

# Chapter 1

## Introduction

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from the Compliance Audit of Government departments and autonomous bodies under Economic Sector.

Compliance Audit refers to examination of the transactions of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies as well as achievements in implementation of selected schemes, significant audit observations made during the Compliance Audit and follow-up on previous Audit Reports. Chapter-2 of this Report contains observations on Compliance Audit in Government departments and autonomous bodies.

### 1.2 Auditee Profile

The Accountant General (Economic & Revenue Sector Audit), Karnataka conducts audit of 17 departments in the State under the Economic Sector and 105 autonomous bodies. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them.

The summary of fiscal transactions of the Government of Karnataka during the year 2014-15 and 2015-16 is given in **Table 1.1** below:

**Table 1.1: Summary of fiscal transactions**

(₹ in crore)

Receipts			Disbursements				
	2014-15	2015-16		2014-15	2015-16		
Section A: Revenue				Total	Non-Plan	Plan	Total
Revenue receipts	1,04,142.15	1,18,817.31	Revenue expenditure	1,03,614.29	77,018.84	40,009.74	1,17,028.58
Tax revenue	70,180.21	75,550.18	General services	28,265.27	30,574.06	225.22	30,799.28
Non-tax revenue	4,688.24	5,355.04	Social services	39,366.25	22,191.29	24,115.79	46,307.08
Share of Union taxes/duties	14,654.25	23,983.34	Economic services	29,971.31	20,383.68	13,463.49	33,846.17
Grants-in-aid & contributions from GOI	14,619.45	13,928.75	Grants-in-aid & contributions	6,011.46	3,870.81	2,205.24	6,076.05
Section B: Capital and others							
Miscellaneous Capital receipts	10.14	352.30	Capital outlay	19,622.30	397.13	20,315.90	20,713.03
			General services	618.46	41.74	949.67	991.41
			Social services	4,180.89	218.76	5,095.15	5,313.91
			Economic services	14,822.95	136.63	14,271.08	14,407.71
Recoveries of loans & advances	83.82	59.68	Loans & advances disbursed	576.15	98.28	558.13	656.41
Public Debt receipts	21,874.63	21,072.33	Repayment of Public Debt	4,812.23	4,110.20	-	4,110.20
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Accounts receipts	1,40,229.39	1,60,518.76	Public Accounts disbursements	1,29,573.99	-	-	1,55,094.83
Opening cash balance	15,759.73	23,900.90	Closing cash balance	23,900.90	-	-	27,118.23
<b>TOTAL</b>	<b>2,82,099.86</b>	<b>3,24,721.28</b>	<b>TOTAL</b>	<b>2,82,099.86</b>			<b>3,24,721.28</b>

(Source: Finance Accounts 2015-16)

### 1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13<sup>1</sup> of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of four autonomous bodies which are audited under sections 19(2)<sup>2</sup>, 19(3)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 101 other autonomous bodies, under Section 14<sup>5</sup> of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

<sup>1</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.

<sup>2</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

<sup>3</sup> Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>4</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government.

<sup>5</sup> Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and with the previous approval of the Governor of the State and audit of all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

#### **1.4 Organisational structure of the Office of the Accountant General (Economic & Revenue Sector Audit), Karnataka**

Under the directions of the C&AG, the Office of the Accountant General (E&RSA), Karnataka, conducts audit of Government Departments/ Offices/Autonomous Bodies/Institutions under them which are spread all over the State.

#### **1.5 Planning and conduct of Audit**

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of units, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for submission before the State legislature.

During 2015-16, in the Economic Sector Audit Wing, 1,477 party-days were utilised to carry out audit of 156 units.

#### **1.6 Significant audit observations**

In the last few years, Audit has reported on several significant deficiencies in the implementation of various programmes/activities through Performance Audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during Compliance Audit of the Government departments/organisations were also highlighted.

The present report contains 17 Compliance Audit paragraphs. The significant audit observations are summarised below:

- ❖ Karnataka Industrial Areas Development Board (KIADB) injudiciously refunded ₹ 17.26 crore to a Company which requested for de-notification of lands after taking its possession though rules prohibit such de-notification after completion of land acquisition process. KIADB has to bear additional liability of ₹ 26.83 crore without recourse.

*(Paragraph 2.1)*

- ❖ Karnataka Industrial Areas Development Board allotted additional land to a Company abutting the existing land which had already been allotted to others and sustained loss of ₹ 13.80 crore by not charging at prevailing allotment rate.

**(Paragraph 2.2)**

- ❖ Karnataka Industrial Areas Development Board sustained a loss of ₹ 7.98 crore on allotment of alternate land at a lesser price than the applicable price without the concurrence of Government.

**(Paragraph 2.3)**

- ❖ Faulty planning and hasty installation of Electronic Weighing – Point of Sale Machines by Food, Civil Supplies and Consumer Affairs Department without proper assessment resulted in unfruitful expenditure of ₹ 11.52 crore.

**(Paragraph 2.4)**

- ❖ Forest, Ecology and Environment Department failed to monitor the leased area thereby allowing the lessee to install excess windmill towers in violation of Forest (Conservation) Act. Department also short assessed Net Present Value and penalty amount by ₹ 2.22 crore.

