

Chapter - I

Introduction

1.1. This 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 of this report contains findings arising out of observations of compliance audit in Government Departments and Autonomous Bodies.

Budget profile

1.2. 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 below:

Table No. 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	
	Budget Estimate	Actual								
General services	30,997	30,799	35,018	31,265	38,009	34,484	45,744	42,655	50,492	48,824
Social services	45,728	46,307	50,960	54,549	55,887	58,652	70,226	67,935	71,350	66,373
Economic services	32,175	33,846	38,277	40,421	43,671	42,856	44,152	48,285	52,907	52,636
Grant-in-aid & contributions	6,549	6,076	5,980	5,686	7,187	6,490	6,167	5,425	6,856	6,425
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
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

*Does not include investments

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

Application of resources of the State Government

1.3. 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.

Persistent savings

1.4. During the last five years, grant-wise details of persistent savings are detailed in *Appendix-1*.

Grant-in-aid from Government of India

1.5. 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 below:

Table No. 1.2: Grant-in-aid received from Government of India¹

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan grants*	5,548	7,045	-	-	-
Grants for State Plan schemes*	8,105	8,102	-	-	-
Grants for Central plan schemes*	139	116	-	-	-
Grants for Centrally sponsored schemes	137	440	11,617	10,393	12,214
Other transfers/Grants to States	-	-	7,316	11,714	17,593
Finance Commission Grants	-	-	2,708	3,374	4,673
Total	13,929	15,703	21,641	25,481	34,480

* 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 Grant/ CSS, Finance Commission grant and other grants to States.

Source: Finance Accounts

Authority for conducting Audit

1.6. 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 13² of the C&AG's

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.

(DPC) Act. C&AG is the sole auditor in respect of 11 Autonomous Bodies, which are audited under Sections 19(2)³ and 19(3)⁴ of the C&AG's (DPC) Act. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007⁵, issued by the C&AG.

Organisational structure of the Office of the Accountant General (Audit-II), Karnataka, Bengaluru

1.7. The State Offices of the C&AG of India were restructured (March 2020), based on allocation of clusters, each cluster containing Departments with interconnected outcomes and linkages. The Accountant General (Audit-II) is responsible for audit of expenditure incurred by 19 Departments and 13 Autonomous Bodies (*Appendix-2*). The Accountant General (Audit-II) is assisted by three Group Officers and various subordinate officers. Part-I of the report includes observations relating to Departments (excluding PSUs) under the jurisdiction of the Accountant General (Audit-II).

Planning and conduct of Audit

1.8. 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 State under Article 151 of the Constitution of India to be tabled in the State Legislature.

Significant audit observations and response to audit

1.9. Audit has reported 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.

Sixteen paragraphs included in Chapter II of Part I were forwarded demi-

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 Amended during 2020.

officially to the Addl. Chief Secretaries/ Principal Secretaries / Secretaries of the Departments concerned between July 2021 and November 2021 to send their responses within six weeks. Government replies were received in respect of eight paragraphs, which are suitably incorporated in the Report.

Responsiveness of Government to Audit

Outstanding Inspection Reports

1.10.1. 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 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 31st March 2020, 2,277 IRs (11,252 paragraphs) were outstanding against all Departments. Age-wise details of pendency are given in table below:

Table No. 1.3: Age-wise details of pendency of IRs and paragraphs

Sl. No.	Age	Number of IRs	Number of paragraphs
1	< 1 year	294	2,530
2	1-2 years	189	1,548
3	2-5 years	605	3,206
4	5-10 years	743	3,037
5	>10 years	446	931
	Total	2,277	11,252

A review of the pending IRs issued up to March 2020 showed that 294 IRs (2,530 paragraphs) were pending for less than one year, 1,537 IRs (7,791 paragraphs) were pending for more than one year but for less than 10 years and 446 IRs (931 paragraphs) were pending for more than 10 years. Year-wise and department-wise details of IRs and paragraphs outstanding are detailed in **Appendix-3**.

Follow-up action on Audit Reports

1.10.2. 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 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 **Appendix-4** did not submit ATNs for 101 paragraphs for the period 2003-04 to 2018-19 even as on 31st December 2021.

Paragraphs to be discussed by the Public Accounts Committee

1.10.3. A review of the position of paragraphs pending discussion by the Public Accounts Committee as of 30th November 2021 showed that 148 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 31st December 2021 are detailed in *Appendix-5*.

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

1.11. The audit of accounts of 13 autonomous bodies in the State, under the jurisdiction of AG (AU-II) 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-2*.

Karnataka Real Estate Regulatory Authority (established in July 2017) is yet to submit their annual accounts for the years since inception. Delay in submission of annual accounts by the autonomous bodies ranged from three to 36 months as on June 2020. 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.

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

1.12. 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 below:

Table No. 1.4: Details regarding the performance audits and paragraphs that appeared in the Audit Report during 2016-17 to 2019-20

Sl. No.	Year	Performance Audit		Paragraphs		Replies received	
		Number	Money Value (₹ in crore)	Number	Money Value (₹ in crore)	Performance Audit	Draft paragraphs
1	2016-17	1	1,164.40	13	187.25	0	4
2	2017-18	2	3,349.68	7	1,106.50	0	1
3	2018-19	-	-	11	39.20	0	0

Source: Audit Reports of C&AG of India on Economic and Revenue Sector Audit, Government of Karnataka for the year 2016-17, 2017-18 and 2018-19.