October 2003) by the Society at Rs.1.81 lakh per school building. This enabled the agencies to make undue gain of Rs.79.64 lakh while the Society incurred extra expenditure to the same extent.

The Government agreed (September 2004) to recover the cost of electrical light fittings from the agencies. Progress in recovery of the amount had not been intimated (October 2004).

4.4 Avoidable/extra expenditure

COMMERCE AND INDUSTRIES DEPARTMENT

4.4.1 Avoidable expenditure on rent

Delay in shifting certain offices of Sericulture Department from rented buildings to Reshme Bhavan and failure to surrender the unutilised area of silk exchange building resulted in avoidable expenditure of Rs.13.75 lakh, besides creation of liability of Rs.14.40 lakh

The Central Silk Board (CSB), under National Sericulture Project constructed Reshme Bhavan in Bangalore with built up space of 5,400 square metres, on land allotted by Sericulture Department. CSB allotted (November 2000) 2,900 square metres (31,216 sft) in Reshme Bhavan to the Department. The Department was to establish silk exchange in Reshme Bhavan by shifting the same from the existing building which the Department had hired on monthly rent of Rs.one lakh (20,040 sft). The Department did not shift the silk exchange as the silk trading community opposed it on the ground that Reshme Bhavan was far from the existing premises and inconvenient.

In order to utilise the allotted area, five offices of the Department housed in different rented buildings were shifted to Reshme Bhavan during December 2000 to February 2001 and four more in May 2001 (one), July 2001 (one), May 2002 (one), and June 2002 (one). Owing to the delay, since February 2001, in shifting the other offices, avoidable expenditure of Rs.11.54 lakh was incurred on rent.

It was further noticed (November 2003) that two[◎] offices prior to their shifting to Reshme Bhavan were housed in the same building in which silk exchange was functioning. The space occupied by the two offices (11,078 square feet) on their shifting was not vacated and the Department continued to occupy the entire area of 20,040 square feet in the rented building.

Failure of the Department to surrender unutilised space occupied by the two offices in the silk exchange building and to enter into a fresh agreement for the reduced area resulted in accrual of liability of Rs.16.61 lakh up to September 2004 of which Rs.2.21 lakh were paid up to July 2002.

The matter was referred to Department/Government in August 2004; their reply had not been received (October 2004).

FOREST, ENVIRONMENT AND ECOLOGY DEPARTMENT

4.4.2 Extra expenditure on removal of dead and fallen trees

Removal of dead and fallen trees from forest areas at rates higher than the sanctioned Schedule of Rates resulted in extra expenditure of Rs.21.82 lakh

Felling and removal of dead and fallen trees from the forest areas for transportation to forest depots is done by the Forest Department. The extraction has to be carried out within Sanctioned Schedule of Rates (SSR) fixed by the Department periodically. The SSR also stipulated that suitable deduction should be made if departmental elephants are used for dragging timber.

Deputy Conservator of Forests, Mangalore Division, Mangalore (DCF) extracted 13,223 cubic metres of dead and fallen wood from his jurisdiction during 1998-2004. The work of extraction and removal of timber was carried out by engaging piecework contractors after obtaining quotations from them or by entrusting the work to Karnataka State Forest Industries Corporation Limited (KSFIC). Payments aggregating Rs.49.99 lakh were made during this period for dragging timber. Audit scrutiny of records (September 2002/ March 2004) revealed that the work included the item 'removal of felled trees to road side'. The rates paid for removal of timber ranged from Rs.250 per cum to Rs.402 per cum, which were higher than the rates provided for this item of work in the SSR[Ψ]. Had the work been carried out at the rates provided in SSR, as stipulated in departmental instructions, the Department would have avoided an extra expenditure of Rs.21.82 lakh.

On this being pointed out, the Department stated (July 2004) that the payment at higher rates, had been necessitated due to difficult terrain of the forest which warranted rates different from those provided in SSR. It was also

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◎ Office of Joint Director, Sericulture/Silk Marketing Officer and Deputy Director of Sericulture-Bangalore (Urban)

Ψ Rs.191.41, Rs.212.40 and Rs.219.45 per cum for 2000-01, 2001-02, 2002-03 respectively and Rs.402 for April/May 2003 contended that a separate rate was arrived at after conducting a test work, which was approved by the Conservator of Forests.

The reply furnished was not tenable as the SSR of the circle specifically provided different rates for difficult areas and other areas and accordingly the work should have been carried out at rates provided in the SSR. Besides, the separate rate was arrived at only on 6 February 2003 following objection raised by Audit, while works were allotted at higher rates to contractors since 1998. In the separate rate, the quantity of timber dragged by one elephant per day was reckoned as 6.457 cum against an average of 11 cum per day actually removed in other cases in the division during 1998-2000. The parameters of the test work also did not indicate the details of distance for which timber was dragged, slope of the terrain, *etc*.

Payments at rates higher than those fixed in SSR for dragging of timber resulted in extra expenditure of Rs.21.82 lakh (**Appendix 4.2**).

The matter was referred to Government (July 2004); reply had not been received (December 2004).

