



**REPORT OF THE  
COMPTROLLER  
AND  
AUDITOR GENERAL OF INDIA  
(CIVIL)**

**FOR THE YEAR ENDED 31 MARCH 2004**

**GOVERNMENT OF KARNATAKA**

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## PREFACE

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.
2. Chapters I and II of this Report respectively contain Audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts of State Government for the year ended 31 March 2004.
3. Chapter III deals with the findings of performance audit while Chapter IV deals with findings of audit of transactions in various departments including the Public Works and Irrigation Departments, Autonomous Bodies and departmentally run commercial undertakings. Chapter V deals with comments on Internal Control System existing in selected department in the State.
4. The Report containing points arising from audit of the financial transactions relating to Zilla Panchayats, Statutory Corporations & Government Companies and Revenue Receipts are presented separately.
5. The cases mentioned in the Report are among those which came to notice in the course of test-audit of accounts during the year 2003-04 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports; matters relating to the periods subsequent to 2003-04 have also been included, wherever, necessary.





## OVERVIEW

This report contains five chapters of which the first two contain the observations on the accounts of the State Government for 2003-04 and the other three contain audit comments in the form of four reviews, two long paragraphs and 28 paragraphs on selected schemes, 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.

### I. Finances of the State Government

Revenue receipts of the Government increased by 61 *per cent* from Rs.12,906 crore in 1999-2000 to Rs.20,760 crore in 2003-04. The share of tax revenue (Rs.12,570 crore) and non-tax revenue (Rs.2,958 crore) in total revenue receipts was 61 and 14 *per cent* respectively in 2003-04. Central Tax transfers and grants-in-aid contributed 25 *per cent* of the total revenue receipts.

Arrears of revenue increased by 70 *per cent* since 1999-2000 and aggregated Rs.3,104 crore as of March 2004. Of this, Rs.781 crore (25 *per cent*) were outstanding for more than five years indicating unsatisfactory tax compliance.

Total expenditure of the Government increased from Rs.17,327 crore in 1999-2000 to Rs.25,325 crore in 2003-04 (increase: 46 *per cent*).

Revenue expenditure increased by 40 *per cent* from Rs.15,231 crore in 1999-2000 to Rs.21,285 crore in 2003-04. Committed expenditure on salaries and pension increased from Rs.6,115 crore to Rs.7,265 crore during the period.

Interest payments increased by 84 *per cent* from Rs.2,012 crore in 1999-2000 to Rs.3,710 crore in 2003-04 and consumed 18 *per cent* of revenue receipts.

For the year 2003-04 the revenue deficit was Rs.524.83 crore compared to Rs.2,645.74 crore in 2002-03. The fall in revenue deficit was due to healthy growth of revenue receipts compared to previous year as also due to postponement of payments of electricity dues on irrigation pumpsets (Rs.600 crore) and non-transfer of grants (Rs.381 crore) received for Calamity Relief Fund to Public Account.

Fiscal deficit for 2003-04 was Rs.4,501 crore lower by Rs.781 crore (15 *per cent*) than the preceding year.

Outstanding fiscal liabilities of the State increased from Rs.22,287 crore at the end of 1999-2000 to Rs.41,967 crore at the end of 2003-04 excluding off-budget borrowings of Rs.8,614 crore. The amount guaranteed by the State Government on behalf of Statutory Corporations, Government Companies, etc., and outstanding was Rs.14,179 crore as on 31 March 2004.



As at the end of 2003-04, the total investment in Statutory Corporations, Government Companies, etc., was Rs.7,984.19 crore. Returns thereon were negligible (Rs.18 crore).

Assistance to different bodies/authorities increased by 33 per cent from Rs.5,847 crore in 1999-2000 to Rs.7,780 crore in 2003-04.

(Paragraphs 1.1 to 1.10)

## **II. Allocative Priorities and Appropriation**

Against total budget provision of Rs.37,105.48 crore (including supplementary grants), actual expenditure was Rs.34,853.75 crore. Overall saving of Rs.2,251.73 crore was the result of saving of Rs.5,069.55 crore in 28 grants/appropriation and excess of Rs.2,817.82 crore in seven grants/appropriation. The excess of Rs.2,817.82 crore required regularisation by the Legislature under Article 205 of the Constitution of India.

In 13 grants involving 15 detailed heads, supplementary provision of Rs.303.98 crore proved unnecessary.

Out of total saving of Rs.4,747.97 crore under 27 grants/appropriations, only Rs.1,022.71 crore were surrendered and that too on the last working day of the financial year.

Forty two re-appropriation orders for Rs.25.56 crore were not considered in accounts as these either exceeded the power to sanction, involved items of new service or were not signed by the competent authority or not approved by the Finance Department. In 37 cases (six grants), expenditure of Rs.71.33 crore was incurred without provision.

In 56 cases (10 grants), expenditure of Rs.594.03 crore which attracted the norms of 'New Service/New Instrument of Service' was met without obtaining requisite approval of Legislature.

Out of 154 Chief Controlling Officers, 21 Officers did not reconcile 22 per cent (Rs.5,444.56 crore) of the expenditure incurred by them. Six officers reconciled it partly (unreconciled amount: Rs.81.53 crore) and seven more did not reconcile the disbursement of loans and advances of Rs.170.11 crore.

(Paragraphs 2.1 to 2.7)

## **III. Performance Reviews**

### **1. 'Mahithi' – The Millennium Policy for Information Technology and Bio-technology - 2000**

The Policy envisaged programmes for spreading Information Technology and Bio-technology to rural areas and creation of infrastructure and offering tax concessions to attract software entrepreneurs. Some of the major deficiencies noticed in programme implementation are as follows:

- Out of 9.11 lakh students enrolled in selected high schools, 5.35 lakh students received computer education for one to two hours only as against prescribed three hours per student per week and 1.78 lakh students were completely deprived of the benefit. This resulted in wasteful expenditure of Rs.29 crore.
- There were lapses like non-selection of candidates from BPL list, deficiencies in inspection, non-evaluation of all centres, failure to upload bio-data of candidates on departmental website.
- Infrastructure facility (Software Technology Park at Hubli) established at a cost of Rs.32.26 crore had not been made available to software entrepreneurs while land purchased at a cost of Rs.13.96 crore for establishing Bio-tech park had not been developed.
- Four companies engaged in Information Technology Enabled Services were granted tax exemption of Rs.1.03 crore though these were not eligible.

**(Paragraph 3.1)**

## **2. Implementation of Child Labour (Prohibition and Regulation) Act, 1986**

Child Labour (Prohibition and Regulation) Act, 1986 besides enforcement measures envisaged rehabilitation of children below the age of 14 years. Some of the important findings on implementation of the provisions of the Act are as follows:

- Data on identification of child labour was grossly understated.
- Implementation of regulatory and prohibitory functions was ineffective due to huge shortfall in inspections and registration of cases against offending employers. There were instances of acquitting the offending employers due to non-production of proof of age of the child labour.
- Rehabilitation programmes were inadequate as 60 *per cent* of identified child labour had not been rehabilitated, recovery of compensation from offending employers was a meagre 0.3 *per cent* of the recoverable amount and several significant features of the State Action Plan were not implemented.

**(Paragraph 3.2)**

## **3. Working of Minor Irrigation Projects**

The Minor Irrigation Department which is to provide irrigation to command areas up to 2,000 hectares through minor irrigation tanks and lift irrigation schemes had created irrigation potential of 6.23 lakh hectares as at the end of March 2004. Some of the important findings are as follows:



- Limited resources were scattered over a large number of new works without prioritising projects and ensuring provision of adequate funds for completing ongoing projects, which were lingering for five to 15 years. Out of 325 ongoing projects only 191 were completed leaving 134 projects incomplete as of March 2004 as a result of which investment of Rs.35.37 crore made on them did not fructify.
- Against a target of completing 242 projects with NABARD assistance by March 2004, only 105 projects were completed after delays ranging from three to 71 months involving a cost overrun of Rs.26.37 crore.
- Due to inadequate investigation, injudicious diversion of project funds, delay/non-acquisition of lands, *etc.*, there was wasteful/unfruitful and excess expenditure of Rs.41.01 crore.
- Percentage shortfall in utilisation of irrigation potential ranged between 71 and 92 during 1999-2000 to 2003-04 due to inadequate power supply, silting of canals, aged pumping machinery, non/partial completion of canals, improper location of tanks, *etc.*
- The unplanned execution of 57 new tank works during 1999-2003 at a cost of Rs.125.82 crore proved largely unproductive due to poor utilisation of their irrigation potential.

**(Paragraph 3.3)**

#### **4. Internal Control System in the Department of Prisons**

The main functions of the Department of Prisons were admission, custody and security of prisoners and their rehabilitation. The Karnataka Prisons Act and Rules prescribe various internal controls to perform these functions effectively. However, there were instances of non-compliance with provisions of the Act/Rules and lapses.

- Prison authorities did not submit to courts monthly statements of under-trial prisoners awaiting trial for more than three months and eligible for bail.
- Escape of a few prisoners from custody was indicative of lapses in security measures.
- Board of Visitors who were to inspect prisons and ensure compliance with rules and procedures was not constituted in test-checked prisons.
- There was congestion of prisoners in some prisons due to insufficient accommodation and inaction of the prison administration to transfer prisoners from over-crowded prisons to others.

**(Paragraph 5.1)**



## **5. Working of the Government Film and Television Institute, Hesaraghatta**

The Government established (June 1998) the Institute of Film and Television at Hesaraghatta, Bangalore with the objective of imparting education in Cinematography and Sound Recording Engineering and also generating income by hiring out the studios. The infrastructure (studios and equipment) costing Rs.6.63 crore was not put to use and income generated was meagre. The Government did not permit hiring of equipment and thereby lost substantial potential income. In the absence of placement service, shortfall in the intake of students ranged from 27 to 61 *per cent* in Cinematography while the same was 80 to 97 *per cent* in Sound Recording Engineering.

**(Paragraph 3.4)**

## **6. Stores procurement in Minor Irrigation Department**

Stores materials such as steel, cement, sponge rubber, pipes, pressure relief valves, *etc.*, costing Rs.8.21 crore were purchased by 11 Minor Irrigation Divisions during the period 1999-2004. The Divisional officers procured the stores material by splitting up purchase orders to avoid sanction of competent authority and kept them outside the Divisional stock account by debiting their cost to works for which funds were available. The material was purchased on local quotation basis resulting in purchases at higher rates involving an avoidable expenditure of Rs.1.28 crore. Maintenance of material-at-site accounts was also not satisfactory.

**(Paragraph 3.5)**

# **IV. Audit of transactions**

## **Misappropriation/losses**

Failure of the Commerce and Industries Department/Government to comply with terms and conditions while releasing loan assistance to Coir Industrial Product Co-operative Society Limited and initiate action on the asset valuation report led to a situation whereby misuse of Rs.4.69 crore by the Society could not be ruled out.

**(Paragraph 4.1.1)**

Non-maintenance of proper accounts and non-reconciliation of user charges with the bank in Bowring and Lady Curzon Hospital, Bangalore resulted in misappropriation of Rs.25.22 lakh.

**(Paragraph 4.1.2)**

Improper assessment of demand for tertiary treated sewage water during project planning and failure to execute necessary agreement with potential buyers by Bangalore Water Supply and Sewerage Board resulted in loss of Rs.10.88 crore.

**(Paragraph 4.1.3)**

### **Infructuous/wasteful expenditure and overpayment**

Additional market value beyond the date of declaration of land award by Special Land Acquisition Officer, National Highways, Bangalore was paid in violation of the provisions of the Land Acquisition Act, resulting in excess payment of Rs.58.86 lakh.

**(Paragraph 4.2.2)**

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

Failure of the Ports and Inland Water Transport Department in the construction of Breakwater at Karwar seaport to regulate payments to the contractor as per the conditions of contract and in accordance with the Departmental Schedule of Rates resulted in excess payment of Rs.2.35 crore.

**(Paragraph 4.3.1)**

In respect of National Highways Division, Mangalore, delay in providing approved drawings to the contractor and injudicious extension of time resulted in an avoidable extra expenditure of Rs.52.17 lakh.

**(Paragraph 4.3.3)**

Failure of Karnataka Residential Educational Institutions Society to enforce contractual terms resulted in undue gains to construction agencies and extra expenditure of Rs.79.64 lakh.

**(Paragraph 4.3.4)**

### **Avoidable/extra/unfruitful expenditure**

The Director General & Inspector General of Police, Karnataka, Bangalore injudiciously purchased costly polycarbonate lathis in place of cheaper cane lathis from two private firms resulting in avoidable extra expenditure of Rs.89.46 lakh.

**(Paragraph 4.4.3)**

Karnataka Housing Board could not market 999 houses/tenements in Hootagally, Mysore City due to construction of houses in excess of assessed demand resulting in unfruitful investment of borrowed funds of Rs.25.03 crore with interest liability of Rs.13.97 crore. Similarly, in 76 other towns/cities, 1,777 houses/tenements and 2,039 sites involving investment of borrowed funds of Rs.51.91 crore had also remained un-allotted.

**(Paragraph 4.4.4)**

Failure of Karnataka Urban Water Supply and Drainage Board to detect the defective execution of work by a Government agency and non-maintenance of work for five years resulted in collapse of a portion of bund and avoidable extra expenditure of Rs.2.10 crore on its reconstruction.

**(Paragraph 4.4.6)**



Lack of firm decision of the Government/Karnataka Urban Water Supply and Drainage Board regarding selection of the water source for a water supply scheme resulted in time overrun of over 12 years and cost overrun of Rs.7.47 crore, besides rendering the expenditure of Rs.13.86 crore on the scheme unfruitful.

**(Paragraph 4.4.7)**

Inordinate delay in furnishing land acquisition proposals for construction of Devarabelekere dam in Davanagere district and the injudicious action of the Water Resources Department to pay interest on land compensation without taking possession of lands resulted in an avoidable expenditure of Rs.75.17 lakh and excess payment of Rs.83.09 lakh.

**(Paragraph 4.4.8)**

Failure of the Port and Inland Water Transport Department to execute the work of providing fish landing and berthing facilities without ensuring flow of water in the river as advised by the experts and delay in construction of bridge work led to unproductive outlay of Rs.1.36 crore.

**(Paragraph 4.4.9)**

Inadequate soil investigation and delay in acquisition of land by Minor Irrigation Division, Bijapur rendered the outlay of Rs.2.60 crore unfruitful.

**(Paragraph 4.4.11)**

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

Heparin-induced Extra Corporeal Low-density Lipoprotein Precipitation System purchased at a cost of Rs.61 lakh remained unutilised since February 2000 in Bowring and Lady Curzon Hospital, Bangalore due to high cost of consumables and accessories required for use of the equipment.

**(Paragraph 4.5.1)**

Due to lack of proper planning in purchase and operationalisation of Blood Cell Separator, the equipment remained unused for four years in Victoria Hospital, Bangalore and Krishnarajendra Hospital, Mysore, rendering expenditure of Rs.1.03 crore thereon unfruitful.

**(Paragraph 4.5.2)**

#### **Regularity issues and other points**

Public Sector Banks made excess payment of family pension of Rs.1.25 crore in 701 cases as of February 2004.

**(Paragraph 4.6.1)**







## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### Summary

In Karnataka, both revenue and fiscal deficits declined during 2003-04. The Balance from Current Revenue (BCR) became positive during 2003-04 indicating availability of resources from current revenue for programme spending after meeting the committed expenditure. While the ratio of revenue receipts to total expenditure was 74 *per cent* during 1999-2000, it was 82 *per cent* during the current year. Revenue of the State consisting of its own taxes and non-tax revenue, Central tax transfers and grants-in-aid from Government of India (GOI) increased by 61 *per cent* from Rs.12,906 crore in 1999-2000 to Rs.20,760 crore in 2003-04 with significant inter year variations in growth rates. During the current year, revenue receipts grew by 28 *per cent* due to an increase of 20 *per cent* in tax revenue, 131 *per cent* in non-tax revenue, 16 *per cent* in State's share in Union taxes and duties and 19 *per cent* in grants-in-aid from GOI. The increase in tax revenue (Rs.2,130 crore) was mainly due to increase in taxes on sales, trade, etc., (Rs.1,175 crore), stamps and registration fees (Rs.241 crore), State excise (Rs.240 crore), taxes on vehicles (Rs.124 crore), etc. Arrears of revenue (Rs.3,104 crore) represented 20 *per cent* of tax and non-tax revenue receipts. Seventy five *per cent* of the revenue came from the State's own resources, while the Central tax transfers and grants-in-aid together contributed 25 *per cent* of the total revenue receipts.

Overall expenditure of the State increased by 46 *per cent* from Rs.17,327 crore in 1999-2000 to Rs.25,325 crore in 2003-04. The rate of growth was 20 *per cent* in 1999-2000 and declined thereafter to 13 *per cent* in 2003-04. The curtailment in the growth of expenditure was due to decline in the proportion of developmental expenditure in total expenditure from 66 *per cent* in 1999-2000 to 60 *per cent* in 2003-04. Revenue expenditure which constituted 84 *per cent* of total expenditure during 2003-04, grew by 13 *per cent* in 2003-04 over the previous year. Interest payment increased by 84 *per cent* from Rs.2,012 crore in 1999-2000 to Rs.3,710 crore in 2003-04 primarily due to continued reliance on borrowings for financing the deficit.

The Karnataka Fiscal Responsibility Act, 2002, (Act) which came into force from 1 April 2003, *inter alia*, provides for reducing revenue deficit to nil and fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by March 2006, limiting the fiscal liabilities to not more than 25 *per cent* of the GSDP by March 2015 and ensuring greater transparency in fiscal operations.

The State Government managed to bring down the revenue deficit from Rs.2,646 crore in 2002-03 to Rs.525 crore in 2003-04 and fiscal deficit to just over three *per cent* of the GSDP by not providing funds (Rs.600 crore) towards waiver of electricity dues ordered in February 2004 and non-transfer of grants (Rs.381.21 crore) received towards Calamity Relief Fund to the Public Account. The ratio of fiscal liabilities to GSDP which was 25 *per cent* during 2000-01 increased to more than 30 *per cent* for the period 2001-04. The ratio would increase to 39 *per cent* taking into account the off-budget borrowings.

Though, it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State's finances into a debt trap. Measures like generation of additional internal resources through tax and non-tax revenue, realisation of arrears of revenue and curtailment of non-developmental expenditure through abolition of subsidies, etc., are the best means available for the State to ensure fiscal stability and sustainability.



## 1.1 Introduction

The Finance Accounts of the Government of Karnataka are laid out in 19 statements, presenting receipts and disbursements, revenue as well as capital in the Consolidated Fund, transactions under the Contingency Fund and the Public Account (**Appendix 1.1-Part A**). The layout of the Finance Accounts is depicted in Box 1.

### Box 1

#### Layout of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government – receipts and disbursements, revenue and capital, public debt receipts and disbursements, *etc.*, in the consolidated fund and transactions under contingency fund and public account and also offers explanation giving comparative summary of transactions, including cases of large and important variations.

Statement No.2 gives the summarised position of capital outlay outside revenue account showing progressive expenditure to the end of 2003-04.

Statement No.3 gives financial results of irrigation works and electricity schemes.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings accounted under internal debt, Government of India loans, other obligations accounted under public account and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, *etc.*

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans, *etc.*, raised by the statutory corporations, government companies, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under consolidated fund, contingency fund and public account as on 31 March 2004.

Statement No.9 shows the revenue and expenditure under different heads for the year 2003-04 as a *per cent* of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure during the year.

Statement No.11 indicates the detailed account of revenue receipts and capital receipts by minor heads.

Statement No.12 gives an account of revenue expenditure by minor heads under plan and non-plan, capital expenditure by major heads under plan and non-plan.

Statement No.13 depicts the detailed account of capital expenditure incurred during and to the end of 2003-04.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, co-operative banks and societies, *etc.* up to the end of 2003-04.

Statement No.15 depicts the capital and other expenditure (other than on revenue account) to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 presents the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2004 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances.



