CHAPTER IV

AUDIT OF TRANSACTIONS

Audit of transactions of the Departments of Government, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

4.1 Infructuous/wasteful expenditure and over payment

MINOR IRRIGATION DEPARTMENT

4.1.1 Irregular expenditure on purchases

Purchase of stores by the Divisional Officer, Minor Irrigation Division, Belgaum in violation of financial rules and codal provisions resulted in an irregular expenditure of Rs.2.43 crore

A review of records (April 1998 to December 2002) of Executive Engineer, Minor Irrigation Division, Belgaum revealed that materials like MS Outlet Gates, Guage Plates, Pressure Relief Valves, Wooden Planks, Sponge Rubber, Transformer Oil etc., were procured at a cost of Rs.2.43 crore during 1998-2002. Audit scrutiny revealed that the purchases were made irregularly in violation of financial rules, as discussed below:

The Purchases were neither made through SPD[♣] as per prescribed procedure nor were tenders invited, as required under rules. Instead purchases were made after obtaining limited quotations from local suppliers. Bulk of the purchases were made during 2001-02 (Rs.128.83 lakh) and most of it was made by the Divisional Officer at his level only by obtaining quotations from the local dealers (August 2001 and February 2002). The Superintending Engineer accorded ex-post facto approval (February 2002).

The purchases were split by Executive Engineer/Superintending Engineer to obviate the necessity of obtaining sanctions of competent authority. Purchases were also not covered by proper indents to justify the large scale procurement of materials nor were they approved by the Purchase Committee.

The Division also purchased materials from unregistered firms. The invoices for supplies were defective and did not have details such as supply order number, date, Delivery Challan number, mode of transport etc. The invoices for certain items did not contain detailed specifications. Consequently, the suitability of the materials purchased and the correctness of the rates paid could not be ensured in Audit. The Divisional Officer also procured materials far in excess of the Reserve Stock Limit of Rs.10 lakh. Materials worth Rs.2.32 crore was kept outside the divisional stock account and charged to works directly, thereby violating codal provisions. Materials such as office furnishings, fire extinguishers, road delineators etc., valued at Rs.12.80 lakh

[♣] Stores Purchase Department

were purchased irregularly by debiting the charges to works of tanks construction or to the maintenance and repair works of existing tanks.

A comparison of procurement rates paid for some of the material with those finalised in neighbouring circles for similar materials revealed that purchases were made at exorbitant rates leading to avoidable extra expenditure of Rs.66.24 lakh, as detailed in the ***Appendix 4.1.***

As the purchases were made without reference to the actual requirements, in violation of the prescribed rules and procedure, at exorbitant rates and without taking the materials to stock account, the genuineness of these purchases was doubtful and the possibility of fictitious payments could not be ruled out.

The matter was brought to notice of Government in May 2003 and their reply was awaited (December 2003).

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.1.2 Abandoning works in unsafe condition

The inaction of Government to resume balance works of Breakwaters at Mangalore Port after abandoning it in an unsafe condition resulted in wasteful expenditure of Rs.2.36 crore

The work of reconstruction of the damaged portion of North Breakwaters[♣] at Mangalore Port estimated to cost Rs.1.65 crore (DSR 1997-98) was entrusted (January 1999) to a contractor at Rs.2.36 crore with a stipulation to complete the work within 24 months. However, during execution, it was found (February 1999) that as the sea bed at the site had deepened by one metre, the estimates needed to be revised. A comprehensive revised estimate for Rs.11 crore was accordingly prepared (June 1999) by the Department, in consultation with the Central Water and Power Research Station (CWPRS), Pune and the work in its revised scope was again entrusted (July 1999) to the same agency.

While the work was in progress, Government ordered (August 1999) stoppage of the work on the plea of announcement of General Elections and directed the contractor not to resume the work until further orders. The agency was paid (March 2001) Rs.2.36 crore for collecting 31,290 MT of different categories of stones for the work. The balance work included collection of another 92,486 MT of stones, construction of round head of breakwater and covering the trunk of the structure with armour stones so as to bring the work to a safe stage. However, the work was not restarted and continued to be in an unsafe stage (December 2003).

Audit scrutiny revealed that the contractor had not executed the work as per specifications. As also pointed out by CWPRS, right kind of stones had not been collected and the stones collected had been dumped randomly. Despite this, payments at 90 *per cent* of the agreed rates was made to the contractor. The work continued to remain abandoned in an incomplete and unsafe

[♣] A device to arrest tidal action on the sea shore and to provide means of smooth and safe navigation for fishing boats in the sea condition rendering the entire expenditure of Rs.2.36 crore wasteful, which is likely to become infructuous due to unsafe condition of the work. Reasons for non-resumption of work were not forthcoming.

On this being brought to the notice of Government, it was contended (August 2003) that the breakwater was intact, which was not tenable, as only stones had been collected at the site.

4.1.3 Wasteful expenditure on converting a causeway into a causeway-cum-barrage

Action of the Department to convert an existing causeway into a causeway-cum-barrage without ensuring its structural stability coupled with fixing of substandard gates for the vents of the causeway led to the collapse of the entire structure. This resulted in wasteful expenditure of Rs.73.26 lakh and an avoidable expenditure of Rs.83.99 lakh on re-construction of the causeway

The Hyderabad Karnataka Development Board (HKDB) decided (1995-96) to convert an existing[♦] causeway across river Hagari into a causeway-cum-barrage, which would impound about 70 million cubic feet of water that could be used for irrigating about 1,100 acres of land. The work was taken up (September 1996) by Public Works Division, Bellary at an estimated cost of Rs.82.85 lakh. The work was executed through three piecework agencies at a cost of Rs.73.26 lakh and water was impounded in the barrage in January 1998.

On 7 December 2000, the central portion of the causeway-cum-barrage collapsed, disrupting the traffic on the causeway. The Department after deciding to retain only the causeway, dismantled the barrage, reconstructed the collapsed portion of the causeway at a cost of Rs.83.99 lakh and restored (October 2001) the traffic.

Audit scrutiny of records revealed that the work, which was outside the jurisdiction of PWD, was executed irregularly by the Public Works Division, Bellary without obtaining clearance from Water Resources Development Organisation (WRDO) and the Tungabhadra Project authorities. The causeway, primarily designed as a non-water retaining structure, was converted into a causeway-cum-barrage without ensuring its structural suitability to retain water. The gates of the barrage were neither designed as per standard specifications nor were their design approved by the competent authority before placing orders for fabrication. The Superintending Engineer, Public Works Circle, Bellary entrusted the fabrication, erection and commissioning of gates for the vents of the causeway to three agencies on piecework basis after obtaining limited quotations in contravention of the financial rules. Due to defective and incomplete fabrication and also their poor maintenance, the gates could not be operated smoothly.

Following serious allegations in the execution of work, the Special Vigilance squad of Chief Minister's Secretariat had investigated (August 1999) the matter and reported inter alia, substandard fabrication of gates. It was recommended to rectify the defects early in the interest of the safety of the structure. However, no action was taken in the matter.

[♦] At Kudadarahal village in Siruguppa taluk of Bellary district

Consequent to the collapse of the structure (December 2000), the Chief Engineer, Communication and Buildings (North), Dharwad investigated the causes of breach and reported to Government (January 2001) that the collapse was due to impounding of excess water in the barrage, which was constructed without ensuring the stability of the already existing causeway and also due to difficulty in operating the gates.

Had the Department ensured structural suitability of causeway-cum-barrage and designed the gates as per standard specifications and later taken timely action to make the operation of gates smooth, the collapse of the structure could have been averted. This resulted in an expenditure of Rs.73.26 lakh on construction of barrage largely wasteful besides incurring of an avoidable expenditure of Rs.83.99 lakh on re-construction of the damaged causeway.

The matter was brought to the notice of Government in February 2003 and the reply is awaited (December 2003).

