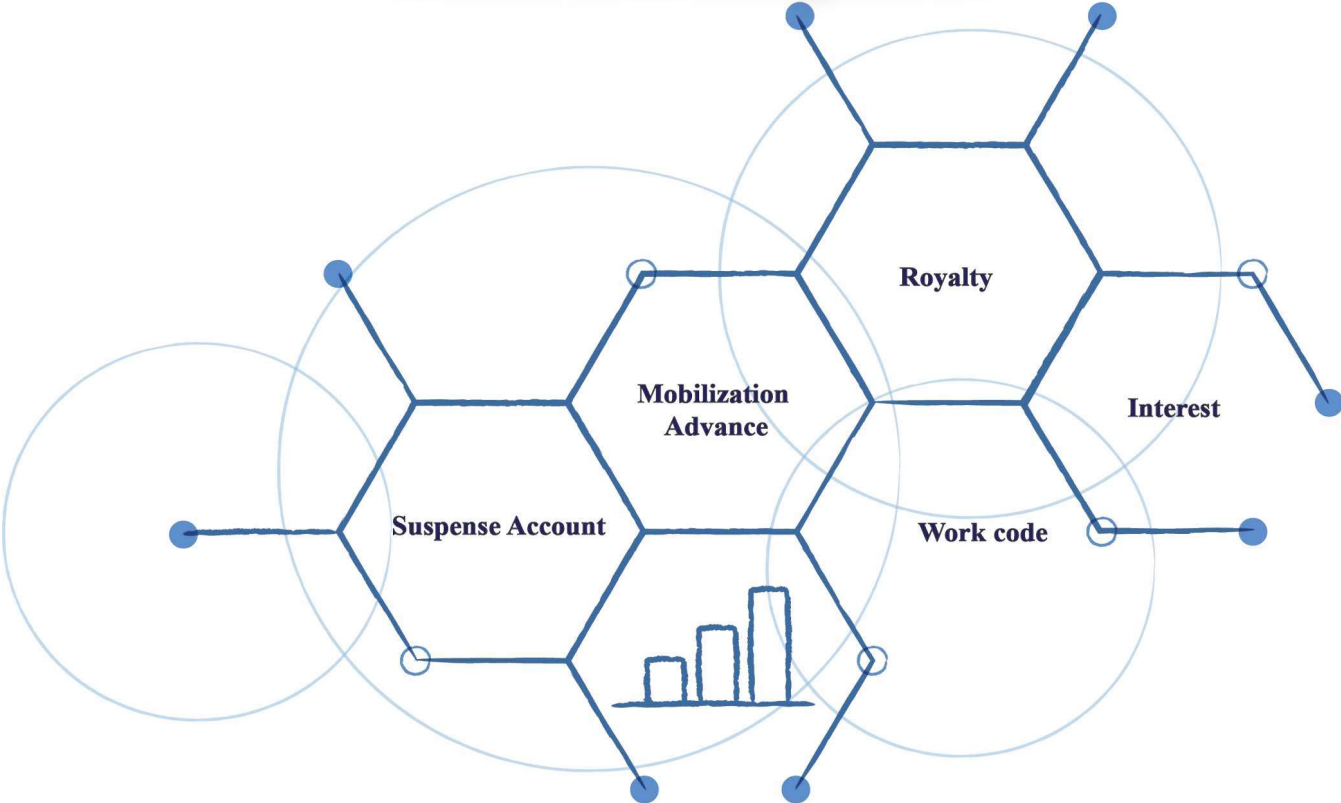


Chapter II

Financial Management



Chapter 2 - Financial Management

Audit observed that work code, which is a formal acceptance, was not allotted for the funds received from EAs to the tune of ₹303.76 crore, since 2017-18.

