

# **CHAPTER-1**

# **INTRODUCTION**

# 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. Chapter-4 presents Audit of Department of Fisheries.

### 1.2 Auditee Profile

The Principal Accountant General (General & Social Sector Audit), Bangalore conducts audit of the expenditure under the General and Social Services incurred by 72 departments in the State at the Secretariat level and 11 autonomous bodies. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them.

The summary of fiscal transactions during the year 2010-11 and 2011-12 is given in **Table-1** below.

**Table-1: Summary of fiscal transactions**

(₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
<b>Section-A: Revenue</b>				<b>Total</b>	<b>Non Plan</b>	<b>Plan</b>	<b>Total</b>
<b>Revenue receipts</b>	<b>58,206.22</b>	<b>69,806.27**</b>	<b>Revenue expenditure</b>	<b>54,033.84</b>	<b>46,548.33</b>	<b>18,566.74</b>	<b>65,115.07</b>
Tax revenue	38,473.12	46,475.96	General services	14,055.09	16,292.44	153.04	16,445.48
Non-tax revenue	3,358.28	4,086.86	Social services	22,107.82	14,111.26	11,060.47	25,171.73
Share of union taxes/ duties	9,506.31	11,075.04	Economic services	14,892.44	13,374.74	5,779.16	19,153.90
Grants-in-aid & contributions from GOI	6,868.51	8,168.41	Grants-in-aid and contributions	2,978.49	2,769.89	1,574.07	4,343.96
<b>Section-B: Capital and others</b>							
<b>Misc. Capital receipts</b>	<b>71.81</b>	<b>89.19</b>	<b>Capital outlay</b>	<b>13,355.17</b>	<b>583.88</b>	<b>14,921.77</b>	<b>15,505.65</b>
			General services	465.46	24.62	600.87	625.49
			Social services	2,616.70	25.91	2,669.28	2,695.19
			Economic services	10,273.01	533.35	11,651.62	12,184.97
<b>Recoveries of loans and advances</b>	<b>161.37</b>	<b>240.40</b>	<b>Loans and advances disbursed</b>	<b>1,737.93</b>	<b>84.74</b>	<b>1,730.81</b>	<b>1,815.55</b>
<b>Public debt receipts*</b>	<b>6,713.74</b>	<b>9,357.95</b>	<b>Repayment of public debt*</b>	<b>2,807.13</b>	<b>3,319.88</b>	<b>----</b>	<b>3,319.88</b>
<b>Contingency Fund</b>	<b>-</b>	<b>12.53</b>	<b>Contingency Fund</b>	<b>12.53</b>	<b>0.51</b>	<b>----</b>	<b>0.51</b>
<b>Public Account receipts</b>	<b>80,313.64</b>	<b>94,408.53</b>	<b>Public Account disbursements</b>	<b>75,626.38</b>			<b>86,216.03</b>
<b>Opening cash balance</b>	<b>9,773.51</b>	<b>7,667.31</b>	<b>Closing cash balance</b>	<b>7,667.31</b>			<b>9,609.49</b>
<b>Total</b>	<b>1,55,240.29</b>	<b>1,81,582.18</b>	<b>Total</b>	<b>1,55,240.29</b>			<b>1,81,582.18</b>

(Source: Finance Accounts)

\* Excluding net transactions under ways and means advances and overdraft.

\*\* Includes ₹ 170.14 crore (treated as non-tax revenue) being the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Government by the Ministries other than Ministry of Finance, written off as per the recommendation of the Thirteenth Finance Commission.

### 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 13<sup>1</sup> of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 11 autonomous bodies which are audited under Sections 19(2)<sup>2</sup> and 19(3)<sup>3</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 other autonomous bodies, under Section 14<sup>4</sup> of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for

<sup>1</sup> 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.

<sup>2</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

<sup>3</sup> Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>4</sup> 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.

various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

#### **1.4 Organisational structure of the Office of the Principal Accountant General (G&SSA) Bangalore**

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit) Bangalore conducts audit of Government Departments/ Offices/Autonomous Bodies/Institutions under the General and Social Sector which are spread all over the State. The Principal Accountant General (General & Social Sector Audit) is assisted by three 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 2011-12, in the General & Social Sector Audit Wing, 6648 party-days were used to carry out audit of 382 units and to conduct three performance audits. 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, two thematic paragraphs and functioning of the Department of Fisheries. The highlights are given in the following paragraphs.