## 1.2 Trend of Finances with reference to previous year

Finances of the State Government during the current year compared to the previous year were as under:

(Rupees in crore)

2002-03	Serial Number	Major Aggregates	2003-04
16,169	1.	Revenue Receipts (2+3+4)	20,760
10,440	2.	Tax Revenue	12,570
1,278	3.	Non-Tax Revenue	2,958
4,451	4.	Other Receipts	5,232
928	5.	Non-Debt Capital Receipts	64
928	6.	Of which Recovery of Loans	64
17,097	7.	Total Receipts (1+5)	20,824
16,010	8.	Non-Plan Expenditure (9+11+12)	17,945
15,570	9.	On Revenue Account	17,732
3,292	10.	Interest Payments	3,710
202	11.	On Capital Account	99
238	12.	Loans disbursed	114
6,369	13.	Plan Expenditure (14+15+16)	7,380
3,245	14.	On Revenue Account	3,553
2,734	15.	On Capital Account	2,930
390	16.	Loans disbursed	897
22,379	17.	Total Expenditure (8+13)	25,325
5,282	18.	Fiscal Deficit (17-1-5)	4,501
2,646	19.	Revenue Deficit (9+14-1)	525
1,990	20.	Primary Deficit(+)/Surplus(-) (18-10)	791

## 1.3 Summary of Receipts and Disbursements for the year

Table 1 below summarises the finances of the State Government for the year 2003-04 covering receipts and disbursements under revenue, capital, public debt, contingency fund and public account as emerging from various statements of Finance Accounts.

**Table 1: Summary of Receipts and Disbursements for the year 2003-04**

(Rupees in crore)							
2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section-A: Revenue							
16,168.76	Revenue receipts	20,759.88	18,814.50	Revenue expenditure	Non-Plan	Plan	Total
10,439.71	Tax revenue	12,570.21	7,112.12	General Services	17,731.99	3,552.72	21,284.71
1,277.67	Non-tax revenue	2,958.37	6,326.25	Social Services	9,035.56	3.57	9,039.13
2,786.20	Share of Union Taxes and Duties	3,244.73	4,802.42	Economic Services	4,788.55	2,176.49	6,965.04
1,665.18	Grants from Govt. of India	1,986.57	573.71	Grants-in-aid/Contributions	3,279.04	1,372.66	4,651.70
					628.84	--	628.84
Section-B: Capital							
--	Misc. Capital Receipts	--	2,936.00	Capital Outlay	99.24	2,930.15	3,029.39
928.00	Recoveries of Loans and Advances	64.29	627.58	Loans and Advances disbursed	113.93	897.27	1,011.20
5,432.74	Public debt receipts*	7,988.33	1,695.95	Repayment of Public Debt*	3,441.43	--	3,441.43
7.89	Contingency Fund (recoupment)	--	--	Contingency Fund	8.23	32.29	40.52
27,879.38	Public account receipts	30,512.84	26,824.79	Public account disbursements	--	--	30,665.27
964.71	Opening Cash Balance	482.66	482.66	Closing Cash Balance	--	--	335.48
51,381.48	Total	59,808.00	51,381.48	Total	21,394.82	7,412.43	59,808.00

\* Excluding ways & means advances and overdraft



### 1.3.1 Budget Analysis

Budget papers, presented by the State Government, provide descriptions about projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenues and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Wide variation between the estimates and the actuals which result in distortions in fiscal management are indicative of non-attainment and non-optimisation of desired fiscal objectives. The table below summarises the position of finances of the State Government covering the budget estimates and actuals for the year 2003-04 together with actuals for the previous year. There was a significant variation between budgeted figures and the actuals.

#### State Government Finances 2003-04 – Budget Estimates and Actuals

(Rupees in crore)

Budget Estimates	2002-03 Actuals	2003-04		Deviation from Budget	Deviation Per cent
		Budget Estimates	Actuals		
1 Total Receipts of the State Government (6+7)	50,408.88	41,679.57	59,325.34	17,645.77	42.3
2 Revenue Receipts	16,168.76	19,845.17	20,759.88	914.71	4.6
Tax revenue	10,439.71	12,588.38	12,570.21	(-)18.17	(-)0.1
Non-tax revenue	1,277.67	1,713.33	2,958.37	1,245.04	72.7
State's share of Union taxes and duties	2,786.20	3,044.76	3,244.73	199.97	6.6
Grants-in-aid from the Central Government	1,665.18	2,498.70	1,986.57	(-)512.13	(-)20.5
3 Recovery of Loans and Advances	928.00	100.50	64.29	(-)36.21	(-)36.0
4 Total revenue and Non Debt receipts (2+3)	17,096.76	19,945.67	20,824.17	878.50	4.4
5 Public Debt receipt (Excluding Ways & Means Advances/Over Draft)	5,432.74	6,422.90	7,988.33	1,565.43	24.4
6 Total receipts in the CFS (4+5)	22,529.50	26,368.57	28,812.50	2,443.93	9.3
7 Public Account Receipt	27,879.38	15,311.00	30,512.84	15,201.84	99.3
8 Total disbursement by the State Government (14+15)	50,898.82	41,611.92	59,432.00	17,820.08	42.8
9 Revenue Expenditure	18,814.50	21,980.49	21,284.71	(-)695.78	(-)3.2
General Services	7,112.12	8,392.62	9,039.13	646.51	7.7
Social Services	6,326.25	7,141.41	6,965.04	(-)176.37	(-)2.5
Economic Services	4,802.42	5,706.78	4,651.70	(-)1,055.08	(-)18.5
Grants-in-aid & contributions	573.71	739.68	628.84	(-)110.84	(-)15.0
10 Capital Expenditure	2,936.00	3,561.66	3,029.39	(-)532.27	(-)14.9
11 Loans and Advances	627.58	436.31	1,011.20	574.89	131.8
12 Total expenditure of the State Government (9+10+11)	22,378.08	25,978.46	25,325.30	(-)653.16	(-)2.5
13 Repayment of Public Debt	1,695.95	1,042.46	3,441.43	2,398.97	230.1
14 Total disbursement out of the CFS (12+13)	24,074.03	27,020.92	28,766.73	1,745.81	6.5
15 Public Account Disbursement	26,824.79	14,591.00	30,665.27	16,074.27	110.2
16 Revenue Deficit (9-2)	2,645.74	2,135.32	524.83	(-)1,610.49	(-)75.4
17 Fiscal Deficit (12-4)	5,281.32	6,032.79	4,501.13	(-)1,531.66	(-)25.4

The revenue receipts during 2003-04 exceeded the budget estimates by Rs.914.71 crore (five per cent). The actuals in respect of non-tax revenue were more than the budget estimates by Rs.1,245.04 crore (73 per cent). The grants-in-aid received from Central Government were 20 per cent (Rs.512.13 crore) less than the estimates. Under capital receipts, there was a short fall of Rs.36 crore (36 per cent) in recovery of loans and advances. Under public debt, the borrowings were more than the estimates by Rs.1,565.43 crore (24 per cent) while under the Public Account, the actuals



exceeded the estimates by nearly cent *per cent* indicating a serious aberration in assessment of resources.

On the expenditure front, the revenue expenditure fell short by Rs.695.78 crore (three *per cent*). However, various sectors of expenditure (excluding general services) revealed shortfall compared to the estimates ranging between two and 19 *per cent*. In respect of general services, the expenditure was more by Rs.646.51 crore (eight *per cent*). Capital expenditure fell short by Rs.532.27 crore (15 *per cent*). The loans disbursed were more than the estimates by Rs.574.89 crore (132 *per cent*). Under public debt, the repayment was more by Rs.2,398.97 crore (230 *per cent*). Disbursements under public account were more by Rs.16,074.27 crore (110 *per cent*).

Revenue deficit was less by Rs.1,610.49 crore and fiscal deficit by Rs.1,531.66 crore than that estimated in the budget.

#### **1.4 Audit Methodology**

Audit observations on the statements of Finance accounts for the year 2003-04 bring out the trends in major fiscal aggregates of receipts and expenditure, wherever necessary, show these in the light of time series data (statement IV) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances, *etc.*, have been presented as percentages to the Gross State Domestic Product (GSDP) at current market prices. For tax revenue, non-tax revenue, revenue expenditure, *etc.*, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) applications of resources (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the rational interpretation of fiscal aggregates.

In addition, this section also contains a paragraph on indicators of financial performance of the Government. Some of the terms used in the Chapter are explained in **Appendix 1.1-Part B**.

#### **1.5 State Finances by key indicators**

##### **1.5.1 Resources by Volumes and Sources**

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of (i) State's own taxes such as taxes on sales, trade, *etc.*, excise duties, stamp duty, motor vehicles taxes, *etc.*, (ii) non-tax revenue, such as receipts from States' functions like judiciary, police, income from past investments, financial intermediation and user charges for the economic and social services provided by the State, (iii) State's share of Union taxes and duties (devolution of taxes collected by the Union



Government and transferred to the States in terms of the award of the Finance Commission), and (iv) grants-in-aid from the Central Government. Capital receipts comprise (i) debt receipts which create future repayment obligations, (ii) miscellaneous capital receipts such as proceeds from disinvestments and recovery of loans and advances, which lead to a reduction in State's asset base and (iii) accruals from public account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs.59,325 crore of which, the revenue receipts were Rs.20,760 crore constituting about 35 *per cent* of the total receipts. The remaining came from public account accruals (51 *per cent*) and borrowings (14 *per cent*).

**Table 2 – Resources of Karnataka**

	(Rupees in crore)
<b>Revenue Receipts</b>	<b>20,759.88</b>
<b>Capital Receipts</b>	<b>8,052.62</b>
Recovery of Loans and Advances	64.29
Public Debt Receipts	7,988.33
<b>Public Account Receipts</b>	<b>30,512.84</b>
Small Savings, Provident Fund, etc.	1,421.73
Reserve Fund	395.65
Deposits and Advances	14,686.37
Suspense and Miscellaneous	11,308.39
Remittances	2,700.70
<b>Total Receipts</b>	<b>59,325.34</b>

### 1.5.2 Sources of Receipts -Trends

The sources of revenue under different heads and GSDP during 1999-2004 are indicated in Table 3.

**Table 3 – Sources of Receipts: Trends**

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-00	12,906	145	3,173	21,662	37,886	94,972
2000-01	14,823	101	3,371	24,797	43,092	1,04,492
2001-02	15,321	35	5,146	28,502	49,004	1,05,658
2002-03	16,169	928	5,433	27,879	50,409	1,13,929
2003-04	20,760	64	7,988	30,513	59,325	1,30,678

The percentage composition of revenue receipts in the total receipts went up from 34 *per cent* in 1999-2000 to 35 *per cent* during the year while that debt receipts went up from 8 to 14 *per cent*. Public account receipts though went up from Rs.21,662 crore to Rs.30,513 crore, in terms of percentage composition they went down from 57 to 51 *per cent* in total resources of the Government.

### 1.5.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts are linked to economic activity and GSDP is its natural base. Apart from the quantum and rate of growth of revenue



receipts, it is equally important to look at these receipts relative to this base and its expansion over time. Overall revenue receipts, their annual rate of growth, ratio of these receipts to GSDP and their buoyancy are indicated in Table 4.

**Table 4: Revenue Receipts – Basic Parameters**

(Amount Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Revenue Receipts</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
Own taxes*	60.0	61.0	64.3	64.6	60.5
Non-Tax Revenue*	12.5	11.2	7.2	7.9	14.3
Central Tax Transfers*	16.5	17.4	17.1	17.2	15.6
Grants-in-aid*	11.0	10.4	11.4	10.3	9.6
<b>Rate of Growth</b>	<b>14.9</b>	<b>14.8</b>	<b>3.4</b>	<b>5.5</b>	<b>28.4</b>
<b>Revenue Receipts/GSDP</b>	<b>13.6</b>	<b>14.2</b>	<b>14.5</b>	<b>14.2</b>	<b>15.9</b>
<b>Revenue Buoyancy</b>	<b>1.8</b>	<b>1.5</b>	<b>3.0</b>	<b>0.7</b>	<b>1.9</b>
<b>GSDP Growth</b>	<b>8.1</b>	<b>10.0</b>	<b>1.1</b>	<b>7.8</b>	<b>14.7</b>

\* As a percentage of revenue receipts

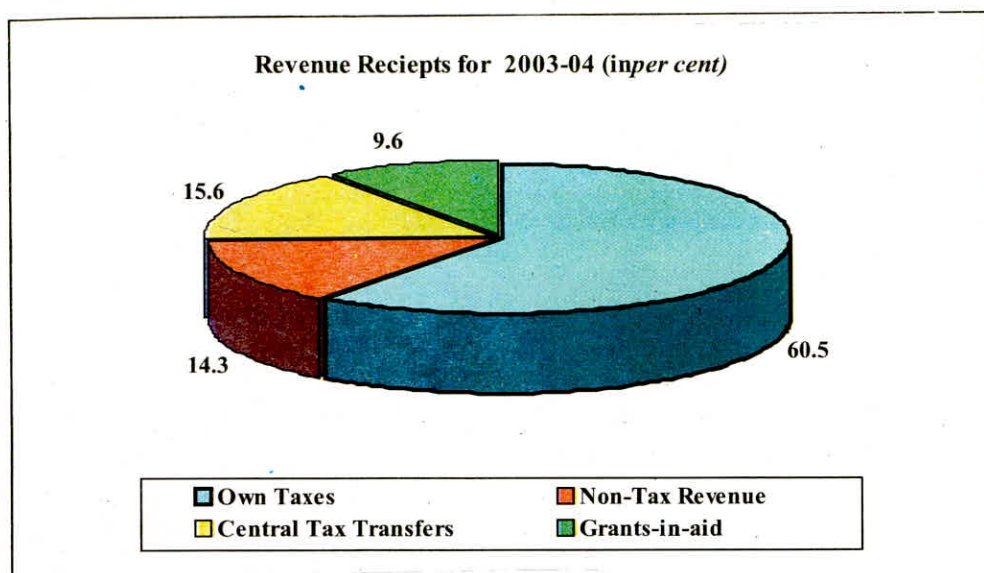
Overall revenue receipts of the State increased from Rs.12,906 crore in 1999-2000 to Rs.20,760 crore in 2003-04 (61 *per cent*). The tax revenue increased from Rs.7,744 crore in 1999-2000 to Rs.12,570 crore during 2003-04, an increase of Rs.4,826 crore (62 *per cent*). The increase (Rs.2,130 crore) in tax revenue during the current year over 2002-03 was mainly due to increase in taxes on sales, trade, *etc.* (Rs.1,175 crore), stamps and registration fees (Rs.241 crore), state excise (Rs.240 crore) and taxes on vehicles (Rs.124 crore), *etc.*

While around 75 *per cent* of the revenue had come from the State's own resources, Central tax transfers and grants-in-aid together contributed around 25 *per cent* of the total revenue during the year, thus indicating less dependence of the State on transfer of resources from the Central Government. The dependency ratio which is defined as the ratio of Central devolutions to own tax/non-tax receipts was 0.34 during 2003-04, lowest during the 1999-2004. Taxes on sales, trade, *etc.*, were the major source of State's own tax revenue having contributed 53 *per cent* of tax revenue followed by State excise (19 *per cent*) and stamps and registration fees (11 *per cent*) during the year. Of non-tax revenue, miscellaneous general services which include State lotteries (54 *per cent*), other general economic services (10 *per cent*), non-ferrous mining and metallurgical industries (8 *per cent*) and forestry and wild life (6 *per cent*) were principal contributors.

Revenue receipts grew by 28 *per cent* during the year 2003-04 on account of high growth rate in non-tax revenue (131 *per cent*) and tax revenue (20 *per cent*). The revenue receipts to GSDP ratio peaked to 16 *per cent* and the revenue buoyancy was about two in 2003-04.

The share of non-tax revenue witnessed a jump from 8 *per cent* in 2002-03 to 14 *per cent* in 2003-04 on account of increase in State lottery receipts. Though there had been an increase in State's share of Union taxes and duties, up from Rs.2,133 crore in 1999-2000 to Rs.3,245 crore during 2003-04, as a percentage of revenue receipts, it almost remained stagnant all these years. Contribution of grants-in-aid increased by 19 *per cent* in the current year over

previous year. Composition of revenue receipts during 2003-04 is indicated graphically below:



Arrears of revenue increased by 70 per cent from Rs.1,826 crore in 1999-2000 to Rs.3,104 crore at the end of 2003-04. The arrears of revenue were 20 per cent of the revenue receipts (tax and non-tax) during 2003-04. Of these, Rs.781 crore (25 per cent) were pending for more than five years and pertained to taxes on sales, trade, etc., entry tax, entertainment tax, agricultural income tax, professional tax, luxury tax and taxes and duties on electricity.

## 1.6 Application of Resources

### 1.6.1 Growth of Expenditure

Statement 12 of the Finance Accounts gives details of expenditure by minor heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge their debt servicing obligations. Overall expenditure of the State comprising the revenue expenditure, capital expenditure including loans and advances increased from Rs.17,327 crore in 1999-2000 to Rs.25,325 crore in 2003-04. The growth rate more than doubled during 2003-04 as compared to previous year mainly on account of increased growth of expenditure under revenue (13 per cent), and loans and advances (61 per cent). Total expenditure-GSDP ratio as percentage, ranged between 18 and 20 during the period 1999-2004. Ratio of revenue receipts to total expenditure went up from 74 per cent (1999-2000) to 82 per cent (2003-04) indicating that over three-fourths of the State's total expenditure was met from its current receipts and balance from borrowings.

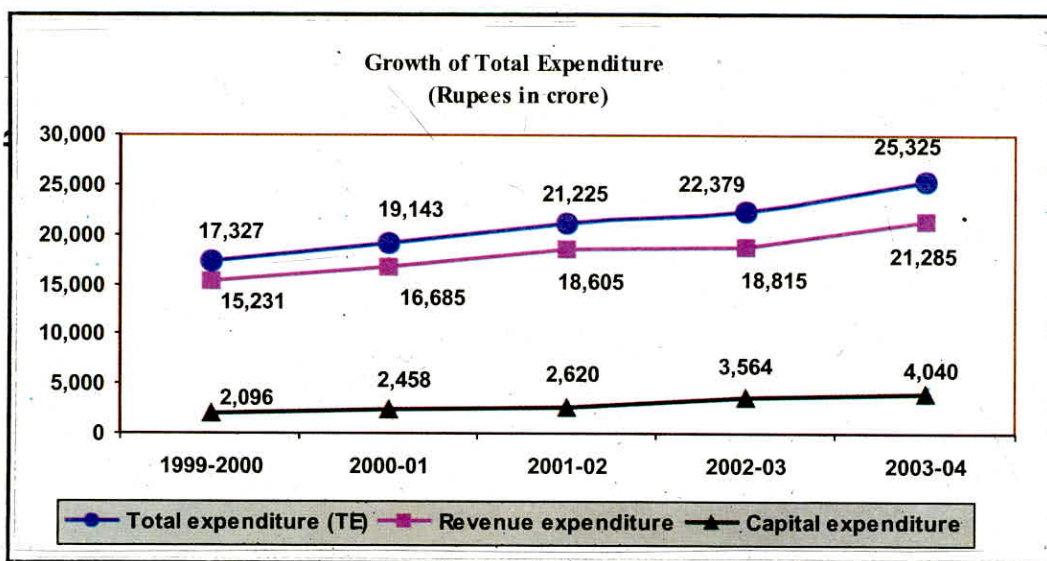


The total expenditure of the State, its annual growth, ratio of expenditure to GSDP and revenue receipts and its buoyancy in relation to GSDP and revenue receipts are indicated in Table 5 below followed by its graphic representation.

