

CHAPTER-I

INTRODUCTION

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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 audit findings 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 compliance audit and follow-up on previous Audit Reports. Chapter-II of this report contains findings arising out of performance audit of selected programmes/activities/Departments. Chapter-III contains findings arising out of information systems audit in selected Government audit and Autonomous Bodies. Chapter-IV contains observations arising out of compliance audit in Government Departments and Autonomous Bodies.

1.2 Auditee Profile

The Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru conducts audit of the expenditure under the General and Social Services incurred by 66 Departments in the State and 11 Autonomous Bodies. The Departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers working under them.

The summary of fiscal transactions during the year 2012-13 and 2013-14 is given in **Table-1** below.

Table-1: Summary of fiscal transactions

(₹ in crore)

| Receipts | | | Disbursements | | | | |
|--|--------------------|--------------------|---------------------------------|--------------------|-----------|-----------|--------------------|
| | 2012-13 | 2013-14 | | 2012-13 | 2013-14 | | |
| Section-A: Revenue | | | | Total | Non-Plan | Plan | Total |
| Revenue receipts | 78,176.22 | 89,542.53 | Revenue expenditure | 76,293.26 | 62,219.74 | 26,969.83 | 89,189.57 |
| Tax revenue | 53,753.56 | 62,603.53** | General Services | 20,180.85 | 24,794.03 | 160.38 | 24,954.41 |
| Non-tax revenue | 3,966.10 | 4,031.90 | Social Services | 30,419.80 | 17,813.32 | 14,808.57 | 32,621.89 |
| Share of union taxes/ duties | 12,647.14 | 13,808.28 | Economic Services | 21,674.19 | 16,742.34 | 9,850.49 | 26,592.83 |
| Grants-in-aid and contributions from GOI | 7,809.42 | 9,098.82 | Grants-in-aid and contributions | 4,018.42 | 2,870.05 | 2,150.39 | 5,020.44 |
| Section – B: Capital and others: | | | | | | | |
| Misc. Capital receipts | 33.04 | 87.94 | Capital outlay | 15,478.47 | 326.75 | 16,620.11 | 16,946.86 |
| | | | General services | 589.47 | 27.79 | 472.95 | 500.74 |
| | | | Social services | 2,915.99 | (-)0.14 | 3,052.82 | 3,052.68 |
| | | | Economic services | 11,973.01 | 299.10 | 13,094.34 | 13,393.44 |
| Recoveries of loans and advances | 157.61 | 109.28 | Loans and advances disbursed | 1,102.37 | 25.82 | 669.61 | 695.43 |
| Public debt receipts* | 13,464.66 | 17,286.81 | Repayment of public debt* | 3,727.06 | 3,816.84 | --- | 3,816.84 |
| Contingency Fund | 0.51 | -- | Contingency Fund | -- | -- | -- | --- |
| Public Account receipts | 1,07,548.81 | 1,20,712.85 | Public Account disbursements | 1,01,877.94 | -- | -- | 1,12,971.74 |
| Opening cash balance | 9,609.49 | 10,511.24 | Closing cash balance | 10,511.24 | -- | -- | 14,630.21 |
| Total | 2,08,990.34 | 2,38,250.65 | Total | 2,08,990.34 | | | 2,38,250.65 |

(Source: Finance Accounts 2013-14.)

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

** Tax Revenue include ₹ 1,008.74 crore, being the book adjustment relating to M/s. Hindustan Aeronautics Limited, Bengaluru (HAL) for ₹ 1,008.53 crore treating the same as waiver, and ₹ 0.21 crore being the waiver of tax and interest dues pertaining to ammonium nitrate dealers.

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) (DPC) 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 and 19(3)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 other Autonomous Bodies, under Section 14⁴ 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 (i) 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 (G&SSA), Karnataka, Bengaluru

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru 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 2013-14, in the General & Social Sector Audit Wing, 6,507 party days were used to carry out audit of 375 units and to conduct two performance audits.