HOME DEPARTMENT

4.4.3 Avoidable extra expenditure on purchase of polycarbonate lathis

The Director General & Inspector General of Police injudiciously purchased costly polycarbonate lathis in place of cheaper cane lathis from two private firms resulting in avoidable extra expenditure of Rs.89.46 lakh

Police Personnel are periodically provided kit articles, which include lathis. The Director General and Inspector General of Police (DG&IGP) had been purchasing cane lathis up to 1998-99. However, during 1999-2001, DG&IGP purchased 55,171 polycarbonate lathis from two private firms at a cost of Rs.98.77 lakh due to a reported ban on cutting/sale of cane during the said period. Scrutiny of records revealed the following:

- Polycarbonate lathis were purchased at exorbitant rates of Rs.203.84 (25,500 lathis) and Rs.157.71 (29,671 lathis) each during 1999-2000 and 2000-01 respectively as against the rates of Rs.15 and Rs.17 fixed by the Forest Department for a cane lathi. The cost of the same number of cane lathis would be Rs.9.31 lakh (inclusive of sales tax at five *per cent*) at the rates fixed by the Forest Department as against Rs.98.77 lakh paid for polycarbonate lathis. This resulted in extra expenditure of Rs.89.46 lakh.
- Cutting and sale of cane during 1996-2002 was not banned as clarified (May 2004) by the Additional Principal Chief Conservator of Forest (Protection and Management).

The Government/Department stated (October 2004) that the Direct Purchase Committee (DPC) purchased polycarbonate lathis as there was ban on cutting of bamboo and cane and cane was not available in the market. Besides, polycarbonate lathis would cause less injury when used. These replies were not tenable for the following reasons:

- DPC had not recorded in its proceedings the non-availability of cane lathis and the ban on cutting and sale of cane as the reasons for purchase of polycarbonate lathis. The Additional Chief Conservator of Forest (Protection and Management) confirmed that there was no such ban during 1999-2001 and cane was available in the market. The contention of the Government/ Department was, therefore, factually incorrect.
- The contention that polycarbonate lathis would cause less injury had also no merit, as the Department reverted to the use of cane lathis from 2002-03.

Thus, injudicious purchase of polycarbonate lathis at abnormally high rate in place of cheaper cane lathis resulted in avoidable extra expenditure of Rs.89.46 lakh.

HOUSING DEPARTMENT

4.4.4 Unfruitful investment on unallotted houses, tenements and sites

KHB could not market 999 houses/tenements in Hootagally, Mysore City due to construction of houses in excess of assessed demand resulting in unfruitful investment of borrowed funds of Rs.25.03 crore with interest liability of Rs.13.97 crore. Similarly, in 76 other towns/cities, 1,777 houses/tenements and 2,039 sites involving investment of borrowed funds of Rs.51.91 crore had also remained unallotted

Karnataka Housing Board (KHB) made a survey (March 1991) and assessed the demand of 1,249 houses/tenements in Hootagally, Mysore City. As against this, KHB proposed construction of 3,116 houses/tenements which the State Government approved (March 1992), besides furnishing guarantee for raising loan of Rs.79.72 crore from the Housing and Urban Development Corporation. The position of houses/tenements constructed, sold and un-allotted as of June 2004 was as under:

Number of houses/tenements	Category of houses/tenements			
	High Income Group	Middle Income Group	Low Income Group	Total
Demand, as per survey	147	568	534	1,249
Constructed (date of completion)	127 (May 1995) 92 (November 1998)	495 (May 1995) 313 (November 1998)	540 (May 1995) 556 (November 1998)	2,123
Sold	219	380	525	1,124
Not allotted	Nil	428	571	999
Period from which un-allotted		May 1995 (115) November 1998 (313)	May 1995 (15) November 1998 (556)	

The cost of construction of 2,123 houses was Rs.53.20 crore. Reasons for construction of houses/tenements in excess of the assessed demand and evidence of any publicity in leading newspapers, pamphlets offering incentives/concessions for allotting the remaining houses/tenements were not furnished to Audit (October 2004).

Injudicious decision of the Government and KHB to construct houses in excess of the assessed demand compounded by their inability to market these, resulted in 130 houses and 869 tenements lying unsold for five and nine years respectively involving unfruitful investment of borrowed funds of Rs.25.03[♦] crore. The interest liability on the amount worked out to Rs.13.97 crore up to June 2004.

In addition, in 76 other towns/cities of the State, 810 houses, 967 tenements and 2,039 sites in which KHB invested borrowed funds of Rs.51.91 crore (September 2003) had also remained unallotted (October 2004). Details regarding period for which these had remained unallotted, whether survey to arrive at the demand was conducted in all cases, *etc*., were not available with the Housing Commissioner, KHB.

The matter was referred to KHB/Government in September 2004; their reply had not been received (October 2004).

PUBLIC WORKS DEPARTMENT – NATIONAL HIGHWAYS

4.4.5 Avoidable expenditure on road improvement works

Failure to give effect to the revised specification in the execution of road surfacing works resulted in avoidable expenditure of Rs.37.52 lakh

As per Indian Road Congress (IRC) specifications (third revision), the work of single coat surface dressing comprises application of a bituminous binder sprayed on a previously prepared base followed by a cover of stone chippings rolled to form a wearing course. The specifications, *inter alia*, provide for using 0.015 cum of stone chippings of 13.2 mm nominal size and 18 kgs bitumen per 10 sq metres of road surface. These specifications were, however, revised (November 2000) by Ministry of Road Transport and Highways. The revised specifications provide for use of 12 kgs bitumen with 19 mm nominal size stone chippings per 10 sq metres of road surface.

