



**Chapter 1**

**Introduction**

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### Introduction

#### 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), Karnataka, Bengaluru.

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 & contributions from GOI	7,809.42	9,098.82	Grants-in-aid & contributions	4,018.42	2,870.05	2,150.39	5,020.44
<b>Section B: Capital and others</b>							
Miscellaneous 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 & advances	157.61	109.28	Loans & 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
<b>TOTAL</b>	<b>2,08,990.34</b>	<b>2,38,250.65</b>	<b>TOTAL</b>	<b>2,08,990.34</b>			<b>2,38,250.65</b>

(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 13<sup>1</sup> 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)<sup>2</sup>, 19(3)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 310 other autonomous bodies, under Section 14<sup>5</sup> 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.

<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 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

<sup>5</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 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), Karnataka, 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 the State under Article 151 of the Constitution of India.

During 2013-14, in the Economic Sector Audit Wing, 1,490 party-days were utilised to carry out audit of 206 units and 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 on Command Area Development activities in Karnataka**

Command Area Development Programme was introduced by the Government of India in 1974 with the objective of bridging the gap between irrigation

potential created and irrigation potential utilised through micro-level infrastructure by utilisation of water for irrigation. The Command Area Development activities in Karnataka involve execution of On Farm Development works such as construction of field irrigation channels, field drains, land levelling, reclamation of water logged areas, correction of system deficiencies of outlets up to distributaries, *etc.* It also involves extension services such as undertaking field trials, crop demonstrations and training of staff and farmers, *etc.*

The expenditure on Command Area Development activities is shared by the Centre and the State in the ratio of 50:50 for On Farm Development works and 75:25 for extension services. During 2009-14, the State Government allocated ₹ 2,037.99 crore in the budget for implementation of the programme in six Command Area Development Authorities and three *Neeravari Nigams*.

A Performance Audit on the implementation of Command Area Development activities in Karnataka covering the period 2009-14 showed the following:

- ❖ A gap of 4.10 lakh hectares existed between the irrigation potential created and utilised, as of March 2014, due to non-construction of field irrigation channels. Field irrigation channels were constructed only in an area of 2.25 lakh hectares (30 *per cent* of target) against cumulative target of 7.48 lakh hectares for 2009-14.
- ❖ Financial management was deficient as the State Government allocated grants in excess of that sought by the implementing agencies. As a result, ₹ 1,206.52 crore, constituting 59 *per cent* of allocation, was surrendered/lapsed during 2009-14.
- ❖ In 16 Projects, 2.71 lakh hectares were not irrigated though field irrigation channels were constructed, resulting in crop loss amounting to ₹ 915 crore.
- ❖ Government of India did not reimburse ₹ 130 crore incurred by the State Government during 2009-14 in respect of centrally assisted projects due to shortfall in achieving targets as per memorandum of understanding. Also, Central assistance of ₹ 733 crore was not utilised due to shortfall in achieving the targets in all 15 projects.
- ❖ The objective of Participatory Irrigation Management, to ensure farmers participation in water management and maintenance of command area, remained unfulfilled, as the water management was not being managed by the water users' co-operative societies.

(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:

The leasing of Co-operative Sugar Factories (CSFs) was aimed at helping the cane growers and employees of the CSFs by augmenting resources and minimising liabilities thereby achieving sustainable economic activity and regional development. Our scrutiny of records of the Commissionerate of Sugar showed injudicious decisions of the Commissioner in leasing of CSFs which not only defeated the objective of their rehabilitation, but also resulted in non-recovery of rentals and continued non-functioning of CSFs. The bid document or the agreement did not stipulate any penal provisions for safeguarding the interest of the Government in the event of breach of lease conditions and pre-closure of the lease agreements by the lessee. Also there was inordinate delay in completion of liquidation process resulting in increasing liabilities to Government and CSFs.

*(Paragraph 3.1)*

Allotment of land in Bidadi Industrial Area to a Company at reduced rate resulted in a loss of ₹ 5.40 crore to Karnataka Industrial Areas Development Board.

*(Paragraph 3.2)*

Flouting of specific Government instructions and non-exercising of due diligence compounded by abnormal delay in collecting fixed deposit certificates by Karnataka State Pollution Control Board resulted in non-realisation of investment of ₹ 10 crore and interest of ₹ 93 lakh.

*(Paragraph 3.5)*

Abnormal delay in obtaining funds led to additional burden of ₹ 10.56 crore in acquisition of lands for construction of a road. Incorrect computation of interest had also resulted in excess payment of ₹ 3.96 crore towards interest.

*(Paragraph 3.7)*

Non revision of lease rent as stipulated in the lease agreement of a brick factory resulted in loss of revenue of ₹ 2.29 crore.

*(Paragraph 3.9)*

Price adjustment for variation item amounting to ₹ 1.02 crore was paid to a contractor in contravention of contractual provisions.

*(Paragraph 3.10)*

Failure to revise a design occasioned by use of a higher grade steel than originally envisaged in the work of construction of protection wall, resulted in extra expenditure of ₹ 1.80 crore.

*(Paragraph 3.13)*

## **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 March 2014, 196 IRs (800 Paragraphs) were outstanding against Co-operation and Water Resources (Minor Irrigation) Departments. Year-wise details of IRs and Paragraphs are detailed in **Appendix 1.1**.

A review of the IRs, pending due to non-receipt of replies from the Departments, showed that the Heads of Offices had not sent even the initial replies in respect of 18 IRs containing 201 Paragraphs issued between 2001-02 and 2013-14.

### ***1.7.2 Response of departments to the Draft Paragraphs***

The draft audit observations and Performance Audit Report were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/ Secretaries of the departments concerned between June and September 2014 with the request to send their responses within six weeks. The Government replies for four out of 14 observations featured in this Report have been received. The replies have been suitably incorporated in the Report.

### ***1.7.3 Follow-up on Audit Reports***

The Rules of Procedure (Internal Working), 1999 of the Public Account Committee provides that all the departments of Government should furnish detailed explanations in the form of Departmental Notes 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 eight Departments as detailed in **Appendix 1.2** had not submitted Departmental Notes for 27 paragraphs for the period from 2003-04 to 2012-13.

### ***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 July 2014 are given in **Appendix 1.3**.

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