4.1.4 Injudicious/irregular purchases

Purchase of stores, stationery and tools and plant were made by the Executive Engineer, Public Works Division, Bidar in violation of financial rules and codal provisions, which included unaccounted stock of Rs.61.57 lakh and unused surplus stock of Rs.26.69 lakh

A test-check of the records of Public Works Division, Bidar for the period 1998-2003 revealed that stationery articles worth Rs.64.60 lakh and stores and tools and plant (T&P) worth Rs.95.35 lakh were purchased during the period in violation of financial rules and codal provisions. Purchases were made by the Divisional Officer without assessing the actual requirement and by obtaining limited quotations from the local suppliers without calling for open tenders or procuring through Stores Purchase Department. The non-availability of stationery in the Government Press, Gulbarga was also not ascertained by the Divisional Officer before placing orders. The value of purchases was split at Executive Engineer/ Superintending Engineer level so as to obviate the necessity of obtaining sanctions of competent authority. Payments towards these purchases were made unauthorisedly by diverting funds meant for developmental purposes, such as construction of roads, bridges, housing etc.

It was also observed that stores and T&P worth Rs.31.35 lakh were not taken to stock, but shown to have been issued to different Section Officers under Material-At-Site (MAS) Account for use on various works. These materials were however not accounted for by the Section Officers in their MAS accounts resulting in non-accountal of Purchases worth Rs.31.35 lakh. No action had been taken against the concerned officials for non-accountal of huge materials purchased. Stationery worth Rs.30.22 lakh had also remained unaccounted, as the Division had not reconciled the shortages. The effective use of the other stationery (value: Rs.34.38 lakh), which was brought to account and unused balances thereof could not be verified in audit due to non-maintenance of stock and issue accounts. Physical verification of stationery articles had also not been conducted at any time during the above period. As such, the chances of their misuse could not be ruled out.

Stores and T&P, such as enamel paint, aluminium wire, road delineators, leather aprons, hand gloves, tarpaulins, thermometers etc., valued at Rs.26.69

lakh also remained unused. These items were subsequently declared (December 2002) 'Surplus' for use by any other needy divisions. As there was no response from any division, the same were sought to be disposed of through public auction (April 2003) indicating injudicious purchases.

The action of the Executive Engineer in making purchases irregularly and resorting to injudicious purchases had not been investigated.

The matter was brought to the notice of Government in May 2003 and their reply is awaited (December 2003).

PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS

4.1.5 Excess payment of compensation

Incorrect valuation of certain structures/buildings taken over by the Highway Engineering Division along with land for widening the National Highway (NH 4) resulted in an excess payment of Rs.1.83 crore

For widening the National Highway 4 from the existing two lane to four lane, National Highways Division, Bangalore took possession (June 1985) of two acres and two and a half guntas land in Chokkasandra village and three acres and 34 guntas in Dasarahalli village in Bangalore North Taluk. The acquisition proceedings were later finalised (1990) by the Special Land Acquisition Officer (SLAO) awarding a compensation of Rs.32.55 lakh, which was paid to the land owners along with interest from the date of taking possession of lands. However, subsequent to this, some of the awardees represented that the buildings/ structures constructed on the acquired lands had been omitted while finalising award. Government accordingly directed (June 1994) the Department to arrange for payment of compensation for the buildings. The Department therefore identified 12 such buildings in nine cases. After valuing these structures/buildings at Rs.61.33 lakh (April 2001), a compensation of Rs.2.32 crore was paid (July 2002) inclusive of interest of Rs.1.52 crore for the period from June 1985 to May 2002.

Audit scrutiny revealed that the Division valued these properties at the rates and in accordance with the norms prevalent for 2001, as per Government notification dated 03 December 1988, instead of those applicable in February 1988, when preliminary notification was issued under Section 4(1) of the Land Acquisition Act, 1894 for which rates fixed as per Government Circular dated 02 July 1986 were applicable. This resulted in excess payment of compensation and interest amounting to Rs.1.83 crore, as indicated in ***Appendix 4.2.***

The failure of the department to value the structures correctly in accordance with the applicable rates resulted in excess payment of Rs.1.83 crore. The excess payment had not been recovered so far (December 2003).

The matter was brought to the notice of Government in May 2003 and their reply is awaited (December 2003).

WATER RESOURCES DEPARTMENT -BENNITHORA PROJECT

4.1.6 Unauthorised expenditure

The action of the Divisional Officer to spend project funds on unauthorised construction of Jeepable paths and undertake works of approach roads and service roads of main canal which were part of the main canal works as a finished item resulted in an irregular expenditure of Rs.2.76 crore

Irrigation Project Construction (IPC) Division No.4, Hebbala in Gulbarga district undertook works of constructing Jeepable paths and improvement works of already existing paths for finalising alignment of distributories of left and right banks of Bennithora canal. These works (estimated cost Rs.97.36 lakh) numbering 134 were carried out during 1998-2003 after preparing estimates costing less than Rs.two lakh for each work, which were sanctioned by the Divisional Officer. These works were got executed through piecework agencies (43 works) and on 'task work' basis (91 works) at a total cost of Rs.77.09 lakh. In addition to this, Improvements to approach roads to canals and Formation and Improvements to Service Roads/Inspection Path (SR and IP) from km 45 to 60 of LBC and from km 66 to 80 of RBC, respectively were also executed during 1998-2003 on the ground that they were necessary to facilitate smooth conveyance of men and material and for inspection of the works. These 107 works of Improvements to Approach Roads and 76 works of formation and improvements to SR and IP were also got executed on task work/piecework basis at a cost of Rs.1.99 crore.

Audit scrutiny revealed that the works were carried out in violation of financial rules and codal provisions. All these works were neither included in the technically sanctioned project estimates nor was approval to their execution obtained from competent authority. Instead, these works were split up to avoid obtaining such approval. The execution of these works was continued even after Superintendent Engineer, IPC, Gulbarga Circle directed the Divisional Officer (February 2001) not to take up these works, as they were not creating any irrigation potential. It was also noticed that payment to suppliers of construction materials for Jeepable paths was made in cash (Rs.37.60 lakh) instead of issuing 'Account Payee' cheques, as per the prescribed procedure. The Divisional Officer in contravention of the prescribed control measures permitted the Sub-Divisional Officers to handle cash transactions. The scope for falsification of claims and fictitious payments could thus not be ruled out.

In respect of approach roads, it was observed that the rates quoted by the contractors for main canal works covered the cost of construction/ improvements to the approach roads. Similarly, the quantities of earth work excavation and embankment included in the tender agreement provided for construction of SR/IP also. Moreover, as SR and IP constitute an integral part of the main canal and are to be constructed simultaneous with the construction of the main canal, execution of these works again on piecework/task work basis and that too by splitting them as works of less than Rs.two lakh was not justified. In the circumstances, the works executed by the Divisional Officer incurring an expenditure of Rs.1.99 crore was irregular and doubtful.

On this being pointed out to Government, it was contended (August/ September 2003) that the Jeepable paths though outside approved programme, were essential. As regards SR/IP works, it was contended that though excavation for SR/IPs constitutes part of canal works, these were not entrusted to canal contractors. The contention was not, however, factual as execution of these works were actually entrusted to main canal contractors, as confirmed (October 2003) by the Divisional Officer, IPC, Hebbala.

