

Chapter-I

Introduction

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government Departments and Autonomous Bodies.

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. On the other hand, performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/Department are achieved economically and efficiently.

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

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during compliance audit and follow-up on previous Audit Reports. Chapter-II and Chapter-III of this report contains findings arising out of Performance Audit and observations arising out of compliance audit in Government Departments and Autonomous Bodies respectively.

1.2 Auditee Profile

The Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru, conducts audit of expenditure under the General and Social Services Sectors incurred by 65 Departments in the State and 11 Autonomous Bodies. The Departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers working under them.

The summary of fiscal transactions of the Government of Karnataka during the year 2016-17 and 2017-18 is given in **Table-1.1** below:

Table 1.1 Summary of fiscal transactions in 2017-18

(₹ in crore)

Receipts			Disbursements		
	2016-17	2017-18		2016-17	2017-18
Section A: Revenue					
Revenue Receipts	1,33,213.79	1,46,999.65	Revenue Expenditure	1,31,920.75	1,42,482.33
Tax revenue	82,956.13	87,130.38	General Services	31,264.56	34,484.44
Non-tax revenue	5,794.53	6,476.53	Social Services	54,549.24	58,652.35
Share of Union taxes/ duties	28,759.94	31,751.96	Economic Services	40,421.37	42,855.78
Grants-in-aid and contributions from GOI	15,703.19	21,640.78	Grants-in-aid and contributions	5,685.58	6,489.76
Section B: Capital and others:					
Misc. Capital receipts	26.96	3.70	Capital Outlay	28,150.43	30,666.76
			General Services	1,060.39	977.45
			Social Services	6,896.84	8,676.76
			Economic Services	20,193.20	21,012.55
Recoveries of Loans and Advances	99.84	136.93	Loans and Advances disbursed	1,934.38	5,092.22
Public debt receipts**	31,155.92	25,121.86	Repayment of public debt**	7,420.24	8,269.16
Contingency Fund	-	-	Contingency Fund	-	-
Public Account Receipts	1,79,318.45	2,00,615.43	Public Account disbursements	1,67,153.81	1,94,536.63
Opening Cash Balance	27,118.23	34,353.58	Closing Cash Balance	34,353.58	26,184.05
Total	3,70,933.19	4,07,231.15	Total	3,70,933.19	4,07,231.15

Source: Finance Accounts 2017-18.

** Excluding net transaction under ways and means advances and overdraft.

1.3 Authority for conducting Audit

Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971, give the Comptroller and Auditor General (C&AG) of India the authority for conducting Audit. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 11 Autonomous Bodies, which are audited under Sections 19(2)² and 19(3)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 298 other Autonomous Bodies, under Section 14⁴ 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.

¹ 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.

² 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.

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

⁴ Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of anybody 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 Principal Accountant General (G&SSA), Karnataka, Bengaluru

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit), Karnataka, Bengaluru, conducts the audit of Government Departments/Offices/Autonomous Bodies/Institutions under the General and Social Sector, which are spread all over the State. The Principal Accountant General (General & Social Sector Audit) is assisted by three Group Officers and various subordinate officers.

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. The frequency and extent of audit are decided based on risk assessment.

After completion of audit of each unit, 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 State under Article 151 of the Constitution of India to be tabled in the State Legislature.

During 2017-18, in the General & Social Sector Audit Wing, 6,288 party days were used to carry out audit of 507 units and to conduct one performance audit and two compliance audits.

1.6 Significant audit observations

In the last few years, Audit reported on several significant deficiencies in 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 reported upon.

1.6.1 Performance Audit of programmes/activities/Departments

The present report contains one performance audit. The highlights are given in the following paragraphs:

1.6.1.1 Rashtriya Madhyamik Shiksha Abhiyan (RMSA)

The Government of India (GoI) launched the Rashtriya Madhyamik Shiksha Abhiyan (RMSA) with an objective to improve access, quality and equity by providing access to secondary and higher secondary schooling within

reasonable distance through improved physical facilities and qualified teachers and also by giving special focus to girls, scheduled caste and tribal children and differently abled children in the age group of 14-18 years. A Performance Audit of the RMSA scheme during the period 2013-14 to 2017-18 was conducted to assess whether the above objectives were achieved and we observed the following:

Rashtriya Madhyamik Shiksha Abhiyan Samithi, Karnataka (RMSASK) could not absorb the available funds in a timely manner. The utilisation of funds during 2013-14 to 2017-18 ranged between 30 and 55 *per cent*. The scheme's intervention was mainly focused on upgradation/strengthening of schools as 56 *per cent* of allocation was towards it leading to the neglect of other components such as computer aided education, procurement of laboratory items, furniture, *etc.*

(Paragraph 2.1.6)

In order to improve access, the Perspective Plan of Karnataka envisaged that secondary and higher secondary schools to be within reasonable distance. However, as at the end of March 2018, 4,361 habitations did not have access to secondary education. In addition, the perspective plan had envisaged to realign the structure of school education with the national level pattern by 2017 but the higher secondary continued to be under the Pre-University Board. Hence, both the targets were not achieved.

(Paragraph 2.1.7.1)

The target set in the Perspective Plan for enhancing quality in secondary education through infrastructural facilities like sufficient classroom, laboratories, library, separate toilet for girls and boys *etc.*, were yet to be achieved. Due to delay in executing civil works, out of 2,396 schools taken up for upgradation/strengthening during 2009-10 to 2017-18, only 1,740 schools were completed with 140 works in progress and balance 516 yet to be taken up. As of March 2018, RMSASK had not taken up any major/minor repairs though 1,367 and 1,494 schools respectively were in need of repairs. While the classroom student ratio of the Government schools was well within the prescribed ratio of 1:40, school-wise analysis showed that out of 4,677 Government schools run by Education Department, 2,721 schools had ratio ranging between 1:41 and 1:69.

[Paragraph 2.1.8.1 (a) (c) (e)]

The Pupil Teacher Ratio (PTR) of the State was well within the prescribed ratio of 30:1. However, in 874 schools, the PTR ratio was more than 30:1 as there was no monitoring in deployment of teachers at school level. Though RMSA specified that subject-wise teachers were required to be deputed in every school, it did not ensure proper balance of teachers as 642, 491 and 500 schools out of 15,666 schools did not have teachers for core subjects *viz.*, mathematics, science and social science respectively.

[Paragraph 2.1.8.3 (b) (c)]

In 342 schools of eight test-checked districts, we noticed the following:

- lack of sufficient classrooms in 22 schools;
- 65 schools did not have both science as well as computer laboratories;
- though 199 schools claimed to have library facilities, 99 schools did not have separate library facilities;
- though all the schools except one had toilet facilities, toilets lacked maintenance in many (52 out of 163) schools; and
- in 73 out of 252 aided and unaided schools, even though the infrastructure and teaching facilities were not in accordance with the norms prescribed by the State, recognitions of the schools were renewed.

[Paragraph 2.1.8.1 (e) & 2.1.8.2]

Due to delay in construction of model schools as well as recruitment of teachers in these model schools, the schools were yet to reach the standard of Kendriya Vidyalaya. Though RMSA envisaged Vocational Education for enhancing employment opportunities, the State is yet to integrate the Vocational Education into the secondary education system as the students were neither assessed nor issued with proficiency certificate.

[Paragraph 2.1.10 (1) & (2)]

The State was able to improve the participation of children in secondary education from 75 *per cent* in 2009-10 to 82 *per cent* in 2017-18, however, it was yet to achieve the target of 100 *per cent* GER by 2017. The GER of girls, SC and ST children was at 83, 79 and 73 *per cent* respectively against GER of the State at 82 *per cent*. Though the State had not achieved target of 100 *per cent* as envisaged in the Perspective Plan of Karnataka, it had ensured almost equitable participation from the special focus group in secondary education. However, it had not monitored the participation of differently abled children in secondary education.

(Paragraph 2.1.9.2 & 2.1.11.2)

Due to ineffective bottom-up planning, the annual and perspective plans were not need based and realistic. This coupled with deficient monitoring at all levels led to non-achievement of objectives of the RMSA basically in improving access and quality of secondary education. Thus, the impact of RMSA on secondary education was not visible in terms of financial and outcome indicators when compared to State's intervention.

