

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 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.

1.2 Auditee Profile

There are 74 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 10 autonomous bodies which are audited by the Principal Accountant General (Works, Forest & Receipt Audit), Bangalore and the Principal Accountant General (Commercial & Civil Audit), Bangalore.

The comparative position of expenditure incurred by the Government during the year 2010-11 and in the preceding two years is given in **Table-1** below.

Table 1: Comparative position of expenditure

(₹ in crore)

Disbursements	2008-09			2009-10			2010-11		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
Revenue expenditure									
General services	110	12,165	12,275	98	12,664	12,762	96	13,959	14,055
Social services	5,925	9,948	15,873	7,245	11,874	19,119	9,807	12,301	22,108
Economic services	3,699	7,438	11,137	4,191	8,991	13,182	4,206	10,686	14,892
Grants-in-aid and contributions	796	1,578	2,374	769	1,705	2,474	1,079	1,900	2,979
Total	10,530	31,129	41,659	12,303	35,234	47,537	15,188	38,846	54,034
Capital Expenditure									
Capital outlay	9,135	735	9,870	11,118	1,018	12,136	12,582	773	13,355
Loans and advances disbursed	223	508	731	916	65	981	1,736	2	1,738
Repayment of public debt (including transactions under ways and means advances)	-	1,778	1,778	-	2,308	2,308	-	2,807	2,807
Contingency fund	-	2	2	-	-	-	1	12	13
Public account disbursements	-	-	54,783	-	-	64,029	-	-	75,626
Total	9,358	3,023	67,164	12,034	3,391	79,454	14,319	3,594	93,539
Grand Total	19,888	34,152	1,08,823	24,337	38,625	1,26,991	29,507	42,440	1,47,573

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 (WF&RA) and Principal Accountant General (C&CA) Bangalore

Under the directions of the C&AG, the Offices of the Principal Accountant General (WF&RA) and Principal Accountant General (C&CA), Bangalore conduct audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountants 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 2010-11, in the Civil Audit Wing, 6,579 party-days were used to carry out audit of 460 units and to conduct of three performance audits. In the Works and Forest Wing, 113 units were audited by utilising 1,038 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 three performance audits and one long paragraph. The highlights are given in the following paragraphs.

1.6.1.1 Comprehensive Computerisation Project of the Department of Food, Civil Supplies and Consumer Affairs

A comprehensive computerisation project to digitise the data collected through a house-to-house survey and issue computerised ration cards to the eligible families in the State was approved by Government (August 2005) for the Department of Food, Civil Supplies and Consumer Affairs. The project sought to eliminate ineligible ration cards, besides creating an effective distribution management system to ensure availability of rationed articles, reduce leakages and provide an efficient and real-time Management Information System.

The Department selected (March 2006) a Partner under the Build, Operate and Transfer (BOT) model of Public-Private-Partnership (PPP) through a bidding process to implement the project over a period of five and a half years. However, Government's decision to adopt the PPP route had not been taken after considering all alternatives. Balanced sharing of risks between the Government and private sector Partner had not been ensured for enduring success of the PPP arrangement and the choice of PPP was not taken after due diligence. The selection of the private Partner and the qualifying procedures were flawed, resulting in selection of the Partner who did not have the capacity to deliver.

The oversight over implementation of computerisation was so defective that the Partner persistently bypassed the contracted procedures and carried on with the work in a totally uncontrolled environment. This resulted in an abnormal increase in the number of ration cards including those for the families below poverty line. The Department failed to enforce various provisions in the agreement, resulting in several inadmissible payments to the Partner, non-remittance/delayed remittance by the Partner of the user charges collected from public *etc.* Although the Partner was to complete the project set-up phase by October 2006, it remained incomplete even five years after the scheduled date of completion. After receiving a payment of ₹ 54.23 crore, the Partner closed the operations prematurely in November 2010 without transferring any of the assets except the database of ration cards. An evaluation of the database by a third party showed that it was incomplete in many respects, suffered from many deficiencies and was not capable of preventing duplication of ration cards.

The Department had taken upon itself the responsibility of rectifying the mistakes in the database created by the Partner. As the rectification process was still in progress, the process of issue, modification and deletion of ration cards in the State had come to a standstill since November 2010. Thus, various lapses of the Department/Partner defeated the very objective of providing improved services to the public and protecting their interests adequately. The PPP project ended up as an example of highly doubtful value for money in a crucial area of governance.

(Paragraph 2.1)

1.6.1.2 Fire and Emergency Services in Karnataka

The Department of Karnataka State Fire and Emergency Services is responsible fire prevention, fire safety, fire fighting/suppression besides disaster preparedness and management. The Department embarked (August 2005) upon a project viz. K-SAFE 2010 for establishing fire stations in all the taluks and places of high risk industries in the State besides upgradation of the existing fire stations and modernisation. K-SAFE 2010 was to be implemented by the Karnataka State Police Housing Corporation over a period of five years. The implementation period was subsequently extended up to March 2013.

