

Chapter-I
Introduction

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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, frame appropriate policies and issue directives. It will also lead to improved financial management of organisations and contribute 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.

Audit Universe and Structure

1.2 The State Offices of the C&AG of India were restructured (March 2020) based on allocation of clusters. Each cluster contains Departments with inter-connected outcomes and linkages. The Principal Accountant General (PAG) Audit II is responsible for audit of expenditure incurred by 21 Departments and 23 Autonomous Bodies (*Appendix-1*). The PAG Audit II is assisted by three Group Officers and various subordinate officers.

Authority for conducting Audit

1.3 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 lay out the audit mandate of C&AG. Audit of expenditure of the Departments of Government of Karnataka is conducted through Section 13¹ of the C&AG's (DPC) Act.

C&AG is the sole auditor in respect of Autonomous Bodies which are audited under Sections 19(2)², 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act.

¹ 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.

² 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.

³ Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

⁴ Audit of accounts of body/authority entrusted by Governor to C&AG on mutually agreed terms and conditions.

Expenditure Profile of the Departments

1.4 The actual expenditure by 21 State Government Departments falling under the jurisdiction of Office of PAG Audit II during the period 2021-22 is given in Table No.1.1 along with corresponding figures for preceding two years:

Table No. 1.1: Department wise Expenditure

		(₹ in crore)		
Sl. No	Department	2019-20	2020-21	2021-22
1	Forest, Ecology and Environment Department	1,739.27	1,670.23	1,860.62
2	Transport Department	132.19	731.90	264.89
3	Public Work Department	12,026.31	14,601.56	13,679.16
4	Infrastructure Development, Ports & Inland Water Transport Department	301.43	293.90	202.80
5	Department of Electronics Information Technology Biotechnology and Science & Technology	306.53	404.79	329.13
6	Home	6,572.15	7,095.46	7,768.09
7	Housing Department	3,447.36	2,363.47	3,528.40
8	Urban Development Department	8,897.43	5,547.20	7,732.84
9	Law	1,191.24	1,231.11	1,341.75
10	Commerce and Industries	1,447.46	2,226.18	2,110.24
11	Textiles and Handlooms	178.80	364.40	376.18
12	Mines and Geology	79.89	68.46	65.82
13	Cane Development	31.53	24.66	13.08
14	Factories and Boilers	14.02	13.52	76.55
15	Tourism	380.78	137.92	250.41
16	Archeology and Museums	19.43	19.08	23.73
17	Hindu Religious Institutions and Charitable Endowment	272.64	332.43	247.12
18	Kannada and Culture	246.79	211.03	220.05
19	Archives	5.14	4.48	4.08
20	Energy	13,976.71	14,927.04	17,794.93
21	Electrical Inspectorate	29.20	21.96	24.75

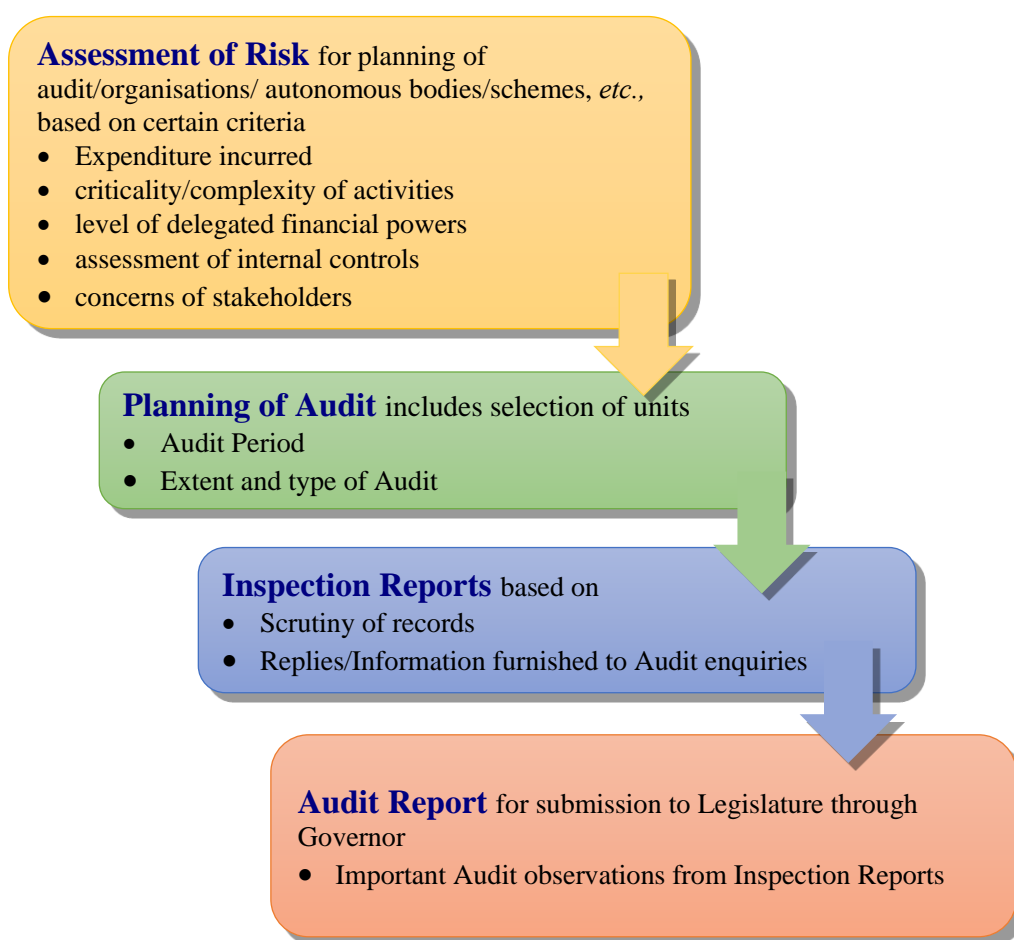
Source: Annual Financial Statement and State Finance Audit Reports of respective years