WATER RESOURCES DEPARTMENT - KARANJA PROJECT

4.1.7 Faulty designs of the rising main leading to infructuous expenditure of Rs.2.66 crore

Failure of the Department to assess the actual pressures for the rising mains of Karanja Lift Irrigation Scheme and select pipes of appropriate design resulted in an expenditure of Rs.2.66 crore becoming largely infructuous

The Karanja Lift Irrigation Scheme (estimated cost: Rs.32 crore) was taken up for execution for irrigating 4,047 hectares of land. The works under the scheme included construction of head works including a four row rising main, erection of pumping machinery, construction of canal over a length of 24 kms and its distributaries. By March 2003, head works including rising mains and canal for a length of five kms had been completed incurring an expenditure of Rs.10.20 crore. The rising mains (expenditure: Rs.2.63 crore) installed in 2000 when put to test however, leaked heavily affecting irrigation adversely. The expert committee to whom the matter was referred by the Department reported (March 2002) that the permanent remedy was to replace the entire four row RCC pipes by a single row of steel pipe. As a temporary measure, the committee advised using of valves, bye-pass etc. The Department as a temporary measure incurred an expenditure of Rs.34.16 lakh, which too did not prove fruitful, as the leakages continued even thereafter.

Audit scrutiny revealed that RCC pipes designed to withstand a maximum site test pressure[♦] of 20 M up to initial reach of 945 metres and 13 M thereafter were selected and used in the rising mains reckoning the respective pressures as 19.08 M and 7.55 M. However, on commissioning of the pumps, as the actual respective pressures were 37 M and 25 M, the pipes gave way leading to heavy leakages. Remedial measures (expenditure: Rs.three lakh) viz., inserting non-return and zero velocity valves in the rising mains to regulate/ check the water flow in the pipes did not help in checking the leakages, as they did not provide for a bye-pass to counter surge conditions.

Thus, failure on the part of the Department to assess the actual pressures and select the pipes of appropriate design resulted in expenditure of Rs.2.66 crore on construction of rising mains as largely infructuous.

The matter was brought to the notice of Government in June 2003 and their reply is awaited (December 2003).

[♦] 'Site test pressure' is the pressure applied on the pipes to test their strength and water tightness

WATER RESOURCES DEPARTMENT -TUNGABHADRA PROJECT

4.1.8 Unauthorised works

The action of the Chief Engineer to incur irregular expenditure on an irrigation canal led to creation of an unwarranted financial burden of Rs.1.86 crore to Government

The Chief Engineer, Irrigation Central Zone, Munirabad decided (December 1997) to provide a cover duct to Basavanna Irrigation Canal[♦] following a request by Hospet Urban Development Authority (HUDA) that the open canal in the town was being polluted by local residents posing danger to public health. The scope of the work included silt removal, earthwork excavation, providing concrete bed, RCC beams and columns, side walks and RCC cover slab at an estimated cost of Rs.three crore. However, on demand of funds from HUDA, it was proposed by HUDA to construct a shopping complex over the cover duct and lease out the same to them. The entire work was estimated to cost Rs.5.50 crore and the same was required to be deposited by HUDA before commencement of work. However, the Irrigation Department (Executive Engineer, No.1, Tungabhadra Reservoir Division, Munirabad) with the approval of the Chief Engineer commenced (December 1997) the work departmentally and on piecework basis in anticipation of receipt of any funds from HUDA. This was done on the plea that the work was to be completed within the ensuing canal closure period, and that the available time did not permit preparing detailed estimates and entrusting work on 'open tender' basis.

The Chief Engineer subsequently approved (July 1998) six estimates (each costing less than Rs.50 lakh) aggregating Rs.2.85 crore and sought ex-post facto approval from Government for the work. The Chief Engineer demanded funds of at least Rs.one crore for payments due, as HUDA had not deposited any amount with the department. To this, Government directed (May 1999) Chief Engineer to obtain funds from HUDA only and instructed him not to undertake such works in future without the approval of Government. As payments were not received, two contractors approached (2000) the court and the department paid Rs.97.43 lakh to them (May 2003) under court orders. Contractor's bills for Rs.88.75 lakh were still pending for payment. The Department completed the work of silt removal, earth work excavation, providing concrete bed and RCC beams and columns. However, the work of providing cover slab to the canal was not executed. Non-execution of the cover slab was attributed to non-availability of funds. In the absence of the cover slab, the canal remained open to pollution, defeating the purpose for execution of the work.

The unauthorised action of the Chief Engineer in incurring an irregular expenditure of Rs.1.86 crore and creating an unwarranted financial burden of Rs.1.86 crore to Government had neither been regularised nor investigated.

The matter was brought to the notice of Government in June 2003 and the reply is awaited (December 2003).

[♦] Running for a length of 1.6 km in Hospet town in Bellary district

4.2 Violation of Contractual obligations/undue favour to contractors

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.2.1 Unintended benefit to contractor

Acceptance of tender at rates higher than the rates payable for similar work resulted in injudicious expenditure of Rs.72.49 lakh

The work of dredging boat basin of Second Stage Fishing harbour at Malpe in Udupi taluk estimated to cost Rs.3.11 crore was entrusted (April 2000) to a firm at their tender cost of Rs.2.46 crore with a stipulation to complete the work by March 2001. The work was actually completed in November 2001 at a total cost of Rs.2.36 crore.

It was observed in audit that the department after inviting tenders (July 1999) for an estimated dredging work of 2.60 lakh cum accepted (June 2000) tendered rate of Rs.69.50 per cum of a firm apart from lump sum mobilisation/de-mobilisation charges of Rs.40 lakh quoted by it. In addition, 10 *per cent* increase in the quoted rates was also accepted by the department in lieu of certain conditions of contract imposed by the tenderer while offering the rates, which were later withdrawn on negotiation. All this put the effective composite rate for 2.60 lakh cum dredging work at Rs.94.43 per cum which was much higher than the rate of Rs.55 per cum fixed (1998) for another dredging work, the indexed rate of which at 10 per annum increase would work out to Rs.66.55 per cum.

Audit scrutiny revealed that while putting the work to tender, the estimated cost of the work was put at a unit rate of Rs.115.72 for cum of dredging work excluding mobilisation/de-mobilisation charges and idle time charges which was shown separately in lump sum of Rs.eight lakh and Rs.two lakh, respectively. This estimated rate was arrived at on the basis of composite rate[1] of Rs.59.40 per cum for dredging work paid to Dredging Corporation of India during 1991-92 to which inflation at the rate of 10 *per cent* was added for each year. While doing so, the rate of Rs.55 per cum fixed by the division for another dredging work in 1998 which included mobilisation and de-mobilisation charges and idle time charges was not taken into account.

Had the rates for the work been estimated prudently and later tender accepted taking into account the rates prevalent in the recent past for such works, the department would have been saved from an injudicious expenditure of Rs.72.49 lakh[2].

On this being pointed out to Government, it was contended (July 2003) that the separate mobilisation and de-mobilisation charges of Rs.40 lakh quoted by the contractor were accepted as huge machinery had to be mobilised by the firm from a distant place to the work site. The contention is not tenable, as in

[1] Which included mobilisation/de-mobilisation and idle time charges

[2] Difference between the effective composite rate of Rs.94.43 per cum and the indexed rate of Rs.66.55 per cum

all such works the movement of machinery to the work site is a normal component of dredging work.

PUBLIC WORKS DEPARTMENT- NATIONAL HIGHWAYS

4.2.2 Undue favour to the contractor

Injudicious decision of the Department to bear the extra cost of construction of cofferdam with increased height in violation of contractual obligation resulted in grant of undue benefit of Rs.64.50 lakh to a contractor

Construction of a new bridge across river Tungabhadra at Madalaghatta in Bellary district was entrusted (April 1999) to a contractor at tender cost of Rs.8.49 crore with a stipulation to complete the job by October 2001. The work was actually completed in December 2002 and the contractor was paid (January 2003) Rs.9.64 crore.

