



Chapter-I	
Introduction	

1.1 About this Report

Part I of the report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from 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.

The primary purpose of the Report is to bring important results of audit to the notice of the State Legislature. 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 contains observations arising out of compliance audit in Government Departments and Autonomous Bodies respectively.

1.2 Budget Profile

The position of budget estimates and actual expenditure there against by the State Government during the period 2015-16 to 2019-20 is given in **Table 1.1** below:

Expenditure	2015-16		2016-17		2017-18		2018-19		2019-20	,
	BE	Actual	BE	Actual	BE	BE	Actual	BE	Actual	BE
General	30,997	30,799	35,018	31,265	38,009	34,484	45,744	42,655	50,492	48,824
services										
Social	45,728	46,307	50,960	54,549	55,887	58,652	70,226	67,935	71,350	66,373
services										
Economic	32,175	33,846	38,277	40,421	43,671	42,856	44,152	48,285	52,907	52,636
services										
Grant-in-aid	6,549	6,076	5,980	5,686	7,187	6,490	6,167	5,425	6,856	6,425
&										
contributions										
Total (1)	1,15,449	1,17,028	1,30,235	1,31,921	1,44,754	1,42,482	1,66,289	1,64,300	1,81,605	1,74,258

Table 1.1: Budget and actual expenditure of the State during 2015-16 to 2019-20 (₹ in crore)

Expenditure	2015-16		2016-17		2017-18		2018-19		2019-20	
	BE	Actual	BE	Actual	BE	BE	Actual	BE	Actual	BE
Capital outlay	20,564	20,713	25,716	28,150	32,033	30,667	35,246	34,659	40,080	35,530
Loans & advance disbursed	733	657	625	1,934	1,597	5,093	5,817	4,487	2,503	4,069
Repayment of public debt	5,788	4,110	6,841	7,420	8,176	8,269	11,136	11,083	9,964	10,180
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	2,83,523	1,55,095*	3,42,036	1,67,154*	5,09,624	1,94,537*	5,10,667	2,34,330*	5,19,964	2,45,292
Closing balance	-	27,118	-	34,354	-	26,184	-	22,004	-	34,463
Total (2)	3,10,613	2,07,693	3,75,223	2,39,012	5,51,435	2,64,750	5,62,871	3,06,563	5,72,516	3,29,534
Grand Total (1 + 2)	4,26,062	3,24,721	5,05,458	3,70,933	6,96,189	4,07,232	7,29,160	4,70,863	7,54,121	5,03,792

BE – Budget Estimates

*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 ₹7,54,121 crore, the application of resources was ₹5,03,792 crore during 2019-20. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 55 *per cent* from ₹1,38,398 crore to ₹2,13,857 crore during the period 2015-16 to 2019-20 while the revenue expenditure increased by 49 *per cent* from ₹1,17,028 crore to ₹1,74,258 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 2015-16 to 2019-20.

During the period from 2015-16 to 2019-20, total expenditure increased at an annual average rate of 12 *per cent* whereas revenue receipts grew at an annual average growth rate of 11 *per cent*.

1.4 Persistent savings

During the last five years, 13 out 29 grants showed persistent savings of more than $\gtrless 10$ crore and which were also five *per cent* or more of the total grants as detailed in **Table 1.2** below:

					((m croic)			
Sl.	Number and name of the	of the Amount of savings							
No.	grant	2015-16	2016-17	2017-18	2018-19	2019-20			
Revenue (Voted)									
1	1-Agriculture and Horticulture	803.18 (14)	653.97 (10)	455.50 (7)	1,340.72 (17)	1,178.55 (14)			
2	4-Department of Personnel and Administrative Reforms	90.20 (16)	143.15 (22)	107.10 (14)	165.93 (13)	104.29 (10)			
3	12-Information, Tourism	18.04	34.15	94.01	98.11	42.5			

Table 1.2: Grants indicating persistent savings

(₹ in crore)

