

**CHAPTER – I**  
**INTRODUCTION**



## Chapter-I

### Introduction

#### 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 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 important results of audit to the notice of the State Legislature. 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 issue directives that will lead to improved management, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the follow-up on previous Audit Reports. Chapter-II and Chapter-III of this report contains findings arising out of Performance Audit and observations arising out of compliance audit in Government Departments and Autonomous Bodies respectively.

#### 1.2 Budget profile

The Principal Accountant General (Audit-I), Karnataka, Bengaluru, conducts audit of expenditure under the General and Social Services Sectors incurred by 65 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 position of budget estimates and actual expenditure there against by the State Government during the period 2014-15 to 2018-19 is given in **Table 1.1** below:

**Table 1.1: Budget and actual expenditure of the State during 2014-15 to 2018-19**  
(₹ in crore)

Expenditure	2014-15		2015-16		2016-17		2017-18		2018-19	
	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual
General services	29,570	28,265	30,997	30,799	35,018	31,265	38,009	34,484	45,744	42,655
Social services	42,117	39,366	45,728	46,307	50,960	54,549	55,887	58,652	70,226	67,935
Economic services	32,399	29,971	32,175	33,846	38,277	40,421	43,671	42,856	44,152	48,285
Grant-in-aid & contributions	6,671	6,012	6,549	6,076	5,980	5,686	7,187	6,490	6,167	5,425
<b>Total (1)</b>	<b>1,10,757</b>	<b>1,03,614</b>	<b>1,15,449</b>	<b>1,17,028</b>	<b>1,30,235</b>	<b>1,31,921</b>	<b>1,44,754</b>	<b>1,42,482</b>	<b>1,66,289</b>	<b>1,64,300</b>
Capital outlay	20,014	19,622	20,564	20,713	25,716	28,150	32,033	30,667	35,246	34,659
Loans & advance disbursed	477	576	733	657	625	1,934	1,597	5,093	5,817	4,487
Repayment of public debt	6,760	4,812	5,788	4,110	6,841	7,420	8,176	8,269	11,136	11,083
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	2,57,940	1,29,574*	2,83,523	1,55,095*	3,42,036	1,67,154*	5,09,624	1,94,537*	5,10,667	2,34,330*
Closing balance	-	23,901	-	27,118	-	34,354	-	26,184	-	22,004
<b>Total (2)</b>	<b>2,85,196</b>	<b>1,78,485</b>	<b>3,10,613</b>	<b>2,07,693</b>	<b>3,75,223</b>	<b>2,39,012</b>	<b>5,51,435</b>	<b>2,64,750</b>	<b>5,62,871</b>	<b>3,06,563</b>
<b>Grand Total (1 + 2)</b>	<b>3,95,953</b>	<b>14,48,099</b>	<b>4,26,062</b>	<b>3,24,721</b>	<b>5,05,458</b>	<b>3,70,933</b>	<b>6,96,189</b>	<b>4,07,232</b>	<b>7,29,160</b>	<b>4,70,863</b>

\*Does not include investments

Source: Annual Financial Statement and State Finance Audit Reports of respective years

### 1.3 Application of resources of the State Government

As against the total budget outlay of ₹7,29,160 crore, the application of resources was ₹4,70,863 crore during 2018-19. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 64 per cent from ₹1,23,812 crore to ₹2,03,446 crore during the period 2014-15 to 2018-19 while the revenue expenditure increased by 59 per cent from ₹1,03,614 crore to ₹1,64,300 crore during the same period. The revenue expenditure constituted 80 to 85 per cent of the total expenditure while capital expenditure was 15 to 17 per cent during the period from 2014- 15 to 2018-19.

During the period from 2014-15 to 2018-19, total expenditure increased at an annual average rate of 13 per cent whereas revenue receipts grew at an annual average growth rate of 12 per cent.