In the 'Brief Description of the Project' appended to the tender booklet, the Department had notified for the guidance of tenderers, that the period from mid-February to mid-May was considered the best time for executing the foundation works of the bridge as the inflow into the river would be the lowest during that period. The drawings appended to the tender booklet also indicated that the Low Water Level in the river during this period would be 1.20 metres that could enable the contractor to plan and complete the foundation work as well as the entire bridge work within the stipulated time. The tender conditions also stipulated that the tenderer shall ascertain the water level during the year and that he is deemed to have carried out his own investigations to arrive at the rates quoted in the tender. Accordingly, contract agreement[1] entered into with the contractor envisaged construction of cofferdams of required height and depth by him as per standing water at the site of the bridge. The rates quoted by the contractor for the work were accordingly deemed to cover the cost of construction as per site conditions.

Audit scrutiny however, revealed that a payment of Rs.64.50 lakh was made to the contractor as an extra cost for construction of cofferdam[2] beyond 1.23 metre height. This was done following a representation by the contractor (December 2000) to the Superintending Engineer, National Highways, Dharwad who submitted (January 2001) a proposal to the Chief Engineer, National Highways, Bangalore for allowing the contractor to construct a six metre high cofferdam at an estimated cost of Rs.78 lakh. This was allowed on the condition that the contractor should complete the work in stipulated time. The Chief Engineer approved post facto (March 2001) the Superintending Engineer's proposals on the condition that the contractor should complete the work by October 2001 by which date the contractor was otherwise also obliged to complete the work as per contractual obligation. The contractor completed the cofferdam (February 2001) and was accordingly paid Rs.64.50 lakh for its increased height, as an extra item of work in violation of contractual obligation. However, the construction of bridge was delayed beyond October 2001 and was completed only in December 2002.

[1] Schedule 'B' indicating detailed specifications of the work

[2] A watertight enclosure pumped dry to permit work below the waterline for construction of piers

Thus, failure to enforce the contractual obligations resulted in extending undue benefit of Rs.64.50 lakh to the contractor on the plea of completing the bridge work in time, which was however, not achieved.

When this was brought to notice of the Government, the Government stated (July 2003) that the decision was taken in the interest of early completion of work. The reply was not tenable, as the decision was not consistent with the terms of contract agreement, and work was not completed in time, but instead delayed by 13 months.

URBAN DEVELOPMENT DEPARTMENT

4.2.3 Excess payment on extra items executed

Board incurred extra liability of Rs.1.17 crore due to incorrect application of contractual clause for extra items of works executed and paid Rs.98 lakh till date

Details of two Water Supply Schemes (WSS) implemented by Karnataka Urban Water Supply and Drainage Board (Board) were as follows:

Name of the WSS	Period of entrustment to contractor	Contract amount	Total length of PSC pipelines	Length and period of laying MS pipes in lieu of PSC pipes	
				Length	Period
WSS to Davanagere City	August 1999	Rs.27.14 crore at SR of 1998-99 + 35.92 per cent tender premium	26,479 metres	5,585 metres	February 2001
WSS to Basavakalyan	January 1999	Rs.6.18 crore at SR of 1998-99 + 23.05 per cent tender premium	4,110 metres	1,585 metres	June 2001

SR= Schedule of Rates, MS = Mild steel, PSC=Pre-stressed concrete

While WSS to Davanagere City entrusted to Contractor A due for completion in June 2001 was still in progress (November 2003), the other WSS entrusted to Contractor B was completed (August 2002). Board changed specification of pipes from PSC to MS to the extent indicated above after 19 months and 13 months respectively of entrustment of work to contractors on the ground that pipeline in certain reaches passed through water logged/hilly area and congested roads. Laying of MS pipes was entrusted to same contractors at Rs.3.56 crore (estimated as per SR of 2000-01 + tender premium 35.92 *per cent*) and Rs.1.25 crore (estimated at SR of 2001-02 + tender premium 23.05 *per cent*) in respect of Davanagere and Basavakalyan respectively through supplementary agreements. Substitution of PSC by MS pipes constituted extra item of work as per codal provisions. Payment for such extra works was to be regulated as per the prevailing SR (SR of 2000-01 and 2001-02 for WSS Davanagere and Basavakalyan respectively in the instant cases) as stipulated in clause 21.1 of special conditions of contracts. State Government and Board contended (June 2003 and September 2003) that mere substitution of MS pipes in lieu of PSC pipes could not be construed as extra item of work and rate allowed was in conformity with clause 21.1 ibid. This contention was not correct, as item replacing an existing item of work partly or wholly, was to be treated as extra item only and there was no provision for payment of tender premium for extra items of work under clause 21.1. Also MS and PSC pipes were specified as different items and carried different rates in the SR. As such, payment of tender premium for extra item of work was irregular and resulted in excess payment of Rs.1.17 crore[Ψ] out of which Rs.98.05 lakh had already been paid.

4.3 Avoidable/extra expenditure

EDUCATION DEPARTMENT

4.3.1 Extra expenditure of Rs.1.47 crore on printing of minimum learning level and other text books

Rates accepted by HPC for printing of text books were higher than those paid by Project Director, DPEP

The Project Director (PD) who was implementing authority for District Primary Education Programme (DPEP-a World Bank assisted project) printed (January to May 2001) at rates ranging from Rs.5.52 to Rs.15.45 per book for Minimum Learning Level (MLL) books for free distribution in 11 districts covered under DPEP. The Commissioner for Public Instruction (CPI) and Director, Department of State Educational Research and Training (Director) arranged printing/distribution of both MLL and non-MLL books in non-DPEP districts. Besides, CPI/Director arranged for sale of these books also. A High Power Committee[⊗] (HPC) constituted for the purpose, entrusted printing of text books of several titles at a cost of Rs.23.92 crore to private printers through local competitive bidding divided into 37 packages and each package was a separate contract. HPC accepted rates ranging from Rs.5.93 to Rs.17.35 per book.

Scrutiny of records in the Office of CPI/Director revealed following:

Printing of text books meant for free distribution

Rates for MLL and non-MLL books meant for free distribution were higher when compared to the rates finalized and allowed under DPEP by Re.0.41 to Rs.1.90 per book of different titles though technical specification of text books and bid conditions were identical with those printed under DPEP (***Appendix 4.3***). Though, contracts were awarded only to local bidders in both cases, HPC did not ascertain rates finalized by PD, DPEP and negotiate rates with bidders while approving contracts for printing of books for non-DPEP districts. This resulted in extra expenditure of Rs.1.47 crore on printing of 127.67 lakh text books (MLL books-69.33 lakh, non-MLL books-58.34 lakh meant for free distribution).

Printing of books meant for sale

Rates accepted by HPC for printing books for both free distribution and sale purpose were same. These rates as discussed earlier were higher than rates

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Ψ WSS, Davanagere $\frac{35.92}{135.92}$ x Rs.3.56 crore = Rs.94.08 lakh, Paid Rs.76.11 lakh

WSS, Basavakalyan $\frac{23.05}{123.05}$ x Rs.1.25 crore = Rs.23.41 lakh, Paid Rs.21.94 lakh

= Rs.117.49 lakh Rs.98.05 lakh

⊗ Commissioner for Public Instruction as Chairman, Directors of Primary and Secondary Education, Text Books, Printing Press, School of Printing as members and Deputy Director of Text Books as Secretary fixed under DPEP. Printers sold 53.28 lakh books to students at higher rates ranging from Rs.5.93 to Rs.17.35 as against Rs.5.52 to Rs.15.45 per book. Thus, printers made undue gain of Rs.65.00 lakh in respect of books meant for sale.

