

OVERVIEW

This report contains five chapters of which the first two contain the observations on the accounts of the State Government for 2004-05 and the other three contain audit comments in the form of four reviews, two long paragraphs and 24 paragraphs on selected schemes, programmes and financial transactions of the Government. A summary of main audit findings is presented in the overview.

1. Financial position of the State Government

Revenue receipts of the Government increased from Rs.14,823 crore in 2000-01 to Rs. 26,163 crore in 2004-05 (77 *per cent*). The share of tax revenue (Rs.15,769 crore) and non-tax revenue (Rs.4,369 crore) in total revenue receipts was 60 *per cent* and 17 *per cent* respectively in 2004-05. Central tax transfers and grants-in-aid contributed 23 *per cent* of the total revenue receipts.

Arrears of revenue increased by 90 *per cent* since 2000-01 and aggregated Rs.3,604 crore as of March 2005.

Revenue expenditure increased by 47 *per cent* from Rs. 16,685 crore in 2000-01 to Rs.24,523 crore in 2004-05. Committed expenditure on salaries and pension increased from Rs.6,213 crore to Rs.7,687 crore during the period.

Interest payments increased by 59 *per cent* from Rs.2,388 crore in 2000-01 to Rs.3,794 crore in 2004-05 and constituted 15 *per cent* of the revenue receipts.

The capital expenditure increased from Rs.3,029 crore (2003-04) to Rs.4,674 crore (2004-05).

Outstanding liabilities of the State increased by 77 *per cent* from Rs.26,571 crore in 2000-01 to Rs. 46,940 crore in 2004-05 and the ratio of fiscal liabilities to Gross State Domestic Product increased from 25 *per cent* to 32 *per cent* during the period. The amount guaranteed by the State Government on behalf of Statutory Corporations, Government Companies, *etc.*, and outstanding was Rs. 11,574 crore as of March 2005.

As at the end of 2004-05 the total investment in Statutory Corporations, Government Companies, *etc.*, was Rs.10,741 crore, but the return was negligible (Rs.17 crore).

Fiscal deficit of the State was the lowest at Rs.3,600 crore during the period 2000-05.

The year 2004-05 ended with a revenue surplus of Rs.1,640 crore due to healthy growth of revenue receipts as also due to transfer of Panchayat Bodies' Funds (Rs.887 crore) and interest component relating to repayment of the House Building Advance (Rs.13 crore) to Revenue Account from Public Account and Loans and Advances respectively.

(Paragraphs 1.1 to 1.10)

The overall unspent provision of Rs.1,876.52 crore was 5 per cent of the total grants/ appropriations. This was the result of unspent provision of Rs.3,795.54 crore in 29 grants/appropriations offset by excess of Rs.1,919.02 crore in 5 grants/appropriations.

(Paragraph 2.2)

2. Implementation of the Consumer Protection Act, 1986

The Consumer Protection Act, 1986, which came into effect from July 1987 aimed at providing for simple, speedy and inexpensive redressal of the grievances of the consumers. Audit review of the implementation of the Act disclosed that there was no documented policy frame work for providing adequate adjudication mechanism and requiring involvement of State/District administration and Non-Governmental Organisations in the area of consumer awareness and empowerment. The District Consumer Protection Councils were not set up. Staff sanctioned for the consumer fora was inadequate and pendency of consumer disputes was high. Efforts to enhance consumer awareness were inadequate.

(Paragraph 3.1)

3. Implementation of National Highways Project in Karnataka

The State Public Works Department is responsible for the development and maintenance of National Highway projects in Karnataka, on behalf of the Ministry of Road Transport and Highways. Of the 3,973 kilometres of National Highways in the State, the State Public Works Department is responsible for the development and maintenance of 3,218 kilometres. Audit review disclosed that execution of works lacked proper prioritization. The designed life of roads was unrealistic leading to premature failures. Inadequate survey, investigation and estimation of the projects resulted in their cost and time overruns. Non-synchronisation of road works with cross drainage and bridge works resulted in hindrance to smooth flow of traffic. Non-adherence to Ministry of Road Transport and Highways specifications on execution of works resulted in unjustified expenditure of Rs.9.63 crore. Execution of works through piecemeal contractors deprived the Department of the benefits of competitive rates and quality control checks.

(Paragraph 3.2)

4. Infrastructural Development in Mega Cities

With the objective of upgrading infrastructure to provide impetus to further economic growth and quality of life by tackling problems arising out of traffic congestion, environmental degradation, etc., the Bangalore Development Authority implemented the scheme. Audit review of the implementation of the scheme disclosed that in the absence of agreement, the Bangalore Development Authority had to bear Rs.32.31 crore towards cost escalation and share payable by State Government, National Highways Authority of India and the Railways, being the other stakeholders. The Bangalore Development Authority floated bonds to mobilise funds for execution of projects

injudiciously. Projects were designed without taking into account results of soil investigations leading to material changes in design and scope of work, which resulted in avoidable extra expenditure of Rs.1.16 crore. The contract management by the Bangalore Development Authority was deficient as there were undue favours to contractors (Rs.6.31 crore), and extra contractual payments (Rs.two crore). Quality control tests did not adhere to standards prescribed.

(Paragraph 3.3)

5. Evaluation of Internal Control System and Internal Audit

The Medical Education Department was established with the basic responsibility of providing quality medical education at graduate, post-graduate and super speciality levels. Audit evaluation of internal controls in the Department disclosed that budget control mechanism in place was not effective. Inadequate internal controls led to revenue loss, non-recovery of arrears, *etc.*, involving Rs.22.63 crore. Substantial vacancies in faculty positions, excess admission of students in Government Nursing Schools, *etc.*, indicated insufficient administrative controls.