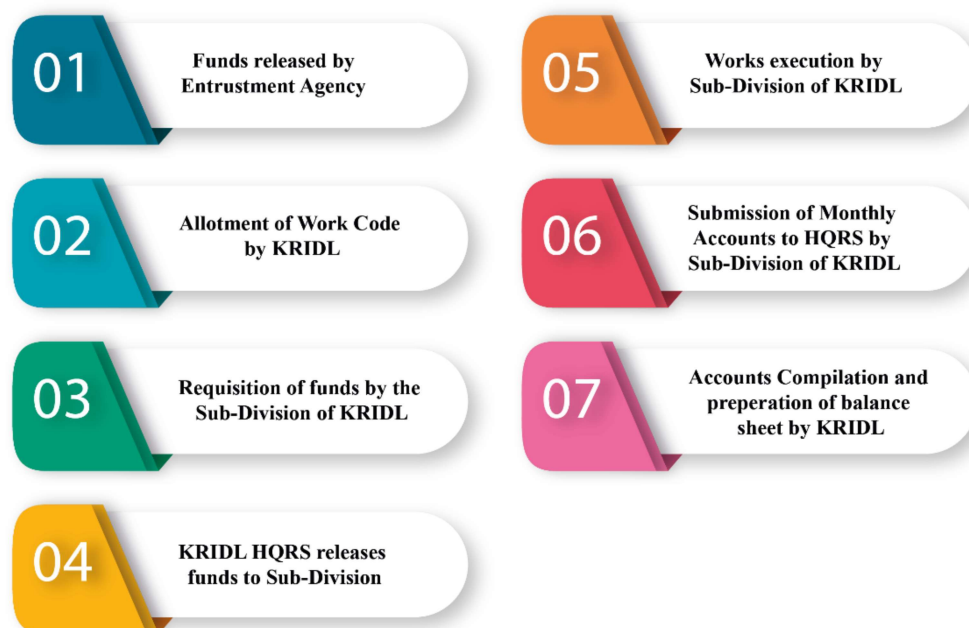
Commencement of works prior to release of funds by the EAs and instances of incurring expenditure more than EAs releases was noticed in audit. Further, KRIDL failed to expedite the dues from EAs, wherein, expenditure has overshoot the estimated costs by ₹3.82 crore in 15 works and actual releases by ₹54.39 crore in 439 works. The funds kept at the disposal of KRIDL by EAs were underutilised to the tune of 33 *per cent*. Lack of efforts of KRIDL resulted in piling up of unsettled mobilisation advances to the tune of ₹389.90 crore.

The Suspense Account which was to account the transactions of unidentified final head of account kept on increasing year after year. KRIDL failed to affect the statutory recovery of royalty from Job Work Bills (JWB) of Group Leaders to an extent of ₹4.81 crore.

Non-maintenance of work-wise records, non-allocation of work codes, expenditure in excess of releases by EAs, non-compliance to Government orders on remittance of interest earned on scheme funds coupled with unsettled mobilisation advances and suspense accounts led to weak financial management by KRIDL.

The process of flow of funds from the EAs to the Head Office of KRIDL (HO) and to the sub-divisions from the HO until the submission of final accounts is shown below in **Chart 2.1**

Chart 2.1: Process flow of funds



Source: Information furnished by KRIDL

2.1 Receipt and utilisation of funds/physical and financial progress

As per the audited annual accounts of KRIDL for the years 2016-17 to 2020-21, the funds received, utilised and adjusted towards works executed is depicted in the **Table 2.1** below:

Table 2.1: Trends in physical and financial progress

(₹ in crore)

Year	Total number of works entrusted	Total number of works completed	Percentage of works completed	Funds received during the year	Total funds available (a+ closing balance of previous year i.e., d)	Funds adjusted during the year	Balance of funds available (b-c)
				(a)	(b)	(c)	(d)
2016-17	12,802	4,967	38.79	2,604.14	*7,816.15	1,068.05	6,748.10
2017-18	19,384	5,250	27.08	3,640.98	10,389.08	1,247.79	9,141.29
2018-19	24,963	6,169	24.71	3,590.21	12,731.50	1,679.74	11,051.76
2019-20	17,893	6,296	35.18	4,610.35	15,662.11	1,346.68	14,315.43
2020-21	9,532	1,332	13.97	3,357.75	17,673.18	352.88	17,320.30

Source: Compiled by audit based on information furnished by KRIDL

*includes opening balance of ₹5,212.01 crore

The accumulation of funds steadily increased from ₹6,748.10 crore to ₹17,320.30 crore from 2016-17 to 2020-21.