### 1.4 Persistent savings

During the last five years, 10 grants showed persistent savings of more than ₹10 crore and which were also five per cent or more of the total grants as detailed in **Table 1.2** below:

**Table 1.2: Grants indicating persistent savings**

(₹ in crore)

Sl. No.	Number and name of the grant	Amount of savings				
		2014-15	2015-16	2016-17	2017-18	2018-19
<b>Revenue (Voted)</b>						
1	1-Agriculture and Horticulture	1,580.11 (26)	803.18 (14)	653.97 (10)	455.50 (7)	1,340.72 (17)
2	4-Department of Personnel and Administrative Reforms	380.37 (35)	90.20 (16)	143.15 (22)	107.10 (14)	165.93 (13)
3	22-Health and Family Welfare	968.97 (16)	904.50 (15)	605.01 (9)	403.91 (6)	427.44 (5)
4	23-Labour and Skill Development	260.82 (33)	126.72 (13)	111.37 (12)	606.35 (36)	204.81 (16)
5	25-Kannada and Culture	70.40 (23)	20.22 (6)	35.62 (11)	38.89 (10)	82.02 (26)
6	27-Law	69.78 (11)	45.28 (7)	72.89 (11)	79.63 (10)	59.28 (6)
7	28-Parliamentary Affairs and Legislation	23.12 (14)	28.94 (16)	24.82 (14)	59.21 (25)	34.33 (18)
<b>Revenue (Charged)</b>						
8	4-Department of Personnel and Administrative Reforms	28.44 (14)	16.24 (7)	23.05 (10)	24.34 (9)	22.67 (15)
<b>Capital (Voted)</b>						
9	3-Finance	12.53 (13)	67.61 (46)	37.97 (33)	38.54 (30)	34.52 (30)
10	11-Women and Child Development	48.73 (41)	64.19 (13)	49.91 (26)	21.56 (11)	71.55 (44)

Note: Figures in brackets indicate percentage of savings to total provision

Source: Appropriation Accounts of relevant years

### 1.5 Grant-in-aid from Government of India

Grants-in-aid from Government of India showed an increasing trend during the years 2016-17 to 2018-19 as compared to the previous year as shown in **Table 1.3**.

**Table 1.3: Grant-in-aid received from Government of India**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-Plan grants	3,635	5,548	7,045	-	-
Grants for State Plan schemes	9,097	8,105	8,102	-	-
Grants for Central plan schemes	159	139	116	-	-
Grants for Centrally sponsored schemes	1,729	137	440	11,617	10,393
Other transfers/Grants to States	-	-	-	7,316	11,714
Finance Commission Grants	-	-	-	2,708	3,374
<b>Total</b>	<b>14,620</b>	<b>13,929</b>	<b>15,703</b>	<b>21,641</b>	<b>25,481</b>

## **1.6 Authority for conducting Audit**

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, give the Comptroller and Auditor General (C&AG) of India the authority for conducting Audit. 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 11 Autonomous Bodies, which are audited under Sections 19(2)<sup>2</sup> and 19(3)<sup>3</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 other Autonomous Bodies, under Section 14<sup>4</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.

## **1.7 Organisational structure of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru**

Under the directions of the C&AG, the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru, conducts the 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 (Audit-I) is assisted by three Group Officers and various subordinate officers.

## **1.8 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. The frequency and extent of audit are decided based on risk assessment.

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

---

<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 (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 anybody 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.

inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India to be tabled in the State Legislature.

During 2018-19, in the General & Social Sector Audit Wing, 3,869 party days were used to carry out audit of 366 units and to conduct one performance audit and two compliance audits.

## 1.9 Significant audit observations and response to audit

In the last few years, Audit 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 Performance Audit and 17 paragraphs included in this report were forwarded demi-officially to the Principal Secretaries / Secretaries of the Departments concerned between July 2019 and December 2019 to send their responses within six weeks. Government replies were received for the Performance Audit and all the paragraphs. The replies are suitably incorporated in the Report.