**Table 5: Total Expenditure – Basic Parameters**

(Amount Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total Expenditure (TE)	17,327	19,143	21,225	22,379	25,325
Rate of Growth	19.7	10.5	10.9	5.4	13.2
TE/GSDP	18.2	18.3	20.1	19.6	19.4
Revenue Receipts/TE	74.5	77.4	72.2	72.2	82.0
<b>Buoyancy of Total Expenditure with</b>					
GSDP	2.4	1.0	9.7	0.7	0.9
Revenue Receipts	1.3	0.7	3.2	1.0	0.5



Capital expenditure includes disbursement of loans and advances

### 1.6.2 Components of Expenditure

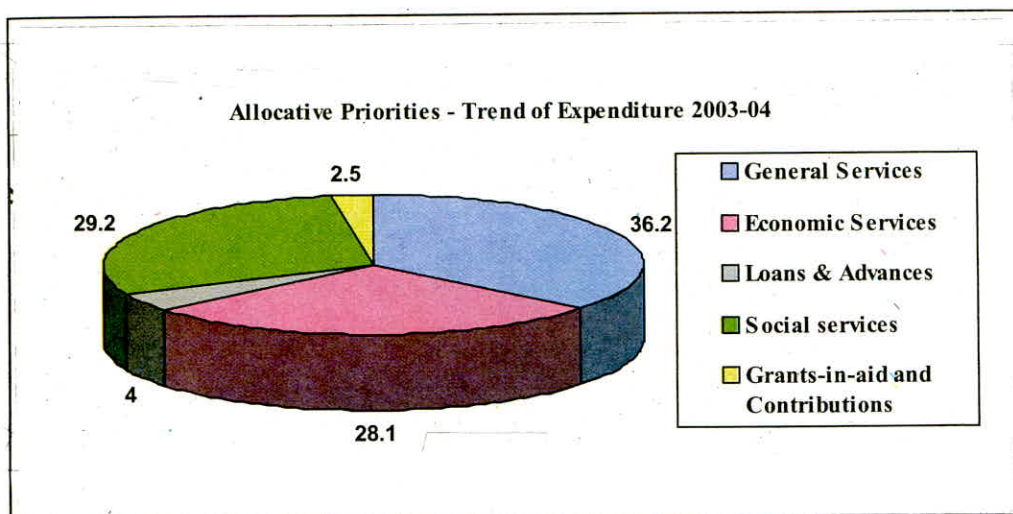
In terms of the activities, total expenditure is composed of expenditure on general services, social and economic services and loans and advances. The relative share of these components in total expenditure (including disbursements of loans and advances) is indicated in Table 6.

**Table 6: Components of Expenditure – Relative Share (in *per cent*)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	31.1	29.7	29.5	32.1	36.2
Social Services	33.8	33.6	31.3	29.6	29.2
Economic Services	30.9	31.3	34.1	32.9	28.1
Grants-in-aid and Contributions	2.4	2.8	2.7	2.6	2.5
Loans and advances	1.8	2.6	2.4	2.8	4.0

The movement of relative share of these components of expenditure indicated that the share of social services in total expenditure declined from 34 *per cent* in 1999-2000 to 29 *per cent* in 2003-04 and that of economic services declined from 31 *per cent* to 28 *per cent*. Expenditure on general services including interest payments generalised as non-developmental, together accounted for nearly 36 *per cent* of total expenditure in 2003-04 as compared to about

31 per cent in 1999-2000. The components of expenditure during 2003-04 are indicated graphically below:



### 1.6.3 Incidence of Revenue Expenditure

In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services/activities and does not represent any addition to the State's service network. Interest payments, pensions and salary fall under this category. Expenditure on maintenance of existing network of services and other overheads are its other components. Overall revenue expenditure of the State increased from Rs.15,231 crore in 1999-2000 to Rs.21,285 crore in 2003-04. Rate of growth of revenue expenditure had shown a fluctuating trend and ranged between one and 22 per cent during 1999-2004. Despite fluctuating growth rate, revenue expenditure – GSDP ratio varied between 16 and 18 per cent during the period. However, there was a decrease in the ratio of revenue expenditure to total expenditure from 88 per cent in 1999-2000 to 84 per cent in 2003-04. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP, revenue receipts and its buoyancy in relation to GSDP and revenue receipts are indicated in Table 7 below:

**Table 7: Revenue Expenditure – Basic Parameters**

	(Amount Rupees in crore and others in per cent)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure (RE)	15,231	16,685	18,605	18,815	21,285
Rate of Growth	22.4	9.6	11.5	1.1	13.1
RE/ GSDP	16.0	16.0	17.6	16.5	16.3
RE as per cent of TE	87.9	87.2	87.7	84.1	84.0
RE as per cent to Revenue Receipts	118.0	112.6	121.4	116.4	102.5
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	2.8	0.9	10.4	0.1	0.9
Revenue Receipts	1.5	0.6	3.4	0.2	0.5

The increase in revenue expenditure during the year was mainly due to more expenditure on miscellaneous general services (Rs.1273.71 crore), interest payments (Rs.418.11 crore), general education (Rs.210.30 crore), urban development (Rs.202.98 crore), relief on account of natural calamities (Rs.171.42 crore), pension and other retirement benefits (Rs.127.46 crore), etc.



Revenue expenditure accounted for 84 *per cent* of the total funds available during 2003-04. This was higher than the share of revenue receipts (82 *per cent*) in the total receipts of the State Government, which led to revenue deficit. Though the ratio of revenue expenditure to revenue receipts declined from a peak of 121 *per cent* in 2001-02 to 103 *per cent* in 2003-04, dependence of the State on borrowings, for meeting its current expenditure continued primarily due to the fact that salaries (Rs.5,364 crore), interest payments (Rs.3,710 crore), and pensions (Rs.1,901 crore) and subsidies (Rs.2,066 crore) consumed 63 *per cent* of total revenue receipts of the State during the year.

#### 1.6.4 High salary expenditure

Salaries alone accounted for about 26 *per cent* of the revenue receipts of the State. The expenditure on salaries increased from Rs.4,576 crore in 1999-2000 to Rs.5,364 crore in 2003-04 as indicated in Table 8 below:

**Table 8**

Heads	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure*	4,575.53	4,629.97	4,974.87	4,090.70	5,363.52
As percentage of GSDP	4.8	4.4	4.7	4.3	4.1
As percentage of Revenue Receipts	35.5	31.2	32.5	30.6	25.8

\* Includes expenditure accounted under ZP Sector also

As could be seen from the table, salaries as a percentage of GSDP had declined marginally from five in 1999-2000 to four during 2003-04.

#### 1.6.5 Huge expenditure on pension payments

Pension payments increased by 24 *per cent* from Rs.1,539 crore in 1999-2000 to Rs.1,901 crore in 2003-04 while as a percentage of revenue receipts it declined from 11 *per cent* in 2002-03 to nine *per cent* in 2003-04 on account of a healthy growth of revenue receipts.

Year-wise breakup of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

**Table 9**

Year	Expenditure* (Rupees in crore)	Percentage to total revenue receipts
1999-2000	1,539	11.9
2000-01	1,583	10.7
2001-02	1,641	10.7
2002-03	1,773	11.0
2003-04	1,901	9.1

\*Excludes payment of pension accounted under various social sector schemes, etc.

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the rising pension liabilities of the retiring State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

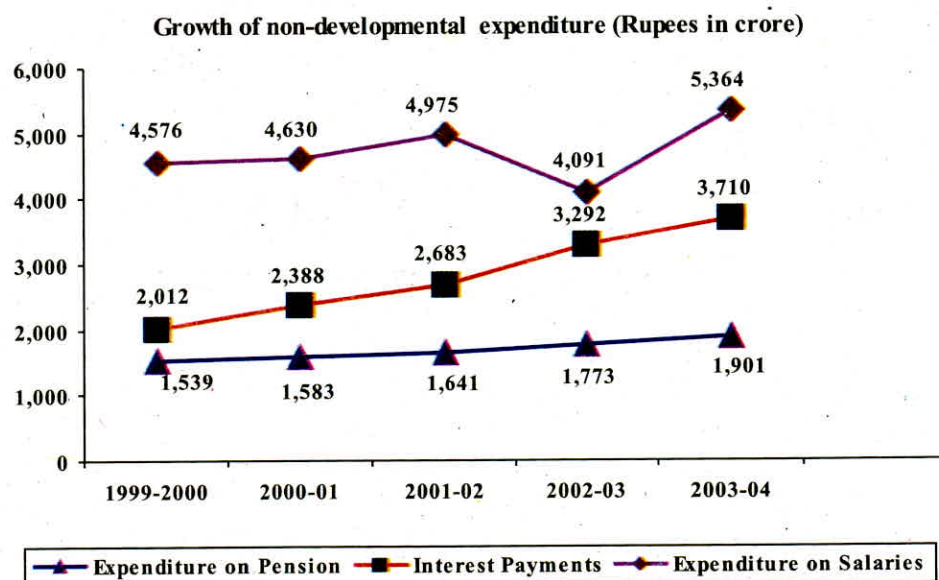
### 1.6.6 Interest payments

The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was observed that interest payments as percentage of revenue receipts ranged between 16 and 20 during the last five years. During 2003-04, there was a decline of about three *per cent* compared to 2002-03 mainly on account of a healthy growth of revenue receipts during the year. In fact, interest payments now amount to 18 *per cent* of revenue receipts.

**Table 10**

Year	Interest Payment (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	2,012	15.6	13.2
2000-01	2,388	16.1	14.3
2001-02	2,683	17.5	14.4
2002-03	3,292	20.4	17.5
2003-04	3,710	17.9	17.4

In absolute terms, interest payments increased steadily by 84 *per cent* from Rs.2,012 crore in 1999-2000 to Rs 3,710 crore in 2003-04 primarily due to continued reliance on borrowings for financing the fiscal deficit. The increase in interest payments during the year 2003-04 over previous year was mainly due to increased interest on Internal Debt (Rs.411.09 crore), loans received from Central Government (Rs.12.26 crore). Large interest payments, increasing year after year, due to continued reliance on borrowing for meeting the deficits crowd out the expenditure on primary education, health and social welfare schemes. A graphic representation of the progress of selected components of non-developmental expenditure is indicated below:





### 1.6.7 Subsidies by the Government

Though the finances of the State are under strain, Government has been paying subsidies to various Corporations, *etc.* The expenditure on subsidies stands accounted for below social and economic service sectors under revenue expenditure. During the last five years, Government paid the following subsidies under various schemes.

**Table 11 – Subsidies by the Government**

(Rupees in crore)

Sl. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Power	771	877	2,305	1,847	1,677
2.	Food	291	295	206	176	186
3.	Transport	35	48	145	64	29
4.	Industries	53	69	17	25	---
5.	Others	74	225	188	118	174
	<b>Total</b>	<b>1,224</b>	<b>1,514</b>	<b>2,861</b>	<b>2,230</b>	<b>2,066</b>
1.	Percentage increase (+)/ decrease (-) over previous year	24	24	89	-22	-7
2.	Percentage of subsidy to total revenue expenditure	8	9	15	12	10

During the current year, subsidies constituted 10 *per cent* of the revenue expenditure compared to 12 *per cent* in the previous year. The decrease was due to postponement of subsidy payments under power, food and transport sectors.

### 1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts, reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure. Table 12 below gives the percentage share of these components of expenditure in State's total expenditure (excluding disbursements of loans and advances).

**Table 12: Quality of Expenditure**

(*per cent* to total expenditure)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	26.5	27.8	28.2	27.5	26.7
Capital Expenditure	10.5	10.5	10.2	13.5	12.5
Developmental Expenditure	65.9	66.7	67.0	64.3	59.7

Plan expenditure declined from 28 *per cent* of total expenditure in 2001-02 to 27 *per cent* in 2003-04. Capital expenditure increased from 10 *per cent* in 1999-2000 to 12 *per cent* in 2003-04. There was steady decline in the share of developmental expenditure from 2000-01.

Out of the developmental expenditure (Rs.14,518 crore) during the year, Social Services (Rs.7,392 crore) accounted for 51 *per cent*. Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation and Housing and Urban Development consumed about four-fifths (79 *per cent*) of the expenditure on social sector.

**Table 13: Social Service Sector Expenditure**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Education, Sports, Art and Culture	3,015 (3.2)	3,489 (3.3)	3,506 (3.3)	3,571 (3.1)	3,771 (2.9)
Health and Family Welfare	977 (1.0)	1,005 (1.0)	1,086 (1.0)	1,004 (0.9)	996 (0.8)
Water Supply, Sanitation, Housing and Urban Development	808 (0.8)	782 (0.7)	769 (0.7)	743 (0.6)	1,083 (0.8)
<b>Total</b>	<b>4,800</b>	<b>5,276</b>	<b>5,361</b>	<b>5,318</b>	<b>5,850</b>

*Per cent to GSDP in brackets*

Economic Services (Rs.7,126 crore) accounted for 49 *per cent* of developmental expenditure. Energy (Rs.1,733 crore), Irrigation and Flood Control (Rs.2,061 crore) and Transport (Rs.822 crore) accounted for 65 *per cent* of the expenditure on economic sector:

**Table 14 Economic Service Sector Expenditure**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Energy	788	939	2,337	1,907	1,733
Irrigation and flood control	1,807	1,986	1,716	2,235	2,061
Transport	522	695	778	819	822
<b>Total</b>	<b>3,117</b>	<b>3,620</b>	<b>4,831</b>	<b>4,961</b>	<b>4,616</b>

### 1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities are set up to discharge generally non-commercial functions of public utility services. These bodies/authorities by and large receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State and Co-operative Societies Act, Companies Act, 1956, *etc.*, to implement certain programmes of the State Government. The grants are intended essentially for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance (Grant-in-aid) provided to various bodies in the last five years was as follows:



**Table 15: Financial assistance to local bodies and other institutions**

(Rupees in crore)

Description	1999-2000	2000-01	2001-02	2002-03	2003-04
Panchayat Samitis and Zilla Panchayats/Municipalities	4,591.43	4,867.29	4,461.63	5,160.08	5,207.76
Educational Institutions (including Universities)	411.08	586.31	499.85	646.99	603.16
Co-operative Societies and Co-operative Institutions	10.81	5.25	3.34	5.00	57.62
Other Institutions and bodies (including statutory bodies)	833.27	992.24	2,464.01	1,863.28	1,911.84
<b>Total</b>	<b>5,846.59</b>	<b>6,451.09</b>	<b>7,428.83</b>	<b>7,675.35</b>	<b>7,780.38</b>
Percentage growth over previous year	20	10	15	3	1
Revenue receipts	12,906.45	14,822.72	15,321.25	16,168.76	20,759.88
Assistance as a percentage of revenue receipts	45	44	48	47	37
Revenue expenditure	15,231.75	16,684.95	18,605.70	18,814.50	21,284.71
Percentage of assistance to revenue expenditure	38	39	40	41	37
Percentage of assistance to Panchayat Raj Institutions/ Municipalities, etc., to total assistance	79	75	60	67	67

A notable feature of the revenue expenditure of the State was that 37 to 41 *per cent* of it comprised assistance to local bodies, etc., during 1999-2004. The assistance rose from Rs.5,846.59 crore in 1999-2000 to Rs.7,780.38 crore in 2003-04. Compared to 2002-03, the assistance increased by a percentage point during the year. Assistance to Panchayat Raj Institutions/Municipalities accounted for 67 *per cent* of the total assistance during 2003-04. The salary component constituting major portion of the assistance rose from Rs.2,346.63 crore in 1999-2000 to Rs.2,726.16 crore during 2003-04. The assistance to other institutions and bodies included 'Assistance to Electricity Board' which is in the nature of subsidy (Rs.1,677 crore), commented at paragraph 1.6.7.

#### ***Delay in furnishing utilisation certificates***

The financial rules of Government require that where grants are given for specific purposes, certificates of utilisation are to be obtained by the departmental officers from the grantees and after verification, these should be forwarded to Accountant General (Accounts & Entitlement) within 18 months from the date of sanction of the grant unless specified otherwise.

Of 742 utilisation certificates due in respect of grants-in-aid of Rs.379.62 crore paid during 1986-87 to 2002-03, only 177 utilisation certificates for Rs.58.14 crore were furnished to the Accountant General by 31 March 2004 and 565 certificates for Rs.321.48 crore were in arrears. Department-wise and year-wise break up is given in **Appendix 1.2**.



### **Submission of accounts by Autonomous Bodies**

The status of submission of accounts by the autonomous bodies and presentation of Audit Reports thereon to the State Legislature as of November 2004 is given in **Appendix 1.3**.

### **Audit arrangements**

Accounts of 103 bodies/authorities for the year 2002-03 attracted audit by Comptroller and Auditor General of India. Of these, 46 bodies/authorities were audited during 2003-04 (September 2004).

Five hundred and nine annual accounts of 168 bodies/authorities for 2002-03 and earlier years had not been received as of November 2004 by the Principal Accountant General (C&CA). The details are given in **Appendix 1.4**. Of these bodies/authorities, 143 accounts pertaining to 33 bodies/authorities did not submit their accounts for five years or more.

#### **1.7.2 Misappropriations, defalcations, etc.**

The position of cases of misappropriation, embezzlement, *etc.*, reported to Audit, disposed of during 2003-04 and outstanding as of March 2004 was as under:

	Number of cases	Amount (Rupees in lakh)
Cases reported between 1960-61 and 2002-03 and outstanding as on 1 April 2003	225	977.26
Cases reported during 2003-04	02	0.91
<b>Total</b>	<b>227</b>	<b>978.17</b>
Cases disposed of during 2003-04	07	4.28
<b>Cases outstanding as on 31 March 2004</b>	<b>220</b>	<b>973.89</b>

Department-wise details are given in **Appendix 1.5**.

## **1.8 Assets & Liabilities**

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings, *etc.*, owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. **Statement-I** presents an abstract of such liabilities and the assets as on 31 March 2004 compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from GOI, receipts in the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government. The liabilities of Government depicted in the Finance Accounts, however, do not include pension, other retirement benefits



payable to retiring/retired State employees, guarantees/ letters of comforts issued by the State Government and borrowing through special purpose vehicles (termed 'off-budget borrowings'). Statement-I shows that while liabilities grew by 11 *per cent*, the assets increased by 14 *per cent*. However, a part of liabilities were without any asset backup. Statement-IV depicts the time series data on State Government finances for the period 1999-2004.

### 1.8.1 Incomplete projects

There were 70 incomplete projects/works as of 31 March 2004 in which Rs.9.76 crore were locked up. The initial cost of these projects/works was estimated at Rs.19.67 crore and the revised cost in respect of 68 works was not available. The details of these works are available in the additional statement of Finance Accounts for 2003-04.

### 1.8.2 Investments and Returns

Statement 14 of Finance accounts shows that as on 31 March 2004, Government had invested Rs.7,984.19 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Return on this investment was meagre and ranged between 0.2 to 0.4 *per cent* of investment during 1999-2004 as indicated in Table 17 below:

**Table 17: Return on Investment**

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Weighted interest rate on Government borrowing – Market Loans ( <i>per cent</i> )
1999-2000	3,565.73	12.0	0.3	9.8
2000-01	4,215.27	8.9	0.2	9.8
2001-02	4,840.34	10.6	0.2	9.1
2002-03	6,150.37	21.3	0.4	9.4
2003-04	7,984.19	18.0	0.2	9.4

During the year, the State Government invested Rs.1,835.48 crore in Government companies (Rs.1,831.64<sup>⊕</sup> crore) and cooperative institutions (Rs.2.18 crore). The investment of Rs.1,831.64 crore made in Government companies included amounts relating to discharge of liabilities (principal as well as interest) in respect of 11 companies (Rs.587.02 crore) towards off-budget borrowings. These were exhibited in the Finance Accounts (Statement No.13) as capital expenditure/investments, inflating capital expenditure to that extent.

<sup>⊕</sup> Difference of Rs.166.00 lakh released by Government, to the Karnataka State Police Housing Corporation for capital works during 1989-90 had been shown as investment in the company and is now rectified

### 1.8.3 Loans and Advances by State Government

In addition to investment, Government has also been providing loans and advances to Government Companies/Corporations, etc. Total outstanding balance of the loans advanced was Rs.5,202.95 crore as on 31 March 2004 (Table 18). Interest received against these advances increased from 0.5 per cent in 2002-03 to 1.9 per cent in 2003-04.

