

## **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 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 be 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 Role of Karnataka Industrial Areas Development Board in facilitating industrial development. Chapter-3 contains observations on Compliance Audit in the Government Departments and Autonomous Bodies.

#### **1.2 Auditee Profile**

The Accountant General (Economic & Revenue Sector Audit), Karnataka, Bengaluru, conducts audit of 12 Departments and 25 Autonomous Bodies under the Economic Sector in the State. The Departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them.

The summary of fiscal transactions of the Government of Karnataka during the year 2015-16 and 2016-17 is given in **Table 1.1** below:

**Table 1.1: Summary of fiscal transactions**

(₹ in crore)

Receipts			Disbursements				
	2015-16	2016-17		2015-16	2016-17		
Section A: Revenue				Total	Non-Plan	Plan	Total
<b>Revenue receipts</b>	<b>1,18,817.31</b>	<b>1,33,213.79</b>	<b>Revenue expenditure</b>	<b>1,17,028.58</b>	<b>83,958.99</b>	<b>47,961.76</b>	<b>1,31,920.75</b>
Tax revenue	75,550.18	82,956.13	General services	30,799.28	31,152.93	111.63	31,264.56
Non-tax revenue	5,355.04	5,794.53	Social services	46,307.08	24,653.32	29,895.92	54,549.24
Share of Union taxes/duties	23,983.34	28,759.94	Economic services	33,846.17	23,840.45	16,580.92	40,421.37
Grants-in-aid & contributions from GoI	13,928.75	15,703.19	Grants-in-aid & contributions	6,076.05	4,312.29	1,373.29	5,685.58
<b>Section B: Capital and others</b>							
			<b>Capital outlay</b>	<b>20,713.03</b>	<b>466.08</b>	<b>27,684.35</b>	<b>28,150.43</b>
Miscellaneous Capital receipts	352.30	26.96	General services	991.41	33.42	1,026.97	1,060.39
			Social services	5,313.91	213.80	6,683.04	6,896.84
			Economic services	14,407.71	218.86	19,974.34	20,193.20
Recoveries of loans & advances	59.68	99.84	Loans & advances disbursed	656.41	5.31	1,929.07	1,934.38
Public Debt receipts	21,072.33	31,155.92	Repayment of Public Debt	4,110.20	7,420.24	-	7,420.24
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Accounts receipts	1,60,518.76	1,79,318.45	Public Accounts disbursements	1,55,094.83	-	-	1,67,153.81
Opening cash balance	23,900.90	27,118.23	Closing cash balance	27,118.23	-	-	34,353.58
<b>TOTAL</b>	<b>3,24,721.28</b>	<b>3,70,933.19</b>	<b>TOTAL</b>	<b>3,24,721.28</b>			<b>3,70,933.19</b>

(Source: Finance Accounts 2016-17)

### 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 the 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 four 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 101 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 and loss accounts, balance sheets and 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.

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.

#### **1.4 Planning and conduct of Audit**

Audit process starts with the assessment of risks faced by various Departments of the 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 (2) of the Constitution of India for submission before the State Legislature.

During 2016-17, in the Economic Sector Audit Wing, 1,566 party-days were utilised to carry out audit of 163 units.

#### **1.5 Significant audit observations**

In the last few years, Audit had 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 impacted 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 on the Role of Karnataka Industrial Areas Development Board in facilitating industrial development, one Thematic Audit on Implementation of Environmental Laws and Rules by Karnataka Pollution Control Board and 12 Compliance Audit paragraphs. The significant audit observations are summarised below:

##### ***1.5.1 Performance Audit on the “Role of Karnataka Industrial Areas Development Board in facilitating industrial development”***

Karnataka industrial Areas Development Board (KIADB) did not have a Perspective Plan for carrying out its functions as laid down in Karnataka Industrial Areas Development (KIAD) Act, 1966. Action Plans for implementation of objectives as per Industrial Policies of 2009-14 and

2014-19 were not prepared. The process of notification and acquisition of land for creation of Land Bank was unplanned. For Land Bank, 1.15 lakh acres of land was identified, but only 50,887 acres were notified and actual acquisition was only 21,486 acres. KIADB approved 42 proposals for acquisition of land for formation of Industrial Areas during 2011-17 without Techno-Feasibility Studies and comparative evaluation of alternatives. Unplanned acquisition led to idle inventory of 6,593 acres of developed land valued at ₹ 6,000 crore and 30,507 acres of undeveloped land valued at ₹ 3,172 crore. Due to absence of provision for timeline for acquisition in KIAD Act and Regulations, 28,719.29 acres of land remained under Preliminary Notification for two to fifteen years causing hardships to land owners.

KIADB was not sensitive to the requirement of Environmental Clearance as a prerequisite and obtained clearances for only 31 Industrial Areas against 62 Industrial Areas developed during 2012-17. Environment Monitoring Cell was not constituted and status of compliance to various Environmental Clearance conditions was not in public domain. An estimated 2,571 million litres of untreated industrial and domestic waste were let-off as surface discharge in six Industrial Areas. Infrastructure facilities were not adequate in 38 test checked Industrial Areas where 4,077 units were in operation.