Sl.	Number and name of the		Am	ount of sav	rings	
No.	grant	2015-16	2016-17	2017-18	2018-19	2019-20
	and Youth Services	(5)	(8)	(11)	(16)	(9)
4	21-Water Resources	198.62	119.16	169.89	125.31	290.53
		(20)	(12)	(16)	(12)	(27)
5	22-Health and Family	904.50	605.01	403.91	427.44	756
	Welfare	(15)	(9)	(6)	(5)	(9)
6	23-Labour and Skill	126.72	111.37	606.35	204.81	222.91
	Development	(13)	(12)	(36)	(16)	(16)
7	27-Law	45.28	72.89	79.63	59.28	61.76
		(7)	(11)	(10)	(6)	(6)
8	28-Parliamentary Affairs	28.94	24.82	59.21	34.33	14.46
	and Legislation	(16)	(14)	(25)	(18)	(8)
Reve	enue (Charged)					
9	4-Department of Personnel	16.24	23.05	24.34	22.67	56.52
	and Administrative Reforms	(7)	(10)	(9)	(15)	(34)
Capi	ital (Voted)					
10	3-Finance	67.61	37.97	38.54	34.52	19.32
		(46)	(33)	(30)	(30)	(15)
11	11-Women and Child	64.19	49.91	21.56	71.55	14.58
	Development	(13)	(26)	(11)	(44)	(15)
12	12-Information, Tourism	7.80	93.28	169.34	242.22	126.36
	and Youth Services	(21)	(24)	(35)	(42)	(27)
13	21-Water Resources	2,231.65	1,252.97	2,638.20	547.46	1110.85
		(25)	(13)	(21)	(5)	(8)

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 2019-20 as compared to the previous year as shown in **Table 1.3**.

Table 1.3: Grant-in-aid received from Government of India¹

2015-16 5,548	2016-17	2017-18	2018-19	2010 20
5,548			2010-17	2019-20
2,210	7,045	-	-	-
8,105	8,102	-	-	-
139	116	-	-	-
137	440	11,617	10,393	12,214
-	-	7,316	11,714	17,593
-	-	2,708	3,374	4,673
13,929	15,703	21,641	25,481	34,480
	139 137 - -	139 116 137 440 - - - - - -	139 116 - 137 440 11,617 - - 7,316 - - 2,708	139 116 - 137 440 11,617 10,393 - - 7,316 11,714 - - 2,708 3,374

* There are no figures since the nomenclature of plan and non-plan grants was removed with effect from the year 2017-18 and replaced by Grants for CSS, Finance Commission Grants and Other Grants to States.

¹ This does not include devolution.

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 C&AG of India the authority for conducting Audit. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13^2 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of three Autonomous Bodies, which are audited under Sections $19(2)^3$ and $19(3)^4$ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of other Autonomous Bodies, under Section 14^5 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, 2007^6 , issued by the C&AG.

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

The State Offices of the C&AG of India were restructured (March 2020) on the basis of allocation of clusters, each cluster containing departments with inter-connected outcomes and linkages. Prior to restructuring, the Principal Accountant General (Audit-I), Karnataka, Bengaluru, was responsible for audit of expenditure incurred by 65 Departments in the State and 11 Autonomous Bodies under the General and Social Services Sectors. Postrestructuring, the Principal Accountant General (Audit-I) is responsible for audit of expenditure incurred by 54 Departments and 03 Autonomous Bodies under the Finance, Health and Welfare, Education, Skill Development and Employment, Agriculture, Food and Allied Industries, Water Resources, General Administration and Rural Development clusters. The Principal Accountant General (Audit-I) is assisted by three Group Officers and various subordinate officers. This report includes observations relating to departments under the jurisdiction of the Principal Accountant General (Audit-I)

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

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 (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.

⁶ Amended during 2020.

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 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 2019-20, in the General and Social Sector Audit Wing (*i.e.*, prior to restructuring), 6,161 party days were used to carry out audit of 622 units and to conduct performance audit and compliance audits. Similarly, 447 party days were used to carry out financial (certification) audit of 26 units.

1.9 Significant audit observations and response to audit

Audit has reported significant deficiencies

- in implementation of various programmes/activities;
- lapses in internal controls in selected departments, as well as
- observations noticed during compliance audit of the Government departments/organisations.