Director replied (July 2003) that DPEP books were printed on National Competitive Bidding (NCB) tender basis as per the requirement of World Bank while non-DPEP books were printed on Local Competitive Bidding (LCB) tender basis to encourage local/state printers and justified acceptance of higher rate on certain grounds. Details of the same and audit rebuttal thereof are indicated below:

Sl. No.	Reply of Director	Audit Rebuttal
1.	No.of books to be printed under each minority title in each package ranged from 250 to 1000 only under LCB tenders as against minimum of 5000 books prescribed under NCB tenders. This was un-economical to LCB tenderers and hence higher rate was received for LCB tenders.	LCB tenders provided for payment of subsidy to compensate printers in respect of titles where printing requirement was less than 5000 copies. Hence, the reply was not tenable.
2.	In respect of LCB tenders, printers had allowed 17 *per cent* discount to Government.	Only net rates accepted for LCB contracts after unloading discount factor have been compared with rates paid for DPEP books for computing excess expenditure. Hence, reply was untenable.
3.	In respect of LCB tenders royalty at four paise per book was recovered from printers whereas DPEP tenders did not provide for recovery of royalty.	As the LCB/NCB contracts entered into with printers constituted sale of printed material by the printers to Government by making use of copyright held by Government, royalty was recoverable in respect of DPEP books also.
4.	Payment schedule obtaining under World Bank assisted DPEP scheme was prompt and convenient to printers compared to state scheme.	Adequate funds were provided to Director. Scrutiny had revealed that bills were paid between 30 to 40 days. The apprehension expressed by the Director regarding delay had no basis and not a valid reason for accepting higher rate.
5.	As the scope of NCB tenders were vast compared to LCB tenders, more competitive rates were obtained for NCB tenders.	In the context of text books, printers operating within the state had definite cost advantage over printers of other states. This was evident from the fact that out of 13 NCB tenders received for DPEP books, only four belonged to other states and even these four were ultimately rejected as they were not competitive. Hence, the reply was untenable.
6.	LCB tenderers supplied 50 copies of each title free of cost	Benefit derived was quite marginal (50 x 37 = 1850 titles costing Rs.1.75 lakh at an average rate of Rs.11.34 per book) against extra cost of Rs.1.47 crore.

Thus, unjustified acceptance of higher rates by HPC compared to those obtained by PD, DPEP for books of identical specification resulted in extra expenditure of Rs.1.47 crore to State Government besides facilitating the printers to make undue gain of Rs.65 lakh on books meant for sale.

The matter was referred to Government in June 2003; reply had not been received.

HOUSING DEPARTMENT

4.3.2 Unnecessary appointment of Chartered Accountant

Appointment of Chartered Accountant for compilation of statistical data was unwarranted as these details were already on record. Besides, there was no transparency in his appointment and in determining fees

Karnataka Housing Board (KHB) was the nodal agency from January 1993 for monitoring implementation of Ashraya Scheme (Scheme) which envisaged construction of houses for urban and rural poor. It was responsible for drawal of loan from HUDCO on behalf of State Government, subsidy from State Government and distribution of same among Deputy Commissioners (DC)/Zilla Panchayats (ZP) and maintenance of accounts for the same. However, State Government appointed (May 2000), Rajiv Gandhi Rural Housing Corporation Ltd., as nodal agency for the Scheme. With the change of nodal agency, KHB appointed Chartered Accountant (CA) for audit of Scheme from 1992 to 2000 on the ground that loan accounts of the Scheme were not kept separately and required reconciliation, and paid Rs.87.56 lakh as against the claim of Rs.92.67 lakh (Rs.60.00 lakh as professional fees, Rs.27.56 lakh towards halting, boarding, conveyance and incidental expenses) to the CA.

Scrutiny of records revealed following lapses:

KHB appointed CA without direction from State Government and thus contravened Section 56 of KHB Act. Further, the procedure of empanelment of CA in vogue in Commercial Undertakings of State Government was not followed, resulting in lack of transparency in the appointment of CA and determining fees.

Professional fees of Rs.60.00 lakh (at Rs.50,000 per month per district) was paid (September 2000 to February 2001 and August 2002) for compilation/reconciliation of accounts of the scheme involving Rs.417.53 crore in respect of 27 districts from 1992-2000, as against the admissibility of Rs.26.49 lakh[♦] at Rs.1.55 lakh per annum agreed by Karnataka Warehousing Corporation for similar work involving transaction of Rs.24.43 crore during 2001-02.

Though, charges towards halting, boarding, conveyance and incidental charges payable at Rs.280 per person/day were to be limited to actual expenditure, no vouchers/acquittances in proof of expenditure of Rs.27.56 lakh were on record. Thus, payment of the same without ascertaining actual expenditure was irregular.

Further, certified accounts of KHB indicated details of loan drawn by HUDCO and its repayment, subsidy drawn from State Government and funds released to DCs/ZPs year-wise from 1992-93. Besides, separate files and disbursement ledger for Ashraya Scheme was maintained. DCs/ZPs had also furnished utilisation certificate to State Government on the implementation of the

[♦] For Rs.24.43 crore, professional fees paid was Rs.1.55 lakh during 2000-01
For Rs.417.53 crore, professional fees admissible works out to Rs.26.49 lakh.

scheme. Report prepared by the CA indicated same details i.e. loan drawn, repaid to HUDCO, subsidy received from State Government, funds released to implementing officers and funds remaining unspent with them, which KHB as nodal agency should have obtained every year from implementing officers. Housing Commissioner, KHB stated (June 2003) that as a result of reconciliation of accounts by CA it was possible to identify unspent amount of Rs.117 crore lying with district implementing authorities. However, scrutiny of annual accounts for 2000-01 revealed that the unspent amount was a part of Rs.173.44 crore released during 2000-01. Appointment of CA for compilation of statistical data which were already on record was, therefore, wholly unwarranted and resulted in avoidable expenditure of Rs.87.56 lakh.

The matter was referred to Government in June 2003; reply had not been received.

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.3.3 Avoidable extra expenditure due to non-adherence to the revised work specifications

Failure to give effect to the revised specifications in the execution of road surfacing works resulted in payment to contractors at higher rates, which led to an avoidable extra expenditure of Rs.3.01 crore

The State Public Works Department executed works of improvement and strengthening of roads under NABARD assisted Rural Infrastructure Development Fund (RIDF) programme during December 2000 to November 2002. The works inter alia, involved execution of an item of work viz., Single Coat Surface Dressing as per the prevailing specifications of Indian Road Congress (IRC).

The work of Single Coat Surface Dressing comprises application of a layer of bituminous binder sprayed on a previously prepared base followed by a cover of stone chippings properly rolled to form a wearing course conforming the specifications of IRC. The specifications inter alia, provided for using 0.15 cum of stone chippings of 13.2 mm nominal size bitumen of 18 kgs per 10 sqm road surface. These specifications were however, revised by Ministry of Road Transport and Highways (MORTH) in November 2000, which provided for using 19 mm nominal size stone chippings and bitumen of 12 kgs per 10 sqm road surface.

Audit scrutiny of records of 22 test-checked Public Works Divisions revealed that 244 works involving 71.58 lakh sqm of Single Coat Surface Dressing were executed by them during the period from January 2001 to November 2002, according to the pre-revised IRC specifications, as the revised norms were not given effect to. This resulted in payment to contractors at the higher rate of Rs.21 per sqm (plus tender premium) as against Rs.16.80 per sqm♣

♣ Rate	Rs.21.00 per sqm
Less	Rs.04.80 – cost of 0.60 kg bitumen @ Rs.8,000/MT
	Rs.16.20
Add	Rs.00.60 – Difference in cost of road metal
Net	Rs.16.80 per sqm

payable under revised IRC specifications. This led to an avoidable extra expenditure of Rs.3.01 crore.

When this was pointed out in audit, the Department accepted the omission and issued necessary corrigendum and circular instructions (November and December 2002) directing Field Officers to act upon the revised IRC specifications with immediate effect. However, the Chief Engineer, Communication and Buildings (South), Bangalore contended (May 2003) that there was no avoidable extra expenditure, as the payments made to the contractors using the basic rate of Rs.21 per sqm was arrived at after reducing the pre-revised rates by 25 *per cent*, which was sufficient to cover the extra expenditure pointed out in audit. The reply was not tenable, as the reduction in basic rate could not be attributed to the revision of specifications and was a normal reduction effected while approving rates for works.

