



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 chief controlling officer based audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies under Economic Sector.

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.

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 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 contains observations on audit of transactions in Government departments and autonomous bodies. Chapter-3 presents chief controlling officer based audit of Forest Department.

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 11 autonomous bodies which are audited by the Principal Accountant General (Economic & Revenue Sector Audit), Bangalore and the Principal Accountant General (General & Social Sector Audit), Bangalore.

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		
Section A: Revenue				Total	Non-Plan	Plan	Total
Revenue receipts	58,206.22	69,806.27**	Revenue expenditure	54,033.84	46,548.33	18,566.74	65,115.07
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 & contributions	2,978.49	2,769.89	1,574.07	4,343.96
Section B: Capital and others							
Misc Capital receipts	71.81	89.19	Capital outlay	13,355.17	583.88	14,921.77	15,505.65
			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
Recoveries of loans & advances	161.37	240.40	Loans & advances disbursed	1,737.93	84.74	1,730.81	1,815.55
Public debt receipts*	6,713.74	9,357.95	Repayment of public debt*	2,807.13	3,319.88	--	3,319.88
Contingency Fund	--	12.53	Contingency Fund	12.53	0.51	--	0.51
Public Account receipts	80,313.64	94,408.53	Public Account disbursements	75,626.38			86,216.03
Opening cash balance	9,773.51	7,667.31	Closing cash balance	7,667.31			9,609.49
Total	1,55,240.29	1,81,582.18	Total	1,55,240.29			1,81,582.18

(Source: Finance Accounts)

* Excluding net transactions under ways and means advance and overdraft

** Includes ₹ 170.14 crore (treated as non-tax revenue), the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the XIII 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 13¹ 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)², 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 310 other autonomous bodies, under Section 14⁵ of C&AG's (DPC) Act, which are

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 Parliament in accordance with the provisions of the respective legislations

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

⁴ 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

⁵ 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.

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.

1.4 Organisational structure of the Office of the Principal Accountant General (Economic & Revenue Sector Audit), Karnataka

Under the directions of the C&AG, the Office of the Principal Accountant General (E&RSA) conducts audit of Government Departments/Offices/ Autonomous Bodies/ Institutions under them which are spread all over the State. The Principal Accountant General (E&RSA) 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 units, 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 Works and Forest Wing, 131 units were audited by utilising 1,134 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.

The present report contains one Chief Controlling Officer based audit and 11 draft paragraphs. The significant audit observations are discussed below:

1.6.1 Chief Controlling Officer based audit of Forest Department

The objectives of the Forest Department are to preserve forests, increase forest cover by undertaking extensive afforestation in degraded forests and increase tree cover through social forestry besides preservation of wild life. Following are observed:

- Large number of vacancies amongst the front line staff affected the protection and management of forests. The transfer of staff involved in preparation of working plans in contravention of rules delayed the finalisation of working plan of 29 divisions.
- The potential of seed collection centers was not fully exploited due to inadequate staff and budgetary support.
- The wireless network essential for surveillance and monitoring of remote widespread area was not functional in seven divisions.
- The internal audit was largely non-existent on account of vacancies amongst key staff.
- The huge balances available under Karnataka Forest Development Fund were underutilised.
- The Karnataka Forest Development Corporation did not remit the Forest Development Tax of ₹ 32.41 crore to Government account.
- The State Government had not finalized its own forest policy despite passage of six years since recommendation of National Forest Commission.
- The forest area declined by 797 sq km between 2001 and 2011 despite large scale afforestation and reasons were not analysed.
- The 67,096 ha forest land encroached upon had not been got evacuated as of March 2012.
- Final notifications in respect of wildlife Sanctuaries in five cases were pending for more than two decades since issue of preliminary notifications. Consequently, management plans were not prepared.

(Paragraph 3.1)

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. These are as under:

- *Lack of budgetary control resulted in creation of clear liability of ₹ 1509 crore on Government towards pending work bills.*

(Paragraph 2.1.2)

- *Failure to execute agreement for a plot earlier leased to a public sector undertaking more than three decades ago resulted in arrears of rent of ₹3.91 crore.*

(Paragraph 2.1.4)

- *Failure to acquire land before entrustment of work resulted in locking up of ₹4.31 crore on minor irrigation tank work sanctioned more than a decade ago.*

(Paragraph 2.1.5)

- *The mistake in bitumen rate adopted for the base index while calculating price adjustment bills for extra items in a road improvement work had led to irregular payment of ₹ 1.83 crore to a contractor.*

(Paragraph 2.2.1)

- *Liquidated damages of ₹ 1.36 crore were not imposed on a contractor for abnormal delay in completion of road work.*

(Paragraph 2.3.1)

- *The Executive Engineer, National Highways, Chitradurga failed to dovetail different components of the work, which resulted in lingering of road widening work of National Highway 234. Further, bank guarantee furnished towards drawal of interest free mobilisation advance of ₹ 7.97 crore was not encashed despite the contractor not adhering to tender conditions.*

(Paragraph 2.3.3)

1.7 Lack of responsiveness of Government to Audit

1.7.1 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 2012 with the request to send their responses within six weeks. The Government replies for CCO based audit and seven out of 11 paragraphs featured in this Report have been received. The replies, wherever received, have been suitably incorporated in the Report.

1.7.2 Follow-up on Audit Reports

The Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provides that all the departments of Government should furnish detailed explanations in the form of Action Taken Notes (ATNs) to the observations 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 four departments as detailed in **Appendix 1.1** had not submitted ATNs for 18 paragraphs for the period 2002-03 to 2010-11.

1.7.3 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee are given in **Appendix 1.2**.