**(Paragraph 2.5)**

- ❖ Planning mechanism was not put in place for identification and prioritisation of roads under Central Road Fund. Public Works, Ports and Inland Water Transport Department did not provide funds during 2013-14 as committed to Government of India which adversely affected the progress of works and resulted in cost overrun. Indian Road Congress guidelines were not followed in preparation of projects and the sanctioned estimates lacked basic inputs like existing crust thickness, past improvements undertaken, etc. Instructions of Ministry of Road Transport and Highways were not followed for measurement of earthwork and bituminous layers. Regional Officer did not monitor the work though stipulated in Rules. Funds earmarked for quality control were not utilised.

**(Paragraph 2.6)**

- ❖ Executive Engineer, Public Works, Ports and Inland Water Transport Division, Kalaburagi failed to collect ₹ 4.12 crore towards cost of land transferred to Karnataka Housing Board and also made unnecessary payment of ₹ 12.84 crore towards portion of land retrieved and towards enhanced land compensation to land owners.

**(Paragraph 2.7)**

- ❖ Execution of extra/additional items after entrustment of work, usage of lower grade steel for structures and payment at higher rates for excavation had resulted in avoidable expenditure of ₹ 10.63 crore and excess payment of ₹ 84.63 lakh in Public Works, Ports and Inland Water Transport Division, Gadag.

**(Paragraph 2.8)**

- ❖ Adoption of incorrect base percentage for calculating bitumen consumption in road improvement works entrusted by Karnataka State Highways Improvement Project had resulted in excess payment and short recovery aggregating ₹ 2.03 crore.

*(Paragraph 2.9)*

- ❖ Incorrect application of Ministry of Road Transport and Highways specifications in providing primer coat in the estimates and execution of works accordingly by State Highways Development Project resulted in extra expenditure of ₹ 1.93 crore.

*(Paragraph 2.10)*

- ❖ In one road work contract, the Executive Engineer, Public Works, Ports and Inland Water Transport Special Division, Shivamogga paid ₹ 97.36 lakh towards price adjustment for ineligible components in violation of the contractual provisions.

*(Paragraph 2.11)*

- ❖ In No.2 Buildings Division, Bengaluru, failure to exercise controls led to sub-standard execution in construction of multi-storied building which resulted in cancellation of construction of two floors besides incurring unwarranted expenditure of ₹ 64.78 lakh towards consultancy and strengthening works.

*(Paragraph 2.12)*

- ❖ The programme 'Providing Solar Pumps for irrigation under Special Component Plan/Tribal Sub Plan' undertaken by Water Resources Department (Minor Irrigation) was defective on several fronts. Faulty evaluation of tender and acceptance of higher rates resulted in extra cost of ₹ 26.74 crore under North Zone while installation of expensive Solar Water Pump System in South Zone resulted in extra cost of ₹ 8.22 crore. 1,166 borewells not satisfying the feasibility norms were installed with Solar Water Pump System. Payments were released to agencies disregarding the tender condition and without conducting check measurement. The possibility of getting subsidy of ₹ 33.22 crore from Government of India was remote.

*(Paragraph 2.13)*

- ❖ The Divisional Officer of Minor Irrigation Division, Vijayapura, in violation of codal provision, allowed the contractor to continue with the work of construction of Bridge cum Barrage across Ghataprabha river without agreeing on rates in respect of work which had undergone substantial revision in scope after entrustment, leading to litigation.

*(Paragraph 2.14)*

- ❖ Lift Irrigation Scheme at Ballari which was completed in October 2013 at a cost of ₹ 16.80 crore did not provide irrigation benefit due to defective design of rising main.

*(Paragraph 2.15)*

- ❖ In construction of flood protection works at Shivamogga and Mattur, avoidable payment of ₹ 3.98 crore was made to an agency for providing anti corrosive treatment to steel besides making payments for disposal of soil resulting in unintended benefit to the agency.

*(Paragraph 2.16)*

- ❖ In Minor Irrigation Division, Belagavi, rationalisation of quoted rates disregarding the prevalent Schedule of Rates during evaluation of tender resulted in absence of additional performance security of ₹ 1.16 crore besides payment of ₹ 79.43 lakh in violation of contract conditions.

*(Paragraph 2.17)*

## **1.7 Responsiveness of Government to Audit**

### ***1.7.1 Response of departments to the Draft Paragraphs***

The draft paragraphs were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the departments concerned between April and October 2016 seeking their responses within four weeks. Government replies for seven out of 17 paragraphs featured in this Report have been received. The replies have been suitably incorporated in the Report.

### ***1.7.2 Follow-up on Audit Reports***

The Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provide that all the departments of Government should furnish detailed explanations in the form of Departmental Notes to the observations in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Administrative Departments did not comply with these instructions and eight departments as detailed in **Appendix 1.1** had not submitted Departmental Notes for 43 paragraphs for the period from 2003-04 to 2014-15 (as of December 2016).

### ***1.7.3 Paragraphs to be discussed by the Public Accounts Committee***

Details of paragraphs pending discussion by the Public Accounts Committee as of December 2016 are given in **Appendix 1.2**. There are 172 paragraphs relating to the Audit Reports of various years from 1992-93 to 2014-15 pending for discussion in Public Accounts Committee. Delay in discussion or non-discussion of paragraphs may result in erosion of accountability of the executive.

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