The matter was brought to the notice of Government in June 2003 and their reply is awaited (December 2003).

PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS

4.3.4 Avoidable extra expenditure due to payment at higher rates

Failure of the department to include essential items of work in the project estimates despite clear guidelines by the Ministry resulted in their execution at higher rates involving an avoidable extra expenditure of Rs.34.72 lakh

The National Highways Division, Bijapur took up (October 2000) the work of widening NH 63 from km 200 to 223 and from km 240 to 267 at an estimated cost of Rs.5.74 crore. The road under widening was running in black cotton soil for most of its length and the existing single carriage way had several types of defects with the overall riding quality being very poor. The guidelines issued by the Indian Road Congress (IRC) envisaged that a layer of sand blanket of 225 mm thickness may be provided to the soil foundation (sub grade) while forming roads in such expansive soils as black cotton soil so as to prevent extensive damages to the road. As such, provision of a sand blanket of suitable thickness was essentially required to be included in the estimates of these widening works.

The work of widening the road was entrusted to an agency for execution at their tendered cost of Rs.3.37 crore, which was based on 1999-2000 Schedule of Rates, without including provision for sand blanket. However, during actual execution of the work, it was decided to provide a layer of sand blanket of 225 mm thickness for both the reaches and a layer of 75 mm thick Grade III road metal in the reach from km 240 to 267. These works were got executed as ‘extra items’ through the same agency at higher rates incurring an expenditure of Rs.1.37 crore (March 2002/September 2003). Had this provision been made in the original estimate itself, taking into account the Indian Road Congress specifications applicable in such cases, the Department would have avoided an extra expenditure of Rs.34.72 lakh as a result of making payment on the basis of enhanced 2000-01 rates instead of 1999-2000 rates.

When this was brought to notice of Government, it was stated (June 2003) that the provision of a sand blanket was not felt necessary, as the existing single lane had performed well without a sand blanket. The reply is not tenable, as the Department should have followed Indian Road Congress specifications in the project estimates itself as was done during execution of the work.

URBAN DEVELOPMENT DEPARTMENT

4.3.5 Avoidable extra cost on laying of MS pipes in lieu of PSC pipes

Unjustifiable and arbitrary stand taken by Board for laying of costlier MS pipes in lieu of cheaper PSC pipes resulted in avoidable extra cost of Rs.6.56 crore

Karnataka Urban Water Supply and Drainage Board (Board) prepared each year Schedule of Rates (SR) which contained inter alia, detailed specifications and rates for pre-stressed concrete (PSC) pipes designed to withstand working pressure up to nine kg/sq.cm (Factory test pressure of 18 kg/sq.cm). Though, working pressure was within the limit of nine kg/sq.cm and site conditions were normal and conducive for laying of PSC pipes, Board laid mild steel (MS) pipes costlier than PSC pipes in three Water Supply Schemes (WSS). Details of these WSS were as follows:

Name of WSS/ Working Pressure along the pipeline	Period of entrustment/ Name of the contractor	Specification and Length of MS pipes laid	Specification of PSC pipes suited	Scheduled rate per metre of (In Rupees)		Extra expenditure (Rupees in crore)	Period of completion
				MS Pipe	PSC Pipe		
Improvement to WSS to Beelagi Town/ 7.6 kg	January 2000/ M/s. Laxmi Engineers, Kolhapur	273.1 mm dia. 5.6 mm thickness 12,150 metres	375 mm dia 18 kg per sq.cm test pressure.	1,403	1,120	0.35	October 2001
Regional WSS to Maddur and 39 enroute villages/ 6, 6.3 and 7.6 kgs*	March 2001/ M/s. Larsen & Toubro Ltd	508 mm dia, 6.4 mm thickness 31,860 metres	500 mm dia 18 kg per sq.cm. test pressure	2,810	1,450	4.33	Not yet completed
		406 mm dia, 6.4 mm thickness 11,000 metres	400 mm dia 18 kg per sq.cm. test pressure	2,130	1,170	1.06	Not yet completed
Comprehensive WSS to Chikka Nayakanahally/ 8.3 kgs	August 2000/ M/s. Nagarjuna Construction Company Ltd., Hyderabad	350 mm dia, 6 mm thickness 15,450 metres	375 mm dia, 18 kg per sq.cm. test Pressure	1,650 (Tendered rate)	1,120	0.82	Not yet completed
Total						6.56	

* Raw water pipeline for 12,120 metres -7.6 kg , Pure water pipeline for 19,740 metres -6 kg, Pure water pipeline for 11,000 metres - 6.3 kg

State Government and Board justified (April 2003/October 2003) laying of MS pipes citing reference to circular instructions issued by Managing Director in December 1999 wherein it was inter alia stated that in several works, PSC pipelines with factory test pressure exceeding 12 kg/sq.cm were creating problems during operation and maintenance. They further stated that only PSC pipes were used wherever conditions were favourable. However, specific instances of works that created problems were not cited in the circular. Moreover, the Board continued to include PSC pipes of 18 kg/sq.cm. in its SRs of 2000-01 onwards also. This indicated that PSC pipes were suitable upto a factory test pressure of 18 kg/sq.cm. It was also observed that Board laid MS pipes for a length of 19,740 metres in respect of Water Supply Scheme to Maddur included in the table above, though factory test pressure involved along the pipeline was only 12 kg/sq.cm which was within the limits of PSC pipes and work was executed after issue of the said circular. Evidently, the said circular was issued in an arbitrary manner.

Thus, the unjustifiable and arbitrary stand taken by the Board for laying of costlier MS pipes in lieu of cheaper PSC pipes resulted in avoidable extra liability/expenditure of Rs.6.56 crore.

4.3.6 Avoidable extra cost due to entrustment of work at exorbitant rates

Board's unjustifiable decision to bypass tender procedure and entrustment of work to a contractor at exorbitant rates resulted in avoidable extra cost of Rs.36.74 lakh

Karnataka Urban Water Supply and Drainage Board (KUWS&DB) entrusted to contractor A (July 1994) laying of 500 mm dia pre-stressed concrete (PSC) pipeline for raw water supply for a length of 13,440 metres at a cost of Rs.1.43 crore, 9.67 *per cent* above SR of 1993-94 under Regional Water Supply Scheme to Gundlupet and enroute villages. The work due for completion in December 1995, was stalled after PSC pipes were laid for a total length of 2,620 metres in different chainages for nearly five years due to delay in land acquisition. In April 1999, Board realized that pipeline was to pass through agricultural fields for total length of 5,000 metres in three chainages different from those where PSC pipes were already laid. Board withdrew from contractor A work in respect of these three chainages and awarded (August 1999) the work of laying mild steel (MS) pipes in these chainages to another contractor B at Rs.2.13 crore without calling for tenders (as against estimate of Rs.1.78 crore prepared on SR of 1998-99).

State Government and Board justified (October 2003) bypassing of tender procedure on grounds of urgency and contractor B agreed to execute this work at Rs.3,634.70 per metre at which rate similar work was executed (1997-98) by him in Chamarajanagar. Also, Board adopted data rate of Rs.2,900 per metre for preparing estimate in this case (three chainages of pipeline for Gundlupet). Board had not allowed such exorbitant rates (25 *per cent* above the data rate) for laying of MS pipes in other works. Reason of urgency for not calling for tenders was also not tenable as other allied components such as headworks, overhead tanks, laying of pipes for pure water raising main were incomplete as on the date of entrusting the work to contractor B and some items are still incomplete till date. Thus, Board's unjustifiable decision of entrusting work without inviting tenders and payment at exorbitant rates resulted in avoidable extra expenditure of Rs.36.74 lakh.