(Paragraph 2.1.12)

1.6.2 Compliance Audit

Audit has also reported several significant deficiencies in critical areas, which impact the effective functioning of Government Departments/Organisations. Some significant audit findings are as under:

1.6.2.1 Thematic audit on the promotion and propagation of the Language and Culture of Karnataka

The main objective of Kannada and Culture Department is development of Kannada and promotion of culture. Though the Department has brought out a Cultural Policy after around 42 years of its existence, an action plan needs to be

framed in order to implement the recommendations in the Policy. Further, ineffective action of the State in obtaining required infrastructure resulted in non-establishment of a dedicated Centre of Excellence for studies in Classical Kannada in Bengaluru. Consequently, utilisation of the GoI grants was in a slow pace. In addition, though the Government framed various schemes/programmes to promote culture by encouraging/honouring individuals/institutions, the objective was not achieved due to lapses in guidelines and also due to non-compliance to the existing guidelines which resulted in assistance being released to ineligible institutions/trusts and non-utilisation of assistance for the purpose for which it was released. During 2013-14 to 2017-18, part of the grants released to various Authorities, Academies, Prarishaths and Rangayanas functioning under the Department for promotion of Kannada and Culture remained un-utilised and outside Government Accounts which once again indicated lapses in monitoring of utilisation of grants. Thus, even though Government released huge amounts for promotion and propagation of Kannada and Culture, the objective of the Department was not achieved to a substantial extent.

(Paragraph 3.1)

1.6.2.2 Thematic audit on Construction and maintenance of hostels for Scheduled Caste students

The State Government had not brought out any guidelines for construction of hostels. The non-construction of hostel at Byadgi and the incomplete work at Betagera indicated lack of proper planning/prioritisation in constructing the hostels.

The number of students accommodated in the hostels in the State exceeded the envisaged capacity. This was because the State Government directed (July 2013) the Social Welfare department to accommodate all SC students who have sought admission for the hostels, irrespective of the sanctioned strength of the hostels.

Out of 190 test-checked hostels in 16 taluks, 74 hostels (39 *per cent*) were accommodating more students than the capacity. In 10 hostels, the crowding was to the extent of more than 100 *per cent*. On the other hand, 85 hostels (45 *per cent*) of the hostels were under-utilised. In 18 hostels, the extent of under-utilisation was less than 10 *per cent* and in 30 hostels, it ranged between 12 to 25 *per cent*. While the extent of under-utilisation in 26 hostels ranged between 26 to 50 *per cent*, it was 53 to 83 *per cent* in the balance 11 hostels. It was also seen that crowding was more in girls' hostels as compared with the boys' hostels.

The exemption provided under clause 4(g) of the KTPP Act, 1999, violated the guidelines of Central Vigilance Commission and was against the judgement of the Hon'ble Supreme Court. This led to indiscriminate entrustment of works on nomination basis to the agencies. There were delays in commencement and completion of works by the constructing agencies. In violation of the codal provisions, the department entrusted 12 works estimated to cost ₹45.63 crore to these agencies without ensuring the availability of sites.

The department had not furnished the details of repair/renovation works taken up during the period 2013-14 to 2015-16. Further, 376 (50 per cent out of 755 works taken up during 2016-17 and 2017-18 with a stipulated period of six months' completion were yet to be completed. There were instances of non-execution of repair/renovation works which were incorrectly reported as being completed.

There were deficiencies in providing facilities such as cots, beds, mattresses, toilets and bathrooms to the inmates of the test-checked hostels.

The tendering process was not compliant with the provisions of the KTPP Act, 1999. The evaluation of tenders was not consistent with the criteria spelt out in the tender documents. Awarding several works in excess of the capacity of the contractors led to chronic delay in execution of works.

Funds were released in lump sum to the construction agencies without effecting statutory deductions and Further Security Deposit (FSD) resulting in non-recovery of ₹14.86 crore towards income tax and ₹37.16 crore towards FSD. The constructing agencies retained the savings realised on construction of works without remitting it to the department. The construction agencies/department officers did not comply with the various instructions stipulated in the sanction orders leading to absence of effective monitoring.

(Paragraph 3.2)

1.6.2.3 Other audit observations

Failure of the Taluk Health Officer, Pavagada to comply with the provisions laid down in Karnataka Financial Code, 1958 for preparation of bills and supervision resulted in misappropriation of ₹2.81 lakh by the First Division Assistant of the said office.

