

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 2016-17 to 2020-21 is given in **Table 1.1** below:

Table 1.1: Budget and actual expenditure of the State during 2016-17 to 2020-21

(₹ in crore)

Expenditure	2016-17		2017-18		2018-19		2019-20		2020-21	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
General services	35,018	31,265	38,009	34,484	45,744	42,655	50,492	48,824	59,602	55,018
Social services	50,960	54,549	55,887	58,652	70,226	67,935	71,350	66,373	65,046	61,726
Economic services	38,277	40,421	43,671	42,856	44,152	48,285	52,907	52,636	48,536	53,629
Grant-in-aid & contributions	5,980	5,686	7,187	6,490	6,167	5,425	6,856	6,425	6,590	5,681
Total (1)	1,30,235	1,31,921	1,44,754	1,42,482	1,66,289	1,64,300	1,81,605	1,74,258	1,79,774	1,76,054

Expenditure	2016-17		2017-18		2018-19		2019-20		2020-21	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Capital outlay	25,716	28,150	32,033	30,667	35,246	34,659	40,080	35,530	43,059	45,406
Loans & advance disbursed	625	1,934	1,597	5,093	5,817	4,487	2,503	4,069	3,452	2,669
Repayment of public debt	6,841	7,420	8,176	8,269	11,136	11,083	9,964	10,180	11,605	11,016
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	3,42,036	1,67,154	5,09,624	1,94,537	5,10,667	2,34,330	5,19,964	2,45,292	4,57,018	2,66,193
Closing balance	0	34,354	0	26,184	0	22,004	0	34,463	0	47,143
Total (2)	3,75,223	2,39,012	5,51,435	2,64,750	5,62,871	3,06,563	5,72,516	3,29,534	5,15,139	3,72,427
Grand Total (1 + 2)	5,05,458	3,70,933	6,96,189	4,07,232	7,29,160	4,70,863	7,54,121	5,03,792	6,94,913	5,48,481

BE – Budget Estimates

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 ₹ 6,94,913 crore, the application of resources was ₹ 5,48,481 crore during 2020-21. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 38 *per cent* from ₹ 1,62,005 crore to ₹ 2,24,129 crore during the period 2016-17 to 2020-21 while the revenue expenditure increased by 33 *per cent* from ₹ 1,31,921 crore to ₹ 1,76,054 crore during the same period. The revenue expenditure constituted 79 to 81 *per cent* of the total expenditure while capital expenditure was 21 to 19 *per cent* during the period from 2016-17 to 2020-21.

During the period from 2016-17 to 2020-21, the total expenditure increased at an annual average rate of 13.72 *per cent* for the period 2016-17 to 2018-19 and decreased to 4.96 *per cent* during 2019-20 to 2020-21, whereas revenue receipts grew at an annual average growth rate of 11.57 *per cent* during the period from 2016-17 to 2018-19 and reduced to 6.34 *per cent* during 2019-20 and to -10.67 *per cent* during 2020-21.

1.4 Persistent savings

During the last five years, 12 out of 29 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 Grant / Appropriation	Amount of Savings and Percentage				
		2016-17	2017-18	2018-19	2019-20	2020-21
	Year					
1	1- Agriculture and Horticulture					
	Revenue Voted	653.97 (10)	455.50 (7)	1,340.72 (17)	1178.55 (14)	869.74 (10)
2	3- Finance					
	Revenue Voted	3,028.48 (16)	3,303.03 (17)	4,834.71 (16)	6323.25 (22)	1,849.68 (7)
	Capital Voted	37.97 (33)	38.54 (30)	34.52 (30)	19.32 (15)	24.98 (19)
3	4- Department of Personnel and Administrative Reforms					
	Revenue Voted	143.15 (22)	107.10 (14)	165.94 (13)	104.29 (10)	114.66 (14)
	Revenue Charged	23.05 (10)	24.34 (9)	22.67 (15)	56.52 (34)	32.67 (20)
4	7- Rural Development and Panchayat Raj					
	Capital Voted	842.92 (40)	705.94 (52)	278.19 (8)	1223.39 (21)	498.24 (10)
5	11- Women and Child Development					
	Capital Voted	49.91 (26)	21.56 (11)	71.55 (44)	14.58 (15)	15.25 (7)
6	12- Information, Tourism and Youth services					
	Revenue Voted	34.15 (8)	94.01 (11)	98.11 (16)	42.50 (9)	132.59 (23)
	Capital Voted	93.28 (24)	169.34 (35)	242.22 (42)	126.37 (27)	98.67 (52)
7	21- Water Resources					
	Revenue Voted	119.16 (12)	169.89 (16)	125.31 (12)	290.53 (27)	195.63 (19)
	Capital Voted	1,252.97 (13)	2,638.20 (21)	547.46 (5)	1110.85 (8)	1,119.93 (7)
8	22- Health and Family Welfare					
	Revenue Voted	605.01 (9)	403.91 (6)	427.44 (5)	755.99 (9)	519.62 (5)
9	23- Labour and Skill Development					
	Revenue Voted	111.37 (12)	606.35 (36)	204.81 (16)	222.91 (16)	366.76 (22)
10	26- Planning, Statistics, Science and Technology					
	Capital Voted	125.66 (12)	142.85 (12)	138.05 (10)	647.98 (34)	419.28 (20)
11	27- Law					
	Revenue Voted	72.89 (11)	79.63 (10)	59.28 (6)	61.67 (6)	159.06 (14)
12	28- Parliamentary Affairs and Legislation					
	Revenue Voted	24.82 (14)	59.21 (25)	34.33 (18)	14.46 (8)	34.11 (13)

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 whereas the grants decreased during 2020-21, as compared to the previous years, as shown in **Table 1.3**.