Audit scrutiny (October 2003) of records of five divisions[Ψ] revealed that 48 road works involving 8.93 lakh sq metres of single coat surface dressing were executed by contractors during 2001-03 as per pre-revised specifications, the unit cost of which was more than that as per the revised specifications. The Divisions had not worked out the revised rates for the revised quantities of bitumen and stone chippings in estimates. The unit cost as per revised specification was Rs.19.10 per sq metre, as against Rs.23.30 per sq metre as per pre-revised specification, which was adopted in the estimates. Failure to adopt revised specification and execute the works as per revised specification resulted in an avoidable expenditure of Rs.37.52 lakh (**Appendix 4.3**).

[♦] Proportionate cost of construction of 999 houses = Rs.25.03 crore

[Ψ] National Highway divisions of Belgaum, Bijapur, Bangalore, Special Division- Bangalore and Chitradurga

Government in their reply stated (October 2004) that there was delay in the communication of revised specifications and as such the excess expenditure could not be avoided in respect of works executed up to the end of March 2003. The reply is not tenable as the Ministry of Road Transport and Highways had published the revised specifications in their addendum to third revision of IRC specifications as early as November 2000 which should have been communicated to the divisions concerned for adoption.

URBAN DEVELOPMENT DEPARTMENT

4.4.6 Avoidable expenditure on restoration of tank bund

Defective execution of work by a Government agency, Board's failure to detect the same during execution and non-maintenance for five years resulted in collapse of portion of a bund and avoidable expenditure of Rs.2.10 crore on reconstruction and strengthening of the bund

State Government approved (March 1990) augmentation of water supply scheme to Sindhanoor town at an estimated cost of Rs.8.60 crore with Tungabhadra left bank canal as source. Karnataka Urban Water Supply and Drainage Board (Board) was to implement the scheme. The scheme comprised *inter alia* construction of a tank bund for impounding water. The Board entrusted (November 1990) the work to Karnataka State Construction Corporation (KSCC) which completed the same in March 1993 at a cost of Rs.2.58 crore. During audit, it was seen that:

Formal handing/taking over of the completed tank bund did not take place.

Other related components of the scheme such as jack well-cum-pump house and raw water rising main were commenced belatedly during August 1996 and completed in January 1998 by different agencies. Thus, there was no synchronisation in execution of related components. As a result, water was not impounded and the scheme not commissioned till January 1998. The Board attributed (May 2004) this to the delay in approval of estimates/designs and the tendering procedure. The reply was not tenable as administrative/ technical sanction was obtained in June 1990 itself and necessary designs should have been prepared earlier.

After lapse of four and half years of completion of the tank bund, the Board reported (September 1997 to January 1998) to KSCC that the tank bund had developed longitudinal cracks, *etc*. However, KSCC refuted (October 2000) these charges claiming that work was executed according to specification and check measured by Board Engineers. A joint inspection (March 2001) by officers (EE, AE) of the Board and KSCC (Resident Engineer) confirmed longitudinal cracks for three-fourths of the length of the tank bund. It was also found that the side slopes were not conforming to specification.

Detailed inspection was also conducted by the Indian Institute of Science (IISc) during December 2001 and again in August 2002 after collapse (July 2002) of a stretch of 100 metres length of the tank bund. IISc in their report (September 2002) ascribed the collapse of the bund to (i) use of improper casing material (Murram) (ii) inadequate compaction and (iii) hearting work (core of the bund) which was to be done with impervious clayey soil as per approved specification but which got mixed up with layers of sandy soil. Besides, the rock-toe and toe-drains required to control seepage of water though specified in the approved drawings were not provided for. Based on the technical advice of IISc, the Board reconstructed the collapsed portion and strengthened the entire defective bund incurring an extra cost of Rs.2.10 crore through another contractor in December 2002.

State Government/Board stated (September 2004) that KSCC was responsible for all the defects and the collapse of the bund. It was, however, seen in audit that the engineers of the Board as well as the Managing Director had frequently inspected and supervised the work but failed to notice the defective execution and deviation from the approved designs/specifications. In fact, they had certified the work as satisfactory before the contractors' bills were passed. Thus, failure on the part of the KSCC and the Board during construction and non-maintenance of the tank bund for nearly five years led to the collapse of the bund and the resultant avoidable expenditure of Rs.2.10 crore on restoration.

4.4.7 Cost and time overruns on water supply scheme

Lack of firm decision of the Government/Board regarding the scope and water source and non-synchronisation of execution of different components of water supply scheme resulted in time overrun of over 12 years and cost overrun of Rs.7.47 crore besides rendering the expenditure of Rs.13.86 crore unfruitful

Government approved (October 1991) a water supply scheme for Shiggaon, Savanur and Bankapur towns with Varada river as source at an estimated cost of Rs.7.45 crore for execution by the Karnataka Urban Water Supply and Drainage Board. The Board, on finding that the land proposed for construction of impounding reservoir at Bankapur town was not actually available, decided to convert the Naganur minor irrigation tank near Shiggaon as the source. With change in source, Board submitted (December 1993) a modified estimate for Rs.17.93 crore to Government for approval. Pending approval of the modified estimate, the Board continued with the execution of the works.