Against the total requirement of 201 fire stations in the State, only 176 had been established as of December 2011. Out of 176 fire stations that had been functional, 43 were housed in temporary and rented buildings which lacked basic infrastructure facilities. Out of 1,647 vehicles/equipment required by the fire stations, only 1,054 had been procured as of December 2011. Even the basic vehicles/equipment such as jeeps, utility vehicles, water tenders and bouzers, portable pumps, *etc.*, had not been procured to the extent required. Except for Bangalore and Hubli, other cities in the State did not have special equipment to manage fire accidents in high-rise buildings. Search and Rescue units had not been established at the metropolitan, district and taluk levels as planned. While the yearly increase in the number of fire incidents ranged from 9 to 13 *per cent* during 2007-11, the proportion of lives lost to those saved decreased from 113 *per cent* in 2007-08 to 79 *per cent* in 2010-11. The value of property lost and saved as assessed by the Department was not reliable as this was not professionally assessed. The Department failed to analyse the fire reports prepared by the fire stations and in the process, lost the opportunity of identifying the shortcomings and improving upon its preparedness.

Hazmat vans required for dealing with industrial disasters had also not been procured. The Department lacked facilities and staff for undertaking major repairs of vehicles at the Central Workshop in Bangalore, which catered to only routine maintenance of vehicles predominantly from Bangalore. Routine and major repairs to vehicles in other places were carried out at private workshops without adequate checks and balances to ensure that these had been executed economically and efficiently.

Vacancies in the post of operating staff aggregated 2,521 (40 *per cent*) as of December 2011 and the Department had not initiated the recruitment process despite Government's approval in December 2009, due to non-finalisation of cadre and recruitment rules. Training of personnel was ineffective as there was shortage of trainers in the Training Academy.

The Department did not have a well-functioning communication system to communicate effectively with the fire companies at the accident spots. While obsolete wireless sets had not been replaced, repeater facilities had not been established in 18 out of 30 districts. Ten out of 11 posts sanctioned for the communication wing remained vacant. The modernisation of the Department had not progressed as envisaged in K-SAFE 2010. The Department's role in fire-safety education was also limited. The enforcement of fire code was

ineffective due to absence of adequate enforcement provisions in the Fire Services Act, 1964.

(Paragraph 2.2)

1.6.1.3 Preservation and conservation of heritage in Karnataka

The protection and conservation of heritage monuments in the State other than those under the control of Archaeological Survey of India vest with the Commissioner of Archaeology, Museums and Heritage, Bangalore and Director of Archaeology and Museums, Mysore.

There was no coordinated strategic approach to heritage management, resulting in ad hoc approach to decision making, resource allocation and conservation practice. The Commissioner/Director did not focus on identification and inventorisation of the heritage monuments and consequently, a large number of ancient monuments remained unidentified in the State.

Resource allocation by the Government for heritage conservation during 2006-10 was very meagre and was not based on need analysis. There was also no funding base for cyclical maintenance of heritage monuments. Twenty-three technical posts (40 per cent) remained vacant in the Directorate for periods ranging from one to 21 years. Most of the technical staff responsible for heritage conservation lacked heritage management competencies and had also not been trained.

Land adjoining the monuments had not been declared as protected despite orders issued by Government in March 1998. Only 31 out of 763 protected monuments had protective fencing. Watch and ward engaged for the monuments was also very meagre. Nineteen out of 47 monuments jointly inspected had either been encroached upon or had buildings constructed adjacent to them. Annual maintenance of the monuments had not been undertaken and the Commissioner/Director failed to project the requirement of funds to Government for maintenance.

The action plans for conservation were ad hoc and not based on an assessment of relative significance of the monuments. There was no prioritisation of the meagre resources allocated for conservation which was taken up in bits and pieces without a holistic approach. There was also no effort to present the heritage monuments to public and most of the monuments jointly inspected did not even have a sign board or a display board. Monitoring of the heritage monuments was very limited and no targets had been fixed for their periodical inspection.

(Paragraph 2.3)

1.6.1.4 Working of the Irrigation Central Zone

The financial management in the Zone was deficient resulting in under-utilisation of grants under capital heads and increasing liability of pending bills under both capital and maintenance heads. The tendering process of modernisation works was deficient as the contracts were not firmed up before the commencement of canal closure period for utilising full working period and contracts were awarded at higher tender premium. Government did

not pursue vigorously for recovering of dues from Andhra Pradesh towards expenditure incurred on RDS. The command area to the extent of 1.12 lakh hectares was deprived of irrigation benefits due to failure in controlling cropping pattern violations & unauthorised irrigation. There was laxity on the part of Sub-divisional Officers in demanding water rates and levy of penalty for such violations.