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. The highlights are given in the following paragraphs:

1.6.1.1 Role of Karnataka Slum Development Board in improvement and clearance of slums in the State

The Karnataka Slum Areas (Improvement and Clearance) Act, 1973 was enacted by the State Government for the improvement and clearance of slums in the State. A performance audit was conducted to evaluate the effectiveness of the role of the Karnataka Slum Development Board in holistic improvement of the notified slums and improving basic municipal services such as water, sanitation, water connection, storm drainage, street lighting, paved side walls and roads for emerging access for improving the living conditions of the slums. The performance audit showed the following:

- The slum policy initiated by the Board during 2011-12 was yet to be approved by the Government despite lapse of more than 2 ½ years.
- Absence of any mechanism for prevention of growth of slums resulted in three fold growth of slums since 2001.
- The Board did not have system to monitor the receipt of Slum Improvement Cess from various Local Bodies and development authorities. Also, Board had not prepared any action plan of works to be implemented out of the cess amount received.
- Absence of comprehensive database/slum profile resulted in non-preparation of comprehensive plan for slum improvement/clearance. The Board also had no norms for identification/prioritisation of slums for improvement.
- The slum improvements taken up under the schemes which provided for holistic development such as BSUP and IHSDP was more effective than schemes under VAMBAY, HUDCO, *etc.*, which provided only for construction of houses.
- The improvement of slums was taken up by the Board belatedly in an partial, intermittent and disintegrated manner, as a result of which the slums continue to retain the slum characteristics for a longer period of time. Of the inspected slums, 77 *per cent* continue to retain the characteristics of slums even after a lapse of more than 20-40 years of their being notified.
- The Board failed to de-notify and handover the developed slums to the Urban Local Bodies concerned for their upkeep, maintenance and providing civic amenities. Though, out of 43,438 houses undertaken for construction in 286 slums under BSUP/IHSDP schemes, 39,115 houses were completed and occupied, the Board failed to de-notify and handover the slums to Urban Local Bodies.

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- The Board did not implement the IEC activities in all the slums taken up for improvement.

(Paragraph 2.1)

1.6.1.2 Water Supply Management by the Bangalore Water Supply and Sewerage Board with special emphasis on Cauvery Water Supply Scheme, Stage IV, Phase II and Greater Bangalore Water Supply Project

The Bangalore Water Supply and Sewerage Board (Board) was established (October 1964) for providing water supply and sewerage system to the Bengaluru city. The Board had been implementing various projects for providing water supply to the city. A performance audit of the water supply management by the Board with special emphasis on two projects viz., Cauvery Water Supply Scheme, Stage IV, Phase II and Greater Bangalore Water Supply Project during 2009-14 showed the following:

- The Board had prepared a Water Supply and Conservation Management Plan in 2002, but it was yet to implement many of its recommendations viz., formulation of Drought and Emergency Management Plan which addresses the issue of conservation of water.
- Though the Board initiated action to bridge the gap between demand and supply, it could not match the shortfall mainly due to restrictions on drawal of water from the river Cauvery and also due to rapid growth of population in the city.
- The Board had initiated Distribution Network Improvement Programme and Slum Development component under CWSS Stage IV, Phase II to reduce Unaccounted for Water (UFW). However, delay in commencing the programmes not only resulted in escalation of cost but also non achievement of objective of reducing the UFW.
- Delay in completion of various works of Sewerage Management Plan resulted in sewage being discharged into the storm water drain thereby polluting the ground water.
- The estimates prepared by the Board were unrealistic as they were inflated on account of unnecessary provisions in the estimate and adoption of incorrect rates.
- Further, adoption of inappropriate indices for price adjustment factor, execution of work of different specification and non-compliance with standards resulted in excess payment and also undue benefit to contractor.
- Central Water Testing Laboratory which was understaffed and lacked infrastructure could only partly comply with the testing of water quality as prescribed in CPHEEO manual.