HOUSING, HEALTH & FAMILY WELFARE, PUBLIC WORKS AND RURAL DEVELOPMENT & PANCHAYAT RAJ DEPARTMENTS

4.3.7 Mismanagement of HUDCO loan

Delays and lapses at various stages leading to mismanagement of loan and avoidable payment of penalties of Rs.3.99 crore

Certain Corporations/Agencies borrowed funds from Housing and Urban Development Corporation (HUDCO) on the basis of guarantee furnished by State Government for implementation of Government schemes. Loan agreement entered into with HUDCO by these Corporations/Agencies prescribed inter alia the following conditions:

Levy of commitment charges at 0.1 *per cent* per quarter if Corporations/ Agencies failed to draw loan instalment within six months of due dates as stipulated in loan drawal schedule except in the case of Karnataka State Industrial Investment Development Corporation (KSIIDC).

State Government was to provide necessary funds to Corporations/Agencies for repayment of loan with interest as per loan repayment schedule.

Levy of compound and penal interest at 2.5 *per cent* per annum each, in the event of delay in repayment of instalment of loan and interest.

Details of loans sanctioned, drawn and repaid, commitment charges, compound and penal interest levied were as follows:

(Rupees in crore)

Sl. No.	Name of the Corporation/Agency	Loan sanctioned (Period)	Loan drawn (Period)	Loan repaid with interest as on December 2002		Commitment charges deducted	Compound and penal interest
				Principal	Interest		
1.	Karnataka Residential Educational Institutions Society (KREIS)	76.30 (October 2000)	51.30 (April 2001 to March 2003)	16.44	13.62	0.18	--
2.	Karnataka State Industrial Investment Development Corporation (KSIIDC)	150.00 (November 2000)	150.00 (December 2000 to September 2002)	5.45	21.27	0.15	0.25
3.	Karnataka Land Army Corporation (KLAC)	160.00 (March 2001)	140.00 (May 2001 to February 2003)	-	20.09	0.15	0.78
4.	Rajiv Gandhi Rural Housing Corporation (RGRHC)	490.00 (1999-2003)	421.15 (March 2000 to March 2003)	9.31	19.91	0.29	0.25
5.	Sri Jayadeva Institute of Cardiology (SJIC)	32.00 (December 1998)	32.00 (February 1999 to August 2002)	11.56	9.28	--	0.97
6.	Karnataka State Police Housing Corporation (KSPHC)	166.87 (1995-96 to 2002-03)	154.06 (1995-96 to 2002-03)	39.52	38.02	--	0.97
	Total	1,075.17	948.51	82.28	122.19	0.77	3.22

Scrutiny of records revealed following lapses:

- KREIS, RGRHC and KLAC delayed drawal of loan instalments for periods ranging from four to 20 months even after expiry of six months from due date. While KREIS and RGRHC had not furnished any reasons for non-compliance with loan drawal schedule, KLAC attributed (June 2003) delay to Zilla Panchayats/Grama Panchayats who were to identify villages and agencies for execution of works. The reply was not tenable as KLAC ought to have ensured completion of preliminary/ground work before entering into agreement with HUDCO.

- Though the agreement between KSIIDC and HUDCO did not provide for deduction of commitment charges for delay in drawing instalment of loan, latter deducted the same to the extent of Rs.15 lakh. On this being pointed out in audit, KSIIDC approached (September 2003) HUDCO for refund of commitment charges deducted. However, the same has not been refunded so far (December 2003).

- KLAC and SJIC approached after delay of two to three months State Government, for release of funds for repayment of loan. As State Government had not made any provision in the budget and funds were obtained through supplementary grants, release of funds were further delayed by another three months.

- State Government also delayed by one to four months and one to three months, release of funds to KSIIDC and KSPHC respectively despite receipt of proposals timely before scheduled date of repayment of quarterly instalments. KSPHC also repaid the same to HUDCO after a further delay ranging from one to two months.

Failure of Corporations and State Government to ensure repayment of principal and interest as and when it became due and ineffective management of loan resulted in payment of avoidable penalties to the extent of Rs.3.99 crore.

The matter was referred to Government in July 2003; reply had not been received.

4.4 Idle investment/idle establishment/blockage of funds

MINOR IRRIGATION DEPARTMENT

4.4.1 Idle investment on lift irrigation scheme

Defective execution of works and inordinate delay in the rectification of defects led to an idle investment of Rs.31.30 lakh

The Third Stage Lift Irrigation Scheme at Vyasanakere of Hospet taluk in Bellary district estimated to cost Rs.12 lakh was administratively approved (December 1977) and technically sanctioned (March 1979) to irrigate about 800 acres of land from the backwaters of Tungabhadra reservoir. The execution of works under the scheme, which commenced during 1990-91, were completed in January 1996 at a cost of Rs.31.30 lakh.

However, after commissioning (January 1996) the scheme, it was noticed that water was not flowing in the canal and its reaches due to improper gradient in the canal and defective construction of pipe outlets and cross drainage works, as observed by the Superintending Engineer, Minor Irrigation Circle, Gulbarga (April 1996). It was further observed by the Chief Engineer, Minor Irrigation (North), Bijapur (February 1997) that the canal in the rocky reach was not excavated up to the required bed level and the bed level of the irrigation sluice was at a level higher than the canal bed level. The Chief Engineer ordered immediate action be taken to set right the defects and a departmental inquiry to be instituted against the officials responsible for the defective work. However, the department has not taken any action to rectify the defects (June 2003). Reasons for inaction in the matter were not forthcoming. Consequently, the scheme could not be commissioned leading to an idle investment of Rs.31.30 lakh for over seven years besides denying benefits of irrigation to the farmers.

The matter was brought to the notice of Government in August 2003 and their reply is awaited (December 2003).

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.4.2 Working of Inspection Bungalows/Circuit Houses

Test-check **of Inspection Bungalows and Circuit Houses in the State revealed injudicious investment on construction of additional accommodation, purchase irregularities & shortage of Inspection Bungalow materials and inadequate revenue receipts as compared to their maintenance cost**

A test-check of working of Circuit Houses, Inspection Bungalows and Travellers Bungalows in the four Public Works Divisions for the period 1998-2003 revealed under utilisation of the available accommodation and high cost of maintenance despite low revenue. The amount spent on their maintenance and the revenue realised was as shown below:

(Rupees in lakh)

Name of the Division	No. of rooms	Percentage of occupancy (average)	Cost of establishment	Cost of maintenance	Total	Revenue Realised	Revenue as a percentage of total expenditure
			(1998-99 to 2002-03)				
Dharwad	25	18	17.78	9.73	27.51	1.54	5.58
Chamarajanagar	21	26	12.58	2.03	14.61	1.01	6.93
Kodagu	48	28	16.76	19.49	36.25	5.26	14.50
Tumkur	49	20	47.98	21.25	69.23	3.30	4.77
TOTAL	143		95.10	52.50	147.60	11.11	7.52

Despite low occupancy, which ranged between 18 and 28 *per cent*, additional accommodation at a cost of Rs.93.43 lakh was built by three[♦] of the four divisions during the period (1998-2003) who further spent Rs.18.58 lakh on furnishing, thereby making an injudicious investment of Rs.1.12 crore. The additional accommodation also did not register occupancy of more than 25 *per cent*. It would also be seen that revenue realised was not commensurate with the maintenance cost.

During the period (1998-2003), the Divisional Officers of Bidar, Bijapur and Dharwad Public Works Divisions purchased materials such as wooden furniture, water heaters, crockeries, bed spreads, blankets etc., worth Rs.1.49 crore for Inspection Bungalows and Circuit Houses in violation of prescribed rules and procedure. The omissions inter alia, included splitting up Purchase Orders to avoid sanction by competent authority, purchases without indents and without inviting quotations/tenders and diversion of funds meant for developmental purposes. A test-check in Audit revealed that materials worth Rs.55.36 lakh purchased during this period were not accounted for in stock accounts by the Divisions/Sub Divisions. Physical verification of materials

[♦] Chamarajanagar, Dharwad and Tumkur

was also not conducted at any time and actual existence of stocks was not ascertained, indicating lack of inventory control.