**Table 18: Average Interest Received on Loans Advanced by the State Government**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	3,494.74	3,666.62	4,076.69	4,556.46	4,256.04
Amount advanced during the year	316.59	511.30	514.47	627.58	1,011.20
Amount repaid during the year	144.71	101.23	34.70	928.00	64.29
<b>Closing Balance</b>	<b>3,666.62</b>	<b>4,076.69</b>	<b>4,556.46</b>	<b>4,256.04</b>	<b>5,202.95</b>
Net Addition (+) / Reduction (-)	171.88	410.07	479.77	(-) 300.42	946.91
Interest Received ( Rupees in crore)	271.07	129.42	112.11	19.98	96.27
Interest received as <i>per cent</i> to outstanding loans and advances	7.4	3.2	2.5	0.5	1.9
Weighted interest	9.8	9.8	9.1	9.4	9.4
Difference between weighted interest and interest received	2.4	6.6	6.6	8.9	7.5

The outstanding loans and advances increased by Rs.946.91 crore from Rs.4,256.04 crore in 2002-03 to Rs.5,202.95 crore in 2003-04 which constituted increase of 22 per cent. Loans advanced during 2003-04 grew by 61 per cent over the previous year mainly on account of discharge of the liability of Karnataka Power Transmission Corporation Limited (KPTCL) of Rs.550.95 crore by the Government. Outstanding loans increased by 42 per cent over the five years period ending March 2004 indicating that these agencies were relying more on borrowing from the Government rather than raising their own resources for meeting their financial requirements. At the end of 2003-04 recovery of Rs.1,637.93 crore (Principal: Rs.675.05 crore; Interest: Rs.962.88 crore) was in arrears as detailed in Statement 5(ii) of Finance Accounts.

### 1.8.4 Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from RBI has been put in place. The operative limits of normal and special ways and means advances for the year 2003-04 were as detailed in table 19 given below:



Table 19

(Rupees in crore)

Limits of Normal Ways and Means Advances		Limits of Special Ways and Means Advances	
Effective date	Amount	Effective date	Amount
2003-04 (With effect from 3 March 2003)	460.00	01-04-2003	23.47
		30-05-2003	211.31
		01-07-2003	211.32
		29-08-2003	23.49
		12-09-2003	117.41
		01-10-2003	117.21
		12-12-2003	23.29
		01-01-2004	22.89

During the year, the State used this mechanism for 163 days as against 170 days in the last year although it also borrowed Rs.2,778.90 crore from the market on seven occasions. Resorting to overdraft over and above the WMA limits is all the more not desirable. The State used over draft facilities on 33 occasions during the year as against only one occasion during the previous year.

**Table 20: Ways and Means Advances and Overdrafts of the State and Interest paid thereon**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Ways and Means Advances</b>					
Availed in the Year	79.93	-	735.88	4,045.45	4,623.92
Outstanding	-	-	-	-	--
Interest Paid	0.02	-	0.91	5.22	7.94
No. of days availed	04	-	40	170	163
<b>Overdraft</b>					
Availed in the Year	-	-	-	47.84	757.72
Outstanding	-	-	-	-	--
Interest Paid	-	-	-	0.01	0.90
Number of Days State was in Overdraft	-	-	-	1	33

### 1.8.5 Fiscal Liabilities

Statement 4 read with Statements 16 and 17 of Finance Accounts shows the year end balances under debt, deposit, and remittances from which the liabilities are worked out. There are two sets of liabilities namely, Public Debt and Other Liabilities. The public debt constitutes internal debt of the State and is reported in the Annual Financial Statements under the consolidated fund – Capital account. It includes market loans, special securities issued to RBI and loans and advances from Central Government. The other liabilities which are shown are part of the Public Account include deposits under Small Savings Scheme, Provident Funds, and other Deposits.

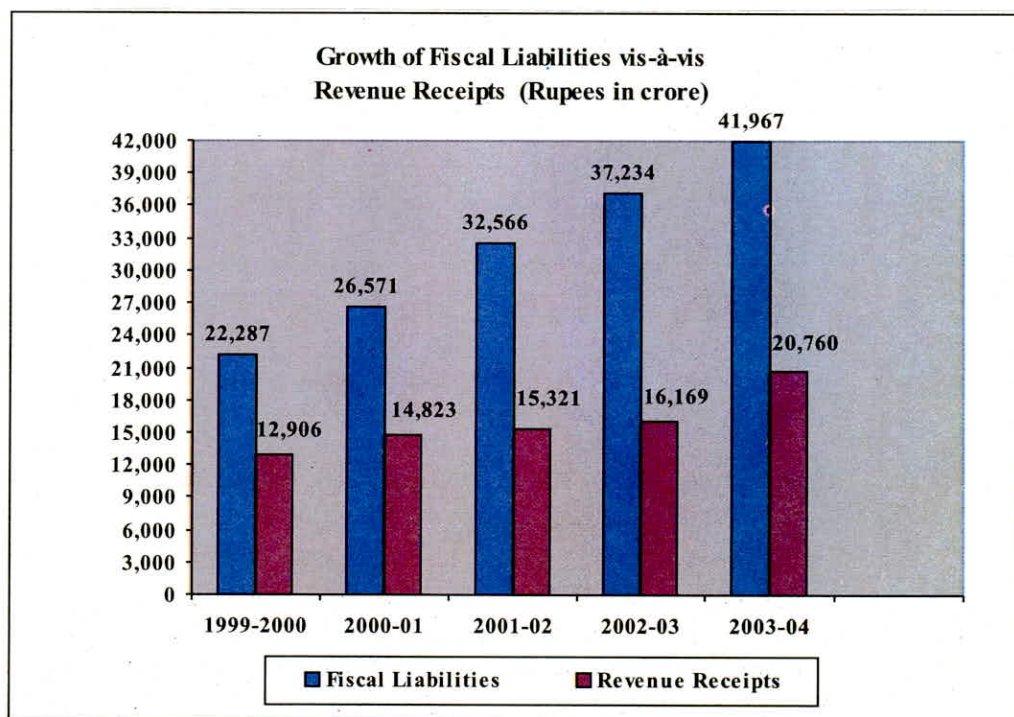
The Constitution of India provides that State may borrow within the territory of India upon the security of its consolidated fund, within such limits, as may from time to time, be fixed by an Act of Legislature and give guarantees within such limits as may be fixed.

The Karnataka Fiscal Responsibility Act, 2002, which came into force from 1 April 2003, *inter alia*, aims to reduce the ratio of debt to GSDP to not more than 25 per cent by March 2015.

Table 21 and the graph below show the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources.

**Table 21: Fiscal Liabilities –Basic Parameters**

	(Amount Rupees in crore and Ratios in per cent)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	22,287	26,571	32,566	37,234	41,967
Rate of growth	19.7	19.2	22.6	14.3	12.7
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	23.5	25.4	30.8	32.7	32.1
Revenue Receipts	172.7	179.3	212.6	230.3	202.1
Own Resources	238.2	248.3	297.5	317.7	270.3
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP	2.4	1.9	20.2	1.8	0.9
Revenue Receipts	1.3	1.3	6.7	2.6	0.4
Own Resources	1.8	1.3	9.9	2.0	0.4



It would be observed that fiscal liabilities of the State increased from Rs.22,287 crore in 1999-2000 to Rs.41,967 crore in 2003-04. Their ratio to GSDP increased from 23 per cent in 1999-2000 to 32 per cent in 2003-04.

Increasing liabilities raises the issue of their sustainability. Fiscal Liabilities are considered sustainable if the average rate of interest paid on these is lower than the rate of growth of GSDP. In case of Karnataka the years 2001-02 and



2002-03 showed the rate of interest exceeding the GSDP growth. GSDP growth-interest rate differential turned positive in 2003-04 as detailed in Table 22 below:

**Table 22: Debt Sustainability – Interest Rate and GSDP Growth**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted interest rate	9.8	9.8	9.1	9.4	9.4
GSDP growth (in per cent)	8.1	10.0	1.1	7.8	14.7
Interest spread	(-) 1.7	0.2	(-) 8.0	(-) 1.6	5.3

### 1.8.6 Net availability of borrowed Funds

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of earlier contracted liabilities and interest. Table 23 below gives the position of the receipt and repayment of internal debt and loans and advances from Government of India after providing for the interest and repayments.

**Table 23: Net availability of borrowed Funds**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Internal Debt</b> (excluding Ways & Means Advances and Overdraft)					
Receipts	2,244.92	2,295.58	2,969.48	3,888.52	6,531.33
Repayment (Principal + interest)	648.08*	859.35	1,193.45*	1,618.53*	2,523.27*
Net Fund Available	1,596.84	1,436.23	1,776.03	2,269.99	4,008.06
Net Fund Available (Per cent)	71	63	60	58	61
<b>Loans and Advances from Government of India</b> (excluding Ways & Means Advance)					
Receipt	927.72	1,075.65	2,176.88	1,544.22	1,457.00
Repayment (Principal + Interest)	1,498.62	1,652.09	1,799.41	2,932.84	4,196.92*
Net Fund Available	(-) 570.90	(-) 576.44	377.47	(-) 1,388.62	(-) 2,739.92
Net Fund Available (Per cent)	-	-	17	-	-
<b>Total Public Debt</b>					
Receipt	3,172.64	3,371.23	5,146.36	5,432.74	7,988.33
Repayment (Principal + Interest)	2,146.70	2,511.44	2,992.86	4,551.37	6,720.19
Net Fund Available	1,025.94	859.79	2,153.50	881.37	1,268.14
Net Fund Available (Per cent)	32	26	42	16	16

\* includes interest paid on Ways and Means Advances/Overdrafts availed from RBI amounting to Rs. two lakh, Rs. 18 lakh, Rs. 4.14 crore and Rs. 8.85 crore during 1999-2000, 2001-02, 2002-03 and 2003-04 respectively.

\* includes Rs. 24.14 crore of interest paid on Ways & Means Advances availed from GOI.

### 1.8.7 Off-budget Borrowings

In addition to the liabilities shown in Table 21 (below paragraph 1.8.5), Government had guaranteed loans availed of by Government companies/corporations which at the end of 2003-04 stood at Rs. 9,687 crore. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government projected that funds for these programmes would be met out of resources of the companies/corporations outside the State budget, in reality, the borrowings of many of these concerns were ultimately the committed liabilities of the State Government termed 'off-budget borrowings'.



During 2003-04, the projected size of the State plan was Rs.9,780 crore, of which Rs.7,025 crore were met by resources from the State budget and the balance of Rs.2,755 crore was to be met from the resources of certain companies/corporations. In fact the volume of off-budget borrowing was only Rs.1,297 crore as detailed in the table below:

(Rupees in crore)

Company/Corporation	Borrowings up to 2002-03	Borrowings during 2003-04	Total	Repayment of principal
Krishna Bhagya Jala Nigam	5,703	346	6,049	696
Karnataka Neeravari Nigam	1,157	240	1,397	12
Karnataka Road Development Corporation	300	107	407	39
Karnataka State Industrial and Investment Development Corporation	37	89	126	21
Slum Clearance Board	109	74	183	16
Rajiv Gandhi Rural Housing Corporation	422	353	775	201
Karnataka State Electronics Development Corporation Limited (Mahithi Bonds)	60	-	60	-
Karnataka Residential Education Institution Society	76	20	96	5
Karnataka Police Housing Corporation	192	68	260	83
Karnataka Land Army Corporation	140	-	140	-
Karnataka Renewable Energy Development Limited	194	-	194	-
<b>Total</b>	<b>8,390</b>	<b>1,297</b>	<b>9,687</b>	<b>1,073</b>

Taking into account these off-budget borrowings of the State the total liabilities at the end of March 2004 work out to Rs.50,581 crore as against Rs.41,967 crore reflected in Table 21. In view of this, the ratio of fiscal liabilities to GSDP would increase to 39 *per cent* during the year.

### 1.8.8 Guarantees given by the State Government

The Karnataka Ceiling on Government Guarantees Act, 1999, provides for cap on outstanding guarantees at the end of any year to 80 *per cent* of the State's revenue receipts of the previous year excluding guarantees given to Krishna Bhagya Jala Nigam Limited (KBJNL). As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the Government was Rs.21,225 crore and outstanding guarantees at the end of 2003-04 amounted to Rs.14,179 crore. The amount of outstanding guarantees increased by 44 *per cent* during 1999-2004. The outstanding guarantees at the end of 2003-04 excluding those given to KBJNL constituted 55 *per cent* of the revenue receipts for the year 2002-03.

## 1.9 Management of Deficits

### 1.9.1 Fiscal Imbalances

The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied, are important pointers to the fiscal health.

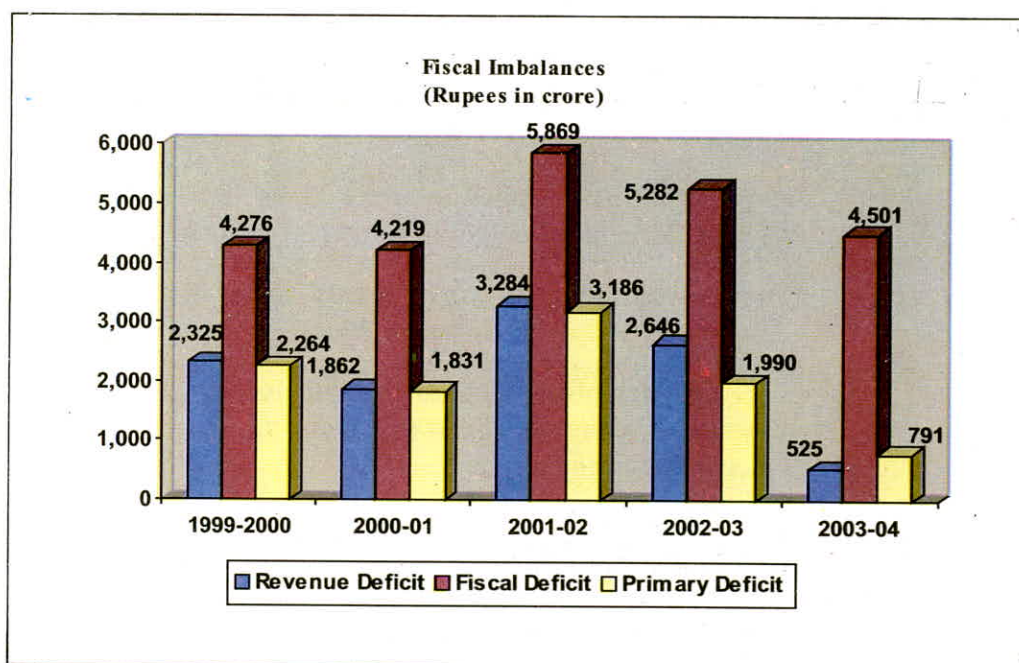


The revenue deficit (Statement 1 of Finance Accounts) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs.2,325 crore in 1999-2000 to Rs.525 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs.4,276 crore in 1999-2000 to Rs.4,501 crore in 2003-04. State also had a primary deficit which decreased from Rs.2,264 crore in 1999-2000 to Rs.791 crore in 2003-04 as indicated in Table 24 and also through graphic representation.

**Table 24: Fiscal Imbalances – Basic Parameters**

(Amount Rupees in crore and Ratios in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit (RD)	2,325	1,862	3,284	2,646	525
Fiscal deficit (FD)	4,276	4,219	5,869	5,282	4,501
Primary Deficit (PD)	2,264	1,831	3,186	1,990	791
RD/GSDP	2.4	1.8	3.1	2.3	0.4
FD/GSDP	4.5	4.0	5.5	4.6	3.4
PD/GSDP	2.4	1.8	3.0	1.7	0.6
RD/FD	54.4	44.1	56.0	50.1	11.7



### 1.9.2 Medium Term Fiscal Reforms Programme

The Eleventh Finance Commission (EFC) in its report (August 2000) laid down broad parameters of fiscal correction in the State Sector. Each State was required to draw up the Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit. The MTFRP should form the basis of a Memorandum of Understanding (MOU) entered into between the State and the Ministry of Finance. Further, the EFC recommended an incentive fund from which grants were to be released to States based on their fiscal performance. On the basis of the recommendations of the EFC, the GOI created Fiscal Reforms Facility (2000-01 to 2004-05) to motivate the States to undertake MTFRP. Releases from the incentive fund will be based on a single

monitorable fiscal objective. Each State would be expected to achieve a minimum improvement of five *per cent* in the revenue deficit as a proportion of its revenue receipts each year till 2004-05, the base-year being the financial year 1999-2000.

The State Government formulated its Medium Term Fiscal Term Plan and entered into MOU with GOI in October 2001. The performance of the State with regard to the achievement of the fiscal objective is given in the table below.

**Table 25 - MTFRP – Performance of the State**

	(Ratios in <i>per cent</i> )				
	1999-2000 (base-year)	2000-01	2001-02	2002-03	2003-04
Revenue Deficit/Revenue Receipts	18.0	12.6	21.4	16.4	2.5
Improvement over previous year	-	5.4	(-)8.9	5.1	13.8

The State received incentive grant of Rs.217.23 crore for the years 2000-01 (Rs.32.29 crore), 2001-02 (Rs.56.17 crore), 2002-03 (Rs.60.80 crore) and 2003-04 (Rs.67.97 crore). The State was unable to reduce the revenue deficit for the year 2001-02. Nevertheless, it adhered to the agreed reforms programme and as envisaged in the supplemental report of the EFC, got entitled to the incentive grant of Rs.56.17 crore for the year.

The Government managed to bring down the revenue deficit for the year 2003-04 at least to the extent of Rs.981.21 crore by

- not providing Rs.600 crore towards waiver of electricity dues on irrigation pump sets ordered in February 2004.
- non-transfer of grants amounting to Rs.381.21 crore received from GOI towards Calamity Relief Fund from the Revenue Account to the Public Account during the year.

## 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 26 below presents a summarised position of Government Finances over a period 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their application, highlight areas of concern and capture its important facets. The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of its resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation.

The ratio of developmental expenditure to total expenditure declined in 2003-04 as compared to 1999-2003. A near stagnant ratio indicates a tendency to meet deficits by borrowing instead of improving tax compliance and



coverage. Revenue buoyancy was healthy during 2003-04 while the ratio of own tax to GSDP increased marginally over the previous year.

**Table 26: Ratios of Fiscal Efficiency**

(in per cent)

<b>Fiscal Ratios</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
<b>Resources Mobilisation</b>					
Revenue Receipts (RR)/GSDP	13.6	14.2	14.5	14.2	15.9
Revenue Buoyancy	1.8	1.5	3.0	0.7	1.9
Own Tax/GSDP	8.1	8.6	9.3	9.2	9.6
<b>Expenditure Management</b>					
Total Expenditure/GSDP	18.2	18.3	20.1	19.6	19.4
Revenue Receipts/ Total Expenditure	74.5	77.4	72.2	72.2	82.0
RE/Total Expenditure	87.9	87.2	87.7	84.1	84.0
Capital Expenditure (CE)	10.5	10.5	10.2	13.5	12.5
Development Expenditure/Total Expenditure (RE+CE)	65.9	66.7	67.0	64.3	59.7
Buoyancy of TE with RR	1.3	0.7	3.2	1.0	0.5
Buoyancy of RE with RR	1.5	0.6	3.4	0.2	0.5
<b>Management of Fiscal Imbalances</b>					
Revenue deficit (Rs. in crore)	2,325	1,862	3,284	2,646	525
Fiscal deficit (Rs. in crore)	4,276	4,219	5,869	5,282	4,501
Primary Deficit (Rs. in crore)	2,264	1,831	3,186	1,990	791
Revenue Deficit/Fiscal Deficit	54.4	44.1	56.0	50.1	11.7
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities (FL)/GSDP	23.5	25.4	30.8	32.7	32.1
Fiscal Liabilities/RR	172.7	179.3	212.6	230.3	202.1
Buoyancy of FL with RR	1.3	1.3	6.7	2.6	0.4
Buoyancy of FL with own resources	1.8	1.3	9.9	2.0	0.4
Interest Spread	(-) 1.7	0.2	(-) 8.0	(-) 1.6	5.3
Net Fund Available	32	26	42	16	16
<b>Other Fiscal Health Indicators</b>					
Return on Investment (Rs. in crore)	12.0	8.9	10.6	21.3	18.0
BCR (Rs. in crore)	(-) 601	319	(-) 879	(-) 645	1,571
Financial Assets/Liabilities	0.8	0.8	0.7	0.7	0.7

### **1.11 Conclusion**

The BCR was positive during 2003-04 indicating availability of resources from current revenue for meeting plan expenditure. Revenue and fiscal deficits declined during the year mainly on account of a healthy growth in revenue receipts. However, the State Government managed to bring down the revenue deficit to the extent of Rs.981.21 crore by non-discharge of liability (Rs.600 crore) towards waiver of electricity dues ordered in February 2004 and non-transfer of grants (Rs.381.21 crore). Interest payments increased by Rs.418 crore during the year. Continued revenue and fiscal deficits year after year, together with low or no return on investments indicates that the State is gradually getting into a debt trap. The State's continuous low return on investments also indicates implicit subsidy and use of high cost borrowings for investments, which yield very little. The State Government tried to circumvent its budget constraints by borrowings through special purpose vehicles. The ratio of fiscal liabilities to GSDP crossed 30 *per cent* during the year which would increase further to 39 *per cent* taking into account the off-budget borrowings. Measures like generation of additional internal resources through tax and non-tax revenue, realisation of arrears of revenue and curtailment of non-developmental expenditure through abolition of subsidies, *etc.*, are the best means available for the State to ensure fiscal stability and sustainability.