While the works were in progress, the people of Shiggaon town protested in April 2000 against pumping water from Naganur tank. The Board informed the Government of the same. The issue of approval of the said estimate (Rs.17.93 crore) remained under prolonged correspondence between Government and the Board resulting in frequent revision of estimates and the scope of the scheme. The scheme was finally confined to Savanur and Shiggaon towns only and the Board submitted revised estimates (July 2000) for Rs.14.92 crore. The Board also proposed (November 2002) revival of the original scheme (to use Varada river as source) at an estimated cost of Rs.25.54 crore, to mitigate the problems of water scarcity. However, without considering the latest proposal for revival of the original scheme and despite being aware of public protest, Government approved the estimate for

Rs.14.92 crore in January 2003. The Board completed (March 2004) the scheme at a cost of Rs.13.86 crore except for certain minor finishing works. But the scheme had not been commissioned (October 2004), which was attributed (July 2004) by the Board to failure of rains for over three years as a result of which water could not be impounded in Naganur tank. The reply of the Board was not convincing as records of the tahsildar concerned revealed 73 *per cent* of normal rainfall during 2003-04.

Thus, lack of firm decision of Government/Board regarding selection of the water source of the scheme resulted in time overrun of over 12 years and cost overrun of Rs.7.47 crore (100 *per cent*), besides rendering the expenditure of Rs.13.86 crore on the scheme unfruitful.

WATER RESOURCES DEPARTMENT - BHADRA PROJECT

4.4.8 Avoidable payment on acquisition of land

Inordinate delay in furnishing land acquisition proposals and the injudicious action of the Department to pay interest on land compensation without taking possession of lands resulted in an avoidable expenditure of Rs.75.17 lakh and excess payment of Rs.83.09 lakh

Land measuring 1,635 acres coming under submergence of Devarabelekere dam (Davanagere district) was acquired in 1978. With the storage of water in the dam up to the full reservoir level (FRL), it was found that an additional area of 70 acres was getting inundated under the dam waters. Besides, a further area of 286 acres was found submerged (November 1992) due to rise in water level to about 0.6 metre above the FRL. Government, therefore, decided (1999) to acquire these lands too and accordingly land awards were passed (June 2001 and February 2003) acquiring 356 acres of land. These lands were deemed to have been acquired with effect from 15 May 1978 (70 acres) and 17 November 1992 (286 acres) respectively and compensation of Rs.2.91 crore (including interest of Rs.1.58 crore) was paid between 2001 and 2004.

Audit scrutiny (June 2003) of the records of Special Land Acquisition Officer (SLAO), Bhadra Project, Davanagere and Executive Engineer, No.3, Canal Division, Malebennur, revealed that although the requirement of additional land was noticed by the project authorities in 1978 and 1992, yet the acquisition proposals were sent to the SLAO only during 1999. Consequently, the compensation for 70 acres of land was determined in April 1999 by the SLAO at Rs.28.84 lakh and an interest of Rs.60.23 lakh was paid on compensation from the date of submergence of these lands (May 1978) as against Rs.13.90 lakh[⊕] payable had these lands been acquired under the original land award (1981) for acquiring 1,635 acres. This resulted in avoidable expenditure of Rs.75.17 lakh (**Appendix 4.4**). The Chief Engineer attributed (September 2004) the delay to the time involved in surveying the affected areas.

[⊕] Rs.9.23 lakh towards land compensation and Rs.4.67 lakh being interest on compensation

In respect of 286 acres of land acquired with retrospective effect from 17 November 1992, records revealed that these areas were subject to water logging only when the storage of water in the dam was above FRL. As verified from the revenue records *viz*., 'Right of Tenancy and Crops grown' (RTC), the land owners were cultivating these lands up to the date of their taking over by Government (January and August 2002). Thus, the injudicious decision of the Department to acquire these lands from a retrospective date without actually taking possession of land resulted in avoidable excess payment of interest of Rs.83.09 lakh (**Appendix 4.5).**

In reply, the Government stated (September 2004) that a departmental enquiry would be initiated to ascertain the reasons for delay in the matter and also to recover the excess payment from the officers concerned.

PUBLIC WORKS DEPARTMENT - PORTS AND INLAND WATER TRANSPORT

4.4.9 Unfruitful outlay on fish landing and berthing facilities

Execution of the project without ensuring flow of water in the river as advised by the experts and delay in construction of bridge led to unproductive outlay of Rs.1.36 crore on creation of berthing facility

The work of providing fish landing and berthing facilities at the mouth of the river Shambhavi near Hejmadikodi in Udupi district was intended to ease the traffic at the over crowded fishing harbours of Malpe and Mangalore as well as to reduce the distance to be covered by the local fishermen for landing their fish harvest. The work involving construction of quay, auction hall and dredging in front of quay (estimated cost: Rs.95 lakh) was entrusted (April 1998) to a contractor for completion by October 1999. The work was actually completed in September 2001 at a cost of Rs.1.36 crore.

It was observed in audit that the facilities created by the Department could not be utilised by the fishermen as their vessels could not safely navigate to the newly built quay due to accumulation of silt in the boat channel and the quay. The problem of silt accumulation arose due to unauthorised construction of a road embankment (1998) by the people of an adjacent village across the river upstream which impeded the normal water flow in the river course. The road spanned about half the width of the river from the right bank up to a small riverine island midstream. The Department did not take timely action to prevent unauthorised construction of road embankment by villagers despite caution (June 1992) by Director, Central Institute of Coastal Engineering for Fisheries (CICEF) that the course of the flow in the river should not change, as it would make the project infructuous. The Director, CICEF had also suggested (June 1999) to take up the balance of the works of the project only after dismantling the embankment and ensuring the original flow in the river. The Department, however, continued with the execution of project and completed it in September 2001 despite the expert opinion to dismantle the embankment.

