

## OVERVIEW

This report contains five chapters of which the first two contain the observations on the accounts of the State Government for 2002-03 and the other three contain audit comments in the form of five reviews, four long paragraphs and 24 paragraphs on selected schemes and programmes and financial transactions of the Government. A synopsis of the findings contained in the reviews and more important paragraphs is presented in the overview.

### 1. Finances of the State Government

For the year 2002-03 the revenue deficit was Rs.2,645.74 crore compared to Rs.3,284.45 crore in 2001-02. The decrease in revenue deficit was due to decline in Plan revenue expenditure as certain payments were postponed to future years.

The aggregate of the amount received by the State Government on account of the State's share of Union Taxes, Duties and Grants-in-aid and contributions increased from Rs.2,817 crore in 1998-99 to Rs.4,451 crore in 2002-03 an increase of 58 *per cent*. The amounts received from the Government of India towards revenue receipts of the State was 25 *per cent* in 1998-99 while it was 28 *per cent* in 2002-03.

Though Plan revenue expenditure decreased during 2002-03 to Rs.3,245 crore from Rs.3,943 crore during 2001-02, Non-Plan revenue expenditure, considered to be unproductive, increased to Rs.15,570 crore in 2002-03 from Rs.14,662 crore in 2001-02.

As at the end of 2002-03, the total investment in Statutory Corporations, Government Companies etc., worked out to Rs.6,150.37 crore. Dividend and interest received thereon (Rs.21 crore) were negligible (0.35 *per cent* of investments).

Outstanding fiscal liabilities of the State almost doubled from Rs.18,617 crore at the end of 1998-99 to Rs.37,234 crore at the end of 2002-03. The amount guaranteed by the State Government on behalf of statutory corporations, Government companies etc., outstanding as on 31 March 2003 was Rs.13,314 crore.

Revenue buoyancy declined in 2002-03 mainly due to decline in Grants-in-aid from the Central Government. The ratio of own tax to Gross State Domestic Product also declined marginally in 2002-03. The ratio of revenue expenditure and development expenditure to total expenditure declined in 2002-03 compared to previous two years. Though capital expenditure increased during 2002-03, it was overstated to the extent of discharge of liabilities towards off-budget borrowings included in investment.

The Balance from Current Revenues, which was positive during 2000-01 declined and became negative during the years 2001-02 and 2002-03.

A negative Balance from Current Revenue adversely affects the plan size and reduces the availability of resources for additional infrastructure. Though both revenue and fiscal deficits declined during the year, this was done by deferring plan expenditure to future years. Interest payments increased by Rs.609 crore during the year and was higher than the increase in revenue expenditure during the year. However, large revenue and fiscal deficits year after year, together with low or no return on investments indicate that the State is gradually getting into a debt trap. The State's continuous low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. The State Government has tried to soften its budget constraint through borrowings from special purpose vehicles like Krishna Bhagya Jala Nigam and Karnataka Neeravari Nigam Limited etc. The ratio of fiscal liabilities to Gross State Domestic Product crossed 30 *per cent* during 2002-03 which would increase further once off-budget borrowings are taken into account.

*(Paragraphs 1.1 to 1.10)*

## **2. Allocative Priorities and Appropriation**

Against total budget provision of Rs.32,684.76 crore (including supplementary), actual expenditure was Rs.28,480.04 crore. Overall saving of Rs.4,204.72 crore was the result of saving of Rs.5,295.68 crore in 62 grants/appropriation and excess of Rs.1,090.96 crore in eight grants/appropriation. The excess of Rs.1,090.96 crore required regularisation by the Legislature under Article 205 of the Constitution of India.

Expenditure booked in accounts was inflated at least to the extent of Rs.31.84 crore due to transfer of funds to Deposit account through 'nil' payment vouchers. Another Rs.49.23 crore relating to the loans released to Karnataka Power Transmission Corporation Limited and Bangalore Metropolitan Road Transport Corporation Limited were retained in the Public Account.

In 59 cases (25 Grants) supplementary provision of Rs.91.65 crore proved unnecessary.