**STATEMENT-I**  
**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF**  
**KARNATAKA AS ON 31 MARCH 2004**

(Rupees in crore)

As on 31.3.2003	Liabilities		As on 31.3.2004
14,082.40	<b>Internal Debt</b>		19,833.32
	7,047.32	Market Loans bearing interest	9,644.88
	3.19	Market Loans not bearing interest	8.48
	660.39	Loans from Life Insurance Corporation of India	782.45
	935.20	Loans from other Institutions	1,228.16
	5,436.30	Loans from RBI – Spl. Securities issued to National Small Savings fund of the Central Government.	8,169.35
12,086.91	<b>Loans and Advances from Central Government -</b>		10,882.90
	124.34	Pre 1984-85 Loans	87.10
	3,349.69	Non-Plan Loans	1,134.05
	8,417.27	Loans for State Plan Schemes	9,465.57
	51.50	Loans for Central Plan Schemes	47.69
	144.11	Loans for Centrally Sponsored Plan Schemes	148.49
80.00	<b>Contingency Fund</b>		39.48
5,325.27	<b>Small Savings, Provident Funds, etc.</b>		5,884.29
4,031.29	<b>Deposits</b>		3,384.12
1,729.19	<b>Reserve Funds</b>		2,003.47
1,144.70	<b>Suspense and Miscellaneous balances</b>		829.23
	<b>Shortfall with Reserve Bank Deposit</b>		--
8.20	<b>Remittances in transit <sup>◇</sup></b>		1.72
38,487.96	<b>Total</b>		42,858.53*
	<b>Assets</b>		
22,434.83	<b>Gross Capital Outlay on Fixed Assets -</b>		25,464.22
	6,149.01	Investments in shares of Companies, Corporations, etc.	7,982.83
	16,285.82	Other Capital Outlay	17,481.39
4,256.03	<b>Loans and Advances -</b>		5,202.95
	504.61	Loans for Power Projects	1,091.41
	3,661.51	Other Development Loans	4,015.13
	89.91	Loans to Government servants and Miscellaneous Loans	96.41
8.81	<b>Other Advances</b>		9.62
29.93	<b>Remittance balances</b>		144.24
490.86	<b>Cash -</b>		337.20
	3.76	Cash in treasuries	1.40
	3.06	Departmental Cash Balance including permanent Advances	5.04
	74.99	Deposits with Reserve Bank of India	13.22
	387.62	Cash Balance Investments	296.11
	21.43	Investment from earmarked funds	21.43
11,267.50	<b>Deficit on Government Accounts</b>		11,700.30
	8,697.16	Accumulated Deficit up to March 2003	11,267.50
	2,645.74	Add Revenue Deficit of the current year	524.83
	75.40	Deduct Other adjustments	92.03
38,487.96	<b>Total</b>		42,858.53

◇ This reflects an adjusting entry on account of remittances between Treasuries and Currency chest remaining unadjusted as on 31 March 2004

\* The liabilities shown above do not include off-budget borrowings and guarantees extended by the Government which are discussed separately in paragraphs 1.8.7 and 1.8.8

## STATEMENT-II

### ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-2004

(Rupees in crore)

Receipts		2003-2004	2002-2003	Disbursements		Non-plan	Plan	Total	2003-2004
2002-2003									
<b>Section-A: Revenue</b>									
16168.76	I. Revenue receipts	20759.88	18814.50	I. Revenue expenditure-					21284.71
10439.71	(i) -Tax revenue	12570.21	7112.12	General services	9035.56	3.57	9039.13		
				Social Services-					
1277.67	(ii) -Non-tax revenue	2958.37	3564.01	-Education, Sports, Art and Culture	3163.57	602.45	3766.02		
			953.65	-Health and Family Welfare	629.04	329.89	958.93		
2786.20	(iii) -State's share of Union Taxes & Duties	3244.73	576.04	-Water Supply, Sanitation, Housing and Urban Development	79.83	714.39	794.22		
			19.26	-Information and Broadcasting	20.77	1.97	22.74		
420.55	(iv) -Non-Plan grants	529.85	491.05	-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	166.62	240.98	407.60		
			64.22	-Labour and Labour Welfare	41.11	22.99	64.10		
570.17	(v) -Grants for State Plan Schemes	795.58	625.01	-Social Welfare and Nutrition	662.76	263.82	926.58		
			33.01	-Others	24.85	--	24.85		
674.46	(vi) -Grants for Central and Centrally sponsored Plan Schemes	661.14	6326.25	<b>Total</b>	<b>4788.55</b>	<b>2176.49</b>	<b>6965.04</b>		
				Economic Services-					
			1077.10	-Agriculture and Allied Activities	898.53	450.39	1348.92		
			522.55	-Rural Development	99.78	355.29	455.07		
			46.84	-Special Areas Programmes	0.15	19.37	19.52		
			206.73	-Irrigation and Flood Control	128.26	50.80	179.06		
			1906.92	-Energy	1676.99	56.06	1733.05		
			314.98	-Industry and Minerals	137.94	92.62	230.56		
			395.79	-Transport	263.93	47.50	311.43		
			7.80	-Science, Technology and Environment	0.01	12.30	12.31		
			323.71	-General Economic Services	73.45	288.33	361.78		
			4802.42	<b>Total</b>	<b>3279.04</b>	<b>1372.66</b>	<b>4651.70</b>		
			573.71	-Grants-in-aid and Contributions	628.84	--	628.84		
2645.74	II. Revenue deficit carried over to Section B	524.83							
18814.50	<b>Total</b>	<b>21284.71</b>	<b>18814.50</b>	<b>Total</b>	<b>17731.99</b>	<b>3552.72</b>	<b>--</b>	<b>21284.71</b>	
<b>Section-B - Others</b>									
964.71	III Opening Cash balance including Permanent Advances and Cash Balance Investments & investments from earmarked funds.	482.66							
Nil	IV Miscellaneous Capital receipts	Nil	2936.00	II Capital Outlay-	99.24	2930.15		3029.39*	
			75.85	General Services-	12.50	115.93	128.43		
				Social Services-					
			6.71	-Education, Sports, Art and Culture	0.23	5.08	5.31		
			50.47	-Health and Family Welfare	--	36.77	36.77		
			167.32	-Water Supply, Sanitation, Housing and Urban Development	4.34	284.47	288.81		
			1.01	-Information and Broadcasting	--	1.11	1.11		
			55.10	-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	88.35	88.35		



Receipts			Disbursements					
			13.62	-Social Welfare and Nutrition	--	6.82	6.82	
			1.07	-Other Social Services	--	0.04	0.04	
			295.30	<b>Total</b>	4.57	422.64	427.21	
				<b>Economic Services-</b>				
			22.95	-Agriculture and Allied Activities	--	7.45	7.45	
			0.10	-Rural Development	0.18	--	0.18	
			2028.46	-Irrigation and Flood Control	82.02	1799.44	1881.46	
			16.08	-Industry and Minerals	--	3.52	3.52	
			423.08	-Transport	--	510.21	510.21	
			74.18	-General Economic Services	(-)0.03	70.96	70.93	
			2564.85	<b>Total</b>	82.17	2391.58	2473.75	
928.00	V. Recoveries of Loans and Advances-	64.29	627.58	III Loans and Advances disbursed-				1011.20
878.35	-From Power Projects	--	47.23	-For Power Projects			586.80	
10.19	-From Government Servants	8.41	3.67	-To Government Servants			1.52	
39.46	-From others	55.88	576.68	-To Others			422.88	
			2645.74	IV Revenue deficit brought down				524.83
5432.74	VI Public debt receipts-	7988.33*	1695.95	V Repayment of Public Debt-				3441.43
3888.52	-Internal debt other than Ways and Means Advances and Overdraft	6531.33	286.76	-Internal debt other than Ways and Means Advances & Overdraft			780.42	
1544.22	-Loans and Advances from the Central Government	1457.00	1409.19	-Repayment of Loans and Advances to Central Government			2661.01	
7.89	VII Contingency Fund (recoupment)	--		VI Expenditure from Contingency Fund	8.23	32.29		40.52
27879.38	VIII Public Account Receipts-	30512.84	26824.79	VII Public Account Disbursements-				30665.27
1398.96	-Small Savings and Provident funds, etc.	1421.73	772.22	-Small Savings and Provident Funds etc.			862.71	
338.39	-Reserve funds	395.65	177.25	-Reserve Funds			121.37	
10605.99	-Suspense and Miscellaneous	11308.39	10496.28	-Suspense and Miscellaneous			11531.83	
2107.79	-Remittances	2700.70	2100.96	-Remittances			2815.01	
13428.25	-Deposits and Advances	14686.37	13278.08	-Deposits and Advances			15334.35	
			482.66	VIII Cash Balance at end-				335.48
			(-) 4.44	-Cash in Treasuries and Local Remittances			(-)0.32	
			74.99	-Deposits with Reserve Bank			13.22	
			3.06	-Departmental Cash Balance including Permanent Advances			5.04	
			387.62	-Cash Balance Investment			296.11	
			21.43	-Investment from earmarked funds			21.43	
35212.72	<b>Total</b>	39048.12	35212.72	<b>Total</b>				39048.12

© Includes expenditure of Rs.587 crore towards debt servicing obligations in respect of off-budget borrowings

◆ During the year, the State Government availed of Rs.5,381.64 crore of ways and means advances and overdraft from Reserve Bank of India and the entire amount was repaid during the year. Also, State Government availed of Rs.500 crore as ways and means advances from Government of India. The entire amount was also repaid during the same year.

### STATEMENT III SOURCES AND APPLICATIONS OF FUNDS

(Rupees in crore)

2002-2003		Sources		2003-2004
16,168.76		1. Revenue receipts		20,759.88
928.00		2. Recoveries of Loans and Advances		64.29
3,736.79		3. Increase in Public debt		4,546.90
1,054.59		4. Net receipts from Public account		(-)152.43
	626.74	Increase in Small Savings, PF, etc	559.02	
	150.17	Increase in Deposits and Advances	(-)647.98	
	161.14	Increase in Reserve funds	274.28	
	109.71	Net effect of Suspense and Miscellaneous transactions	(-)223.44	
	6.83	Net effect of Remittance transaction	(-)114.31	
482.05		5. Closing cash balance (Decrease)		147.18
22,370.19		Total		25,365.82
		Applications		
18,814.50		1. Revenue expenditure		21,284.71
627.58		2. Lending for development and other purposes		1,011.20
2,936.00		3. Capital expenditure (Net)		3,029.39
(-) 7.89		4. Net effect of Contingency fund transaction		40.52
22,370.19		Total		25,365.82

#### Explanatory Notes for Statement I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Statement I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and others pending settlement, etc.
4. There was a difference of Rs.1,520.07 lakh (credit) between the figures reflected in the accounts and that intimated by the RBI under "Deposit with Reserve Bank". A net difference of Rs.1,087.77 lakh (credit) had since been reconciled and adjusted. The remaining difference of Rs.432.30 lakh (credit) is under reconciliation.



### STATEMENT IV

#### TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1999-2000	2000-2001	2001-2002	2002-03	2003-04
<b>Part.A – Receipts</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
<b>1. Revenue Receipts</b>					
(i) Tax Revenue	7,744 (60)	9,043 (61)	9,853 (64)	10,440(65)	12,570 (61)
Taxes on Agricultural Income	35(-)	24 (-)	3 (-)	1 (-)	1 (-)
Taxes on Sales, Trade, etc.	4,683(60)	5,386 (60)	5,269 (53)	5,474 (52)	6,649 (53)
State Excise	1,215 (16)	1,523 (17)	1,977 (20)	2,094 (20)	2,334 (19)
Taxes on vehicles	449 (6)	502 (6)	712 (7)	676 (6)	800 (6)
Stamps and Registration fees	566 (7)	638 (7)	855 (9)	1,115 (11)	1,356 (11)
Land Revenue	39 (1)	43 (-)	50 (1)	60 (1)	68 (-)
Other Taxes	757 (10)	927 (10)	987 (10)	1,020 (10)	1,362 (11)
(ii) Non Tax Revenue	1,611 (12)	1,660 (11)	1,094 (7)	1,278 (8)	2,958 (14)
(iii) State's share in Union taxes and duties	2,133 (17)	2,574 (17)	2,623 (17)	2,786 (17)	3,245 (15)
(iv) Grants in aid from Government of India	1,418 (11)	1,546 (11)	1,751 (12)	1,665 (10)	1,987 (10)
<b>2. Miscellaneous Capital Receipts (non debt)</b>	Nil	Nil	Nil	Nil	Nil
<b>3. Total revenue &amp; Non debt capital receipts (1+2)</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
<b>4. Recoveries of Loans and Advances</b>	145	101	35	928	64
<b>5. Public Debt Receipts</b>	3,173	3,371	5,146	5,433	7,988
Internal Debt (excluding Ways & Means Advances and Overdrafts)	2,245 (71)	2,295 (68)	2,969 (58)	3,889 (72)	6,531 (82)
Loans & Advances from Government of India *	928 (29)	1,076 (32)	2,177 (42)	1,544 (28)	1,457 (18)
<b>6. Total receipts in the Consolidated Fund (3+4+5)</b>	<b>16,224</b>	<b>18,295</b>	<b>20,502</b>	<b>22,530</b>	<b>28,812</b>
<b>7. Contingency Fund Receipts</b>	27	15	54	8	--
<b>8. Public Account Receipts</b>	21,662	24,797	28,502	27,879	30,513
<b>9. Total receipts of the State (6+7+8)</b>	<b>37,913</b>	<b>43,107</b>	<b>49,058</b>	<b>50,417</b>	<b>59,325</b>
<b>PART B. EXPENDITURE/DISBURSEMENT</b>					
<b>10. Revenue expenditure</b>	<b>15,231</b>	<b>16,685</b>	<b>18,605</b>	<b>18,815</b>	<b>21,285</b>
Plan	2,992 (20)	3,481 (21)	3,943 (21)	3,245 (17)	3,553 (17)
Non Plan	12,239 (80)	13,204 (79)	14,662 (79)	15,570 (83)	17,732 (83)
General Services (incl. Interest Payments)	5,333 (35)	5,634 (34)	6,215 (33)	7,112 (38)	9,039 (42)
Social Services	5,479 (36)	6,132 (37)	6,429 (35)	6,326 (34)	6,965 (33)
Economic Services	4,004 (26)	4,388 (26)	5,397 (29)	4,803 (25)	4,652 (22)
Grants-in-aid and Contributions	415 (3)	531 (3)	564 (3)	574 (3)	629 (3)
<b>11. Capital Expenditure</b>	<b>1,779</b>	<b>1,947</b>	<b>2,106</b>	<b>2,936</b>	<b>3,029</b>
Plan	1,517 (85)	1,705 (88)	1,899 (90)	2,734 (93)	2,930 (97)
Non Plan	262 (15)	242 (12)	207 (10)	202 (7)	99 (3)
General Services	50 (3)	48 (3)	52 (2)	76 (3)	128 (4)
Social Services	377 (76)	299 (15)	212 (10)	295 (10)	427 (14)
Economic Services	1,352 (21)	1,600 (82)	1,842 (88)	2,565 (87)	2,474 (82)
<b>12. Disbursement of Loans and Advances</b>	<b>317</b>	<b>511</b>	<b>514</b>	<b>628</b>	<b>1,011</b>
<b>13. Total (10+11+12)</b>	<b>17,327</b>	<b>19,143</b>	<b>21,225</b>	<b>22,379</b>	<b>25,325</b>
<b>14. Repayments of Public Debt</b>	<b>491</b>	<b>521</b>	<b>712</b>	<b>1,696</b>	<b>3,441</b>
Internal Debt (excluding Ways & Means Advances and Overdrafts)	147 (30)	101 (19)	231 (32)	287 (17)	780 (23)
Net transactions under Ways & Means Advances and Overdraft	-	-	-	-	--
Loans and Advances from Government of India *	344 (70)	420 (81)	481 (68)	1,409 (83)	2,661 (77)

15. Appropriation to Contingency Fund	-	-	-	-	--
16. Total disbursement out of Consolidated Fund (13+14+15)	17,818	19,664	21,937	24,075	28,766
17. Contingency Fund disbursements	15	53	8	-	41
18. Public Account disbursements	20,044	23,260	27,107	26,825	30,665
19. Total disbursement by the State (16+17+18)	37,877	42,977	49,052	50,900	59,472
<b>PART C. DEFICITS</b>					
20. Revenue Deficit (1-10)	2,325	1,862	3,284	2,646	525
21. Fiscal Deficit (3+4-13)	4,276	4,219	5,869	5,282	4,501
22. Primary Deficit (21-23)	2,264	1,831	3,186	1,990	791
<b>PART D. OTHER DATA</b>					
23. Interest Payments (included in revenue expenditure)	2,012	2,388	2,683	3,292	3,710
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)	1,826 (20)	1,894 (18)	2,634 (24)	3,390 (29)	3,104 (20)
25. Financial Assistance to local bodies, etc.	5,847	6,451	7,429	7,635	7,780
26. Ways and Means Advances/Overdraft availed (days)	4	-	40	171	196
27. Interest on WMA/Overdraft	0.02	-	0.91	5.23	8.85
28. Gross State Domestic Product (GSDP)	94,972*	1,04,492*	1,05,658@	1,13,929Ⓢ	1,30,678Ⓢ
29. Outstanding Debt (year end)	22,287	26,571	32,566	37,234	41,967
30. Outstanding Guarantees (year end)	9,829	13,004	12,279	13,314	14,179
31. Maximum amount Guaranteed (year end)	13,334	16,425	20,823	20,973	21,225
32. Number of incomplete projects (as per material in Finance Accounts)	112	97	103	35	70
33. Capital blocked in incomplete projects	3,894	3,295	4,814	6,141	8,813*

Note: Figures in brackets represent percentages (rounded) to total of each sub-heading

\* - Excludes Ways and Means Advances from GOI

♣ - Figures revised by Government

@ - Provisional

Ⓢ - Quick estimates

Ⓢ - GSDP figures for 2003-2004 have been adopted as in overview of budget for 2003-04.

♦ - This includes Rs.7,157 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Limited, a Government Undertaking.





## CHAPTER – II

### ALLOCATIVE PRIORITIES AND APPROPRIATION

#### 2.1 Introduction

The Appropriation Accounts prepared annually indicate expenditure (capital and revenue) on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of budget.

