

Chapter 1

Introduction

1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

Compliance audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand, performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports. Chapter-2 of this report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter-3 contains observations on audit of transactions in Government departments and autonomous bodies. Chapter-4 presents an assessment of functioning of the Departments of Animal Husbandry & Veterinary Services and State Educational Research & Training.

1.2 Auditee Profile

There are 87 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and ten autonomous bodies which are audited by the Principal Accountant General (Commercial & Civil Audit), Bangalore and the Accountant General (Works, Forest & Receipt Audit), Bangalore.

The comparative position of expenditure incurred by the Government during the year 2009-10 and in the preceding two years is given in **Table-1** below.

Table 1: Comparative position of expenditure

(₹ in crore)

Disbursements	2007-08			2008-09			2009-10		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
Revenue expenditure									
General services	86	10,786	10,872	110	12,165	12,275	98	12,664	12,762
Social services	4,784	8,340	13,124	5,925	9,948	15,873	7,245	11,874	19,119
Economic services	3,443	8,010	11,453	3,699	7,438	11,137	4,191	8,991	13,182
Grants-in-aid and contributions	-	1,926	1,926	796	1,578	2,374	769	1,705	2,474
Total	8,313	29,062	37,375	10,530	31,129	41,659	12,303	35,234	47,537
Capital Expenditure									
Capital outlay	7,199	1,450	8,649	9,135	735	9,870	11,118	1,018	12,136
Loans and advances disbursed	752	5	757	223	508	731	916	65	981
Repayment of public debt (including transactions under ways and means advances)	-	1,329	1,329	-	1,778	1,778	-	2,308	2,308
Contingency fund	-	-	-	-	2	2	-	-	-
Public account disbursements	-	-	54,055	-	-	54,783	-	-	64,029
Total	7,951	2,784	64,790	9,358	3,023	67,164	12,034	3,391	79,454
Grand Total	16,264	31,846	1,02,165	19,888	34,152	1,08,823	24,337	38,625	1,26,991

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 10 autonomous bodies which are audited under sections 19(2)² and 20(1)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 310 other autonomous bodies, under Section 14⁴ of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

⁴ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

1.4 Organisational structure of the Offices of the Principal Accountant General (C&CA) and Accountant General (WF&RA), Bangalore

Under the directions of the C&AG, the Offices of the Principal Accountant General (C&CA) and Accountant General (WF&RA), Bangalore conduct audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountant General and Accountant General are assisted by six Group Officers.

1.5 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India.

During 2009-10, in the Civil Audit Wing, 6,579 party-days were used to carry out audit of 517 units and to conduct one performance audit review and audits of two departments. In the Works and Forest Wing, 106 units were audited by utilising 1,120 party-days. The audit plan covered those units/entities which were vulnerable to significant risk as per our assessment.

1.6 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

1.6.1 Performance audits of programmes/activities/departments

The present report contains two performance audits and functioning of the Departments of Animal Husbandry & Veterinary Services and State Educational Research and Training. The highlights are given in the following paragraphs.

1.6.1.1 Compliance with environmental legislations in Bangalore Metropolitan Region

Increasing population and the rapid growth of industries and commercial activities have created tremendous pressure on the finite resources. Various legislations have been enacted by Government of India to safeguard the precious resources and to improve the quality of life. The performance audit of compliance with the legislations for preventing and controlling water and air pollution in Bangalore Metropolitan Region (BMR) revealed that the Karnataka State Pollution Control Board, with inadequate technical and scientific staff, was ineffective in identification and inspection of polluting units and, as a result, a large number of polluting units were operating without installing pollution control systems. The existing sewage network was inadequate as it covered only 40 *per cent* of the BMR. The existing Sewage Treatment Plants received only 47 *per cent* of the sewage generated from the source points due to the weak sewage lines. The remaining 53 *per cent* was discharged directly into storm water drains and lakes, contaminating the water bodies and ground water. Ground water quality was also adversely affected in BMR due to the presence of pollutants in excess of permissible limits. Although data on air pollution at different locations of BMR was collected, no action plan for abatement of air pollution had been prepared due to non-finalisation of source apportionment studies.