### 1.6.1.1 Procurement and distribution of drugs and chemicals

The Karnataka State Drugs Logistics and Warehousing Society (Society) had been established during the year 2003 with the main objective of establishing an efficient, cost effective and decentralized Drug Logistics and Warehousing System in the State adhering to modern warehousing practice and rigid quality control practices and providing information technology enabled services. The Society had been procuring drugs, chemicals and miscellaneous items for use in the health institutions in the State. A performance audit of the procurement and distribution of drugs by the Society during 2007-12 showed the following:

- The tender evaluation by the Society was flawed in many cases as many non-responsive tenders had been considered responsive and drugs had been procured from these non-responsive sources during 2010-11.
- Drugs procurement lacked planning, resulting in chronic delay in finalizing the rate contracts for supply of drugs. While the rate contracts for 2008-09 had been finalized only in March 2009, those for 2009-10 had been awarded only in October 2010. This resulted in non-availability of sources for procurement of drugs during the period March 2010 to October 2010.
- The cost of drugs procured directly from the Karnataka Antibiotics and Pharmaceuticals Limited (KAPL) during 2008-12 against exemptions granted by the Government under the Karnataka Transparency in Public Procurement Act aggregated 31 to 67 *per cent*. The exemption lacked justification as the rates charged by KAPL had been far higher than those at which other State Governments had been purchasing these antibiotics during the corresponding period. During 2008-12, out of ₹ 111.14 crore paid to KAPL for purchase of 17 to 42 drugs, ₹ 55.44 crore (50 *per cent*) represented the higher cost paid when compared to the rates paid by other State Governments.
- Procurement of drugs, especially IV fluids, had not been based on estimates of actual need and drugs had been procured far in excess of requirement, creating storage problems in the warehouses and health institutions. These excessively procured drugs had been stored in garages, toilets, corridors etc in health institutions. Further, 7223 drugs costing ₹ 15.82 crore had been procured with shelf life of less than 80 per cent and 1024 of these had shelf life of less than 50 per cent. Another 87 drugs costing ₹ 35.30 lakh had shelf life of less than 90 days.
- The quality assurance system was not effective as no quality testing of drugs had been done for 14 months from September 2009 to November 2010. No testing laboratory had been appointed since December 2010 for 48 drugs procured. Though the cost of drugs not conforming to quality supplied during 2010-12 aggregated ₹ 1.03 crore, no action had been taken to get these drugs replaced or recover the cost thereof from the suppliers. Further, the warehouses had mixed up the drugs not conforming to quality and time-barred drugs with those meant for distribution to health institutions.

(Paragraph 2.1)

### ***1.6.1.2 Audit of Information Systems in Bangalore Development Authority***

The Bangalore Development Authority (BDA)'s vision was to use Information Technology (IT) and establish an integrated management system for its various business processes. The IT initiatives were also expected to enable the public to access every information they needed from BDA.

However, we found that BDA had not formulated any IT policy to guide its IT initiatives. The IT initiatives were disaggregated and did not factor in the wider picture and the potential need for future enhancement. BDA failed to follow the established system development practices and ended up developing several software packages without establishing a clear link to its key strategic priorities. BDA handled the software development unprofessionally and the value for money achieved by various IT projects was very poor. BDA's ineffective engagement of its stakeholders in the development of software, lack of clear vision of the senior management of the IT initiatives and inadequate oversight of the implementation of these initiatives were key factors, resulting in failure of many of the IT projects undertaken. Improper management of the contracts of the vendors led to several financial irregularities. In particular, the core aims as per the vision statement had not been met.