As per the recommendations (April 1999) of an expert team, the Department constructed (May 2003) a bridge to replace the existing road embankment. But the problem of siltation continued as before as the flow in the river did not flush out the already accumulated silt/sand. The National Institute of Technology (NIT), Karnataka, suggested (March 2004) dredging from river mouth up to bridge site and diversion of a portion of flow from left branch into right branch for flushing out the accumulated sediment. Though the Divisional Officer, Ports & Fisheries Division, Udupi placed (October 2004) a demand of Rs.4.03 crore for the purpose with the Director of Fisheries, Bangalore, the final decision on such dredging was awaited (October 2004). Meanwhile the berthing facility could not be put to use.

Thus, failure of the Department to prevent unauthorised construction of road embankment across the river and to construct a bridge in its place early led to unproductive outlay of Rs.1.36 crore.

In reply, Government stated (October 2004) that the said facility could not be utilised fully because of the construction of road embankment by the public.

WATER RESOURCES DEPARTMENT - HEMAVATHY PROJECT

4.4.10 Unproductive investment in guest house

Injudicious decision to construct an additional guest house and delay in its completion led to an unproductive investment of Rs.28.40 lakh

The Government approved (December 1996) construction of a VIP Cottage near Circuit House at Gorur in Hassan district at a cost of Rs.21.70 lakh. The work was technically sanctioned (April 1998) by Chief Engineer, Hemavathy Project, Gorur (CE) for Rs.29.50 lakh. Civil works of the cottage (estimated cost: Rs.20.99 lakh) were completed (September 2001) at a cost of Rs.26.29 lakh. The other works like electrification, sanitation, *etc.*, were completed only in August 2003.

Audit scrutiny (August 2003) of records revealed that construction of the VIP Cottage was taken up despite availability of a Circuit House at the same place, the occupancy of which was only three to ten *per cent* during the preceding five years. The building completed at a cost of Rs.28.40 lakh was taken over (August 2003) by the Cauvery Neeravari Nigam Limited who was contemplating renting the building to the Karnataka State Tourism Development Corporation Limited (December 2003).

In reply, Government stated (September 2004) that the construction of the guest house fulfilled the need to provide secured accommodation to VVIPs. But no VVIPs ever stayed in the guest house and, in fact, the building was no longer in possession of the Government.

WATER RESOURCES DEPARTMENT - MINOR IRRIGATION

4.4.11 Unfruitful outlay on minor irrigation tank

Inadequate soil investigation and delay in acquisition of land rendered the expenditure of Rs.2.60 crore incurred on construction of a minor irrigation tank unfruitful

Construction of a minor irrigation tank near Purdal village of Sindhagi taluk in Bijapur district (estimated cost: Rs.1.17 crore) was allotted (June 1999) to a contractor at a cost of Rs.1.29 crore[♣] for completion in May 2001. The work excluding distributory canals was completed (September 2002) at a cost of Rs.2.27 crore. Due to delay in getting possession of the land required for construction of distributory canals, the contract was closed and the balance of the work (estimated cost: Rs.5.84 lakh) allotted (May 2004) to another contractor for Rs.6.08 lakh.

Audit scrutiny (December 2002) of the records of the Minor Irrigation Division, Bijapur revealed that:

- In the approved estimate, the length of waste weir was provided for 44 metres only as against the designed length of 115 metres. Soil investigation was not conducted for waste weir, approach channel and tail channel. Consequently, the work involved execution of additional quantities of earthwork excavation, embankment and concreting items besides earthwork in ordinary rock with blasting as an extra item. The additional quantities and extra item of work were executed (cost: Rs.57.83 lakh) by the contractor at current SR plus tender premium which resulted in extra expenditure of Rs.26.70 lakh (**Appendix 4.6**).

- The contractor was paid Rs.18.76 lakh for earthwork excavation in ordinary rock with blasting at the rate of Rs.150.72 per cum for a total quantity of 12,450 cums. The Department did not issue instructions to the contractor to carry out this item of work nor any blasting material was issued to him and the actual execution of this item of work was not verifiable in audit.

- Proposals for acquisition of 198 acres of land were sent in staggered manner (159 acres in December 1999, 11 acres in December 2000 and 18 acres in April 2003). The delay in acquisition of land led to foreclosure of contract, delaying completion of the work. The construction of both right bank and left bank canals had not been taken up (July 2004). Consequently, the expenditure of Rs.2.60 crore incurred on the work did not prove fruitful (June 2004).

The matter was referred to Department/Government in February 2004; their reply had not been received (December 2004).

[♣] At 10.18 *per cent* above the cost of work put to tender at the DSR of 1996-97

4.5 Idle investment/idle establishment/blockage of funds

HEALTH AND FAMILY WELFARE DEPARTMENT

4.5.1 Unfruitful expenditure on hospital equipment

Heparin-induced Extra Corporeal Low-density Lipoprotein Precipitation System purchased at a cost of Rs.61 lakh had remained unutilised from February 2000

The Government sanctioned (September 1999) purchase of Heparin-induced Extra Corporeal Low-density Lipoprotein Precipitation (HELP) System for Krishnarajendra Hospital, Mysore for determining and controlling cholesterol level in patients based on the hospital's indent. The Director, Medical Education placed orders on the Karnataka Antibiotics and Pharmaceuticals Limited who supplied (February 2000) the HELP system at a cost of Rs.61 lakh to Bowring and Lady Curzon Hospital, Bangalore, though there was no indent/request for such an equipment from that hospital. The HELP system was not put to use in the hospital since its purchase except twice in March 2000. The Superintendent, Bowring and Lady Curzon Hospital attributed (November 2003) non-utilisation of HELP system to the high cost of consumables and accessories (Rs.80,000 to Rs.82,000 per patient). Thus, purchase of HELP system without assessing its utility in view of the high cost of the tests rendered expenditure of Rs.61 lakh unfruitful.