(Paragraph 2.2)

1.6.2 Information Systems audit

The present report contains one Information Systems audit and the significant audit findings are given below.

1.6.2.1 Police IT 2000

The project which was to go live by May 2005 was implemented in January 2011, after a delay of about six years. The Administration Module, which required huge modifications was yet to be implemented in full due to insufficient co-ordination and control over requirement gathering. Conducting user acceptance test without correlating the input screens with various reports generated resulted in unreliable data and report. The system was not effective in ensuring data integrity as it lacked validation controls in many modules, permitted un-authorised edits without audit trails and defective user interface. Further, the Department has not been able to enforce adoption of features in Training module, Finance module, Stores module *etc.*, and hence were used in limited manner by the end users.

(Paragraph 3.1)

1.6.3 Compliance audit

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government Departments/Organisations. Some significant audit findings are as under:

1.6.3.1 Functioning of Public Libraries in Karnataka

The Department did not amend its Karnataka Public Libraries Act, 1965 in order to enable the levy of library cess. Further, the Department failed to monitor the collection and remittance of library cess by the Urban Local Authorities. Despite availability of land, the Department had no action plan for construction of its own buildings although 78 City Central Libraries and 72 District Central Libraries were operating from rented buildings. The books acquired from publishers, which were required to be kept in the State Central Library as reference books, were kept in godowns for want of space thereby depriving the readers of their usage. Procurement of various equipments had been made at rates which were much higher than the market rate. No plans were conceived to preserve and protect the life of precious books. Periodic physical verification of books was not conducted and hence category-wise actual number of books in possession of libraries was not known. No centralised digital catalogue existed to enable efficient direct search.

(Paragraph 4.1)

1.6.3.2 Property Management by the Karnataka State Board of Auqaf

The Board had not framed regulations for registration of Auqaf. The Board did not follow the procedures for updating the records in the concerned land office having jurisdiction of the Waqf properties. This resulted in sale/transfer of Waqf properties after their registration by the Board.

The survey of Waqf properties was commenced only during 2001 and as of April 2014, only 60 *per cent* Waqf properties had been surveyed. Further, non-completion of survey resulted in alienation as well as encroachment of Waqf properties.

By not initiating legal action challenging the provisions of the Karnataka Inam Abolition Act, 1955 or the notification issued during January 1960, as per which the lands stood vested in the State Government and the land had been granted to eligible persons under the Karnataka Land Grant Rules, 1969, the Board does not have a 'right' in respect of 57,043-02 acres of land across the State.

There was an outstanding loan of ₹ 5.53 crore pending against 35 Waqf institutions. Due to non-availability of information on number of works completed, copies of completion certificate/utilisation certificates and inspection reports in case of all completed works, the amount spent on educational schemes out of the enhanced income, year-wise increase in Waqf fees, *etc.*, whether, the Waqf institutions which had availed loan from Central Waqf Council, fulfilled the conditions stipulated was not ascertainable. Contrary to the existing provisions, there were a number of transgressions in respect to period of lease fixation and recovery of lease rent, even with reference to commercial establishments. Also, the monitoring and internal mechanism in the Board was ineffective.

(Paragraph 4.2)

1.6.3.3 Other audit observations

Fifty one Grant-in-aid colleges irregularly retained tuition and laboratory fees of ₹ 23.97 crore collected from students without remitting it to the joint accounts with Director of Collegiate Education. The Commissioner, Collegiate Education routinely released grants to these colleges without adjusting the amounts retained by the colleges against the grants.

(Paragraph 4.3)

The Government delayed the decision to swap higher interest bearing loans with Housing and Urban Development Corporation Limited resulting in payment of higher rate of interest for more than two years and avoidable additional interest payment of ₹ 4.77 crore.

(Paragraph 4.4)

An effective emergency responsive system to handle public distress could not be established due to entrustment of the project to the Karnataka State Police Housing Corporation which lacked the expertise in the field and resulted in blocking of funds of ₹ 3.66 crore for over three years.

