



Chapter 1

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 the Performance 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 Compliance Audit 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 Compliance Audit in Government departments and autonomous bodies.

1.2 Auditee Profile

There are 17 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 23 autonomous bodies which are audited by the Principal Accountant General (Economic & Revenue Sector Audit), Bangalore.

The summary of fiscal transactions during the year 2011-12 and 2012-13 is given in Table 1 below:

Table 1: Summary of fiscal transactions**(₹ in crore)**

Receipts			Disbursements				
	2011-12	2012-13		2011-12	2012-13		
Section A: Revenue				Total	Non-Plan	Plan	Total
Revenue receipts	69,806.27	78,176.22	Revenue expenditure	65,115.07	55,081.58	21,211.68	76,293.26
Tax revenue	46,475.96	53,753.56	General services	16,445.48	20,028.35	152.50	20,180.85
Non-tax revenue	4,086.86	3,966.10	Social services	25,171.73	17,110.39	13,309.41	30,419.80
Share of union taxes/duties	11,075.04	12,647.14	Economic services	19,153.90	15,112.05	6,562.14	21,674.19
Grants-in-aid & contributions from GOI	8,168.41	7,809.42	Grants-in-aid & contributions	4,343.96	2,830.79	1,187.63	4,018.42
Section B: Capital and others							
Miscellaneous Capital receipts	89.19	33.04	Capital outlay	15,505.65	321.65	15,156.82	15,478.47
			General services	625.49	27.09	562.38	589.47
			Social services	2,695.19	6.64	2,909.35	2,915.99
			Economic services	12,184.97	287.92	11,685.09	11,973.01
Recoveries of loans & advances	240.40	157.61	Loans & advances disbursed	1,815.55	17.77	1,084.60	1,102.37
Public debt receipts	9,357.95	13,464.66	Repayment of public debt	3,319.88	3,727.06	-	3,727.06
Contingency Fund	12.53	0.51	Contingency Fund	0.51	-	-	-
Public Account receipts	94,408.53	1,07,548.81	Public Account disbursements	86,216.03			1,01,877.94
Opening cash balance	7,667.31	9,609.49	Closing cash balance	9,609.49			10,511.24
Total	1,81,582.18	2,08,990.34	Total	1,81,582.18			2,08,990.34

(Source: Finance Accounts)

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 23 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 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 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 with the previous approval of the Governor of the State and audit of 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 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 2012-13, in the Economic Sector Audit Wing, 1,272 party-days were utilised to carry out audit of 137 units and conduct one Performance Audit.

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 Performance Audit and 14 paragraphs. The significant audit observations are discussed below:

1.6.1 Performance Audit of Working of Sericulture Department

Sericulture is an agro based cottage industry involving cultivation of host plants, rearing of silkworms and finally producing silk yarn. Karnataka is the leading State where sericulture is practiced with a tradition of more than 200 years and is the home land of popular Mysore silk. The State produces mulberry variety of raw silk and accounts for 44 *per cent* of the country's total mulberry raw silk production. Various schemes are being implemented by the Sericulture Department to increase the production of silk and an expenditure of ₹ 381.30 crore was incurred between 2008 and 2013. A Performance Audit of the working of the Department during 2008-13 showed the following:

- Mulberry cultivation area in the State decreased from 91,434 to 74,128 hectare.
- Savings persisted under Plan expenditure constituting 39.10 *per cent* of total grants and huge balance of ₹ 127.46 crore available under Price Stabilisation Fund was not utilised for market intervention.
- Non-plan expenditure exceeded Plan expenditure and many of the departmentally owned units were incurring huge losses.
- Identification of schemes for gender budgeting was incorrect. While the raw silk production stagnated, the expenditure towards subsidies and incentives had increased manifold.
- Production of Bivoltine silk (a high yielding variety) had not been accorded priority though objective of major schemes was linked to Bivoltine culture.
- Many instances where the subsidies and incentives under different schemes were disbursed in violation of guidelines.
- The sericulture activity in non-traditional area registered negative growth.

