

## OVERVIEW

This report contains five chapters of which the first two contain the observations on the accounts of the State Government for 2005-06 and the other three contain audit comments in the form of seven reviews, one long paragraph and 18 paragraphs on selected schemes, programmes and financial transactions of the Government. A summary of main audit findings is presented in this overview.

### 1. Financial position of the State Government

The State ended the year 2005-06 with a revenue surplus of Rs.2,311 crore against Rs.1,638 crore in the previous year. Taxes on sales, trade etc., contributed 53 *per cent* of tax revenue followed by state excise (18 *per cent*), stamp duty and registration fees (12 *per cent*) and taxes on vehicles (6 *per cent*). Arrears of revenue stood at Rs.3,620 crore at the end of 2005-06.

Fiscal deficit for the year was Rs.3,687 crore representing two *per cent* of the GSDP.

Revenue expenditure (Rs.28,041 crore) as a percentage of GSDP increased from 16 *per cent* to 17 *per cent* while capital expenditure increased from two to three *per cent* during 2000-06. The committed expenditure on salaries, interest payments and pension consumed 39 *per cent* of the revenue receipts.

Outstanding liabilities of the State increased from Rs.26,571 crore in 2000-01 to Rs.52,236 crore in 2005-06 and their ratio to GSDP increased from 25 *per cent* to 31 *per cent* during the period and would be 34 *per cent* taking into account the off-budget borrowings (Rs.5,319 crore) of the State Government in 2005-06.

The amount guaranteed by the State Government on behalf of statutory corporations, Government companies, etc and outstanding as of March, 2006 was Rs.8,984 crore.

As at the end of 2005-06, the total investments in statutory corporations, Government companies was Rs.14,053 crore but the return (Rs.17 crore) was negligible.

**(Paragraphs 1.1 to 1.10)**

Against total budget provision of Rs.41,528.17 crore including (supplementary grants), actual expenditure was Rs.36,208.66 crore. Overall unspent provision of Rs.5,319.51 crore was the result of unspent provision of Rs.6,128.53 crore in 29 grants/appropriation and excess of Rs.809.02 crore in five grants / appropriation. The excess of Rs.809.02 crore required regularisation by the Legislature under Article 205 of the Constitution of India.

**(Paragraphs 2.2)**

## **2. Implementation of Project Tiger**

Project Tiger, a Centrally sponsored scheme is implemented in Bandipur National Park, Bhadra Wildlife Sanctuary and Rajiv Gandhi (Nagarahole) National Park for sustaining a viable tiger population in the State. The conservation and protection measures initiated under the project were unsatisfactory due to deficiencies in planning and inadequate release of funds. Shortage of frontline protection staff, lack of training in use of sophisticated fire arms and their supply and deficient communication network in the Reserves rendered the protection measures largely ineffective.

**(Paragraph: 3.1)**

## **3. Implementation of VAMBAY and SUDP by Karnataka Slum Clearance Board**

Valmiki Ambedkar Awas Yojana was implemented in the State from August 2001 through the Karnataka Slum Clearance Board with the aim of providing shelter or upgrading existing shelter in the slum areas. Though construction of 25,841 houses was completed and 25,132 houses allotted to the beneficiaries, transfer of title in their favour had been done only in respect of 96 houses. The process was compounded by construction of 2,881 houses in non-declared areas and on private land. A Slum Upgradation and Development Programme for providing common infrastructure facilities in these areas was also under execution by the Board. Infrastructure works undertaken in four cities scheduled for completion in one year were incomplete even 14 to 25 months after the due dates as all of them were entrusted to a single contractor.

**(Paragraph: 3.2)**

## **4. Development and maintenance of major district roads**

The Karnataka State Public Works Department is responsible for the development and maintenance of Major District Roads in the State. Short-release of funds for execution of development works led to accumulation of liabilities to Rs.203.98 crore at the end of March 2006. Non-prioritisation of road widening works resulted in avoidable expenditure of Rs.4.02 crore as the traffic intensity of these roads did not warrant such widening. Adoption of incorrect design parameters for 26 roads costing Rs.27.73 crore resulted in construction of their pavements with less thickness and thus prone to premature failures. In 11 cases, the pavement thickness was in excess resulting in avoidable extra expenditure of Rs.10.60 crore. Execution of surface dressing works in contravention of Indian Road Congress norms resulted in wasteful expenditure of Rs.2.22 crore on 42 road improvement works. Execution of maintenance and repair works was undertaken under piecemeal system which was irregular and also resulted in non-enforcement of quality control checks. The quality control tests for ensuring execution of works according to prescribed standards for different stages of pavement works were also deficient.

**(Paragraph: 3.3)**

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**5. Urban Water Supply Schemes**

Urban Water Supply Schemes were implemented in the State through the Karnataka Urban Water Supply and Drainage Board. Out of 40 schemes taken up for execution during 2001-06, only 25 had been completed. Project management and contract management were deficient resulting in avoidable extra expenditure/liability, unfruitful expenditure and excess payments aggregating Rs.5.20 crore. Water supply charges of Rs.145.04 crore due from Urban Local Bodies and consumers had not been collected by the Board. Non-release of full component of State Finance Commission grants by the Government for debt servicing led to diversion of plan funds and avoidable payment of penal interest of Rs.1.83 crore.