Out of total savings of Rs.5,271.28 crore in 57 grants/appropriations, only a sum of Rs.892.86 crore was surrendered and that too on the last working day of the financial year; Rs.4,378.42 crore remained un-surrendered.

One hundred nineteen re-appropriation orders of the value of Rs.121.79 crore were not considered in accounts due to various reasons. In 161 cases (25 grants), expenditure of Rs.27.06 crore was incurred without provision.

In 36 cases (13 grants), expenditure of Rs.138.21 crore which attracted the norms of 'New Service/New Instrument of Service' was met without obtaining requisite approval of Legislature.

*(Paragraphs 2.1 to 2.9)*

### **3. Preservation of Wildlife and administration of National Parks and Sanctuaries in Karnataka**

The objective of protection, propagation and development of wildlife and its environment in accordance with the provisions of Wildlife (Protection) Act, 1972 could not be achieved effectively by the Department. This was due to lack of planning and prioritisation in initiating conservation measures through survey and demarcation of wildlife boundaries, relocation and rehabilitation of human settlements from the wildlife areas and protection of wildlife species. Continuance of various prohibited activities such as poaching and trading in animals and their body parts, mining, quarrying, construction of dams, extraction of forest produce etc., within the wildlife areas adversely affected the wildlife habitat.

- The Department did not prepare Management Plans as prescribed by Government, for most of the protected areas upto the year 2000. This adversely affected the creation of basic infrastructure and systematic growth of wildlife areas.
- Lack of planned and prioritised conservation measures resulted in certain endangered species remaining un-protected and some wildlife areas with rich bio-diversity not receiving due attention.
- The impact of conservation measures could not be assessed in the absence of periodical census of all wild animals.
- Anti-poaching camps were not equipped fully with required arms and ammunitions for protecting animals from poaching and illicit trade in their body parts.

**(Paragraph 3.1)**

### **4. Implementation of the Drugs and Cosmetics Act/Rules**

In the context of the large number of Indian and foreign companies undertaking manufacture/sale of drugs and cosmetics, Government of India enacted Drugs and Cosmetics Act/Rules.

There were huge deficiencies in inspections and drawal of samples for analysis and delays in reporting results of analysis. Marketing of drugs 'not of standard' quality had also not been prevented. Drug Testing Laboratory was deficient in terms of manpower and equipment. Action taken by the intelligence wing on complaints was very inadequate.

- There was shortfall of 53 *per cent* in drawing samples and further 17 *per cent* in analysis.
- Abnormal delay ranging from three to 24 months in reporting results of analysis facilitated marketing of drugs found 'not of standard' quality.
- Due to lack of facilities in Drug Testing Laboratory 'no opinion' report was given for 2,032 sample drugs, which was 15.5 *per cent* of the number of samples tested.
- Improper decision of Drugs Controller in three cases of drugs found 'not of standard' quality resulted in undue favour to licensees.

- Though 1,595 sample drugs were found 'not of standard' quality, such drugs were neither seized nor replaced by licensees except in 48 cases. Action in respect of 84 such cases had remained pending with Drugs Controller for periods ranging from one to three years. No system was in place to monitor compliance with test reports referred to other states.
- In disregard of instructions of State Government, Director issued 75 licences for manufacture of Ayurvedic/Unani drugs without insisting for quality control section.
- Sample drugs were not drawn and analysed from licensees manufacturing/selling Homoeopathy drugs and selling units of Ayurvedic drugs. Thereby standard and quality were not ensured.

**(Paragraph 3.2)**

## **5. Karnataka Health Systems Development Project**

The Karnataka Health Systems Development Project (KHSDP) was launched in April 1996 with the assistance of World Bank at an estimated cost of Rs.546 crore to strengthen the secondary level of health care by providing in-patient and out-patient care with diagnostic and treatment facilities that were not available at the primary level.