(Paragraph 2.1)

1.6.2 Compliance Audit

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments. These are as under:

Contract management in Public Works, Ports & Inland Water Transport Department

We observed that despite the recommendations of Dr. Nanjundappa Committee, the Department did not prepare a sustainable road development plan setting forth targets particularly to address the deficiencies in more backward and less backward taluks. Authorities consistently failed to follow the provisions of KTPP Act, rules and directions of Government in the procurement process. Renewals of roads were not based on sustained action plan or as per prescribed norms which contributed to avoidable expenditure.

Sanctions accorded by authorities were not consistent with financial rules governing it. Effective quality assurance envisaged by Government was not implemented due to staff constraints. Estimated extra cost/financial implication of these violations were to the extent of ₹ 137.48 crore.

(Paragraph 3.1.1)

Irregularities in release of funds and execution of works in Magadi

We observed that grants (₹ 250 crore) were allotted to Magadi Sub-Division of Public Works, Ports & Inland Water Transport Department without ascertaining necessity. Absence of Appendix 'E,' which is a list of capital works to be included in budget, facilitated release of bulk grants for original and capital nature of works without approval from competent authority contrary to codal provisions. The works proposed for village roads, link roads as well as other roads not under the jurisdiction of the sub division and road length exceeding the actual road length was approved by controlling officer without proper scrutiny. The estimates were split below ₹ 20 lakh in order to invite manual tenders and tendering process was violated at every stage to favour few contractors. There were irregularities in taking measurements and the Executive Engineer did not check measure the works to the extent prescribed before payment of bills. There were instances of payment by creating fake bills and duplication of estimates. The bills of road improvement works were paid without quality control reports.

(Paragraph 3.1.2)

➤ *Adoption of unrealistic vehicle damage factor by consultants in road improvement estimates resulted in overdesigning of pavement thickness which resulted in avoidable extra cost of ₹ 42.83 crore. Further, irregular/excess payment of ₹ 1.59 crore was made to project management consultants appointed for supervision of these works.*

(Paragraph 3.1.3)

➤ *Uncontrolled illegal sand mining in Mulbagal taluk of Kolar district resulted in loss of revenue of ₹ 2.54 crore to Government in respect of three sand blocks.*

(Paragraph 3.1.4)

➤ *Karnataka Industrial Areas Development Board allotted developed plots to three industrial units at Narasapura Industrial Area at subsidised rates, in violation of Government approval resulting in loss of ₹ 104.40 crore.*

(Paragraph 3.1.8)

➤ *The Government sanctioned excess interest free loan to the extent of ₹ 385.27 crore in violation of provisions of the Industrial Policy 2009-14 to a Company. The Government also prematurely released ₹ 20.94 crore which was recoverable.*

(Paragraph 3.1.9)

- *Improper and deficient scrutiny prior to release of grants for establishing biotechnology finishing schools resulted in excess release of grant towards ineligible investments aggregating to ₹ 7.93 crore. Out of this, ₹ 4.39 crore remain unutilised.*

(Paragraph 3.1.11)

- *Channapatna lake in Hassan town which had been de-notified a decade earlier was taken up for rejuvenation and then abandoned mid-way leading to wasteful expenditure of ₹ 3.57 crore.*

(Paragraph 3.2.1)

- *Karnataka Industrial Areas Development Board mismanaged investment of funds leading to deposit amount of ₹ 12 crore remaining unencashed much after maturity.*

(Paragraph 3.3.1)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Response of departments to the audit observations

The audit observations/Performance Appraisal were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned departments between April and September 2013 with the request to send their responses within six weeks. The Government replies for five out of 14 observations 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 six departments as detailed in **Appendix 1.1** had not submitted ATNs for 24 paragraphs for the period from 2001-02 to 2011-12.

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 as of 31 December 2013 are given in **Appendix 1.2**.