(Paragraph 3.3)

Failure of the Deputy Director, Pre University Education, Ballari in rendering accounts for the amount drawn and non-maintenance of cash book as per provisions of the Karnataka Financial Code resulted in suspected misappropriation of ₹six lakh.

(Paragraph 3.4)

Karnataka Housing Board could not monitor its funds requirement due to its instructions to transfer funds only on certain dates. This resulted in avoidable finance charges of ₹0.63 crore on the overdraft account.

(Paragraph 3.5)

The Department of Minority Development extended financial assistance under 'Bidaai' scheme of ₹50 lakh to ineligible beneficiaries on account of non-verification of documents submitted by the beneficiaries.

(Paragraph 3.6)

The Karnataka State Board of Wakf failed to comply with the provisions of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 and the Employees State Insurance Act, 1948. As a result, the Board did not make statutory payment which amounted to ₹1.09 crore towards the Employees Provident Fund and Employees State Insurance.

(Paragraph 3.7)

Non-compliance by the Deputy Directors of Public Instruction/Block Education Officers and Karnataka Text book Society to the orders and instructions issued by Government resulted in avoidable expenditure of ₹1.13 crore.

(Paragraph 3.8)

Erroneous classification of land in the final notification of acquisition issued and non-initiation of timely corrective action by the Government resulted in avoidable payment of compensation of ₹10.53 crore to the land owners.

(Paragraph 3.9)

The Executive Engineer, Panchayat Raj Engineering Division, Harapanahalli failed to acquire land for the works of water supply schemes in Davanagere district before commencement of works resulting in unfruitful expenditure of ₹47.55 crore and denial of safe drinking water.

(Paragraph 3.10)

The Department of Rural Development and Panchayat Raj, in violation of the Karnataka Education Act, 1983, prescribed levy and collection of education cess by Gram Panchayats. Accordingly, 197 test-checked GPs had levied and collected ₹2.69 crore as at the end of March 2017.

(Paragraph 3.11)

Due to non-conducting of demand survey, deficiencies in preparing estimate and drawings for construction of a women's hostel by the Department of Karnataka Public Works, Ports and Inland Water Transport and Karnataka Housing Board (KHB), buildings constructed at a cost of ₹1.86 crore remained incomplete and unutilised for more than four years.

(Paragraph 3.12)

1.7 Responsiveness of Government to Audit

1.7.1 Outstanding Inspection Reports

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001, provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in IRs, rectify the defects and omissions promptly and report their compliance to AG, who forwards a half yearly report of pending IRs to the Secretaries of the Departments to facilitate monitoring of the audit observations.

As on 31 March 2018, 3,420 IRs (18,207 paragraphs) were outstanding against all Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**. A review of the pending IRs issued up to March 2018 showed that while five *per cent* of the total IRs pending *i.e.*, 183 IRs (1,613 paragraphs) was pending for less than one year, 2,421 IRs (13,903 paragraphs) were pending for more than one year but for less than 10 years. However, around 24 *per cent* of IRs *i.e.*, 816 IRs (2,691 paragraphs) were pending for more than 10 years. Further review of IRs pending for more than 10 years revealed that Higher Education and Revenue Departments had highest pendency of IRs at 109 and 163 respectively.

1.7.2 Response of Departments to the draft paragraphs

The Performance Audit, two Thematic Audits and 12 Draft paragraphs were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between June 2018 and November 2018 to send their responses within six weeks. Based on audit observations, action was initiated in respect of two Draft paragraphs which have been considered by this office and have not been included in this Report. Government replies were received for the Performance Audit, the two Thematic Audits and all the paragraphs. The replies, wherever received, are suitably incorporated in the Report.

1.7.3 Follow-up action on Audit Reports

The Hand Book and the Rules of Procedure (Internal Working), 1999, of the Public Accounts Committee provides for all the departments of Government to furnish detailed explanations in the form of Action Taken Notes (ATNs) to the audit observations included in Audit Reports, within four months of their being laid on the Table of Legislature.

The administrative departments did not comply with these instructions and five departments as detailed in **Appendix-1.2** did not submit ATNs for 10 paragraphs for the period 2011-12 to 2016-17 even as on 31 December 2018.

1.7.4 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as on 31 December 2018 are detailed in **Appendix-1.3**.