The Secretary to Government, Health and Family Welfare Department (Medical Education), while accepting the audit observation, stated (April and September 2004) that the matter relating to purchase of the equipment had been referred (December 2003) to Lokayuktha for enquiry and that supply of the equipment to the Bowring and Lady Curzon Hospital would facilitate imparting training to medical officers/staff. However, the equipment was primarily meant for treatment and not for training.

4.5.2 Equipment not put to use for want of infrastructure

Due to lack of proper planning in purchase and operationalisation of Blood Cell Separator, the equipment remained unused for four years rendering expenditure of Rs.1.03 crore thereon unfruitful

In accordance with Government sanction of March 1999, the Director of Medical Education (DME) purchased and supplied one Blood Cell Separator, each to Victoria Hospital, Bangalore and Krishnarajendra Hospital, Mysore in March 2000 at a cost of Rs.48.24 lakh. Complementary equipment *viz.*, Platelet Agitator, Refrigerated Centrifuge and Blood Donor Couch costing Rs.55.02 lakh were, however, supplied between March 2000 and May 2003 to both the hospitals. The Superintendents of these hospitals applied to the Drug Controller for licence to operate the equipment only in September 2003 due to delayed supply of complementary equipment. However, the licence was not granted by the Drug Controller as other requirements like trained technician, separate room for equipment, *etc*., had not been fulfilled. Government/

Department failed to synchronise purchase of Blood Cell Separator, complementary equipment, appointment of trained technicians, provision of separate rooms, *etc*., resulting in refusal of licence and the equipment lying unused since March 2000.

The Secretary to Government, Health and Family Welfare Department (Medical Education) stated (September 2004) that these requirements could not be fulfilled immediately. The reply was indicative of improper planning in purchase and operationalisation of the equipment thereby denying the benefit of this facility to needy patients despite the Government having spent Rs.1.03 crore.

HOME DEPARTMENT

4.5.3 Equipment remaining idle for want of replacement/repairs

Closed Circuit Television based High Security and Surveillance system at Central Prison, Belgaum had remained defunct from December 1998

Under the scheme of Modernisation of Prison Administration, Government sanctioned (February 1991) Closed Circuit Television based High Security and Surveillance System (CCTV) at the Central Prison, Belgaum with the objective of keeping strict vigil over the movements of prisoners and events within the premises of prison from a single control point. Supply and installation of CCTV was allotted (April 1993) to Karnataka State Electronics Development Corporation Limited (KEONICS) at a cost of Rs.39.71 lakh. KEONICS installed (July 1995) the CCTV which functioned up to December 1998.

According to report of KEONICS (December 1998), six[❖] components of the system needed replacement at a cost of Rs.40,000. Though, the amount was deposited (May 1999), KEONICS replaced only one monitor. KEONICS subsequently (September 2001) stated that the network was not functioning due to damage caused by lightning and damages to underground cable during earth excavation by gardening staff and all these parts required repairs/ replacements. After protracted correspondence and delay of four years, KEONICS submitted (August 2002) another estimate for Rs.5.31 lakh which the DGP&IGP recommended (September 2002) to Government for approval. Government had not released the amount so far (December 2004). Government, however, in their reply to Audit (September 2004) stated that neither excavation by gardening staff nor lightning strike were the cause of network's failure to function. However, the fact remains that delay caused by Department and Government in assessing repairs and release of funds resulted in CCTV remaining non-functional since December 1998 rendering expenditure of Rs.39.71 lakh unfruitful.

[❖] Six black and white monitors, two camera controllers, auto switch controller, control console's lock, two telephone instruments and soft light

4.6 Regularity issues and other points

FINANCE DEPARTMENT

4.6.1 Inspection of Treasuries

Public Sector Banks made excess payment of family pension of Rs.1.25 crore in 701 cases as of February 2004

Treasuries and sub-treasuries in Karnataka are under the administrative control of Director of Treasuries, Bangalore. All district treasuries (30), sub-treasuries (184) and stamps depot were inspected by the Accountant General (Accounts & Entitlement) during 2003-04. The following major irregularities and failure in control were noticed during inspection of the treasuries.

Excess Payment of Family Pension

Karnataka Government Servants (Family Pension) Rules 1964, provides that when a Government servant dies while in service, his/her family is entitled to family pension at double the normal rate or 50 *per cent* of the pay last drawn by the deceased Government servant at the time of his 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, whichever is earlier.

In 701 cases, family pension amounting to Rs.1.25 crore (**Appendix 4.7**) was paid in excess by public sector banks because of payment at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E).

In respect of five treasuries (Bijapur, Davanagere, Hassan, Kolar, Raichur), in spite of similar cases having been pointed out during earlier inspections, family pension continued to be paid at a higher rate by the banks in 62 cases resulting in excess payment of Rs.19.97 lakh (**Appendix 4.8**) during the period from April 2002 to February 2004.

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

The matter was brought to the special notice of the Principal Secretary, Finance Department, Government of Karnataka (September 2004). It was stated (November 2004) that the concerned Treasury Officers and Reserve Bank of India had been instructed to recover the family pension paid in excess.