(Paragraph 2.1)

1.6.1.2 Minor Irrigation Projects

The irrigation schemes serving *atchkat* up to 2,000 ha are classified as minor irrigation schemes. The performance audit noted that the financial management of the department was ineffective as savings were not utilised for clearance of pending claims. The scarce plan resources were distributed thinly on many works. A large number of works witnessed time and cost overruns for a variety of reasons such as non-acquisition of lands, inadequate budget provision *etc.* The area irrigated ranged from 13 to 17 *per cent* of the irrigation potential created, despite huge investment over the years.

(Paragraph 2.2)

1.6.1.3 Department of Animal Husbandry and Veterinary Services

The Department of Animal Husbandry and Veterinary Services is responsible for improving the productivity of livestock through scientific breeding and providing healthcare to protect them from disease. An audit of the department showed huge shortage of veterinary officers and support staff and also irrational distribution of veterinary institutions across the State. The department did not prioritise conservation of indigenous breeds of cattle, some of which registered negative growth. Management of vast tracts of departmental farm land in several districts was ineffective as large areas had been encroached upon. Fodder and fodder seed production did not receive due attention of the department despite availability of land. The department witnessed huge shortfall in spending, year after year, due to tardy implementation of Centrally sponsored schemes. It also failed to monitor the

implementation of various schemes and key activities, losing the opportunity of identifying the shortcomings and initiating corrective action.

(Paragraph 4.1)

1.6.1.4 Department of State Educational Research and Training

The Department of State Educational Research and Training administers teachers' education in the State. It provides pre-service and in-service training to primary and secondary school teachers and also implements schemes to impart computer education and computer based education in secondary schools. An audit of the department revealed non-compliance with rules governing budgetary and expenditure controls, accountal of transactions *etc.* Implementation of computer education programmes was not effective as IT assets created in 238 schools were not put to use and computer education was disrupted for two years in 1,000 schools. There was huge shortfall in training of teachers by DIETs. Inadequate funds and huge shortage of teaching and non-teaching staff affected the functioning of the District Institutes of Education and Training and Colleges of Teachers' Education. Monitoring of the implementation of various programmes was also inadequate and ineffective.

(Paragraph 4.2)

1.6.2 Compliance audit of transactions

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments/organisations. These are broadly categorised and grouped as:

- Non-compliance with rules.
- Audit against propriety/Expenditure without justification.
- Persistent and pervasive irregularities.
- Failure of oversight/governance.

1.6.2.1 Non-compliance with rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but helps in maintaining good financial discipline. This report contains instances of non-compliance with rules involving ₹ 7.28 crore. Some significant audit findings are as under:

- *The Bangalore Development Authority prepared estimate for construction of a part of the Outer Ring Road in contravention of specifications prescribed by the Ministry of Road Transport and Highways. This led to preparation of a faulty Bill of Quantity, resulting in an inadmissible payment of ₹2.66 crore to a construction company.*

(Paragraph 3.1.1)

- *Bangalore Development Authority disregarded contractual provisions and chose different Schedule of Rates for different items of work, leading to excess payment of ₹1.64 crore to a company.*

(Paragraph 3.1.2)

- *Executive Engineer, Canal Division No.5, Yermarus made suspected fraudulent payments aggregating ₹ 2.98 crore to contractors for maintenance of canals and distributaries on fictitious bills by furnishing false references to measurement books, task work agreements, etc., and not following the prescribed procedure for preparation and payment of bills.*

(Paragraph 3.1.3)

1.6.2.2 Audit against propriety/Expenditure without justification

Authorisation of expenditure from public funds is to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit has detected instances of impropriety and extra expenditure involving ₹ 10.45 crore, some of which were as under:

- *Visveswaraiah Technological University, Belgaum spent ₹1.40 crore for providing on-line learning platform which was not utilised by the students; the University also made an unproductive investment of ₹70.33 lakh on other IT products and services*