Audit of appropriation by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorisation given under the Appropriation Act and the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

#### 2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2003-04 against 29 grants/appropriations was as follows:

(Rupees in crore)

	Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Saving (-)/ Excess (+)
Voted	Revenue	18,609.63	2,607.33	21,216.96	17,561.85	(-)3,655.11
	Capital	3,865.21	303.90	4,169.11	3,105.53	(-)1,063.58
	Loans & Advances	511.50	139.31	650.81	1,011.20	(+)360.39
<b>Total Voted</b>		<b>22,986.34</b>	<b>3,050.54</b>	<b>26,036.88</b>	<b>21,678.58</b>	<b>(-)4,358.30</b>
Charged	Revenue	3,712.74	31.38	3,744.12	3,851.87	(+)107.75
	Capital	0.36	--	0.36	0.24	(-)0.12
	Public Debt	2,392.45	4,931.67	7,324.12	9,323.06	(+)1,998.94
<b>Total Charged</b>		<b>6,105.55</b>	<b>4,963.05</b>	<b>11,068.60</b>	<b>13,175.17</b>	<b>(+)2,106.57</b>
<b>Grand Total</b>		<b>29,091.89</b>	<b>8,013.59</b>	<b>37,105.48</b>	<b>34,853.75*</b>	<b>(-)2,251.73</b>

\* The figures of actual expenditure are gross figures without adjusting recoveries as reduction of expenditure under revenue (Rs.129.01 crore) and capital (Rs.76.37 crore).

The overall savings of Rs. 2,251.73 crore mentioned above were the net result of savings of Rs.5,069.55 crore in 28 grants/appropriations partly offset by excess of Rs.2,817.82 crore in seven grants/appropriations. The savings/excesses (detailed Appropriation Accounts) were communicated to the Controlling Officers requiring them to explain the significant variations; explanations were not received (December 2004).



## 2.3 Fulfillment of Allocative Priorities

### 2.3.1 Appropriation by Allocative Priorities

Analysis of savings with reference to allocative priorities brought out the following:

#### Grant No.3 - Finance

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	2,859.77	4,455.72	3,564.77	890.95
Supplementary	1,595.95			

Savings occurred mainly under 2039 – State Excise-Salaries (Rs.5.09 crore), 2040 – Taxes on Sales, Trade, etc.,-Salaries (Rs.10.45 crore), 2047 – Other Fiscal Services – Subsidiary Expenses (Rs.10.93 crore), 2071 – Pensions and other Retirement benefits – CVP other payments (Rs.161.52 crore), Gratuities (Rs.158.51crore), Family Pension (Rs.69.14 crore), Adhoc Pensions - Ex-Patels (Rs.2.61 crore), 2075 – Miscellaneous General Services – Payment of Prize amount (Rs.244.55 crore), Advertising sales and publicity expenses-Scholarships and Incentives (Rs.278.25 crore), 2216 – Housing – Subsidies (Rs.3.59 crore). Reasons for the savings were not intimated.

#### Grant No.7 - Rural Development and Panchayat Raj

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	936.34	991.13	528.90	462.23
Supplementary	54.79			

Savings occurred mainly under 2515 – Other Rural Development Programmes-Other Expenses- PRIs (Rs.70.72 crore), ZPs- EFC Grants (Rs.71.07 crore), GIA ZP (Rs.10.63 crore), Maintenance Grants (Rs.4.63 crore), ZP Block Assistance (Rs.1.34 crore), Grants to GPs (Rs.58.39 crore), Development Grants – ZPs (Rs.23.27 crore), 2575 – Other Special Area Programmes – Other Expenses – Local Area Development Scheme (Rs.120 crore), 2702 – Minor Irrigation – Block Assistance (MI) (Rs.7.35 crore), 3054 – Roads and Bridges- Block Grant ZP (Rs.23.89 crore), Block Grant TP (Rs.1.12 crore). Reasons for the savings were not intimated.

#### Grant No.20 - Public Works

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	663.92	700.27	432.48	267.79
Supplementary	36.35			

Capital - Voted		Total Grant	Expenditure	Saving
Original	1,126.93	1,182.50	893.87	288.63
Supplementary	55.57			



Savings occurred mainly under 2059 – Public Works – Salaries (Rs.13.87 crore), Maintenance (Rs.33.33 crore), Materials and Supplies (Rs.2.66 crore), Stock debts (Rs.52.99 crore), MPWA Debts (Rs.9.69 crore), 2216 – Housing- Building Maintenance (Rs.3.22 crore), Materials and Supplies (Rs.1.98 crore), Pro-rata Establishment Charges (Rs.1.10 crore), 3054 – Roads and Bridges- Salaries (Rs.4.17 crore), Maintenance (Rs.49.65 crore), PM Gramodaya Sadak Yojana (Rs.105.05 crore), NABARD Works (Rs.11.25 crore), Inter Account Transfers (Rs.15.56 crore), 4059 – Capital Outlay on PW- Construction – Departmental Buildings (Rs.11.81 crore- due to release of funds at the fag end of the year), 4216 - Capital Outlay on Housing-construction - Residential Buildings (Rs.1.79 crore- due to non-receipt of administrative approval and non-processing of tenders), 5054 - Capital Outlay on Roads and Bridges - Roads (Rs.331.72 crore - due to change in drawings and delay in collection of equipments and mobilisation by contractors), Investment (Rs.6.53 crore), 7615 – Miscellaneous Loan- loans to PSUs and LBs (Rs.10 crore). Reasons for the savings were not intimated in other cases.

#### Grant No.21 - Water Resources

(Rupees in crore)

Capital - Voted		Total Grant	Expenditure	Saving
Original	2,179.10	2,368.93	1,889.94	478.99
Supplementary	189.83			

Savings occurred mainly under 4701 – Capital Outlay on Major & Medium Irrigation-Project Debts Stock (Rs.44.16 crore), MPWA (Rs.11.00 crore), Major Works (Rs.345.43 crore- due to non-finalisation of tenders and non-receipt of administrative approval), Distributaries- Capital Expenses (Rs.2.24 crore- due to non taking up of works on account of land problems), Debt Servicing (Rs.80.81 crore), 4702 - Capital Outlay on Minor Irrigation – Major Works (Rs.87.07 crore- works were not taken up due to technical problems and entrustment of works to KLAC), SCP (Rs.34.13 crore), TSP (Rs.8.60 crore), Works (Rs.4.42 crore), NABARD works (Rs.25.04 crore - for want of technical approval). Reasons for the savings were not intimated in other cases.

#### Grant No. 24 - Energy

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	2,145.71	2,547.54	1,913.02	634.52
Supplementary	401.83			

Savings occurred mainly under 2045 – Other Taxes and Duties on Commodities and Services – Rebate (Rs.1.54 crore), 2801 – Power-Subsidies (Rs.389.96 crore), Other Expenses (Rs.8.75 crore), General Expenses (Rs. five crore), GIA (Rs.50.40 crore), 3604 – Compensation and Assignments to Local Bodies and Panchayati Raj – Financial Assistance/Relief to ULBs (Rs.178.35 crore). Reasons for the savings were not intimated.

Further, scrutiny of surrender orders issued by Finance Department revealed that there were savings due to non-release of funds and non/short release of LOC in respect of six grants amounting to Rs.151.34 crore (**Appendix 2.1**).



**2.3.2 Excess requiring regularisation****Excess over provision relating to previous years requiring regularisation**

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. However, the excess expenditure amounting to Rs.2,194.68 crore for the years 1989-90 to 2002-03 was yet to be regularised (December 2004) (Appendix 2.2).

**Excess over provision during 2003-04 requiring regularisation**

The excess of Rs.2,817.82 crore under seven grants and appropriations during the year requires regularisation under Article 205 of the Constitution. Details are given below:

Serial number	Grant/appropriation	Total Grant/ appropriation	Actual expenditure	Excess
		Amount in Rupees		
Revenue - Voted				
1.	14 – Revenue	655,15,18,000	824,35,72,551	169,20,54,551
2.	16 - Housing	146,38,86,000	148,83,27,067	2,44,41,067
3.	27 – Law	141,76,19,000	151,37,26,612	9,61,07,612
Capital - Voted				
1.	24 - Energy	86,25,00,000	586,79,90,000	500,54,90,000
Revenue - Charged				
1.	8 – Forest, Ecology & Environment	14,02,69,000	102,10,13,627	88,07,44,627
2.	20 - Public Works	10,00,000	14,35,663	4,35,663
3.	29 – Debt Servicing	3661,17,34,000	3710,00,37,079	48,83,03,079
Capital - Charged				
1.	20 - Public Works	11,00,000	23,84,119	12,84,119
2.	29 – Debt Servicing	7324,12,44,000	9323,06,26,557	1998,93,82,557
	Total	12,029,08,70,000	14,84,691,13,275	2817,82.43,275

The main reasons for the excess expenditure were;

- Grant No.24 – Outstanding liability of KPTCL (Rs.550.95 crore) taken over and paid by Government.
- Grant No.8 – Transfer of more receipts under compensatory plantations to Karnataka Forest Development Fund (Rs.90.65 crore).
- Grant No.20 (Revenue - Charged) - Incurring more expenditure under public works – General – Construction – Governor- Building (Rs.0.04 crore).
- Grant No.20 (Capital - Charged) - Incurring of more expenditure under public works – Capital outlay on Housing – Government Residential Buildings – Other Housing – Governor – Construction (Rs.0.13 crore).
- Grant No.29 (Revenue - Charged) - Payment of more interest on Market Loans (Rs.86.99 crore) and Other Loans (Rs.61.41 crore).



- Grant No.29 (Capital - Charged) - Adjustment of high cost borrowings under Debt Swap Scheme (Rs.387.18 crore), more transactions under Ways and Means Advances from RBI (Rs.969.92 crore), Overdraft (Rs.407.72 crore) and pre-payment of debt under Debt Swap Project in respect of small savings collections (Rs.245.04 crore)

### **2.3.3 Original Budget and Supplementary Provisions**

Supplementary provision (Rs.8,013.59 crore) made during the year constituted 28 *per cent* of the original provision (Rs.29,091.89 crore) as against 18 *per cent* in the previous year.

### **2.3.4 Unnecessary/Excessive/Inadequate Supplementary Provisions**

Supplementary provision of Rs.303.98 crore made in 13 grants involving 15 detailed/object heads proved unnecessary in view of aggregate saving of Rs.389.49 crore (**Appendix 2.3**).

In 10 grants involving 14 detailed heads, supplementary provision of Rs.4,489.51 crore obtained proved insufficient leaving uncovered excess expenditure of Rs.1,302.47 crore (**Appendix 2.4**).

In 14 grants involving 19 detailed heads, as against additional requirement of Rs.1,208.56 crore, supplementary grant for Rs.1,788.34 crore was obtained resulting in saving of Rs.579.78 crore (**Appendix 2.5**).

### **2.3.5 Excessive/Unnecessary Re-appropriation of Funds**

Re-appropriation is transfer of funds within a grant from one unit of appropriation where savings are anticipated to another unit where additional funds are needed.

In 22 cases, re-appropriation of funds was made injudiciously resulting in final excess/savings of more than Rs.0.25 crore in each case (**Appendix 2.6**). Of these:

- in four cases, additional funds of Rs.1.33 crore provided through re-appropriation proved insufficient as the final expenditure exceeded the provision by Rs.4.05 crore.
- in seven cases, additional funds of Rs.8.13 crore provided by re-appropriation resulted in final savings of Rs.14.49 crore and the re-appropriation proved excessive/unnecessary.
- in six cases, the savings were not properly assessed as there was a final savings of Rs.16.41 crore even after the withdrawal of Rs.6.91 crore through re-appropriation.
- in five cases, the withdrawal of Rs.1.27 crore through re-appropriation proved injudicious as the final expenditure exceeded the net provision by Rs.5.56 crore.

### 2.3.6 Anticipated Savings not surrendered

According to rules framed by Government, the spending departments are required to surrender grants/appropriations or portions thereof to the Finance Department as and when savings are anticipated. However, out of total saving of Rs.4,747.97 crore in 27 grants/appropriation, Rs.1,022.71 crore (22 per cent) only were surrendered on the last day of the financial year leaving a balance of Rs.3,725.26 crore un-surrendered (**Appendix 2.7**).

In the following cases against the total saving of Rs.334.81 crore, the amount actually surrendered was Rs.398.99 crore resulting in excess surrender of Rs.64.18 crore (19 per cent) indicating inadequate financial control.

(Rupees in crore)

Grant	Total savings	Amount surrendered	Excess surrendered
2 – Animal Husbandry (Capital-Voted)	19.20	20.00	0.80
4 – DPAR (Revenue-Charged)	21.04	22.94	1.90
8 – Forest, Ecology and Environment (Capital-Voted)	5.94	7.00	1.06
20 – Public Works (Capital-Voted)	288.63	349.05	60.42
<b>Total</b>	<b>334.81</b>	<b>398.99</b>	<b>64.18</b>

### 2.3.7 Unreconciled Expenditure

To enable departmental officers to exercise proper control over expenditure, there are standing instructions of Government that expenditure recorded in their books should be reconciled with those recorded in the books of the Accountant General (Accounts and Entitlement).

During 2003-04, out of 154 Chief Controlling Officers, 21 officers had not reconciled expenditure of Rs.5,444.56 crore (22 per cent of the expenditure of Rs.24,314.10 crore incurred by them) while six officers had reconciled their expenditure figures for part of the year, leaving an expenditure of Rs.81.53 crore unreconciled. Seven Controlling Officers who disbursed Rs.170.11 crore of loans and advances had not reconciled expenditure figures.

### 2.3.8 Errors in Budgeting

In eight grants, supplementary provision aggregating Rs.48.25 crore was obtained under the grants other than to which the original provisions related (**Appendix 2.8**).

Such errors in budgeting resulted in saving or excess under the grants concerned as expenditure was accounted for correctly under the relevant grants.



## 2.4 Defective Re-appropriation

During 2003-04, 150 re-appropriation orders involving an amount of Rs.200.41 crore were issued. Forty two re-appropriation orders Rs. 25.56 crore were not considered in accounts as these were found either exceeding the power of sanction or involving items of new service or not signed by competent authority or not having prior approval of Finance Department. Illustrative cases are listed in **Appendix 2.9**.

## 2.5 Rush of Expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The rush of expenditure particularly in the closing months of the financial year is regarded as a breach of financial rules. The position in respect of expenditure for the four quarters and also for the month of March 2004 as depicted in **Appendix 2.10** shows that the expenditure incurred in March 2004 in 19 cases ranged between 22 and 100 *per cent* of the total expenditure during the year indicating tendency to utilise the budget at the close of the financial year.

## 2.6 New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government has issued orders based on recommendations of Public Accounts Committee laying down various criteria for determining items of 'New Service/New Instrument of Service'. These, *inter alia*, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or Rupees one crore, whichever is more, should be treated as an item of 'New Service'.

In 56 cases involving ten grants, expenditure totaling Rs.594.03 crore which should have been treated as 'New Service/New Instrument of Service' was met without the approval of the Legislature (**Appendix 2.11**).

## 2.7 Expenditure without Provision

As envisaged in the Budget Manual, expenditure should not be incurred on a scheme/service without provision of funds therefor. It was, however, noticed that expenditure of Rs.71.33 crore was incurred without provision either in original or in supplementary demand in 37 cases involving six grants test-checked in audit (**Appendix 2.12**).





## CHAPTER III

### PERFORMANCE REVIEWS

This Chapter presents three reviews and two long paragraphs. The performance reviews include review on 'Mahithi' – the Millennium Policy for Information Technology and Bio-technology-2000, review on Implementation of Child Labour (Prohibition and Regulation) Act, 1986 and review on Working of Minor Irrigation Projects. Besides, there are long paragraphs on Working of Government Film and Television Institute, Hesaraghatta and Stores procurement in Minor Irrigation Department.

### INFORMATION TECHNOLOGY AND BIO-TECHNOLOGY DEPARTMENT

#### 3.1 'Mahithi' – The Millennium Policy for Information Technology and Bio-technology - 2000

##### Highlights

*State Government announced (March 2000) a new policy called 'Mahithi'- the Millennium Information Technology Policy, aimed at spreading information technology and related skills to rural youth, creating state-of-the-art infrastructure and offering various tax concessions to attract software entrepreneurs. The implementation of the policy had many deficiencies. Enrolment of students in computer education courses remained low since the Department failed to enroll the students from higher primary schools to the high schools which had vacant seats. During 2001-04, another 5.35 lakh students received education for less time than prescribed. Substantial portion of the Software Technology Park at Hubli, equipped with the state-of- the-art infrastructure was not made available to software entrepreneurs. The Indian Institute of Information Technology, Bangalore had been offering advanced training to engineering graduates without approval of the All India Council of Technical Education.*

**Out of 9.11 lakh students enrolled in 1,000 selected high schools, 5.35 lakh students received computer education for less than the prescribed minimum three hours per week; the agencies were, however, paid at full rates resulting in wasteful expenditure of Rs.29 crore.**

**(Paragraph 3.1.9)**

**Failure of the Department to enroll students from higher primary schools to such high schools as had vacant seats resulted in denying computer education to 1.78 lakh students of higher primary schools.**

**(Paragraph 3.1.10)**



Software Technology Park at Hubli established at a cost of Rs.32.26 crore was not available to entrepreneurs due to non-transfer of title even after one and a half years of its acquisition.

(Paragraph 3.1.17)

Bio-tech Park had not been established despite purchase (February 2002) of 85 acres of land at a cost of Rs.13.96 crore due to litigation.

(Paragraph 3.1.19)

Expenditure of Rs.2.06 crore on purchase of 496 generators for imparting computer education in high schools was rendered unfruitful as funds were not provided for fuel.

(Paragraph 3.1.11)

The Indian Institute of Information Technology, Bangalore (IIITB) and the Karnataka Bio-technology and Information Technology Society (KBITS) diverted Rs.5.75 crore to purposes (rent and advertisement) other than those for which funds were released.

(Paragraph 3.1.7)

Four companies engaged in Information Technology Enabled Services were granted entry tax exemption of Rs.1.03 crore though these were not eligible.

(Paragraph 3.1.21)

No candidates were enrolled in five (out of 13) Yuva.com centres and the computers supplied to these centres remained idle, rendering expenditure of Rs.31.25 lakh unfruitful. Subsidy of Rs.20.32 lakh was paid in excess to the companies of which Rs.17.78 lakh were recovered as of September 2004.

(Paragraphs 3.1.13 and 3.1.14)

### 3.1.1 Introduction

Karnataka is in the forefront of Information Technology (IT) and registering tremendous growth. With the objective of retaining the pioneering position, ensuring further development of IT and increasing employment potential, State Government announced (March 2000) a new policy called 'Mahithi' - the Millennium Information Technology Policy. State Government also announced (March 2001) the Millennium Bio-technology (BT) Policy whose features were similar to that of 'Mahithi'. State Government performed the role of facilitator by identifying agencies and providing funds to achieve the objectives of the policy.



### **3.1.2 Objectives of 'Mahithi' - Millennium Policy on Information Technology and Bio-technology**

Salient objectives of 'Mahithi' were as follows:

- Spreading of information technology to rural areas and to youth through Computer Education and Training
- Electronic governance of Government Departments
- Creation of infrastructure and providing fiscal incentives.

### **3.1.3 Organisational set-up**

The following agencies implemented programmes of the Millennium policy as indicated against each:

<b>Name of the Agency</b>	<b>Details of the programmes</b>
Secretary to Government/ Director, Department of Information Technology and Bio-Technology (ITBT)	Framing of budget proposals, promotional activities, co-ordination and supervision of the work done by KEONICS and KBITS and overall monitoring
Karnataka Bio-technology and Information Technology Society (KBITS) established by State Government	Processing of claims of software companies for grant of tax concessions and their registration, processing of subsidy claims of companies running training centres, raising and utilisation of Housing and Urban Development Corporation (HUDCO) loan on purchase of land for Bio-technology Park
Karnataka State Electronics Development Corporation Limited (KEONICS)	Raising of loan through Mahithi Bonds, its utilisation on creation of infrastructure, training centres, IITB, etc.
Commissioner for Public Instruction (CPI)/Director, Department of State Educational Research and Training (DSERT)	Computer education in high schools

### **3.1.4 Audit objectives**

Audit objectives were to assess

- Whether funds provided were judiciously utilised
- Extent to which computer education and training programmes reached the intended beneficiaries
- Extent of efficacy of infrastructure creation and fiscal concessions to attract software entrepreneurs
- Extent of implementation of electronic governance.