(Paragraph 5.1)

6. Karnataka Housing Board – Application and General Controls of Information Technology Systems and Incorrect Assessment of Demand under ‘100 Housing Scheme’

Audit review of the two important computer application systems in the Karnataka Housing Board disclosed that the investments on these applications were made without a clear Information Technology strategy. Full potential of the applications was not availed of and the package developer was paid high rates for performing routine tasks.

The Karnataka Housing Board formulated (July 2000) the ‘100 Housing Scheme’ for providing 13,500 houses and 15,000 developed sites, at affordable prices, at 100 locations in the State, before December 2002. The assessment of demand for the houses and sites was improper and even as of July 2005, 46 *per cent* of the houses constructed and 64 *per cent* of the sites developed were not allotted.

(Paragraph 3.4)

7. Maintenance of Irrigation Canals of Central Zone

The allocation of funds and incurring of expenditure on maintenance of the irrigation canals was not regulated according to the requirements and execution of additional works resulted in accumulation of pending bills to Rs.14.34 crore. Works valued at Rs.10.63 crore were split up and entrusted on piecework basis without obtaining sanction from competent authority. Sowdies had been engaged in excess of the prescribed norms, for management of water, which resulted in an irregular expenditure of Rs.6.65 crore.

(Paragraph 3.5)

8. Audit of transactions

Misappropriation/losses

Due to not having adequate systems and controls, dues of Rs.5.55 crore remained unrecovered for periods ranging from two to seven years affecting cash flow and ways and means position of Government/Bangalore Water Supply & Sewerage Board.

(Paragraph 4.1.1)

Four Government hospitals did not recover processing cost of blood, resulting in loss of Rs.1.10 crore.

(Paragraph 4.1.2)

Failure of the Executive Engineer, No. 5 Tungabhadra Canal Division, Yermarus to exercise required control checks and comply with the guidelines issued by Government in carrying out scarcity relief works facilitated misappropriation of Government money and food grains valued at Rs.50.29 lakh.

(Paragraph 4.1.4)

Infructuous/wasteful expenditure and overpayment

Preparation of master plan for Information Technology Corridor without specific Legislative sanction for the corridor and failure to prevent construction activity, which was not in conformity with such a plan resulted in the fee of Rs.1.34 crore paid by the Bangalore Development Authority for preparation of the master plan becoming wasteful.

(Paragraph 4.2.1)

Inaction of the Government and its failure to issue appropriate direction to the Executive Engineer, Public Works Division, Mandya to forestall the execution of the improvement works in selected reaches of Bangalore-Nilgiri State Highway while converting it into a four-lane carriage way, resulted in dismantling of the same by Karnataka Road Development Corporation Limited in less than a year, rendering the expenditure of Rs.61.39 lakh wasteful.

(Paragraph 4.2.2)

Delay in disposing of an old Chetak helicopter and injudicious action of the Government to overhaul and maintain it resulted in a wasteful expenditure of Rs.2.41 crore.

(Paragraph 4.2.3)

Unauthorised approval by the Superintending Engineer, Minor Irrigation Circle, Gulbarga allowing 15 *per cent* premium as bridge weightage outside the contractual obligation in the work of constructing a submersible bridge-cum-barrage across the river Bhima near Hireanur village resulted in excess payment of Rs.2.37 crore to the contractor.

(Paragraph 4.2.4)

Avoidable/extra/unfruitful expenditure

Inadequate provision in the original estimate for rehabilitation of a road work from Shedbal to Sankeshwar and revision of the estimate after allotment of the work to a contractor resulted in an avoidable extra cost of Rs.1.61 crore.

(Paragraph 4.3.4)

Idle investment/idle establishment/blockage of funds

Release of Rs. one crore before sanctioning the land for a work under Member of Parliament Local Area Development Scheme and ineffective monitoring by the Deputy Commissioner, Haveri led to blocking of funds of Rs.one crore and its non-utilisation.

(Paragraph 4.4.2)

Inability of Karnataka Urban Water Supply and Drainage Board to acquire lands for underground drainage in Hassan, to get formalities completed on time and to identify alternative site for construction of sewage treatment plant in view of public protest resulted in investment of Rs.10.36 crore made on the work remaining unproductive.

(Paragraph 4.4.3)

Failure of the Government to provide funds for completion of balance works of constructing a minor irrigation tank near Gollahalli village of Kolar district resulted in denial of irrigation facilities to 165 hectares of land even though Rs.5.53 crore was spent on the project.

(Paragraph 4.4.4)

Failure of Water Resources Department (Minor Irrigation) to ensure proper survey and investigation before taking up the work of constructing a 6.54 km long feeder canal from Haludyamavvanahally storage tank to Uduvally tank and delay in sanctioning revised estimates resulted in suspending the work leading to locking up of Government funds of Rupees two crore. The unjustified decision of the Superintending Engineer, Minor Irrigation Circle, Bangalore to work out a separate data rate for extra item of excavation work in medium rock requiring blasting, resulted in an extra contractual benefit of Rs.50.14 lakh to the contractor.

(Paragraph 4.4.6)

Violation of contractual obligations/undue favour to contractors

Failure of the Water Resources Department to enforce contractual obligation of restoring the over-excavated canal to the approved section in the work of constructing Karanja Right Bank canal had resulted in an undue benefit of Rs.35.69 lakh to two contractors, as the expenditure was borne by the Department.

(Paragraph 4.5.1)

Regularity issues and other points

Public Sector Banks made excess payment of family pension of Rs.1.10 crore in 656 cases.

(Paragraph 4.6.1)

©©©©©©