(Paragraph 4.5)

Inordinate delay in handing over site and issuing structural drawings for the Post Graduate Centre, Kolar led to stoppage of work by the contractor midway and cost overrun of ₹ 1.59 crore apart from depriving the students of intended facilities.

(Paragraph 4.6)

M/s.Greenlife International, a society registered for establishing an International Agricultural Trade Fair Centre at Poojenahally received grants from the Government year after year even though it had huge unspent grants (₹ 8.38 crore). The project also failed to take off due to unresolved land disputes. Further, investment of unutilised amount in low yielding savings account led to potential loss of ₹ 1.95 crore.

(Paragraph 4.8)

The project 'Kalagrama' remained incomplete even after incurring an expenditure of ₹ 10.25 crore over the period 2000-2014. This resulted in non-achievement of objectives and rendered the expenditure already incurred unproductive.

(Paragraph 4.9)

Incurring of expenditure to the tune of ₹ 89.52 crore towards procurement of UPS, LCD Projector and Mini MFD Printers even before setting up of site or procurement of computer resulted in locking up of Government funds. Besides, delay in the implementation of the Information and Communication Technology in School Education (ICT) Phase III resulted in cost overrun of ₹ 60.56 crore apart from denying computer education to the students for five years.

(Paragraph 4.11)

Government land measuring 18 acres 20 guntas and valued at ₹ 22.20 crore was bifurcated from Survey No.49 of Anjanapura Village, Bengaluru South in favour of six persons. However, files relating to the bifurcation were not available with the jurisdictional revenue officer.

(Paragraph 4.12)

Failure of the Bangalore Water Supply and Sewerage Board to renew the expired lease agreements of its tenants and non-revision of rent resulted in loss of ₹ 2.03 crore.

(Paragraph 4.16)

Irregular appointment of Officers by Bangalore Development Authority in excess of sanctioned strength in various cadres resulted in excess payment of ₹ 3.56 crore.

(Paragraph 4.17)

Bangalore Development Authority awarded compensation of ₹ 2.42 crore to 10 land owners of Survey No.49 of Anjanapura Township. However, at the

time of payment of compensation, documents necessary to ensure that compensation was disbursed to legally entitled persons had not been obtained.

(Paragraph 4.18)

Even five years after its completion, the built up office space at Banashankari II Stage, Bengaluru at a cost of ₹ 2.81 crore remained largely un-allotted, rendering the expenditure incurred unproductive.

(Paragraph 4.19)

Karnataka Urban Water Supply and Drainage Board continued to provide water supply at pre-revised rates to industrial organisations inspite of the State Government revising the water tariff in July 2011. This resulted in loss of revenue of ₹ 17.06 crore in respect of water supplied to three industries.

(Paragraph 4.20)

Government allotted 54 acres 20 guntas of land to Indian Institute for Human Settlements at a concessional rate disregarding the provisions of various Acts and Rules. This irregular allotment resulted in undue benefit of ₹ 30.98 crore to the Institute.

(Paragraph 4.21)

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 March 2014, 411 IRs (2,376 paragraphs) were outstanding against Revenue 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 411 IRs containing 2,376 paragraphs issued between 1984-85 and 2013-14, though all IRs were required to be replied to within a period of one month from the date of their receipt.

1.7.2 Response of Departments to the draft paragraphs

The Draft paragraphs and Performance audit reports were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between June and October 2014 with the request to send their responses within six weeks. Government replies have been received for one Information Systems audit and seven out of 19 paragraphs featured in this Report. The replies, wherever received, have been suitably incorporated in the Report.

1.7.3 Follow-up action on Audit Reports

The Hand Book and 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 feature 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 15 Departments as detailed in **Appendix-1.2** had not submitted ATNs for 47 paragraphs for the period 1996-97 to 2012-13 even as of October 2014.

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 October 2014 are detailed in **Appendix-1.3**.