## 1.10 Responsiveness of Government to Audit

### 1.10.1 Outstanding Inspection Reports

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 on 31 March 2019, 3,437 IRs (18,232 paragraphs) were outstanding against all Departments. Age-wise details of pendency are given in **Table 1.4** below:

**Table 1.4: Age-wise details of pendency of IRs and paragraphs**

Sl. No.	Age	Number of IRs	Number of paragraphs
1	< 1 year	82	640
2	1-2 years	511	4,623
3	2-5 years	1,308	8,175
4	5-10 years	863	3,226
5	>10 years	673	1,568
<b>Total</b>		<b>3,437</b>	<b>18,232</b>

Source: Information derived from IR Registers maintained in PAG (Audit I) Office

A review of the pending IRs issued up to March 2019 showed that while two *per cent* of the total IRs were pending *i.e.*, 82 IRs (640 paragraphs) for less than one year, 2,682 IRs (16,024 paragraphs) were pending for more than one year but for less than 10 years. However, around 20 *per cent* of IRs *i.e.*, 673 IRs (1,568 paragraphs) were pending for more than 10 years. Further, review of IRs pending for more than 10 years revealed that Revenue and Karnataka Judiciary Departments had highest pendency of IRs at 110 and 75 respectively. Year-wise and department-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

### 1.10.2 Follow-up action on Audit Reports

The Hand Book and the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provides for all the departments of Government to furnish detailed explanations in the form of Action Taken Notes (ATNs) to the audit observations which featured in Audit Reports, within four months of their being laid on the Table of Legislature.

The administrative departments did not comply with these instructions and seven departments as detailed in **Table 1.5** did not submit ATNs for 14 paragraphs for the period 2011-12 to 2017-18 even as on 31 December 2019.

**Table 1.5: Details of Departmental Notes pending as of 31 December 2019 (Excluding General and Statistical Paragraphs)**

Sl. No.	Department	11-12	12-13	14-15	17-18	Total
1	Education Department	-	-	-	4	4
2	Health and Family Welfare Department (Medical Education)	-	-	1	-	1
3	Health and Family Welfare Department	-	-	-	1	1
4	Housing Department	-	-	-	1	1
5	Kannada and Culture department	-	-	-	1	1
6	Minority Welfare Department	-	-	-	2	2
7	Revenue	1	2	-	1	4
<b>Total</b>		<b>1</b>	<b>2</b>	<b>1</b>	<b>10</b>	<b>14</b>

Source: Information derived from PAC watch Registers maintained in PAG (Audit I) Office

### 1.10.3 Paragraphs to be discussed by the Public Accounts Committee

A review of the position of paragraphs pending discussion by the Public Accounts Committee as of 31 December 2019 showed that 80 paragraphs (including performance audits and reviews) were yet to be discussed. Department-wise details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of 31 December 2019 are detailed in **Appendix 1.2**.

## 1.11 Status of placement of Separate Audit Reports of autonomous bodies in the State Legislature

Several autonomous bodies have been set up by the Government in the fields of Urban Development, Housing, Labour Welfare and Education. The audit of accounts of 11 autonomous bodies in the State has been entrusted to the CAG.



The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is given in **Appendix 1.3**.

Karnataka State Commission for Protection of Child Rights (established in July 2009) and Karnataka Real Estate Regulatory Authority (established in July 2017) are yet to be submit their annual accounts for the years since inception. Delay in submission of annual accounts in respect of four autonomous bodies was one year. Delay in finalisation of accounts carries the risk of financial irregularities going undetected, and therefore, the accounts need to be finalised and submitted to Audit at the earliest.

SARs in respect of Karnataka Building and Other Construction Workers' Welfare Board for the years 2006-07 to 2015-16 have not been placed before the State Legislature.

### 1.12 Year-wise details of performance audits and paragraphs appeared in Audit Report

The year-wise details of performance audits and paragraphs that appeared in the Audit Report for the last two years along with their money value are given in **Table 1.6** below:

**Table 1.6: Details regarding the performance audits and paragraphs that appeared in the Audit Report during 2016-18**

Year	Performance Audit		Paragraphs		Replies received	
	Number	Money value (₹ in crore)	Number	Money value (₹ in crore)	Performance Audit	Draft Paragraphs
2016-17	01	247.98	12	50.85	01	12
2017-18	01	265.82	12	286.37	01	12

Source: Audit Reports of 2016-17 and 2017-18

During 2018-19, one performance audit (₹7.01 crore) and 17 paragraphs (₹2,802.96 crore) involving ₹2,809.97 crore have been included in this Report.