- Cost of civil construction works such as renovation and expansion of existing hospital buildings increased by Rs.234.42 crore due to changes in scope of work after the works were started/under execution.
- Deviations in the original plan of procurement and distribution, poor utilisation of equipment and non/short procurement of drugs affected adversely the delivery of health care services to the needy.
- Ineffective functioning of referral system in the first referral hospitals and non-availability of an IEC (Information, Education and Communication) strategy failed to educate and inform the public on the facilities and the extent of health care service available in these hospitals.
- Lack of adequate training to the staff to handle sophisticated equipment in the first referral hospitals resulted in non-utilisation of available equipment. In other cases, managers and physicians trained abroad on teaching skills were not utilised for the benefit of the project.

**(Paragraph 3.3)**

## **6. Prevention and control of fire**

Fire Services Department was constituted under the overall control of Home Department by State Government to save life and property from fire. Infrastructure and manpower-wise, there were acute shortages. While Standing Fire Advisory Committee norms were not adopted due to financial constraints, Department failed to adhere even to State norms. Major chunk of General Insurance Company loan specifically raised to strengthen the Department was diverted by Government for its other programmes/activities. Fire preventive measures were not effectively enforced.

- There were shortages of 53 and 61 *per cent* each in respect of availability of fire stations and fire fighting equipment respectively compared to state norms.
- There was 44 *per cent* shortage of manpower compared to operational requirement of 106 available fire stations.
- Functioning of Departmental workshop was poor.
- Except Bangalore City Corporation and Bangalore Development Authority, other local bodies in the state did not incorporate provision in their bye-laws for obtaining No Objection Certificate from the Department.
- In respect of issue of licences to petrol bunks, explosive godowns etc., Deputy Commissioner, Commissioner of Police and Local Bodies bypassed obtaining of required No Objection Certificate from Department prior to issue of licences.
- Important high-rise buildings in Bangalore City which were declared as vulnerable to fire by the Department, were functioning without necessary final clearance certificate from Department.
- During 1998-2003, fire incidents occurred in 11 Government Buildings and 20 private buildings destroying property worth Rs.11.02 crore due to non-adoption of prescribed preventive measures.

(Paragraph 3.4)

## **7. Review on Welfare of the Handicapped**

Government of Karnataka implemented “The People with Disabilities Act, 1995 (Central Act)” to provide assistance to disabled persons of the State.

- Action taken by the Government for early detection and prevention of disability was inadequate. Only one survey had been done in the State and in only one Taluk of the State.
- The number of Disabled Children in the age group of 0-14 years as per 1991 census was 1.37 lakh, against which only 20 *percent* had access to Education. No funds were allocated for providing transport facilities to disabled children. Funds provided for supply of books and uniform were only Rs.0.63 lakh for the years 2000-01 to 2002-03.

(Paragraph 3.5)

## **8. Lapses in implementing programme for control of coconut mite**

Non-adherence to prescribed procedure in treatment of mite affected coconut palms with chemical pesticides rendered expenditure of Rs.8.40 crore largely wasteful in the Horticulture Department.

(Paragraph 3.6)

**9. Irregularities in implementation of programmes in Tourism Department**

Department paid inadmissible subsidy to hotels and tourism units and on furniture and kitchenware due to wrong classification of places resulting in excess payment of Rs.1.64 crore. In addition, there was loss of lease revenue to Government of Rs.15.00 lakh and non-creation of infrastructure worth Rs.six crore by the Lessee due to setting aside of a valid lease deed. Also, there was blocking of Government funds of Rs.1.77 crore with Government agencies on account of non-commencement of entrusted works.

**(Paragraph 3.7)**

**10. Lapses/Irregularities in construction of houses for slum dwellers in Housing Department**

Incorrect fixation of unit cost for houses and inadequate provision of funds resulted in stoppage of works and unfruitful expenditure of Rs.4.15 crore. Besides, 445 houses though completed, were not allotted due to non-finalisation of list of beneficiaries resulting in further unfruitful expenditure of Rs.2.30 crore.

Abandonment of work during construction stage due to non-fulfilment of conditions of loan and non-viability of the scheme resulted in infructuous expenditure of Rs.52.00 lakh.

**(Paragraph 3.8)**

**11. Hirehalla - Lingered project**

Inadequate project investigations, inordinate delay in finalisation of designs and acquisition of lands for the Hirehalla project at Kinnal village in Koppal district resulted in cost and time overrun of the project and resultant delay in extending irrigation facilities. Undue benefit of Rs.6.01 crore was also extended to Karnataka State Construction Corporation Limited.