### 3.1.5 Audit coverage

The implementation of programmes during 2001-04 was reviewed through test-check of records in the Department of IT (DIT), KBITS, KEONICS, Police and Treasury Departments and Director, DSERT. Significant audit findings are discussed in following paragraphs. Out of total expenditure of Rs.309.18 crore, various programmes covering an expenditure of Rs.220.32 crore were audited.

## Financial Management

### 3.1.6 Funds provided and expenditure

Funds for computerisation of certain Departments (Police, Treasuries, Revenue, etc.), IIITB, computer education in high schools, etc., were provided from the budget. Funds raised through Mahithi Bonds were utilised for creation of infrastructure, imparting training, local area network in the Secretariat, Agro-Bio Informatic Centre, etc. Loan obtained from HUDCO was utilised on establishing Bio-technology Park and IIITB, etc. The details of the funds provided and expenditure were as follows:

(Rupees in crore)

Year	Source of funds				Total funds	Expenditure				Total expenditure
	Budget Provision	ZPs	Mahithi Bonds	HUDCO Loan		Budget Provision	ZPs	Mahithi Bonds	HUDCO Loan	
2000-01	54.14	10.94	60.00	-	125.08	41.10	-	-	-	41.10
2001-02	72.01	-	-	-	72.01	59.32	10.94	60.60	-	130.86
2002-03	74.69	-	-	-	74.69	68.79	-	0.84	-	69.63
2003-04	48.64	-	-	19.84	68.48	47.90	-	-	19.69 <sup>♦</sup>	67.59
<b>Total</b>	<b>249.48</b>	<b>10.94</b>	<b>60.00</b>	<b>19.84</b>	<b>340.26</b>	<b>217.11</b>	<b>10.94</b>	<b>61.44*</b>	<b>19.69</b>	<b>309.18</b>

\* Excess expenditure was met out of interest earned on Mahithi Bond Account

Expenditure of Rs.32.26 crore (paragraph 3.1.17) incurred from Mahithi Bond account remained unfruitful, while Rs.5.75 crore were diverted for different purposes as discussed in paragraph 3.1.7. Rupees.8.96 crore spent out of HUDCO loan also remained unfruitful as discussed in paragraph 3.1.19.

### 3.1.7 Diversion of funds

Out of the loan of Rs.20 crore obtained (May 2003) from HUDCO for establishing Bio-technology Park (Rs.16 crore) and expansion of IIITB (Rs.four crore), KBITS under the orders of Secretary, IT&BT Department diverted Rs.1.75 crore on advertisement/promotional activities of the Department.

Similarly, IIITB diverted Rs.four crore towards rent of building for the period 2000-04 out of capital grant of Rs.5.10 crore released during 2000-01 from Mahithi Bond Account. The Secretary, IT&BT justified (September 2004) diversion on the plea that fees collected from students were not sufficient to meet the rentals. However, diversion of capital grant towards recurring expenditure was irregular.

♦ IIITB-Rs.seven crore, IIITH-Rs.0.75 crore, Bio-Tech Park-Rs.8.96 crore, others-Rs.2.98 crore



### 3.1.8 Non-utilisation of funds

Funds to the extent of Rs.1.36 crore remained unutilised with KBITS as detailed below:

- As of March 2003, KBITS earned interest of Rs.41.90 lakh on funds released to it by KEONICS from Mahithi Bond Account. According to instructions of Government (March 2001), interest earned was to be credited to Mahithi Bond Account. However, KBITS had not transferred the interest to Mahithi Bond Account.
- An amount of Rs.93.74 lakh recovered (October 2002 to January 2004) by KBITS from agencies running Yuva.com centres (training centres) towards the cost of supply of computers was retained by it, as there were no instructions from Government for its utilisation. The Secretary stated (September 2004) that these funds would be utilised for payment to the agencies running training centres.

### Implementation of 'Mahithi' – The Millennium Policy for Information Technology

One of the objectives of Millennium Policy on IT was to spread information technology to rural areas through computer education and training. Details of targets, achievements and deficiencies are as follows:

### 3.1.9 Deficiencies in Computer Education

Government selected (August 2000) 1,000 high schools (A category-264, B category-272 and C category-464), one in each Hobli headquarters<sup>Ψ</sup> and entered (December 2000) into agreements with three agencies viz., NIIT, APTECH and EDUCOMP for imparting computer education to students. These agreements stipulated, *inter alia*, that computer education would be provided for a minimum of three hours (four periods each of 45 minutes) per student per week, internet for two hours per student per annum and supply of computer hardware by the agencies. These agencies were eligible for payment of Rs.14.69 lakh, Rs.19.10 lakh and Rs.24.20 lakh per school in category A, B and C<sup>®</sup> respectively for a period of five years (payable on quarterly basis).

District and quarter-wise reports furnished (June 2001 to March 2004) by the nominated engineering colleges (one in each district) to DSERT indicated only the number of schools in which computer education was imparted for three hours, two hours and one hour. The details of student population, number of schools in each category and number of hours of computer education and computer aided education in core subjects were not indicated. The number of schools and student population receiving prescribed hours or less hours of

<sup>Ψ</sup> Headquarters for a group of villages is called Hobli

• Schools with students' strength up to 150, 151 to 250, 251 to 550 categorised as A, B and C respectively



education as compiled by Audit on the basis of data collected from DSERT, were as under:

Year	Number of schools	Student population* (in lakh numbers)	Number of schools	Student population* (in lakh numbers)	Number of schools	Student population* (in lakh numbers)	Number of internet hours to be provided	Actually provided
	With three hours		With two hours		With one hour		(in lakh numbers)	
2001-02	585	1.71	327	0.95	88	0.26	6.60	2.91 (44)
2002-03	447	1.39	389	1.21	164	0.51	6.32	1.91 (30)
2003-04	214	0.66	544	1.68	242	0.74	6.46	0.93 (14)

\* Total student population receiving computer education for three, two and one hour worked out considering average student strength per school.

Figures in brackets in the last column indicate percentage

**Out of 9.11 lakh students, 5.35 lakh students received computer education for less than minimum of three hours**

As against maximum enrolment capacity of 10.89 lakh students, 9.11 lakh\* students were enrolled in these 1,000 high schools during 2001-04. Of these, 3.84 lakh and 1.51 lakh students received computer education for two hours and one hour per week respectively in 415, 553 and 786 schools during the period. While software for computer aided education in respect of two subjects viz., Science and English was not provided at all by the Department, computer aided education for other two subjects (Social Science and Mathematics) was provided from March 2003 after a delay of nearly two years.

Student population of 3.10 lakh<sup>ψ</sup> was not provided training in internet facilities. The remaining students were provided training in internet for 52 minutes per student per annum on an average against required two hours.

These deficiencies were attributed (June 2004) by Director, DSERT to power shortages and power shutdown. Though, power shortage/power shutdown especially in rural areas was generally a known fact, State Government/ Director did not take cognisance of the same to initiate any remedial measures till May 2003, when petrol generators were supplied to 496 schools in categories A and B. These generators were also not put to use due to non-provision of funds for fuel.

Failure of the Government/Department to ensure adequate power supply to the schools and provide software for computer-aided education caused impediments in programme implementation. The agencies were paid Rs.91 crore at full rates (withholding Rs.two crore for not providing internet facility) in spite of the fact that there was shortfall in the number of hours of computer education provided in the schools during the three years. Instead of the prescribed three hours per week, only one to two hours of computer education per week was actually given. The payment made to the agencies at full rates for three hours per week led to wasteful expenditure of Rs.29 crore as detailed in **Appendix 3.1**.

\* 2.92 lakh, 3.11 lakh and 3.08 lakh during 2001-02, 2002-03 and 2003-04 respectively

<sup>ψ</sup> 1.41 lakh in 549 schools in 2001-02, 1.01 lakh in 355 schools in 2002-03 and 0.68 lakh in 264 schools in 2003-04



### 3.1.10 Students deprived of Computer Education

Due to non-compliance with instructions, 1.78 lakh students were deprived of computer education which could have been provided to them without any extra cost

According to instructions (June 2001) issued by Director, DSERT, students from higher primary schools were to be enrolled in high schools (selected under Mahithi) having less student strength than the maximum stipulated in the agreement. It was noticed that student strength in 781, 546 and 562 schools was less than the maximum during 2001-02, 2002-03 and 2003-04 respectively. Enrolment of students in 319, 322 and 240 schools during 2001-04 was less than 75 per cent of the maximum. As higher primary schools were available in such places, compliance with said instructions would have enabled 1.78 lakh more students of these schools to get the benefit of computer education without any extra expenditure as detailed below:

Year	Number of schools in			Number of students at maximum strength	Actual students enrolled	Deficiency
	A	B	C			
	Category			(Numbers in lakh)		
2001-02	251	264	266	2.50	1.79	0.71
2002-03	144	146	256	1.99	1.47	0.52
2003-04	145	115	302	2.17	1.62	0.55
Total				6.66	4.88	1.78

CPI/Director at the State level also did not ensure compliance with the aforementioned instructions regarding enrolment of students. This resulted in denial of computer education to 1.78 lakh students. The Director, DSERT stated (September 2004) that this aspect would be looked into when the electric power position improves. The reply was not tenable, as the admission of 1.78 lakh students would have given them computer education for whatever duration was possible under the existing power situation.

### 3.1.11 Unfruitful expenditure on generators

Generators remained unused due to non-provision of funds for fuel

Though 496 generators were purchased at a cost of Rs.2.06 crore and supplied (May 2003 to July 2003) to 496 schools, the same had not been put to use as funds were not provided for fuel. While according sanction for purchase of generators (December 2002), Government instructed to purchase fuel from the funds allotted to School Development and Maintenance Committee (SDMC). However, SDMC did not provide funds due to financial constraints and Director/CPI also did not take any action. As a result, generators remained idle, rendering expenditure of Rs.2.06 crore unfruitful.

### 3.1.12 Training programmes

There were lapses like non-selection of candidates from BPL list, deficiencies in inspection, failure to upload bio-data of candidates on departmental website

In order to enable rural youth to get quality training in computer usage/information technology, as envisaged in the IT Millennium Policy, the State Government accorded (December 2000) sanction to establish 234 training centres. These training centres were called Yuva.Com Centres (Centres). One Government Undertaking (KEONICS) and three private companies (NIIT, APTECH and Software Solutions Integrated) established (January 2001 to August 2002) one centre in each assembly constituency. Government subsidised fees (50 per cent) charged by the companies from the trainees and provided infrastructure (computers, hardware) at Rs.6.25 lakh per centre. The



total expenditure incurred was Rs.16.11 crore (infrastructure-Rs.14.19 crore, subsidy-Rs.1.92 crore). These agencies were to impart training in various courses with different duration and curricula as approved by the Department of IT&BT for a period of five years and upload bio-data of successful candidates into the website of the Department to enable such candidates to secure jobs. Scrutiny revealed the following:

- The firms selected candidates for all the seats as the Zilla Panchayats (ZPs)/Taluk Panchayats (TPs) who were to select candidates up to 50 *per cent* of seats from below poverty line (BPL) families, did not do so.
- The officers of ZPs, Deputy Commissioners and the Project Director, Swarnjayanti Gram Swarozgar Yojana (SGSY) in each district were to visit centres and furnish reports to Chief Executive Officer (CEO), ZP and the Director, Information Technology and Bio-technology. But, such visits were not made. Periodicity of such visits had also not been prescribed except for Project Director, SGSY.
- Out of 86,355 candidates enrolled, 63,497 candidates completed (December 2003) training. However, bio-data of only 37,187 candidates was uploaded to the website of the Department. Details of candidates who secured employment were not available with the Department. No reasons were on record or furnished to Audit for the companies not claiming subsidy of Rs.52.60 lakh (at the minimum rate of Rs.200 per course per trainee) from the Government and also for not uploading the bio-data of the remaining candidates.

In the absence of periodical inspections, details of candidates sponsored by ZPs, non-disbursement of subsidy and failure of uploading of bio-data of candidates and evaluation of training in all centres, the claim of having trained 63,497 candidates and optimum utilisation of infrastructure supplied at a cost of Rs.14.19 crore was not susceptible to verification.

### ***3.1.13 Non-utilisation of infrastructure in Yuva.Com Centres***

Infrastructure supplied to five Yuva.com centres during January 2002 to April 2002 had not been put to use as no training was imparted in these centres. Thus, expenditure of Rs.31.25 lakh on supply of infrastructure to these centres was rendered unfruitful.

### ***3.1.14 Excess payment of subsidy to Yuva.com centres***

**Failure to restrict subsidy to 50 *per cent* of fee resulted in excess payment of Rs.20.32 lakh**

Scrutiny of disbursement cases of subsidy of Rs.1.92 crore revealed excess payment of Rs.20.32 lakh by KBITS to the companies. Excess payment was due to not restricting subsidy to 50 *per cent* of fees charged by the companies. State Government admitted (June 2004) the excess payment and recovered Rs.17.78 lakh as of September 2004.



### 3.1.15 Indian Institute of Information Technology, Bangalore (IIITB)

IIITB had been functioning without approval of AICTE

State Government approved (July 1998) establishing of IIITB. The Institute was registered under the Karnataka Societies Registration Act, 1960. IIITB, *inter alia*, offered advanced training courses in software to graduate engineers and awarded certificates on successful completion of courses without approval of the All India Council of Technical Education (AICTE). AICTE objected (May 2001) to conducting training courses without their approval and urged IIITB to withdraw courses. Despite these objections, 502 (2000-04) graduate engineers were awarded certificates in advanced training courses in software. State Government which had provided Rs.19.10 crore<sup>♦</sup> for the infrastructure, had not taken any action to get the approval of AICTE so far. State Government stated (September 2004) that IIITB had been making efforts to get approval of the AICTE.

### 3.1.16 Computerisation of treasuries under the programme of electronic governance

Most important objective of prevention of over drawal of funds in excess of Budget not achieved

Under the programme of electronic governance, the activities of treasuries along with those of a few other departments were computerised. Computerisation of treasuries was completed at a cost of Rs.36 crore through the Computer Maintenance Corporation of India and the Software Technology Park of India and the treasuries started rendition of compiled accounts from November 2002. Scrutiny of records in the Directorate of Treasuries revealed (April 2004) that the objective of timely rendition of accounts and prevention of withdrawal of funds in excess of budget provision had not been achieved. Funds were drawn in excess of budget provision under 38 Heads of Account while in respect of another 13 Heads of Account, provisions were incorrectly uploaded and 25 departments (out of 104 departments) did not upload budget provisions. Data on expenditure and revenue, DDO-wise, was also not generated. Further, there were delays ranging from 12 to 68 days in rendition of monthly accounts (27 treasuries for March 2003 and April 2003, 17 treasuries for October 2003, 20 treasuries for March 2004), besides non-submission of vouchers for Rs.10.11 lakh for November 2002 and repetition of voucher numbers.

Deputy Director of Treasuries (Network), Bangalore, stated (May 2004) that Chief Controlling Officers of some departments were not familiar with computerised formats and therefore, budget provisions were not uploaded.

#### Creation of infrastructure

The Mahithi policy provided for establishing Software Technology Parks (STP) at Hubli and Mangalore and incubation centres under the programme for creation of infrastructure. Scrutiny of records revealed that the objectives

<sup>♦</sup> Capital grant Rs.five crore in November 1998, Rs.two crore in January 2001 from budget grant, Rs.5.10 crore from Mahithi Bond Account and Rs.seven crore from HUDCO loan



of establishing STP, Hubli and incubation centres had not been achieved as discussed in following paragraphs.

### 3.1.17 Software Technology Park, Hubli

Failure to get title of the building even after five years rendered expenditure of Rs.32.26 crore unfruitful

KEONICS identified Hubli as the potential place for software development and took possession of a building with floor area of 3.40 lakh sq.ft. to establish a Software Technology Park (STP) after payment (February 1999) of Rs.one crore against the agreed value of Rs.23 crore. The building was built (1996-99) by Hubli Dharwad Municipal Corporation (HDMC) out of HUDCO loan. With the announcement of the IT Millennium Policy, Government accorded (November 2000) *post facto* approval for purchase of the building for Rs.15.84 crore only as against Rs.23 crore demanded by HDMC and decided to repay the loan to HUDCO. The Government also approved remodeling of the building which was completed (September 2002) at a cost of Rs.16.42 crore. As HDMC did not transfer the title of the building, demanding the value of Rs.23 crore as decided in January 1999, KEONICS could not market any space except 57,353 sq.ft. (40,129 sq.ft. to Software Technology Park of India (STPI) and IIITB during September 2001 and December 2001, free of cost and 17,224 sq.ft. to four private entrepreneurs on monthly rent during April 2002, November 2002 and February 2004).

State Government stated (June 2004) that KEONICS was unable to market space due to non-transfer of title in its favour. KEONICS had also not recovered rent of Rs.63.66 lakh from the entrepreneurs and not entered into agreement with them for the same reason. Thus, failure of the Government to get the title transferred in favour of KEONICS even after five years of taking possession of the building with sale/lease area of 2.83 lakh sq.ft resulted in non-achievement of the objective besides rendering expenditure of Rs.32.26 crore\* largely unfruitful.

State Government, in spite of availability of funds in Mahithi Bond Account also delayed repayment of loan to HUDCO till May 2001 due to administrative procedures, resulting in avoidable expenditure of Rs.3.27 crore towards interest.

### 3.1.18 Incubation Centres

Functioning of Incubation Centre was not ensured

State Government released grant of Rs.1.3 crore\* to 13 engineering colleges located in different district headquarters through Deputy Commissioner of respective district, at the rate of Rs.10 lakh. Colleges were to establish Incubation Centres providing space, computers and communication facilities. New entrepreneurs desirous of setting up software business were to utilise facilities available in the Incubation Centres for short periods and pay rent for the period during which the facilities were used. Out of 13 Centres, utilisation

\* Rs.29.03 crore out of Mahiti Bond Account and Rs.3.23 crore out of State Government budget

\*\* December 2000 - Rs.10 lakh, March 2001- Rs.90 lakh, December 2001- Rs.20 lakh and March 2003 - Rs.10 lakh



certificates were furnished by 11 Centres while activity reports were furnished (August 2004 to October 2004) by nine Centres only. Scrutiny of their activity reports revealed that three Centres (Madikeri, Mandya established in March 2002 and Tumkur established in April 2004) were not functioning, two Centres (Shimoga and Chitradurga) were implementing job orders such as taking computer prints and remaining four Centres (Belgaum, Bellary, Uttara Kannada and Gadag) established between January to November 2002 functioned for one to six months only. Thus, the purpose of establishing Incubation Centres had not been achieved which rendered the expenditure of Rs.1.3 crore largely unfruitful.

### 3.1.19 Bio-technology park not established

KBITS purchased (February 2003) 85.85 acres of land from the Karnataka Industrial Area Development Board in Electronic City at a cost of Rs.13.96 crore (Rs.8.96 crore paid out of HUDCO loan and Rs.five crore by KEONICS) for establishing Bio-tech Park. The land, despite demand from certain companies for allotment, could not be developed due to litigation on certain portions of the land (10 acres). As such, the project of establishing Bio-tech Park had not taken off, in spite of huge investment out of borrowed funds. Consequently, the investment of Rs.13.96 crore remained unfruitful.

## Tax concessions and advertisement charges

### 3.1.20 Decline in growth of Software Companies

As envisaged in the IT Millennium Policy, Government provided various tax concessions (sales tax exemption, entry tax exemption, rebate on purchase of land and stamp duty/registration charges) to attract software companies. The software companies were to register with KBITS to avail of tax concessions. Seven hundred and fifty seven software companies were in existence as of April 2000. Details of software companies established, registered with KBITS, companies which availed concessions and software exports during 2000-04 were as follows:

Year	Software exports (Rs.in crore)	Number of Companies		Concessions			
		Established	Registered with KBITS	Sales Tax	Stamp Duty	Entry Tax	Total
2000-01	7,475	165	-	-	-	-	-
2001-02	9,904	110	12	1	-	11	12
2002-03	12,350	116	32	1	12	6	19
2003-04	18,100	131	19	3	NA	3	6

KBITS had granted tax concessions aggregating Rs.60.90 crore. The impact of tax concessions on attracting software companies was marginal as only 37 companies out of 522 availed of the concession. The share of software export



had also declined from 38 *per cent* (2000-01) to 36 *per cent* (2003-04) of the total national exports<sup>96</sup>.