The funds adjusted towards work done during the period ranged between ₹352.88 crore to ₹1,679.74 crore. Though the funds were available, only 28 *per cent* (24,014 out of 84,574) of works were completed during the Audit period as discussed in para 4.2.

Audit observations related to fund management are discussed below:

2.1.1 Non-settlement of Mobilisation Advances received by KRIDL- ₹389.90 crore

As per Para 200 of KPWD code, mobilisation advance not exceeding five *per cent* of the contract price shall be released to the contractor subject to production of Bank Guarantee and within 15 days of issue of work order. The mobilisation advance shall be adjusted from the Running Account Bills as and when the work progressed by 15 *per cent* or more.

As observed from the audited annual accounts, unsettled mobilisation advances of KRIDL stood at ₹389.90 crore to the end of 2020-21. The non-settlement of mobilisation advance indicated that KRIDL is yet to settle the final running account bills. The practice of receipt of mobilisation advance is not justified as the EAs are releasing the funds in advance to KRIDL. This has resulted in idling of funds and impacting the completeness of the company's accounts.

The State Government while accepting the observation agreed that KRIDL will initiate action to reduce the outstanding mobilisation advance by 50 *per cent* for the year 2021-22, which reiterates that concerted efforts are lacking in settlement of mobilisation advance.

2.1.2 Non-allotment of work code for the funds received from EAs- ₹303.76 crore

Audit scrutiny of the accounts pertaining to 24 test-checked sub-divisions for the period 2016-17 to 2020-21 revealed that the funds were released to the sub-divisions without generating work code². As per the audited accounts for the year 2020-21, the company is yet to allocate work codes against funds received from various entrusting Departments during the years 2017-18, 2018-19, 2019-20 and 2020-21, amounting to ₹24.79 crore, ₹35.80 crore, ₹143.41 crore and ₹99.76 crore respectively totalling to ₹303.76 crore. The allotment of work code for each work is a pre-requisite for commencement of works, release of funds and monitoring by the sub-divisions. Non-allotment of work code resulted in idling and parking up of funds of entrusting Departments outside the Government Accounts.

The State Government while accepting the observation stated that steps are being taken to allot work code as per the information/details available, which indicates absence of accounting controls in the Company as the work codes are yet to be allotted for works worth ₹303.76 crore.

² A unique running serial number allotted to a particular work at HO based on requisition of funds in Form-9 from the sub-divisions after ascertaining release of funds, administrative approval by the entrusting departments and accordal of technical sanction.

2.1.3 Funds parked under suspense accounts-₹66.92 crore

As per the audited accounts, the company could not ascertain the final head of account in respect of certain receipts and placed them under 'Suspense Account'. The funds so categorised as 'Suspense Account' showed an increasing trend for the years 2016-17 to 2020-21, wherein, it rose from ₹3.95 crore to ₹66.92 crore.

The amount lying in suspense accounts include funds received from District Treasuries, various EAs and funds returned by sub-divisions of KRIDL. Non-settlement of suspense receipts over a period of years indicates lack of concrete efforts by KRIDL towards their settlement impacting the completeness of the Company's annual accounts.

The State Government while accepting the findings stated that the internal financial controls of KRIDL will be strengthened and suspense account will be reconciled.

2.1.4 Commencement of works prior to release of funds by EAs-₹25.35 crore

Audit observed that in 11 sub-divisions³, 23 works estimated to cost ₹25.35 crore were commenced prior to release of funds (ranging from 01 to 20 months) by the entrusting Departments. The commencement of works without ensuring availability of funds amounted to utilisation of funds earmarked for other works.