Non-receipt of Paid vouchers/recovery schedules of General Provident Fund

Paid vouchers in support of withdrawals from General Provident Fund (GPF) for an amount of Rs.5.63 crore (4,520 cases) were not received with the accounts sent by 29 treasuries during 2002-03 (**Appendix 4.9**). The omission might result in non-accountal of the drawal and resultant over payment at the time of final settlement of the account of the subscriber. The matter needs urgent corrective action.

Further, recovery schedules in respect of GPF subscription by the Government Servants, for Rs.5.23 crore (2,926 cases) did not accompany the vouchers sent by 27 treasuries during 2002-03 (**Appendix 4.10**). This resulted in large number of missing credits in the individual accounts of the subscribers, besides delay in finalisation of their claims.

4.6.2 Abstract Contingent Bills

Introduction

Manual of Contingent Expenditure, 1958 (Manual), permitted the Drawing and Disbursing Officers (DDOs) to draw contingent charges required for immediate disbursement on Abstract Contingent (AC) bills subject to rendering detailed bills to their Controlling Officers for countersignature and onward transmission to the Accountant General (Accounts and Entitlement).

Review of AC bills was conducted covering Rs.108.66 crore drawn on 1,284 AC bills during the period 1999-2004 by 36 DDOs of five[⊗] departments in five[◈] districts. It was supplemented with information collected in respect of Rs.12.96 crore drawn on 1,342 AC bills by 65 DDOs of three[⌘] departments in 19[♣] districts during the period 1999-2004. Important points noticed are brought out in the succeeding paragraphs.

(a) Non-submission/delayed submission of Detailed Contingent bills

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

[⊗] Home (Police), Stamps & Registration, Education, Revenue (Election) and Personnel & Administrative Reforms

[◈] Bangalore (Rural), Bangalore (Urban), Belgaum, Chickmagalur and Tumkur

[⌘] Home (Police), Education, Revenue (Election)

[♣] Bagalkot, Bangalore (Rural), Bangalore (Urban), Belgaum, Bellary, Bidar, Chamarajnagar, Chitradurga, Dakshina Kannada, Davanagere, Dharwad, Gulbarga, Hassan, Haveri, Kolar, Madikeri, Mysore, Shimoga, Tumkur

As of July 2004 detailed contingent bills for Rs.16.83 crore were pending submission as detailed below:

(Rupees in lakh)

Department	Number of DDOs	Number of AC bills	Amount	Drawn between	Reasons for pendency
Home (Police)	03	20	1,319.39	January & March 2004	Non- receipt of equipment ordered for
Stamps & Registration	01	08	246.75	March 2001 & July 2003	Non-completion of computerisation work by the agency
Education	19	155	78.70	August 1998 & March 2004	Non-receipt of sub-vouchers from programme coordinators/sub-ordinate officers
Revenue (Election)	12	42	38.28	January 1998 & March 2004	
Total	**35**	**225**	**1,683.12**		

In these cases, the Controlling Officers disregarding the system of internal controls 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.

Delay up to five years was noticed in forwarding detailed contingent bills for Rs.3,583.62 lakh drawn during 1999-2004 on 1,134 AC bills by 74 DDOs[♦] of four departments as detailed below:

(Rupees in lakh)

Period of delay	No. of AC Bills	Amount
Up to one month	191	1,971.17
Up to six months	542	874.87
Up to one year	294	578.54
Up to two years	48	23.20
Up to three years	35	82.75
Up to four years	23	52.73
Up to five years	01	0.36
Total	**1,134**	**3,583.62**

It was observed that the Government while prescribing (September 2004) the revised procedure to route all the detailed contingent bills through Treasuries, directed the Treasury Officers not to honour AC bills for payment till the submission of all pending detailed contingent bills.

(b) Delay in remittance of un-utilised amount

As per the Manual, if due to unforeseen causes, the advance drawn could not be disbursed within a day or two, the amount or the unspent portion should be

♦ Home (Police) – (Nine DDOs), Stamps and Registrations – (One DDO), Education – (32 DDOs), Revenue (Election) – (32 DDOs) refunded to treasury forthwith. During 1999-2004, 18 DDOs of three[♠] departments remitted unspent balance of Rs.42.57 lakh pertaining to 33 AC bills with delays ranging from one month to four years as detailed below.

(Rupees in lakh)

Period of delay	No. of AC Bills	Amount
Up to one month	01	0.06
Up to six months	22	10.95
Up to one year	05	28.42
Up to two years	03	2.18
Up to three years	01	0.02
Up to four years	01	0.94
Total	**33**	**42.57**

(c) Drawal of amounts on AC bills in excess of limits prescribed

For drawal of amounts exceeding Rupees one lakh on AC bills permission of Finance Department was required to be obtained by the DDOs. However, in Education and Home (Police) Departments, four DDOs drew Rs.15.75 lakh on five AC bills, each bill exceeding Rupees one lakh without permission of Government. The Treasury Officers also in violation of the instructions of the Finance Department passed the bills. Fifteen DDOs of Education and Home (Police) departments drew Rs.99.21 lakh on 118 AC bills by splitting the bills to avoid seeking permission from Finance Department.

4.7 General

4.7.1 Outstanding Inspection Reports

Lack of responsiveness of Government to Audit

The Hand book of Instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the Inspection Reports (IRs) issued by the Accountant General (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, 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.