**(Paragraph 3.9)**

**12. Infructuous/wasteful expenditure and overpayment**

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.

**(Paragraph 4.1.1)**

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

**(Paragraph 4.1.2)**

Public Works Department converted an existing causeway across river Hagari near Kudarahal village in Siraguppa Taluk of Bellary district into a causeway-cum-barrage without ensuring its structural stability. This led to collapse of the entire structure resulting in a wasteful expenditure of Rs.73.26 lakh and an avoidable expenditure of Rs.83.99 lakh on re-construction of the causeway.

**(Paragraph 4.1.3)**

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. This led to unaccounted stock of Rs.61.57 lakh and unused surplus stock of Rs.26.69 lakh.

**(Paragraph 4.1.4)**

Incorrect valuation of certain structures/buildings taken over by the National Highway Engineering Division, Bangalore resulted in an excess payment of Rs.1.83 crore.

**(Paragraph 4.1.5)**

The action of the Divisional Officer, Irrigation Project Construction Division, Hebbala in Gulbarga district to spend project funds on unauthorised construction of jeepable paths and approach roads and service roads of main canal resulted in an irregular expenditure of Rs.2.76 crore.

**(Paragraph 4.1.6)**

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.

**(Paragraph 4.1.7)**

The unauthorised action of the Chief Engineer, Irrigation Central Zone, Munirabad to provide a cover duct to the irrigation canal at the instance of a Local Authority without receiving funds led to creation of an unwarranted financial burden of Rs.1.86 crore to Government.

**(Paragraph 4.1.8)**

### **13. Violation of contractual obligations/undue favour to contractors**

The unjustified payment of separate mobilisation and demobilisation charges for the work of dredging Boat Basin of Second Stage Fishing Harbour at Malpe Port in Udupi Taluk resulted in an unintended benefit of Rs.72.49 lakh.

**(Paragraph 4.2.1)**

Injudicious decision of the National Highways Division, Belgaum to bear the extra cost of construction of cofferdam in violation of contractual obligation resulted in undue benefit of Rs.64.50 lakh to a contractor.

**(Paragraph 4.2.2)**

Karnataka Urban Water Supply and Drainage 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.98.00 lakh till date in respect of two Water Supply Schemes.

**(Paragraph 4.2.3)**

#### **14. Avoidable/extra expenditure**

High Power Committee constituted by Government accepted and paid higher rates than those paid by Project Director, District Primary Education Programme in respect of printing of text books resulting in extra expenditure of Rs.1.47 crore besides extending undue gain of Rs.65 lakh to printers on books meant for sale.

**(Paragraph 4.3.1)**

Karnataka Housing Board appointed a Chartered Accountant for compilation of statistical data for 1992-2000 in respect of Ashraya Scheme. This was unwarranted as these details were already on record. Besides, there was no transparency in his appointment and in determining fees. This resulted in avoidable expenditure of Rs.87.56 lakh.

**(Paragraph 4.3.2)**

Failure of Public Works Department 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.

**(Paragraph 4.3.3)**

Unjustifiable and arbitrary stand taken by Karnataka Urban Water Supply and Drainage Board for laying costlier MS pipes in lieu of cheaper PSC pipes resulted in avoidable extra cost of Rs.6.56 crore in respect of three water supply schemes.

**(Paragraph 4.3.5)**

Delays and lapses of six Government agencies at various stages led to mismanagement of loan borrowed from Housing and Urban Development Corporation and avoidable payment of penalties of Rs.3.99 crore.

**(Paragraph 4.3.7)**

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

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.

**(Paragraph 4.4.2)**



**16. Regulatory issues and other points**

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

**(Paragraph 4.5.1)**

**17. Internal Control System**

Review of Internal Control System of Horticulture and Forest Departments revealed inadequate staff for internal audit wing, lack of training, absence of a Departmental Internal Audit Manual, lack of audit planning and approach.

**(Paragraph 5.1)**