2.1.5 Excess of expenditure over and above releases by EAs-₹54.39 crore

It was observed that out of 1,379 test-checked works in 439 works (32 per cent) which were estimated to cost ₹586.05 crore, KRIDL received only ₹515.16 crore from EAs. However, the sub-divisions incurred ₹569.54 crore expenditure, which was ₹54.39 crore (11 per cent) over and above the releases. The revised demands against this excess expenditure were not raised with the EAs.

2.1.6 Excess of expenditure over the estimated costs-₹3.82 crore

In six test-checked sub-divisions, the expenditure incurred in respect of 15 works costing ₹27.24 crore were exceeded by ₹3.82 crore (14 per cent) which neither had the approval of HO nor were supported by revised estimates as detailed in **Appendix III**.

KRIDL failed to raise the demands against the EAs for settlement of accounts in respect of the above works.

The State Government stated that the above practice has since been discontinued and works are commenced only upon receipt of advance money from the respective EAs. Further, it was stated that EAs like Kalyana Karnataka

³ Chikkaballapura, Davanagere, East-I(BBMP), Gadag, Huvinahadagali, Kalaburagi-I, Kalaburagi-II, Koppala (Nelogipura), Mysuru, Ramanagara and Shivamogga.

Region Development Board, Thanda Development Corporation *etc.*, are releasing only 80 *per cent* of the estimated cost and balance expenditure was borne by KRIDL in anticipation of funds. It was also stated that, to overcome the deficiencies, the Company has introduced a pre-audit system at division/sub-divisions level for effective financial management to avoid diversion/excess expenditure. However, the fact remains that sub-divisions needs the differential funds for completion of works.

2.2 Non-recovery/short recovery of Royalty-₹4.81 crore

As per the orders of Department of Mines and Geology, GoK, royalty had to be paid on materials such as sand, jelly, stone, murrum *etc.*, utilised in execution of works as per the rates prescribed from time to time. The Department shall allow the claims of agencies, wherein, royalty was previously paid and supported by a valid Mineral Despatch Pass issued by them.

Audit observed that the sub-divisions executed various construction works of roads and buildings during the period 2016-17 to 2020-21 as per the item rate provided in the PWD SR/PRED SR, which was inclusive of royalty. The payments to Group Leaders (GLs)⁴ through JWBs were to be regulated duly deducting the royalty and such proceeds were to be remitted to relevant receipt Head of Account of the Department of Mines and Geology. The payments made to GLs revealed that the royalty was not deducted in such works amounting to ₹4.82 crore in 287 works as detailed **Appendix-IV**.

In reply it was stated that Hon'ble High Court of Karnataka in Writ Petition No.539/2006 (M/s Karnataka Crushers Vs State of Karnataka) held that where the contractor uses the materials purchased in open market like quarry lease holders, private quarry owners, there is no liability on the contractors to pay any royalty charges.

The reply of the State Government is not tenable as Bruhat Bengaluru Mahanagara Palike (BBMP) deducted the royalty in respect of claims of KRIDL, the same were not regulated by KRIDL in the JWBs of GLs. KRIDL also failed to ensure that the GLs produce valid Mineral Despatch Pass in respect of non-BBMP works.

2.3 Non-crediting of interest earned ₹238.89 crore on scheme funds

The Finance Department vide circular dated 01.03.2018 instructed that the interest earned on Government funds were to be remitted to interest receipt Head of Account '0049' at the end of each financial year. The unutilised portion of Government funds which are released by EAs for execution of works are being invested in Flexi deposits by KRIDL. The interest earned on such flexi deposits to the tune of ₹238.89 crore during the period 2018-21 was not remitted to Government account.

⁴ Group Leader is one among the group of workers not more than 20 to 25.

Recommendation 1: *The State Government must ensure periodical reconciliation of funds between EAs and KRIDL. Responsibility should be fixed for any delay in commencement of works.*