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

(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan grants*	7,045	-	-	-	-
Grants for State Plan schemes*	8,102	-	-	-	-
Grants for Central plan schemes*	116	-	-	-	-
Grants for Centrally sponsored Schemes	440	11,617	10,393	12,214	9,852
Other transfers/Grants to States	-	7,316	11,714	17,593	14667
Finance Commission Grants	-	2,708	3,374	4,673	5557
Total	15,703	21,641	25,481	34,480	30,076

* 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.

1.6 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 13² 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 14⁵ 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, 2007⁶, issued by the C&AG.

¹ This does not include devolution.

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 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.

⁶ Amended during 2020.

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. The Principal Accountant General (Audit-I), Karnataka, Bengaluru is responsible for audit of expenditure incurred by 55 Departments under the Government of Karnataka, 24 State Autonomous Bodies, 41 Public Sector Undertakings and 40 Grant-in-Aid Institutions 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 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 the State under Article 151 of the Constitution of India to be tabled in the State Legislature.

During 2020-21, the number of party days used to carry out audit of 525 units to conduct performance audit and compliance audit were 7,127 days. Similarly, 1,394 party days were used to carry out financial (certification) audit of 158 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.

Eight paragraphs included in Part I of this report were forwarded demi-officially to the Principal Secretaries / Secretaries of the Departments concerned between November 2021 and April 2022 with a request to send their responses within six

weeks. Government replies were received for all paragraphs and the replies are suitably incorporated in the Report.

1.10 Responsiveness of Government to Audit

1.10.1 Outstanding Inspection Reports

The Handbook 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 2021, 7,526 IRs (38,999 paragraphs) were outstanding against 48 Departments⁷. 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	140	1,817
2	1-2 years	601	5,921
3	2-5 years	1,728	13,128
4	5-10 years	2,221	10,578
5	>10 years	2,836	7,555
Total		7,526	38,999

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

A review of the pending IRs issued up to March 2021 showed that while 1.86 *per cent* of the total IRs was pending *i.e.*, 140 IRs (1,817 paragraphs) for less than one year, 4,550 IRs (29,627 paragraphs) were pending for more than one year but for less than 10 years. However, around 37 *per cent* of IRs *i.e.*, 2,836 IRs (7,555 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 General Administration (Revenue) Departments had highest pendency of IRs at 887, 338 and 286 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 Handbook 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

⁷ Information pertains to the departments under the jurisdiction of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru post-restructuring.

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 eleven departments as detailed in **Table 1.5** did not submit ATNs for 26 paragraphs for the period 2003-04 to 2019-20 even as on 31 December 2021.

**Table 1.5: Details of Departmental Notes pending as of 31 December 2021
(Excluding General and Statistical Paragraphs)**

Sl. No.	Department	2003-04	2005-06	2006-07	2011-12	2012-13	2016-17	2017-18	2018-19	2019-20	Total
1	Animal Husbandry and Veterinary Services, Fisheries	---	---	---	---	---	---	---	---	1	1
2	Co-operation	---	1	---	---	---	---	---	---	---	1
3	Horticulture	---	---	---	---	---	---	1	---	---	1
4	Food and Civil supplies, Consumer Affairs	---	---	---	---	---	1	---	---	1	2
5	Minor Irrigation	1	---	1	---	---	---	1	---	---	3
6	Rural Development and Panchayat Raj	---	---	---	---	---	---	2	---	1	3
7	Education	---	---	---	---	---	---	1	1	2	4
8	Health and Family Welfare (Medical Education)	---	---	---	---	---	---	---	2	---	2
9	Health and Family Welfare	---	---	---	---	---	---	1	1	3	5
10	Labour	---	---	---	---	---	---	---	1	1	2
11	Revenue	---	---	---	1	1	---	---	---	---	2
	Total	1	1	1	1	1	1	6	5	9	26

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 2021 showed that 89 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 2021 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

Sl. 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 upto which accounts due	Period of delay in submission of accounts (up to 30 th June 2021)
1	Karnataka Building and Other Construction Workers Welfare Board, Bengaluru	As per Section 19(2) Of DPC Act	2019-20	2016-17	--	2020-21	9 Months
2	Karnataka Text Book Society, Bengaluru	2006-07 to 2020-21	2018-19	2007-08	--	2019-20 & 2020-21	1 Year
3	Karnataka State Commission for Protection of Child Rights, Bengaluru	From 2019	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 2016-17. The Karnataka State Commission for Protection of Child Rights (established in July 2009) was yet to 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 that appeared in the Audit Report during 2017-18 to 2020-21

Year	Performance Audit		Paragraphs		Replies received	
	Number	Money Value (₹ in crore)	Number	Money Value (₹ in crore)	Performance Audit	Draft Paragraphs
2017-18	01	265.82	14	287.91	01	14
2018-19	01	7.01	17	2,802.96	01	17
2019-20	--	---	09	68.90	---	---

Source: Audit Reports (General and Social Sector Audit, now Audit-1) of 2017-18, 2018-19 and 2019-20.

During 2020-21, six paragraphs involving ₹ 88.70 crore and two thematic audits have been included in this Report.