Nine paragraphs included in Part I of this report were forwarded demiofficially to the Principal Secretaries / Secretaries of the Departments concerned between January and March 2021 with a request to send their responses within six weeks. Government replies were received for six paragraphs and 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 2020, 7,516 IRs (38,140 paragraphs) were outstanding against 54 Departments⁷. Age-wise details of pendency are given in **Table 1.4** below:

Sl. No.	Age	Number of IRs	Number of paragraphs
1	< 1 year	291	2,941
2	1-2 years	721	7,458
3	2-5 years	2,224	13,783
4	5-10 years	1,719	7,113
5	>10 years	2,561	6,845
ſ	fotal	7,516	38,140

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

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

A review of the pending IRs issued up to March 2020 showed that while four *per cent* of the total IRs were pending *i.e.*, 291 IRs (2,941 paragraphs) for less than one year, 4,664 IRs (28,354 paragraphs) were pending for more than one year but for less than 10 years. However, around 34 *per cent* of IRs *i.e.*, 2,561 IRs (6,845 paragraphs) were pending for more than 10 years. Further, review of IRs pending for more than 10 years revealed that Rural Development and Panchayat Raj, Primary and Secondary Education and Women and Child Development Departments had highest pendency of IRs at 693, 354 and 219 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 nine departments as detailed in **Table 1.5** did not submit ATNs for 19 paragraphs for the period 2003-04 to 2017-18 even as on 31 December 2020.

	(Excluding General and Statistical Laragraphs)									
Sl. No.	Department	03-04	11-12	12-13	14-15	16-17	17-18	Total		
1	Education	-	-	-	-	-	3	3		
2	Food, Civil Supplies and Consumer Affairs	-	-	-	-	1	-	1		
3	Health and Family Welfare (Medical Education)	-	-	-	1	-	-	1		
4	Health and Family Welfare	-	-	-	-	-	1	1		
5	Horticulture/Sericulture	-	-	-	-	-	1	1		
6	Minor Irrigation	1	-	-	-	1	2	4		
7	Minority Welfare	-	-	-	-	-	2	2		

 Table 1.5: Details of Departmental Notes pending as of 31 December 2020 (Excluding General and Statistical Paragraphs)

¹ Information pertains to the departments under the jurisdiction of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru post-restructuring.

SI. No.	Department	03-04	11-12	12-13	14-15	16-17	17-18	Total
8	Revenue	-	1	2	-	-	1	4
9	RDPR	-	-	-	-	-	2	2
	Total	1	1	2	1	2	12	19

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 2020 showed that 85 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 2020 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 Education, Labour Welfare and Child Welfare. The audit of accounts of three autonomous bodies in the State, under the jurisdiction of Pr. Accountant General (Audit I), 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 **Table 1.6**.

 Table 1.6: Status of entrustment of audit, rendering of accounts and issue of Separate Audit Reports

	of Separate Audit Reports									
SI. No	Name of the Autonomous Body	Period of entrustment of audit of accounts to CAG	Year up to which accounts rendered	Year up to which audit report issued	Placement of audit reports before the Legislature	Year to which accounts due	Period of delay in submission of accounts (up to 30 th June 2020)			
1	Karnataka Building and Other Construction Workers Welfare Board, Bengaluru	As per Act	2016-17	2015-16	Report not yet placed (2006-07 to 2015-16)	NA	NA			
2	Karnataka Text Book Society, Bengaluru	Up to 2020-21	2006-07	2006-07 SAR issued on 24.01.2020	Nil	NA	NA			
3	Karnataka State Commission for Protection of Child Rights, Bengaluru	As per Act	Established in July 2009. Accounts yet to be submitted since inception							

The Karnataka Building and Other Construction Workers' Welfare Board has not placed before the State Legislature, the SARs for the years 2006-07 to 2015-16. The Karnataka Test Book Society was yet to submit the revised accounts for the year 2007-08 and the Karnataka State Commission for Protection of Child Rights (established in July 2009) was yet to be submit the annual accounts since inception. 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.

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 three years along with their money value are given in **Table 1.7** below:

Table 1.7: Details regarding the performance audits and paragraphs thatappeared in the Audit Report during 2016-17 to 2019-20

	Perform	ance Audit	Para	Igraphs	Replies received		
Year	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	
2018-19	01	7.01	17	2,802.96	01	17	

Source: Audit Reports (General and Social Sector Audit) of 2016-17, 2017-18 and 2018-19.

During 2019-20, nine paragraphs involving ₹68.90 crore have been included in this Report.