



OVERVIEW

This report includes two chapters containing observations on Finance and Appropriation Accounts of the Government of Karnataka for the year 2007-08 and three chapters comprising three reviews, two long paragraphs and 10 paragraphs dealing with the results of performance audit of selected programmes, internal control system in Government departments as well as audit of the financial transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgment basis. The audit conclusions have been drawn and recommendations made taking into consideration the views of the Government.

A summary of the financial position of the State and the audit comments on the performance of the Government in implementation of certain programmes and schemes as well as internal control system in Finance Department are given below:

1. Financial position of the State Government

The State's revenue expenditure during 2007-08 grew by 12 *per cent* over the previous year as against nine *per cent* growth of revenue receipts resulting in decrease of revenue surplus by Rs. 376 crore from Rs. 4,152 crore in 2006-07 to Rs. 3,776 crore in 2007-08. Fiscal deficit increased by Rs. 644 crore from Rs. 4,688 crore to Rs. 5,332 crore due to growth in capital expenditure (including loans and advances) and increase in non-debt capital receipts.

As at the end of 2007-08, total investment of the State Government in Government companies, statutory corporations *etc.*, was Rs. 22,279 crore but the returns (Rs. 23 crore) were negligible.

Outstanding liabilities of the State increased from Rs. 37,234 crore in 2002-03 to Rs. 60,142 crore in 2007-08 and their ratio to GSDP was 28 *per cent* during the current year. The amount guaranteed by the State Government on behalf of statutory corporations, Government companies, *etc* and outstanding as of March, 2008 was Rs. 10,786 crore.

(Paragraphs: 1.1.2, 1.6.2, 1.7.1 and 1.7.2)

Against total budget provision of Rs. 57,439.15 crore including (supplementary grants), actual expenditure was Rs. 48,487 crore. Overall unspent provision of Rs. 8,952.14 crore was the result of unspent provision of Rs. 8,957.29 crore in 29 grants/appropriations and excess expenditure of Rs. 5.15 crore in three grants/appropriations. The excess expenditure of Rs. 5.15 crore during the year required regularisation by the Legislature under Article 205 of the Constitution of India.

(Paragraphs: 2.2 and 2.4)

2. Waste Management in Karnataka

Government of India, under the Environment (Protection) Act, 1986 framed (1998 and 2000) rules to regulate the management of municipal solid wastes and biomedical wastes so as to protect and improve the environment. Utilisation of funds provided (2003-08) for municipal solid wastes management was poor due to delay in development of landfill sites and procurement of tools and equipment for door-to-door collection and transportation of wastes. Poor compliance to the rules by the implementing agencies viz. urban local bodies and health care establishments coupled with ineffective monitoring by the State Pollution Control Board resulted in continued environmental pollution and health hazards.

(Paragraph: 3.1)

3. Computerisation in Police Department

The initiative of the Police department to use information and communication technology to build up a database of crime and criminal information and to computerise various activities in order to facilitate early detection of crimes could not be successfully implemented due to deficiencies in planning and absence of a coordinated approach. Delays in implementation, technical deficiencies, lack of proper connectivity *etc.*, resulted in sub-optimal utilisation of the IT assets and facilities created under various projects.

(Paragraph: 3.2)

4. Lift Irrigation Schemes

Lift Irrigation Schemes envisage pumping water for irrigation to higher terrain where flow irrigation was not possible. The Department under utilised the funds provided under the schemes. The programme suffered due to non-availability of water, inadequate supply of power and repairs to machineries. No action was initiated to transfer the *atchkat* of the schemes which were overlapping with other irrigation projects. Despite rejuvenation of defunct lift irrigation schemes under Eleventh Finance Commission grants, most of the schemes continued to remain defunct.

(Paragraph: 3.3)

5. Waiver of agricultural loans and interest subsidy schemes

The Government approved (December 2004-May 2007) various schemes to subsidise the interest rates on agricultural loans provided to the farmers, waive the outstanding loan and interest where farmers had paid interest in excess of the principal amount of loan and waive interest and penal interest outstanding where farmers had cleared the principal amount by a specified period. The implementation of the schemes was not effective due to lack of proper scrutiny of claims by the Department. The co-operative credit institutions preferred ineligible claims often by mis-representing the facts resulting in excess reimbursement of Rs. 110.40 crore.

(Paragraph: 3.4)

6. Administration of Forest (Conservation) Act, 1980

Government of India approval was a pre-requisite for diversion of forest land for non-forest purposes. Continued violation of provisions of the Act, non-compliance to Government of India conditions and non-resumption of forest land on expiry of lease period were noticed. The adverse environmental impact due to diversion of forest land on ecological stability was not assessed by the department. The non-forest land afforested under Compensatory Afforestation Scheme was not notified. Net present value of Rs. 17.09 crore was not recovered from 23 user agencies.

(Paragraph: 3.5)

7. Internal Control Mechanism in Finance Department

The Finance Department was responsible for overall management of the State finances which included mobilisation and collection of revenues and other financial resources, budgeting and proper allocation of available resources to meet the demands of expenditure and day-to-day management of cash balances. Review of Internal Control Mechanism of the Department revealed (2003-08) that the budgetary, expenditure and administrative controls were not effectively enforced. There were persistent savings during the period 2003-07 due to lack of scrutiny of departmental estimates by the Finance Department. Non-adherence to the prescribed rules and procedure resulted in withdrawal of funds from the Consolidated Fund and keeping outside the Government Account exposing them to the risk of misuse. Government injudiciously resorted to open market borrowings of Rs. 1,164.92 crore during 2005-08 even though their cash position was comfortable.

(Paragraph: 5.1)

8. Audit of Transactions

Excess payment/Wasteful/Infructuous expenditure

- Rs. 52.40 lakh was paid (October 2007) to a contractor for construction of a bridge-cum-barrage across the Kagina river near Shankarwadi village in Chittapur taluk of Gulbarga district for de-watering disregarding the contractual stipulations.

(Paragraph: 4.1.2)

- Misclassification of excavated ordinary rock as hard rock in the construction of a bridge-cum-barrage on Kagina river near Meenhabal village in Gulbarga district resulted in extra payment of Rs. 89.47 lakh.

(Paragraph: 4.1.3)

- The objective of providing communication facility to two villages of Bidar district was not achieved even after 16 years of entrustment of work to the contractor and despite incurring an expenditure of Rs. 17.10 crore

(Paragraph: 4.1.4)

**Violation of contractual obligations/undue favour to contractors/
avoidable expenditure**

- Public auction (2003-04) of residential sites by the Bangalore Development Authority in the Shivagilu tank bed layout of Koramangala extension in Bangalore without acquiring them resulted in avoidable litigation and payment of interest of Rs. 77.09 lakh.

(Paragraph: 4.2.3)

- Failure of the Government to release State Finance Commission grants in time to the Karnataka Urban Water Supply and Drainage Board for repayment of loan taken for improving the infrastructure facilities of urban local bodies resulted in avoidable payment of interest of Rs. 9.71 crore.

(Paragraph: 4.2.4)

- Failure of the Agriculture Department to prepare a single series of crop cutting experiments to estimate the crop production and for claiming agricultural insurance resulted in non-reimbursement of the Central share of Rs. 62.22 lakh by Government of India

(Paragraph: 4.2.5)

Regularity issues and other topics

- The objective of providing computer literacy to primary school children through computer assisted learning centres set up in 775 Government Higher Primary Schools of the State could not be achieved due to unfamiliarity of the teachers in operation of servers, unresolved technical problems and inadequate availability of technical support despite incurring an expenditure of Rs. 10.39 crore.

(Paragraph: 4.3.1)