The property tax, shop-rent and attendance management modules functional in BDA suffered from several flaws in design. We found several instances of inadequate application controls, lack of integration of various interfaces, adoption of adhoc and unauthorised procedures to rectify errors, inadequate security of databases, etc., which effectively meant that BDA had been relying heavily on these ailing systems with all their existing flaws to conduct its business. These arose from insufficient governance, weaknesses in decision making and management in regard to software development. As a result, the IT controls functioning in BDA were not capable of ensuring safeguarding of assets, data integrity and their confidentiality. BDA needed to take immediate and appropriate steps to overcome these shortcomings and deliver a robust IT solution.

**(Paragraph 2.2)**

### ***1.6.1.3 Leasing of properties by the Department of Hindu Religious Institutions and Charitable Endowments***

The Department had not conducted a survey of all immovable properties belonging to the notified institutions and this handicapped the Department in effectively managing the properties of the Hindu religious institutions and charitable endowments. The Department also did not have an asset management plan and as a result, there was no guidance on managing the properties over the mid-and long-term. Land measuring 1.31 lakh sq ft had been irregularly leased by the Government in 52 cases without inviting public offers or conducting auctions. There were no efforts on the part of the Department/Government to obtain detailed market information before fixing the rates for the leases.

The administration of the leases was very poor as unjustified concessions had been extended to the lessees at the time of renewing the leases by (i) fixing the lease rent far lower than the prevailing market rate (ii) fixing longer lease period, depriving the Department of the opportunity of revising the lease rent in the short-term and (iii) revising downward the lease rent after its fixation. Collection procedures to ensure timely payment of lease rents had not been effectively followed, enforcement actions had not been taken to provide a long-term solution for chronic delinquent lessees, and the provision to collect interest for delinquent rental payment had not been enforced.

**(Paragraph 2.3)**

#### ***1.6.1.4 Maintenance of borewells by Bangalore Water Supply and Sewerage Board***

The procurement process followed by the Board for materials required for maintenance of borewells did not conform to the KPWD's Stores Manual and the KTPP Act, discouraged competition, hampered efficient and economical use of the resources, and inhibited transparency and accountability and facilitated purchases of materials against fictitious sanction orders. As the irregular procurements were not isolated cases but had continued for nearly three years, it was indicative of the coordinated efforts of unscrupulous suppliers and officials at various levels to subvert the checks and balances encouraged by the failure of the oversight mechanism in the Board. These lapses resulted in misappropriation of Board's funds aggregating ₹ 10.42 crore through fictitious purchases and excessive charging of materials to borewells.

**(Paragraph 2.4)**

#### ***1.6.1.5 Audit of Department of Fisheries***

The Department of Fisheries is responsible for enhancing fish production with sustained conservation of resources and improving the socio-economic standards of fishermen. An audit of the Department covering 2007-12 had been conducted to examine the economy, efficiency and effectiveness of its significant activities, keeping in view its mandate.

The audit of the Department showed the following:

Large number of vacancies in technical posts handicapped the Department in effective implementation of the programmes and schemes taken up for augmenting fish production. The Department also suffered from several institutional weaknesses such as absence of a Fisheries Policy, non-revision of the Fisheries Manual, inadequate arrangements for monitoring the implementation of schemes, and huge shortfall in internal audit.

The budgetary control mechanism in the Department was weak, as evidenced by non-preparation of realistic budget estimates, necessitating persistent huge savings year after year. The expenditure control was weak, as amounts surrendered were either in excess of the savings or far below the savings.

Though marine and inland fish production showed an impressive growth during 2007-12, there was shortfall in achieving the estimated potential growth. The inadequate capacity of the fishing harbours was a major constraint in optimum utilisation of the marine resources.

The inland fish production was sub-optimal as the fingerlings production in the State fell short of the requirement by 26 per cent during 2011-12. The fish seed production by the departmental farms fell short of the target during 2007-12 mainly due to lack of maintenance of the fish ponds. Subsidy paid for construction of fish ponds had been misused by fishermen.

Implementation of schemes for the welfare of the fishermen was not effective as the relief to the fishermen during the period of ban on fishing had been delayed and construction of houses by fishermen lagged behind schedule despite disbursement of subsidy.