The average annual receipts realised at Cauvery Guest House at Bangalore were Rs.4.56 lakh against an average annual maintenance expenditure of Rs.48.48 lakh. The tariff for rooms was last revised by Government in August 1992 and the Chief Engineer had recommended (November 1998) for revision. Government was yet to take a decision in the matter (July 2003).

Besides, Rs.33.29 lakh being arrears of rent (for the period from 1998-2002) due from Ex-Members of Parliament was yet to be recovered by the Divisional Officer.

The matter was brought to notice of Government in May 2003 and their reply is awaited (December 2003).

4.5 Regulatory issues and other points

FINANCE DEPARTMENT

4.5.1 Inspection of Treasuries

Public Sector Banks made excess payment of family pension of Rs.1.16 crore in 581 cases as of March 2002

The Treasuries and Sub-Treasuries in Karnataka are under the administrative control of the Director of Treasuries, Bangalore. All the District Treasuries (30), Sub Treasuries (184) and the Stamps Depot for the year 2001-02 were inspected by the Accountant General (Accounts & Entitlement) during 2002-03. The following major irregularities and failure in control were noticed during inspection of the Treasuries.

Excess Payment of Family Pension

Under the provisions of Karnataka Government Servants (Family Pension) Rules 1964, when a government servant dies while in service his/her family is entitled to Family Pension at double the normal rate or 50 *per cent* of the pay last drawn by the deceased government servant at the time of death whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he remained alive, which ever is earlier.

In 581 cases, excess payment of family pension of Rs.115.88 lakh was made by public sector banks at enhanced rates beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E) (***Appendix 4.4***).

In six treasuries (Bangalore (U), Bangalore (R), Belgaum, Bellary, Chikkamagalur and Mysore), in 40 cases, inspite of pointing out in earlier inspection, the family pension continued to be paid at a higher rate by the banks resulting in further excess payment of Rs.7.44 lakh for the period 2000-02 (***Appendix 4.5***).

Though, these irregularities were pointed out repeatedly in the Inspection Reports of the concerned Treasuries and also in the successive Audit Reports, no effective steps have been taken by the Treasury Officers/Director of Treasuries to stop the excess payments.

The matter was also brought to the special notice of the Principal Secretary to Government, Finance Department, Government of Karnataka every year. He had stated (August 2000) that the concerned Treasury Officers had been instructed to take appropriate action. However, the excess payments continue.

Un-encashed Cheques

As per Article 75(1) of Karnataka Financial Code, the Treasury Officers are required to prepare, a list of cheques outstanding for more than twelve months from the date of issue along with the alteration memoranda duly indicating the debit and credit heads of account and render it to the Accountant General for effecting necessary adjustments in the accounts.

Twentyone Treasury Officers did not furnish to the Accountant General (A&E) the alteration memos in respect of un-encashed cheques amounting to Rs.62.77 crore relating to period 1978-2002 (***Appendix 4.6***).

Of the above, in three treasuries (Chamarajanagar, Mysore & Udupi) cheques amounting to Rs.14.05 lakh were drawn in favour of Post Masters for issue of National Saving Certificates. This resulted in non-investment of the funds in savings scheme and caused financial loss to the Government Servants from whose pay the amounts were deducted. The matter needs urgent corrective action (***Appendix 4.7***).

Non-receipt of recovery schedules/paid vouchers of General Provident Fund

Recovery schedules in respect of General Provident Fund (GPF) subscription by the Government Servants, for Rs.126.02 lakh (2,485 cases) did not accompany the vouchers sent by 29 treasuries during 2001-02. This has resulted in large number of missing credits in the individual accounts of the subscribers besides delay in finalization of their claims.

Further, vouchers in support of withdrawals from GPF for an amount of Rs.46.14 lakh (317 cases) were not received along with the accounts sent by 25 Treasuries as detailed below. The omission may result in over payment at the time of final settlement of the account of the subscriber. The matter needs urgent corrective action.

Year	Number of Items	Amount (Rupees in lakh)
Upto 1992-93	27	0.75
1993-94	2	0.03
1994-95	20	0.89
1995-96	36	3.96
1996-97	26	2.86
1997-98	35	2.90
1998-99	44	6.22
1999-00	46	5.17
2000-01	29	5.92
2001-02	52	17.44
TOTAL	317	46.14

4.6 General

4.6.1 Outstanding Inspection Reports

Lack of responsiveness of Government to Audit

The Hand book of Instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses etc. noticed during the inspection. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the AG. A half yearly report of pending IRs is sent to the Secretary of the Department to facilitate monitoring of the audit observations in the pending IRs.

Year-wise details of outstanding IRs and Paragraphs as well as serious irregularities therein relating to Revenue, Food and Civil Supplies and Public Works Departments are detailed in ***Appendix 4.8*** and ***Appendix 4.9*** respectively.

A review of the IRs which were pending due to non-receipt of replies, in respect of the three departments revealed that the Heads of Offices whose records were inspected by AG, failed to discharge due responsibility as they did not send even the initial replies for 62 IRs 601 paras of Revenue Department, 19 IRs 83 paras of Food and Civil Supplies Department and 32 IRs 394 paras of Public Works Department, thereby indicating their failure to initiate action in regard to the defects, omissions and serious financial irregularities as pointed out in audit.

It is recommended that Government should have a re-look into this matter and ensure that procedure exists for (a) action against the officials who failed to send replies to the IRs/paras as per the prescribed time schedule (b) action to recover loss/over-payment in a time bound manner and (c) revamping the system of proper response to the audit observations in the department.

4.6.2 Non-receipt of accounts

Annual consolidated accounts of stores and stock are required to be furnished by various Departments to the Accountant General by 15th of June of the following year. Delays in receipt of stores and stock accounts have been commented upon in successive Reports of the Comptroller and Auditor General of India. The Public Accounts Committee (1978-80) in their First Report (Sixth Assembly) presented in February 1980 had also emphasised the importance of timely submission of accounts by the Departments.

Nevertheless, the delays persist. The Departments from which the stores and stock accounts had not been received by Audit as of March 2004 are mentioned below:

Serial Number	Department	Year(s) for which accounts are due
1.	Agriculture (Director of Agriculture)	2000-01 to 2002-03
2.	Commerce and Industries (Director of Industries)	2002-03
3.	Health and Family Welfare	
	(i) Director of Medical Education	2002-03
	(ii) Joint Director of Government Medical Stores	1999-2000 to 2002-03
	(iii) Indian System of Medicine and Homoeopathy	2002-03
4.	Home Inspector General of Prisons	2002-03
5.	Revenue (Registration) (Inspector General of Registration and Commissioner of Stamps)	2001-02 and 2002-03
6.	Public Works, Water Resources and Minor Irrigation	*1995-96 to 2002-03

***** Accounts due from :

- One Division- for 16 half yearly periods (1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03)
- Two Divisions- for 10 half yearly periods (1998-99, 1999-2000, 2000-01, 2001-02, 2002-03)
- Two Divisions- for seven half yearly periods (October 1999 to March 2000 2000-01, 2001-02, 2002-03)
- One Division- for six half yearly periods (2000-01, 2001-02, 2002-03)
- Four Divisions- for five half yearly periods (October 2000 to March 2001, 2001-02, 2002-03)
- Seven Divisions- for four half yearly periods (2001-02, 2002-03)
- Eight Divisions- for three half yearly periods (October 2001 to March 2002 2002-03)
- 22 Divisions - for two half yearly periods (2002-03)
- 52 Divisions - for one half yearly period (October 2002 to March 2003)

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