**(Paragraph: 3.4)**

**6. Sarva Shiksha Abhiyan**

Sarva Shiksha Abhiyan aims at providing universal elementary education in a mission mode, by providing useful and relevant education for all children in the age group of 6-14 years by 2010. Implementing agencies could not absorb even the reduced level of funds released due to deficiencies in planning. The aim of having all children in schools by 2005 was not accomplished and also the trends in dropout rate indicated unlikely achievement of universal retention by 2010. Only 1,541 schools were opened against the sanction of 2,087 new schools and basic infrastructure needs were available in only 41 per cent of Government schools. While only 13 per cent of the children with special needs received assistance during 2004-05, less than one per cent of the upper primary schools had access to computer education. Neither the involvement of non-governmental organisations was as envisaged nor was the monitoring of the scheme adequate.

**(Paragraph: 3.5)**

**7. Computerisation of Treasuries in Karnataka (Khajane)**

The project 'Khajane' was implemented with the aim of providing the details of expenditure made by the Drawing and Disbursing Officers, Controlling Officers and Chief Controlling Officers for the purpose of reconciliation, restricting payments at the treasuries to budget allocations, ascertaining the Ways and Means position of Government *etc.* Deficiencies in IT operations and controls existed such as ensuring correctness of payments made to Housing Development Finance Corporation; uploading of budget related data from the Finance Department package, storage of back up data off-site. Codal provisions for awarding the contracts for establishing network connectivity were not followed.

**(Paragraph: 3.6)**

## **8. Evaluation of Internal Control System**

Internal control system is an integrated process by which an organisation governs its activities to effectively achieve its objectives. It consists of methods and policies designed to protect resources against loss due to waste, abuse and mismanagement. The Cooperation Department was established with the primary objective of organising and managing genuine cooperatives on sound lines as per basic principles of cooperation for the promotion of economic interests and welfare of the people and rendering guidance and assistance for the development of cooperative movement in the State. Evaluation of the internal control system in the Department disclosed that budgetary controls were not effective as there were instances of defective preparation of estimates and substantial funds were either not surrendered or surrendered at the end of the year. The operational controls were also not effective resulting in accumulation of arrears in audit, inspections remaining incomplete and misappropriation of Rs.81.67 crore involving departmental employees, staff and office bearers of societies. Inadequate monitoring led to accumulation of outstanding loans and interests. This was compounded by the absence of internal audit.

**(Paragraph: 5.1)**

## **9 Working of Horticultural Farms**

With the objective of demonstration of the cultivation of economically important horticultural crops and development of centres of propagation of planting material, the Government established 244 horticultural farms and nurseries. However, no farm policy was adopted and there was no prioritisation of potentially viable farms for development resulting in thin spreading of resources across the farms. There was low yield of fruit crops even from trees in the economic bearing period as measures for proper irrigation and other practices were not in place.

**(Paragraph: 3.7)**

## **10. Audit of Transactions**

### **Infructuous/Wasteful expenditure and overpayments**

- Though the road of Bangalore-Nilgiri State Highway (SH-17) was to be converted into a four-lane carriageway, failure of Government to forestall the execution of improvement works in selected stretches in Mandya District resulted in wasteful expenditure of Rs.1.68 crore.

**(Paragraph: 4.1.1)**

### **Avoidable/Extra/Unfruitful expenditure**

- Defective project formulation by the Government for restoration of a polluted lake and implementation of the project by Lake Development Authority without arresting the sewage entering into the lake resulted in unfruitful expenditure of Rs.1.76 crore.

**(Paragraph: 4.2.1)**

- Incorrect computation of extra quantities without considering the tender quantities by the Director of Ports and Inland Water Transport Department while regulating payment to the contractor resulted in excess payment of Rs.2.18 crore.

(Paragraph: 4.2.2)

- The Divisional Officer, Minor Irrigation, Gulbarga made excess payment of Rs.3.58 crore to the contractor without regulating payments in accordance with the terms of agreement towards additional dewatering charges, diversion of water course and transportation of excavated hard rock.

(Paragraph: 4.2.3)

### **Idle investment/idle establishment/blockage of funds**

- Construction of a minor irrigation tank at Kamatnoor in Hukkeri Taluk of Belgaum district without synchronising its execution with its canal works which also breached due to non-supervision by the Minor Irrigation Division, Belgaum during execution resulted in unproductive outlay of Rs.5.51 crore.

(Paragraph: 4.3.4)

- Execution of scarcity relief works by Public Works Department and Water Resources Department through contractors and issue of food grains to them on concessional rates resulted in undue benefit of Rs.2.53 crore besides depriving direct employment to the drought affected farmers.

(Paragraph: 4.4.1)

### **Regularity issues and other points**

- While providing Grant-in-aid to the private management colleges, the Government irregularly released grants of Rs.40.48 crore to ineligible colleges and colleges without the Certificate of Accreditation. Release of grants of Rs.4.90 crore was also made due to incorrect fixation of pay and lecturers without prescribed workload.

(Paragraph: 4.5.1)

- Excess payment of family pension of Rs.1.19 crore was made by Public Sector Banks beyond the indicated period in 629 cases relating to 28 district treasuries.

(Paragraph: 4.5.2)