Reduction in tentative allotment rates by excluding cost towards water supply and electrical infrastructure resulted in extending undue financial benefit of ₹ 91.07 crore to 76 allottees.

Processes and procedures for allotment of amenity sites were not defined. No centralised system existed to monitor receipt, disposal and pendency of allotments. Failure to enforce conditions of allotment resulted in non-realisation of ₹ 581.20 crore besides non-utilisation of land.

*(Paragraph 2.1)*

### ***1.5.2 Thematic Audit on “Implementation of Environmental Laws and Rules by Karnataka State Pollution Control Board”***

Karnataka State Pollution Control Board (KSPCB) did not maintain inventory of polluting sources and loads to aid a comprehensive plan for prevention, control and abatement of pollution. There was inadequate mechanism in place to track renewal or expiry of consents for operation granted to industrial units. Consent for establishment and operations to Red and Orange industrial units were granted without mandatory inspections. Frequency of inspections in respect of Orange and Green category of industrial units were less due to shortage of manpower. Requirement of Sewage Treatment Plants in the State was not assessed by KSPCB. Action to prevent entry of untreated sewage to lakes was not taken. Ambient air quality checks in five districts showed presence of particulates/noxious gases above the prescribed safe standards. Possibility of unscientific method of disposal of bio-medical waste cannot be ruled out as 899 Health Care Establishments were not utilising designated Common Bio-medical Waste Treatment Facility notified by KSPCB.

*(Paragraph 3.3)*

### **1.5.3 Compliance Audit**

Audit had reported on several significant deficiencies in critical areas which impacted the effective functioning of the Government Departments. These are as under:

Unutilised grants of ₹ 16.96 crore were parked in fixed deposit accounts by Karnataka Council for Technical Upgradation without surrendering it to the Government for re-appropriation.

*(Paragraph 3.1)*

Out of ₹ 24.93 crore paid as compensation to an agency, ₹ 20.59 crore was avoidable owing to poor defense in arbitration court and avoidable appeals in higher courts.

*(Paragraph 3.4)*

The Executive Engineers of Koppal and Raichur divisions of Public Works, Ports and Inland Water Transport Department, did not transfer roads declared as National Highways to the Government of India and incurred ₹ 105.44 crore towards improvements though the responsibility for development and maintenance of National Highways was with the Government of India.

*(Paragraph 3.5)*

In the work of improvements to road from Mysuru Road Junction to Coca Cola Factory (Bidadi Industrial Area), an excess payment of ₹ 1.22 crore was made by making incorrect entries in the Measurement Books and extra cost of ₹ one crore on execution of incomplete works was not recovered from the contractor.

*(Paragraph 3.7)*

Mechanical excavation was cheaper than manual excavation. Payment for excavation of foundation at manual rates instead of mechanical rates though machineries were used for excavation, resulted in extra benefit of ₹ 1.71 crore to a contractor in the work of construction of a new court complex at Hubballi.

*(Paragraph 3.8)*

Injudicious entrustment to an agency and failure to provide adequate funds for construction of suspension bridge by the Department of Tourism resulted in wasteful expenditure of ₹ 1.23 crore, as the prospects of completion was remote.

*(Paragraph 3.9)*

A project to provide water to three minor irrigation tanks through lift irrigation executed by Minor Irrigation Division, Bengaluru and completed at an expenditure of ₹ 13.50 crore was not required as another project with the same objective was already completed by a Government Company.

*(Paragraph 3.10)*

Minor Irrigation Division, Mysuru did not avail Central Excise Duty exemption on pipes used for water supply, which resulted in extra cost of ₹ 3.28 crore, besides undue benefit of ₹ 39 lakh to the contractor.

*(Paragraph 3.11)*

Executive Engineer, Minor Irrigation Division, Kolar, did not verify Bank Guarantees of ₹ 1.42 crore submitted by contractors, which later on turned out to be fake. This, also resulted in failure to recover dues from the contractors.

*(Paragraph 3.13)*

## **1.6 Lack of responsiveness of the Government to Audit**

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

The Performance Audit, Thematic Audit and 12 draft paragraphs were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the concerned Departments between March and September 2017 to send their responses within four weeks. The Government replies for Performance Audit and two out of 12 draft paragraphs featured in this Report were received. The Government replies in respect of Thematic Audit and 10 draft paragraphs are awaited. The replies received are suitably incorporated in the Report.

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

The Rules of Procedure (Internal Working), 1999, of the Public Accounts Committee provides that all the Departments of the 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 10 Departments (as detailed in **Appendix 1.1**) did not submit Departmental Notes for 61 paragraphs for the period from 2003-04 to 2015-16 (as of September 2017).

### ***1.6.3 Paragraphs to be discussed by the Public Accounts Committee***

Details of paragraphs pending discussion by the Public Accounts Committee as of September 2017 are given in **Appendix 1.2**. There are 182 paragraphs relating to the Audit Reports of various years from 1992-93 to 2015-16 pending for discussion in Public Accounts Committee. Delay in discussion or non-discussion of paragraphs may result in erosion of accountability of the Executive.

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