**(Paragraph 4.1)**

### **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 ₹ 111.10 crore. Some significant audit findings are as under:

- *The teaching staff in Government and aided Pre-university colleges received salary of ₹ 4.01 crore for the strike period without compensating for the loss of academic days caused by the strike, in disregard of Government directives.*

**(Paragraph 3.1.1)**

- *Government failed to follow its own guidelines regulating grants to religious institutions and released ₹ 50.86 crore excessively to 58 institutions during 2010-11. Grants of ₹ 8.16 crore released to nine institutions were outside the purview of the Government guidelines.*

**(Paragraph 3.1.3)**

- *Government sold 13 acres of land to a Trust at a concessional rate of 50 per cent of its guidance value, though the Trust agreed to pay the*



*guidance value for the land required for establishing a medical college. As per Rules, the concession was available only to charitable institutions which did not charge any fee or service charges. As the medical college intended to be set up on the Government land was expected to inevitably collect fees from the students, the concession extended was unjustified and it resulted in a loss of ₹4.23 crore.*

**(Paragraph 3.1.4)**

- *The Bangalore Water Supply and Sewerage Board misjudged the responsiveness of the lowest bids received for seven packages and rejected these on the ground that these were not substantially responsive. Consequently, the Board accepted higher bids for these packages and this resulted in extra expenditure of ₹21.36 crore.*

**(Paragraph 3.1.5)**

- *The Bangalore Water Supply and Sewerage Board inappropriately adopted current cost indices of a different commodity for regulating price adjustment and in the process, made an excess payment of ₹6.82 crore to a company.*

**(Paragraph 3.1.7)**

- *Bangalore Development Authority irregularly diverted health cess collections aggregating ₹13.26 crore for unauthorised purposes*

**(Paragraph 3.1.8)**

### **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 ₹27.02 crore, some of which were as under:

- *The investment of ₹22.69 crore on restoration and development of Malathahalli lake failed to prevent contamination of the lake by untreated sewerage.*

**(Paragraph 3.2.1)**

- *Bangalore Development Authority prepared the designs for three flyovers and two grade separators considering the use of steel of grade Fe 415. However, during preparation of estimates and execution of these works, steel of grade Fe 500 had been considered. Though the steel requirement using Fe 500 grade was less as compared to Fe 415 grade, BDA did not revise the designs suitably, leading to unnecessary consumption of more steel on these works and the attendant extra expenditure of ₹4.33 crore.*

**(Paragraph 3.2.2)**

### 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. This report contains two instances of persistent and pervasive irregularities involving ₹ 22.53 crore. They are as under:

- *During 2011-12, in 744 cases relating to 31 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 ₹3.43 crore.*

**(Paragraph 3.3.1)**

- *Bangalore Water Supply and Sewerage Board persistently defaulted in payment of water cess to the Karnataka State Pollution Control Board during 2003-12 and in the process, was burdened with a huge undischarged liability of ₹19.10 crore towards interest and penalty.*

**(Paragraph 3.3.2)**

### 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 ₹ 18.04 crore. A few such cases are mentioned below.

- *Aided Pre-University colleges failed to remit fee collected from the students to the Government account, though mandated by the rules. This facilitated continued retention of fees, due to Government, outside the Government account. The amounts so retained by 74 aided Pre-University colleges aggregated ₹13.04 crore.*

**(Paragraph 3.4.2)**

- *The Department of Collegiate Education procured equipment for receiving centres and broadcast studio to implement the EDUSAT programme in 142 colleges of the State. As the broadcasting studio had not been completed, investment of ₹1.81 crore made on the equipment remained idle for more than three years.*

**(Paragraph 3.4.3)**

## 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 2012, 180 IRs (917 paragraphs) were outstanding against Urban Development Department. 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 the department showed that the Heads of Offices had not sent even the initial replies in respect of 20 IRs containing 83 paragraphs issued between 2004-05 and 2010-11.

### 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 August and October 2012 with the request to send their responses within six weeks. The Government replies for two out of three Reviews, both the thematic paragraphs and six out of 15 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 45 paragraphs for the period 1995-96 to 2010-11 even as of 31 December 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 31 December 2012 are detailed in **Appendix 1.3**.

