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 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 Promotion and Development of Tourism in Karnataka. Chapter-3 contains observations on Compliance Audit in Government departments and autonomous bodies.

1.2 Auditee Profile

There are 17 departments in the State under the Economic Sector at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and 105 autonomous bodies which are audited by the Accountant General (Economic & Revenue Sector Audit), Karnataka, Bengaluru.

The summary of fiscal transactions of the Government of Karnataka during the year 2013-14 and 2014-15 is given in **Table 1.1** below:

Table 1.1: Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2013-14	2014-15		2013-14	2014-15		
Section A: Revenue				Total	Non-Plan	Plan	Total
Revenue receipts	**89,542.53**	**1,04,142.15**	**Revenue expenditure**	**89,189.57**	**69,783.10**	**33,831.19**	**1,03,614.29**
Tax revenue	62,603.53	70,180.21	General services	24,954.41	28,024.39	240.88	28,265.27
Non-tax revenue	4,031.90	4,688.24	Social services	32,621.89	19,204.97	20,161.28	39,366.25
Share of Union taxes/duties	13,808.28	14,654.25	Economic services	26,592.83	18,748.23	11,223.08	29,971.31
Grants-in-aid & contributions from GOI	9,098.82	14,619.45	Grants-in-aid & contributions	5,020.44	3,805.51	2,205.95	6,011.46
Section B: Capital and others							
Miscellaneous Capital receipts	**87.94**	**10.14**	**Capital outlay**	**16,946.86**	**277.35**	**19,344.95**	**19,622.30**
			General services	500.74	29.85	588.61	618.46
			Social services	3,052.68	98.11	4,082.78	4,180.89
			Economic services	13,393.44	149.39	14,673.56	14,822.95
Recoveries of loans & advances	**109.28**	**83.82**	**Loans & advances disbursed**	**695.43**	**12.04**	**564.11**	**576.15**
Public Debt receipts	**17,286.81**	**21,874.63**	**Repayment of Public Debt**	**3,816.84**	**4,812.23**	**-**	**4,812.23**
Contingency Fund	**-**	**-**	**Contingency Fund**	**-**	**-**	**-**	**-**
Public Accounts receipts	**1,21,842.37**[1]	**1,40,229.39**	**Public Accounts disbursements**	**1,12,971.74**	**-**	**-**	**1,29,573.99**
Opening cash balance	**10,511.24**	**15,759.73**	**Closing cash balance**	**15,759.73**	**-**	**-**	**23,900.90**
TOTAL	**2,39,380.17**	**2,82,099.86**	**TOTAL**	**2,39,380.17**			**2,82,099.86**

(Source: Finance Accounts 2014-15)

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[2] of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of four autonomous bodies which are audited under sections 19(2)[3], 19(3)[4] and 20(1)[5] of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 101 other autonomous bodies, under Section 14[6] 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] Gross balance of 2013-14 increased by ₹ 1,129.52 crore due to increase in investments out of Infrastructure Initiative Fund.

[2] 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.

[3] 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.

[4] Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

[5] 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.

[6] 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 Accountant General (Economic & Revenue Sector Audit), Karnataka

Under the directions of the C&AG, the Office of the Accountant General (E&RSA), Karnataka, conducts audit of Government Departments/ Offices/Autonomous Bodies/Institutions under them which are spread all over the State.

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 for submission before the State legislature.

During 2014-15, in the Economic Sector Audit Wing, 1,650 party-days were utilised to carry out audit of 184 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 highlighted.

The present report contains one Performance Audit and 16 paragraphs. The significant audit observations are summarised below:

1.6.1 Performance Audit on ‘Promotion and Development of Tourism in Karnataka’

During 2009-14, Department of Tourism incurred ₹ 1,330.89 crore towards promotion and publicity, development of infrastructure and for providing basic amenities and incentives/subsidies, *etc*. A Performance Audit covering the period 2010-15 was conducted. Major findings are as mentioned below:

- Actionable plans to achieve the objectives were not prepared though tourism policy of 2009-14 advocated for its preparation. Neither the tourist destinations nor tourism products were identified which would contribute to the tourist growth.
- Though Department statistics showed increase in growth in domestic tourist arrivals but lacked credibility as figures were not compiled as per the method prescribed by Government of India.
- Foreign tourist arrivals to Karnataka grew by six *per cent* only in a span of ten years (2004-14) though foreign tourist arrivals to India had doubled during the same period and State's share constituted 7.5 *per cent* of the total foreign tourist arrivals to India during 2014.
- Though the PPP model was adopted to boost tourism, investments from the private sector suffered setback as entrepreneurs backed out from 35 projects which involved ₹ 21,673.67 crore of investments (76.5 *per cent*) out of the total approved investments of ₹ 27,550 crore from 512 projects. The expected employment generation was overestimated as employment generation created was 0.06 lakh (below one *per cent*) as against targeted potential employment generation of 29 to 41 lakh. Thus the objective of making tourism the principal and largest economic activity could not be achieved.
- Projects assisted by Government of India were not completed within the stipulated period which resulted in loss of central assistance of ₹ 17.95 crore in seven cases.
- The mega project at Hampi taken up in 2008 was still under progress and Theme Park estimated at a cost of ₹ 50 crore was shelved which resulted in wasteful expenditure of ₹ 1.41 crore. Tourism potential of Pattadakal was not tapped and separate management authority was not established as was done in case of Hampi.
- Seventy seven Yatrinivas/dormitories constructed for the benefit of tourists at a cost of ₹ 51.63 crore were not put to use due to delay in identifying authority for its management.
- Eco & adventure tourism, sound and light show and coastal tourism projects were not completed as planned or several components were shelved on account of various reasons which were indicative of weak appraisal of projects.
- Norms for providing basic amenities were not finalised and basic amenities were lacking at identified tourist destinations including at world heritage sites.
- Thirteen departmentally owned facilities like hotels and restaurants could not become operational due to non-handing over of facilities by DoT to private players after entering into lease agreements with them in six cases and delay in tendering which resulted in idling of assets.

(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:

- Absence of a detailed project report, diversion of funds and poor implementation had resulted in non-fulfillment of the objective of establishing a Gems and Jewellery Training Centre even after seven years of sanction by the Government and unfruitful expenditure of ₹ 2.01 crore.

  (Paragraph 3.1)

- Payment of compensation for land acquired for Harohalli Industrial Area (3rd Phase) by overlooking the joint inspection report had resulted in double payment of compensation of ₹ 1.84 crore to the land owners in Bannikuppe village of Ramanagar district.

  (Paragraph 3.3)

- Construction of residential quarters in a civic amenity site along with deficient contract management resulted in abandonment of project mid-way and wasteful expenditure of ₹ 7.71 crore.

  (Paragraph 3.5)

- Non-commissioning of automatic traffic counter cum weighing machines even after eight years of commencement of project resulted in unfruitful expenditure of ₹ 4.60 crore.

  (Paragraph 3.7)

- Deduction of shrinkage of sand for stacking at depots at 20 *per cent* which was in excess of the norms of five *per cent* prescribed by Indian Road Congress resulted in loss of revenue of ₹ 3.35 crore.

  (Paragraph 3.8)

- Fraudulent payments were made by preparing fake work bills in Public Works, Ports and Inland Water Transport Division, Kalaburagi.

  (Paragraph 3.11)

- An amount of ₹ 34.16 lakh was misappropriated during 2009 to 2015 by falsification of records in Public Works, Ports and Inland Water Transport Sub-Division, Davanagere.

  (Paragraph 3.12)

- Excess grant of land in violation of Karnataka Land Reforms Act by Revenue authorities and failure to exercise due diligence and to obtain prescribed documents by Karnataka Industrial Areas Development Board resulted in payment of land compensation of ₹ 79.29 crore to non-eligible persons in Immav village of Nanjangud taluk.

  (Paragraph 3.13)

- In respect of the work relating to 'Implementation of Repair, Renovation and Restoration of water bodies', Detailed Project Reports (DPRs) did not contain basic information on the state of condition of the tanks, Culturable Command Area, rainfall data and availability of water. DPRs were prepared without incorporating the performance details of tanks. The deviation in preparing DPRs resulted in projecting non-productive works as productive. Identification of tanks for restoration was made without involving Water Users' Associations and Panchayats. The Minor Irrigation Department's claim of restoration of 19,889 ha was not factual as components like silt removal, improvement to canals and repairs to sluice gates were not completely executed.

(Paragraph 3.14)

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 2015, 123 IRs (373 Paragraphs) were outstanding against Commerce & Industries Department. Year-wise details of IRs and Paragraphs are detailed in **Appendix 1.1**.

A review of the pending IRs showed that the Heads of Offices had not sent even the initial replies in respect of 32 IRs containing 130 Paragraphs issued between 2001-02 and 2014-15.

1.7.2 Response of departments to the Draft Paragraphs

The Performance Audit Report and draft paragraphs were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the departments concerned between May and October 2015 to send their responses within four weeks. Government replies for the Performance Audit Report and eight out of 16 paragraphs 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 Accounts Committee provide 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 38 paragraphs for the period from 2003-04 to 2013-14 (as of December 2015).

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs pending discussion by the Public Accounts Committee as of December 2015 are given in **Appendix 1.3**. Seventeen paragraphs relating to AR 1992-93 in respect of four Departments are pending for discussion in PAC. Delay in discussion or non-discussion of paragraphs may result in erosion of accountability by executive.

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