(Paragraph 2.4)

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 ₹ 27.45 crore. Some significant audit findings are as under:

- *Two forest divisions failed to recover the net present value of ₹ 8.86 crore from the user agencies for diversion of 133.96 hectare of forest land for non-forest purpose even after more than four years.*

(Paragraph 3.1.3)

- *State Government sanctioned additional 31 posts for Railway Police without obtaining clearance from the Zonal Railways and continued to meet the entire cost of these additional posts from its resources instead of passing on 50 per cent of the expenditure to the Railways. The loss to the State exchequer during 2005-09 alone aggregated ₹ 1.48 crore. Inadmissible house rent allowance of ₹ 63.09 lakh had also been paid to Railway Police staff working in 18 stations.*

(Paragraph 3.1.4)

- *Wrong adoption of period of quarter to reckon base index and non-deduction of payments of variation items from the value of work done in price adjustment bills resulted in excess payment of ₹ 9.43 crore to a company in the construction of a building work.*

(Paragraph 3.1.5)

- *Contrary to Indian Road Congress norms, four Divisional Officers executed surface dressing in improvements to village road works, resulting in extra expenditure of ₹ 2.48 crore.*

(Paragraph 3.1.6)

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 ₹ 38.82 crore, some of which were as under:

- *Karnataka Housing Board failed to measure the floor area before renting out its buildings and, consequently, collected rent from the occupants for a reduced carpet area, resulting in loss of revenue of ₹ 7.32 crore.*

(Paragraph 3.2.1)

- *Karnataka Urban Water Supply and Drainage Board awarded the work of improvements to a reservoir without resolving a long pending dispute over sharing of water and without preparing the estimate based on investigation. These lapses resulted in long delay in commencement of work and cost overrun of ₹ 9.17 crore including avoidable payment of ₹ 2.26 crore to the contractor on account of revised higher rates for comparable items, apart from delay in providing drinking water to the targeted population. The Board also made an excess payment of ₹ 1.63 crore to the contractor towards lead charges for casing material.*

(Paragraph 3.2.3)

- *Bangalore Development Authority notified a forest land for acquisition, acquired it and developed residential sites on it, despite objections from the Forest Department. The Authority, however, had to return the acquired land to the Forest Department after incurring wasteful expenditure of ₹ 1.28 crore.*

(Paragraph 3.2.4)

- *Bangalore Water Supply and Sewerage Board awarded the work of providing and laying feeder mains for 82.12 kms in the newly added areas of Bruhat Bangalore Mahanagara Palike without being in possession of clear work fronts along the approved alignments. There was delay in handing over the work fronts, resulting in an avoidable extra payment of ₹ 12.69 crore to a construction company.*

(Paragraph 3.2.5)

- *Karnataka Urban Water Supply Drainage Board executed a drinking water supply scheme without diverting the sewage flow draining into a tank which was the source for the scheme. The drinking water supply scheme remained non-functional despite a huge investment of ₹ 5.11 crore, depriving the intended population of drinking water supply.*

(Paragraph 3.2.6)

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 772 cases relating to 30 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 ₹ 2.36 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 ₹ 16.14 crore. A few such cases are mentioned below.

- *In order to promote tourism, the Department of Tourism took up improvements to a road connecting a tourist place without initiating proposal for securing the release of forest land from the Central Government. The road remained incomplete despite huge investment of ₹ 7.64 crore due to non-availability of forest land defeating the objective of promoting tourism.*

(Paragraph 3.4.1)

- *Construction of a minor irrigation tank taken up in January 2000 was not completed even after eleven years of its commencement and the drought area was deprived of the benefit of irrigation despite impounding water in the tank and spending ₹ 8.50 crore.*

(Paragraph 3.4.2)

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 31 December 2011, 804 IRs (3,508 paragraphs) were outstanding against Health and Family Welfare, Water Resources (Major and Medium) and Public Works, Ports and Inland Water Transport 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 from these three departments, showed that the Heads of Offices had not sent even the initial replies in respect of 269 IRs containing 1118 paragraphs issued between 1980-81 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 2011 with the request to send their responses within six weeks. The Government replies for two out of three Reviews and seven out of 16 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

The Hand Book, the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee 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 these instructions and 21 departments as detailed in **Appendix 1.2** had not submitted ATNs for 72 paragraphs for the period 1995-96 to 2009-10 even as of 18 January 2012.

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of 18 January 2012 are detailed in **Appendix 1.3**.