Year-wise details of outstanding IRs and Paragraphs as well as serious irregularities therein relating to Horticulture, Labour and Water Resources Departments are detailed in **Appendix 4.11** and **Appendix 4.12** respectively.

[♠] Education -15 DDOs, Revenue (Election) - Two DDOs, Personnel and Administrative Reforms - One DDO.

A review of the IRs which were pending due to non-receipt of replies in respect of these three departments revealed that the Heads of Offices whose records were inspected by AG, failed to discharge due responsibility as they did not send even the initial replies to seven IRs (23 paragraphs), four IRs (10 paragraphs) and 39 IRs (410 paragraphs) pertaining to Horticulture, Labour and Water Resources Departments respectively thereby indicating their failure to initiate action in regard to the defects, omissions and serious financial irregularities as pointed out in Audit.

It is recommended that Government 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.

4.7.2 Follow-up on Audit Reports

(a) Action Taken Notes

The Hand Book of Instructions (Finance Department) for speedy settlement of audit observations and Rules of Procedure (Internal Working), 1995 of Public Accounts Committee provide for furnishing detailed explanations *ie.*, Action Taken Notes (ATNs) to the audit observations featured in Audit Reports within four months of its being laid on the table of Legislature, to the Karnataka Legislature Secretariat and copies thereof to Audit Office by all the departments of Government.

Though the Audit Reports for the years 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 were presented to the State Legislature on 27 March 1997, 14 May 1998, 1 July 1999, 3 May 2000, 24 July 2001, 22 March 2002 and 28 March 2003 respectively, 19 Departments, as detailed in **Appendix 4.13** had not submitted ATNs, as of December 2004.

In respect of the following important irregularities, which featured in the Audit Reports 1998-99, 1999-2000, 2000-01 and 2001-02, ATNs were not received even after 21 to 55 months.

Audit Report 1998-99

1. 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 (December 2004).

Audit Report 1999-2000

2. 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, major part of expenditure was met through overdrafts availed of from Banks resulting in fruitless payment of interest of Rs.18.59 crore. ATNs have not been received (December 2004).

Audit Report 2000-01

3. Commerce and Industries Department

6.3 Extra contractual/excess payments and undue favour to a contractor

Chief Executive Officer and Executive Member/Chief Development Officer of the Karnataka Industrial Areas Development Board failed to enforce the contractual provisions compounded by departmental lapses facilitated excess payments and undue favours aggregating Rs.17.97 crore to the contractor causing huge financial loss to the Board.

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4. Revenue Department

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

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

(b) Status of paragraphs to be discussed by Public Accounts Committee

Comments on Appropriation Accounts appeared in Audit Reports for the years 1989-90 onwards are pending discussion by Public Accounts Committee. Status of paragraphs (excluding General and Statistical) pending discussion as of October 2004 are detailed in **Appendix 4.14.**

4.7.3 Non-receipt of accounts

Annual consolidated accounts of stores and stock are required to be furnished by various Departments to the Accountant General by 15th of June of the following year. Delays in receipt of stores and stock accounts have been commented upon in successive Reports of the Comptroller and Auditor General of India. The Public Accounts Committee (1978-80) in its First Report (Sixth Assembly) presented in February 1980 had also emphasised the importance of timely submission of accounts by the departments. Nevertheless, the delays persist. The departments from which the stores and stock accounts had not been received by Audit as of October 2004 are mentioned below:

Serial Number	Department	Year(s) for which accounts are due
1.	Agriculture - Director of Agriculture	2003-04
2.	Animal Husbandry & Veterinary Services - Director of Animal Husbandry & Veterinary Services	2003-04
3.	Commerce and Industries - Director of Industries	2002-03 & 2003-04
4.	Health and Family Welfare	
	(i) Director , Health and Family Welfare Services	2003-04
	(ii) Director of Medical Education	2002-03 & 2003-04
	(iii) Joint Director of Government Medical Stores	1999-2000 to 2003-04
	(iv) Indian System of Medicine and Homeopathy	2002-03 & 2003-04
5.	Information, Tourism and Youth Services - Director of Information and Publicity	2003-04
6.	Education - Director of Printing & Stationery	2003-04
7.	Revenue (Registration) - Inspector General of Registration and Commissioner of Stamps	2001-02 to 2003-04
8.	Public Works, Water Resources and Minor Irrigation	*1995-96 to 2003-04

***** Accounts due from :

(a) One Division - for 18 half yearly periods (1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 & 2003-04)

(b) Two Divisions - for 12 half yearly periods (1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 & 2003-04)

(c) Two Divisions - for nine half yearly periods (October 1999 to March 2000, 2000-01, 2001-02, 2002-03 & 2003-04)

(d) One Division - for eight half yearly periods (2000-01, 2001-02, 2002-03 & 2003-04)

(e) One Division - for seven half yearly periods (October 2000 to March 2001, 2001-02, 2002-03 & 2003-04)

(f) Three Divisions - for six half yearly periods (2001-02, 2002-03 & 2003–04)

(g) Four Divisions - for five half yearly periods (October 2001 to March 2002, 2002-03 & 2003-04)

(h) Five Divisions - for four half yearly periods (2002-03 & 2003-04)

(i) 18 Divisions - for three half yearly periods (October 2002 to March 2003 & 2003-04)

(j) 23 Divisions - for two half yearly periods (2003-04)

(k) 45 Divisions - for one half yearly period (October 2003 to March 2004)

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