(Paragraph 3.2.1)

- *The Bangalore Water Supply and Sewerage Board procured galvanised heavy duty mild steel pipes under a contract without a price variation clause, although pig iron, the raw material for the pipes, was vulnerable to price fluctuations. As a result, the Board lost ₹ 1.15 crore due to non-availing of the benefit of the declining price of pig iron in the market.*

(Paragraph 3.2.5)

1.6.2.3 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive when it is prevailing in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive, but is also an indication of lack of effective monitoring. This, in turn, encourages wilful deviations from observance of rules/regulations and results in weakening of the administrative structure. A significant case was as under:

- *During 2009-10, in 857 cases relating to 29 district treasuries, Public Sector Banks made payment of family pension at enhanced rate beyond the period indicated in the Pension Payment Orders, resulting in excess payment of ₹3.19 crore.*

(Paragraph 3.3.1)

1.6.2.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the area of health, education, development and upgradation of infrastructure and public service etc. However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels involving ₹ 209.61 crore. A few such cases are mentioned below.

- *The Government in Housing Department failed to act upon HUDCO's offer of lower interest rate on outstanding loan in time, resulting in payment of higher rate of interest for four years. This entailed an additional financial burden of ₹18.30 crore.*

(Paragraph 3.4.1)

- *Karnataka Housing Board embarked on acquisition of land without conducting any demand survey or feasibility study. The Board also overlooked other controls, showed undue haste in purchasing 30 acres and 31½ guntas of land from two persons at a huge cost of ₹50 lakh per acre. The utility of the lands purchased in bits and pieces at a cost of ₹16.85 crore was doubtful.*

(Paragraph 3.4.3)

- *Karnataka Urban Water Supply and Drainage Board passed on the benefit of Central Excise Duty exemption of ₹ 6.30 crore to two contractors by irregularly arranging exemption certificates. It had also foregone Central Excise Duty exemption of ₹4.01 crore in three other cases due to delay in arranging exemption certificates.*

(Paragraph 3.4.5)

- *The Bangalore Development Authority (BDA) unilaterally paid a lower rate of interest on a loan availed of from the Karnataka Urban Infrastructure Development and Finance Corporation. BDA pre-closed the loan by unilaterally fixing the interest at five per cent per annum against 15 per cent per annum as per the terms of the sanction. The outstanding dues were settled after three years by paying an additional interest of ₹7.67 crore.*

(Paragraph 3.4.8)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Inspection reports outstanding

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and

procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. 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, who forwards a half-yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the audit observations.

As of 30 September 2010, 389 IRs (1,711 paragraphs) were outstanding against Housing, Forest and Water Resources (Minor Irrigation) Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**.

A review of the IRs pending due to non-receipt of replies, in respect of these three departments revealed that the Heads of Offices had not sent even the initial replies in respect of 69 IRs containing 439 paragraphs issued between 1992-93 and 2009-10.

1.7.2 Response of departments to the draft paragraphs

The Draft paragraphs/Reviews were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned departments between June and September 2010 with the request to send their responses within six weeks. The departmental replies for two out of four Reviews and seven out of 19 paragraphs featured in this Report have been received. The replies, wherever received, have been suitably incorporated in the Report.

1.7.3 Follow-up on Audit Reports

Besides the Hand Book, the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee also provide for furnishing, by all the departments of Government, detailed explanations in the form of Action Taken Notes (ATNs) to the observations, which featured in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The administrative departments did not comply with the instructions and 21 departments, as detailed in **Appendix-1.2**, had not submitted ATNs for 68 paragraphs for the period 1995-96 to 2008-09 even as of 18 January 2011.

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Comments on Appropriation Accounts which featured in Audit Reports for the years 1989-90 and onwards are pending discussion by the Public Accounts Committee. Details of paragraphs pending discussion as of 18 January 2011 are detailed in **Appendix-1.3**.