Planning and Conduct of Audit

1.5 Audit planning 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 during this exercise. The frequency and extent of audit are decided based on risk assessment.

The following flowchart depicts the process of planning and conduct of audit:

Chart No. 1.1: Planning and conduct of audit



After completion of audit of each unit, Inspection Reports (IR) 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 IRs. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these IRs 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.

Significant audit observations and response to audit

1.6 Audit has reported significant deficiencies in transactions and internal controls noticed during compliance audits to the Heads of the Departments. The paragraphs included in this report were forwarded demi-officially to the Addl. Chief Secretaries/ Principal Secretaries /Secretaries of the Departments concerned between October 2022 and April 2023 to send the reply of the Government within six weeks. The replies furnished by Government were suitably incorporated and the revised draft report was again issued to the Government on 29 January 2024 for further replies, if any. However, no further replies were received from the Government.

Replies to eight Compliance Audit Paragraphs were received and the replies for the remaining three paragraphs have not been received from the Government (April 2023). The views of the Government wherever received have been suitably incorporated.

Responsiveness of Government to Audit

1.7 Outstanding Inspection Reports

1.7.1. 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 IRs issued by the PAG 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 PAG, 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 2022, 2,457 IRs (13,115 paragraphs) were outstanding against the 16 Departments. Age-wise details of pendency are given in table below:

Table No. 1.2: Age-wise details of pendency of IRs and paragraphs

Sl. No.	Age	Number of IRs	Number of paragraphs
1	< 1 year	129	1,379
2	1-2 years	206	1,878
3	2-5 years	668	4,773
4	5-10 years	920	3,878
5	>10 years	528	1,207
Total		2,451	13,115

A review of the pending IRs issued up to March 2022 showed that 129 IRs (1,379 paragraphs) were pending for less than one year, 1,794 IRs (10,529 paragraphs) were pending for more than one year but for less than 10 years and 528 IRs (1,207 paragraphs) were pending for more than 10 years. Year-wise and department-wise details of IRs and paragraphs outstanding are detailed in *Appendix-2*.

Follow-up action on Audit Reports

1.7.2. 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 nine departments (as detailed in *Appendix-3*) did not submit ATNs for 96

paragraphs for the period 2003-04 to 2020-21 as of 31 March 2023.

Paragraphs to be discussed by the Public Accounts Committee

1.7.3. A review of the position of paragraphs pending discussion by the Public Accounts Committee as of 31 March 2023 showed that 136 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 March 2023 are detailed in ***Appendix-4.***

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

1.8 The audit of accounts of 13 autonomous bodies in the State under the jurisdiction of PAG Audit 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-5.***

Delay in submission of annual accounts by the autonomous bodies ranged from five to 24 months as of June 2022. Delay in finalisation of accounts carried the risk of financial irregularities going undetected and therefore, the accounts need to be finalised and submitted to Audit at the earliest.