### 3.1.21 Grant of exemption of entry tax to ineligible companies

**KBITS granted entry tax exemption of Rs.1.03 crore to companies though not eligible**

Companies engaged in any of the sectors (computing devices, network controller cards, memory storage units, printers and output devices, networking products, software, power supplies to computer systems, networking/cabling, *etc.*) as stipulated in the IT Millennium Policy were considered software companies and were eligible for tax concessions. However, KBITS granted (2001-02 and 2002-03) entry tax exemption of Rs.1.03 crore to four companies engaged in Information Technology Enabled Services (ITES) (Call Centres, Medical Transcriptions, *etc.*). KBITS while conceding (March 2004) that ITES companies were not eligible for tax exemption as per the IT Millennium Policy, stated that Business Process Outsourcing (BPO) policy provided for such concession to ITES companies. However, BPO policy had not been approved by the State Government. Grant of entry tax exemption in anticipation of approval of BPO policy by the Government was irregular.

### 3.1.22 Excess payment of advertisement charges

**Exorbitant rate for advertisement resulting in excess payment of Rs.58.58 lakh**

Department of Information Technology entrusted the work of releasing departmental advertisements through newspapers and magazines to two firms during 2001-02 and 2002-04 without calling for tenders in violation of the Karnataka Transparency in Public Procurement Act, 1999. As and when these agencies presented bills to the Department, the same were sent to KBITS for payment and the amount was reimbursed to KBITS later. Scrutiny of bills revealed that rates charged by these agencies for advertisement of different sizes (Black and White) were much higher than the rates fixed by the Directorate of Information and Publicity for similar advertisements. This resulted in excess payment of Rs.58.58 lakh. KBITS stated (June 2004) that payments were made according to the instructions of the Secretary, IT Department. The Government stated (September 2004) that entrustment of advertisement work to these agencies was on the grounds of their professionalism, expertise and knowledge. However, these agencies released advertisements in the same newspapers (Economic Times, Times of India, Hindustan Times, *etc.*) with which Directorate of Information and Publicity had rate contracts. Also, advertisements were released during 2004-05 through the Directorate of Information and Publicity. The reply had, therefore, no merit.

\*

Year	Value of National export (Rupees in crore)	Contribution from State (Rupees in crore)	Percentage
2000-01	19,576	7,475	38
2003-04	50,278	18,100	36



### **3.1.23 Monitoring and Evaluation**

For monitoring the implementation of the computer education programme, quarterly reports for each district were to be obtained, checked and deficiencies rectified. This was not done by the Director, DSERT. There were also deficiencies in the training programme due to non-inspection of the Centres by the nominated officers.

Evaluation of training programme by officers of various Government Departments nominated by the IT Department covered 169 centres (85 in August 2002, 84 in September 2003) and performance of the remaining 65 centres was not evaluated.

### **3.1.24 Conclusions**

- Full capacity of the 1,000 high schools selected for computer education programme was not utilised since students from higher primary schools were not shifted to high schools which had vacancies. Also students did not receive computer training for the prescribed number of hours due to inadequate power supply arrangements.
- Computer-aided education was not provided in two subjects viz., English and Science while in Mathematics and Social Science, it was provided from March 2003 due to delay in providing software.
- The agencies imparting computer training in Yuva.Com Centres had not uploaded bio-data of 26,310 trained candidates, thereby depriving them of the benefits of placement for jobs.
- Software Technology Park, Hubli had not been made available to entrepreneurs, due to indecision of State Government regarding purchase price payable to HDMC.
- The impact of tax concessions on attracting software companies was marginal, as most of the companies (485 out of 522) had not availed of the concessions.

### **3.1.25 Recommendations**

- State Government should ensure enrolment of maximum number of students in high schools under the Mahithi programme and also ensure that the prescribed hours of computer education are followed.
- Periodical progress reports regarding functioning of Incubation Centres in the engineering colleges should be obtained and reviewed.
- Necessary steps for ensuring marketing of space of STP, Hubli need to be expedited.



## LABOUR DEPARTMENT

### 3.2 Implementation of Child Labour (Prohibition and Regulation) Act, 1986

#### Highlights

*Government of India enacted the Child Labour (Prohibition and Regulation) Act, 1986, which besides enforcement measures, envisaged rehabilitation programmes. Enforcement of the provisions of the Act was ineffective due to (a) non-availability of database of employers (b) inadequate inspections (c) deficiency in registration of cases (d) acquittal of cases for not producing medical certificate in proof of age of the child labour. The achievement in regard to recovery of compensation from employers was as low as 0.3 per cent. Several salient programmes of the State Action Plan were not implemented. There was shortfall of 60 per cent in rehabilitation of child labour. Data on identification of child labour as reported by State Child Labour Cell was grossly understated.*

Data as reported in status report (March 2004) of Labour Commissioner was grossly understated and 2.82 lakh children up to the age of six to 14 years were still out of school as of February 2004.

(Paragraph 3.2.9)

There was shortfall of 93 per cent in registering cases against offending employers. Out of 74 employers who were acquitted in Bangalore (Urban) and Bangalore (Rural) districts, 67 acquittals were due to non-production of medical certificate in proof of age of child labour.

(Paragraph 3.2.12)

There was shortfall of 60 per cent in rehabilitation of child labour as compared to even grossly understated data on identification/detection of child labour.

(Paragraphs 3.2.19)

Labour Department recovered compensation of Rs.8.70 lakh (0.3 per cent) as against Rs.28.24 crore due from employers for employing 14,119 child workers. Even this meagre amount remained unutilised.

(Paragraph 3.2.13)

Out of 1,612 cases referred to Deputy Labour Commissioners and Assistant Labour Commissioners, 755 cases (47 per cent) had not been disposed of and delay in disposal of cases deprived 310 children of the benefit of compensation as these children completed the age of 14 years.

(Paragraph 3.2.14)

Targets and periodicity of inspection of premises of employers were not prescribed. Though, 2,051 inspectors belonging to different departments



**were in place, only 245 inspectors of Labour Department conducted inspections ranging from 40 to 146 per year per Inspector.**

**(Paragraph 3.2.11)**

**Several features of the State Action Plan for rehabilitation of child labour were not implemented.**

**(Paragraph 3.2.18)**

### **3.2.1 Introduction**

Child labour is a serious socio-economic problem affecting the intellectual, physical and social health of children. Various laws<sup>♦</sup> were framed from time to time prohibiting/regulating child labour. Government of India enacted the Child Labour (Prohibition and Regulation) Act, 1986 (Act) and also announced (1987) the National Child Labour Policy, which, in addition to enforcement measures, envisaged rehabilitation programmes. The Supreme Court of India also issued (December 1996/May 1997) directions for withdrawal of children in hazardous employment and for their rehabilitation. The Government of Karnataka started (May 2001) a comprehensive Action Plan for elimination of child labour (Action Plan).

### **3.2.2 Objectives of the Acts and the Action Plan**

- Identification of child labour employed in prohibited occupations
- Registration of cases against offending employers, levy of penalty, recovery of compensation
- Rehabilitation of child labour through the National Child Labour Projects (NCLPs). The State Action Plan envisaged setting up of State Child Labour Project Societies (SCLPS), financial assistance to child labour families through co-operative societies, skill training and memorandum of understanding with employers or their associations for rehabilitation of child labour at the expense of the former.

### **3.2.3 Organisational set-up**

The Labour Commissioner assisted by a Joint Labour Commissioner (JLC) at the State level functioned under the supervision of the Principal Secretary to Government, Department of Labour. The Labour Commissioner and the JLC were responsible for release of funds, monitoring its utilisation, implementation of developmental and rehabilitation programmes, enforcement of provisions of the Act/Rules and also to ensure co-ordination of efforts of

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<sup>♦</sup> Factories Act 1948, Apprentice Act 1951, Merchant Shipping Act, 1958 and Karnataka Shops and Commercial Establishments Act, 1961



various other Departments<sup>•</sup> and Non-Government Organisations (NGOs). At district level, the Deputy Commissioner/Chairman of the District Project Society released funds to NGOs and monitored their utilisation. The Karnataka State Child Labour Eradication Project Society (KSCLEPS) with State-wide jurisdiction was also set-up (July 2003) to formulate, *inter alia*, plans for reducing incidence of child labour, improving performance of project societies, raising funds through public donation, *etc.*

### 3.2.4 Audit Objectives

The objectives of Audit were to ascertain whether

- Provisions of the Act are adequate
- A system existed to identify child labour
- Identified child labour was withdrawn and rehabilitated
- Legal action was initiated against offences committed under the Act
- Directions of the Supreme Court were implemented

### 3.2.5 Audit coverage

The implementation of the Act during the period 1999-2004 was reviewed (April to June 2004) through test-check of records in the Labour Secretariat, Office of the Labour Commissioner and Labour Offices of 10\* districts. Five NCLPs and five SCLPS were test-checked. Information from related departments was also collected for assessing the inter-departmental convergence achieved for elimination of child labour.

## Financial outlay and expenditure

### 3.2.6 National Child Labour Project

Government of India released (1999-2000 to 2003-04) Rs.10.57 crore\* to NCLPs established as per guidelines contained in the National Child Labour Policy, 1987. NCLPs incurred expenditure of Rs.8.63 crore\* towards reimbursement of maintenance cost of special schools by NGOs for rehabilitation of child labour.

• Department of Women and Child Development, Social Welfare, Rural Development and Panchayat Raj, Revenue, Co-operation, Education, Industries and Commerce, *etc.*

\* Bangalore (Urban), Bangalore (Rural), Bijapur, Dharwad, Davanagere, Gadag, Gulbarga, Haveri, Kolar and Raichur

(Rupees in crore)						
Year	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Funds released	0.99	0.99	2.39	2.69	3.51	10.57
Expenditure	0.39	0.69	2.31	2.54	2.70	8.63
Balance						1.94



### 3.2.7 Action Plan of State Government

Rupees 1.31 crore with DCs and Rs.1.63 crore with KSCLEPS remained unutilised

As per Action Plan, Rs.six crore were to be released by the Government each year for establishing Rehabilitation-cum-Special Schools and for implementing programmes mentioned in the Plan. State Government, however, released Rs.8.48 crore as against Rs.18 crore for three years (2001-04) resulting in deficiency of Rs.9.52 crore (53 per cent). The Deputy Commissioners and Ex-officio Chairmen, District Project Societies kept the released amount in bank and incurred expenditure of Rs.1.43 crore on the Action Plan during 2001-03. Details of expenditure incurred by all Deputy Commissioners (DCs) during 2003-04 and the balance of funds as of March 2004 were not available with the Labour Commissioner (December 2004). However, in the test-checked districts, Rs.1.31 crore remained unspent as of March 2004. Labour Commissioner attributed (December 2004) the accumulation of balance to delay in commencement of SCLP schools. An amount of Rs.1.63 crore also remained unutilised with KSCLEPS.

### Difficulties in implementation of the penal provisions of the Act

#### 3.2.8 Discrepancy in penal provisions

Different punishment under different Acts for the same offence

Employers who engage children up to the age of 14 years in employment which is prohibited under the Child Labour (Prohibition and Regulation) Act, 1986 are punishable with imprisonment up to a maximum of one year or fine up to Rs.20,000 or both under Section 14 of the Act. However, Section 92 of Factories Act, 1948, prescribes imprisonment up to maximum of two years and fine up to Rs.one lakh in each case. Thus, penalty is different in different Acts for the same offence thereby presenting difficulties in implementation in the provisions of the Act. State Government had, however, not sent any proposal to Government of India for suitable amendment to the Act.

#### 3.2.9 Survey

Data on child labour as prepared by Labour Department grossly understated

Correct survey and identification of child labour are vital for implementation of regulatory, prohibitory and rehabilitation measures. Survey reports indicate their geographical distribution apart from the magnitude of child labour. The magnitude of child labour as assessed in different surveys was as follows:

Survey Report of Labour Department conducted in 1997 following Supreme Court directions	64,128 child workers (hazardous-4,937, non-hazardous-59,191)
Labour Department Survey of 2001	39,300 child workers (hazardous-7,112, non-hazardous-32,188)
Census Report 2001	8.23 lakh child workers (break-up not available)
Survey conducted by Education Department in 2001 under Sarva Shikshana Abhiyan	10.54 lakh children out of school considered as child workers
Survey conducted by Education Department in February 2004 under Sarva Shikshana Abhiyan	2.82 lakh children in the age group of six to 14 years



There were wide variations in the population of child labour assessed by the Education and the Labour Departments. The State Child Labour Cell in its Status Report for March 2004 to Government of India indicated, *inter alia*, 38,443 child workers engaged in hazardous (8,553) and non-hazardous (29,890) occupations. But in 10 test-checked districts alone 48,342<sup>Ψ</sup> child workers were identified by NGOs (19,776) and departmental inspections (1999-2004) and survey (28,566) as per data furnished by NCLPs/SCLPS. Evidently, the data on child labour was quite unreliable.

### Regulatory functions

#### 3.2.10 Failure to ensure compliance with provisions of the Act

Department did not ensure compliance with Section 9 of the Act by employers

According to Section 9 of the Act, every employer in relation to an establishment in which a child was employed or permitted to work, shall within a period of 30 days from such employment send to the Inspector, a notice indicating the particulars of employment. The employer is also required to maintain a register for recording these details. It was seen in audit that such notices had not been received by Labour Inspectors and information on maintenance of register by the employers was also not available. The Labour Commissioner stated (June 2004) that the question of collecting details did not arise as the employment of children up to the age of 14 years was prohibited under Section 24 of Karnataka Shops and Commercial Establishments Act, 1961. The contention was not tenable as Karnataka Shops and Commercial Establishments Act, 1961 was applicable to 80 taluks/towns as notified in Section 1(4) *ibid*, as against 175 towns/taluku in the State. Also shops and establishments as defined in the said Act do not include processing and manufacturing establishments.

#### 3.2.11 Inadequate inspection

Targets/periodicity of inspections not prescribed

Inspectors appointed under Section 17 of the Act were to periodically and regularly visit all Establishments within their jurisdiction with a view to detecting employment of children. State Government had appointed 2,051 officers as Inspectors belonging to ten different departments including Labour. However, frequency of inspections or targets for inspections was not prescribed. Database of employers requiring inspection had also not been created. It was noticed in 10 test-checked districts that Inspectors excluding those belonging to Labour Department had not conducted any inspections. The Labour Commissioner, as the nodal agency could not ensure inspection by Inspectors of other departments. The position of inspections conducted by 245 Inspectors of the Labour Department from 1999-2000 to 2003-04, average number of inspections conducted and establishments not inspected was as follows:

<sup>Ψ</sup> NGOs: 19,776 (Hazardous: 5,566, Non-hazardous: 14,210),  
Departmental survey: (Hazardous: 7,172, Non-hazardous: 21,394)



Details	As of March 2000	As of March 2001	As of March 2002	As of March 2003	As of March 2004
Number of shops/establishments/ manufacturing/processing units registered with Commercial Tax Department	2,76,210	2,91,021	3,01,954	3,13,052	3,16,635
Number of inspections each year	9,754	13,521	18,821	23,092	35,899
Average inspections per inspector per year	40	55	77	94	146
Number of shops, etc., not inspected	2,66,456	2,77,500	2,83,133	2,89,960	2,80,736

It was also seen in audit that inspection reports were not prepared at all in respect of 14,790 inspections out of 15,929 reportedly conducted (1999-2004) in the test-checked districts. In the absence of any inspection reports, the quality and correctness of the number of inspections were not susceptible to verification.

### Prohibitory functions

#### 3.2.12 Huge shortfall in registration of cases

Employers who employ children up to the age of 14 years in contravention of Section 3 of the Act are liable for imprisonment up to maximum of one year or fine up to maximum of Rs.20,000 or both. Employers who fail to give notice and maintain register as prescribed in Sections 9 and 11 of the Act, respectively are liable for imprisonment up to one month or fine up to Rs.10,000 or both. Details of action taken during 1999-2004 against offending employers were as follows:

(In numbers)					
Nature of cases	Cases registered	Child labour involved	Cases acquitted	Penalty levied	Cases pending
Hazardous cases (Contravention of Section 3)	1,145	1,309	169	40	936
Non-hazardous cases (Contravention of Sections 9 and 11)	1,168	2,741	187	179	802
<b>Total</b>	<b>2,313</b>	<b>4,050</b>	<b>356</b>	<b>219</b>	<b>1,738</b>

**Enforcement of  
measures not  
initiated against  
93 per cent of  
identified child  
labour cases**

Out of 58,219 child workers identified (38,443 by State Child Labour Cell and 19,776 by NGOs in test-checked districts) as of March 2004, cases were filed against 2,313 employers who had employed 4,050 children. The shortfall in registering cases against defaulting employers was as high as 93 per cent.

The Labour Officers of the test-checked districts stated (May and June 2004) that action could not be initiated on cases identified by NGOs, as required documents (statement of employers, child workers, proof of age) were not produced by the latter. This contention was not tenable as it was the



responsibility of the Department to gather necessary documents. It was further noticed that out of the total of 74 employers who were acquitted in Bangalore (Urban) and Bangalore (Rural) districts, 67 acquittals were due to non-production of document of proof of age by the Labour Inspectors/Officers.

Failure to initiate legal action against all identified cases and acquittal due to non-production of proof of age, were indicative of ineffective implementation of the prohibitory provisions of the Act.

### **Child Labour Rehabilitation-cum-Welfare Fund**

#### **3.2.13 Poor progress in recovery of compensation**

**Recovery of compensation was as low as 0.3 per cent of the amount due for recovery**

According to directions (December 1996) of the Supreme Court, an Inspector appointed under Section 17 of the Act was to recover from employers of child labour on hazardous jobs, compensation of Rs.20,000 for each child. State Government was also to ensure that an adult member of the family of such child labour get a job or in lieu, contribute Rs.5,000. The amount was to be credited to "Child Labour Rehabilitation-cum-Welfare Fund" (Corpus Fund) to be created district-wise and spent on the child on whose behalf it was recovered. According to data furnished by the Labour Commissioner, full compensation of Rs.8.20 lakh was recovered in respect of 41 child workers only. In respect of another 10 child workers Rs.0.50 lakh only was recovered. Recovery of compensation from the offending employers was meagre (0.3 per cent) compared to Rs.28.24 crore recoverable from employers of the identified 14,119 child workers (8,553 detected by Department and 5,566 detected by NGOs).

**Not even one child labour family was assisted from the Corpus Fund**

The meagre compensation recovered was not utilised as directed by the Supreme Court but was invested in fixed deposits in Nationalised Banks. It was stated (April 2004) by DC/Project Director, CLP that the child workers could not be located. The reply was not tenable as the Department was to maintain individual profile of the child in the special schools.

Details like the number of adult members who secured jobs in lieu of compensation, child labour families assisted, expenditure on such assistance for the period from 1996-97 to 2003-04 for the State as a whole, etc., were not furnished to Audit by the Labour Commissioner. In the test-checked districts it was, however, noticed that the achievement on these issues (providing jobs, assisting child labour family) was nil. Evidently, the directive of the Supreme Court had not been implemented effectively.



### 3.2.14 Disposal of cases for recovery of compensation by Deputy and Assistant Labour Commissioners

47 per cent of cases referred to DLCs/ALCs are pending

State Government authorised (June 2001) the Deputy Labour Commissioners (DLCs) and the Assistant Labour Commissioners (ALCs) to conduct enquiries in respect of cases of employing children in hazardous jobs and to issue certificate to enable DCs to initiate action for recovery of compensation. Cases referred to DLCs and ALCs by Inspectors, the number of recovery certificates issued and cases rejected were not available with the Labour Commissioner for the State as a whole. However, in the test-checked districts, out of 1,612 cases (involving 1,678 child workers) referred from June 2001 to March 2004 to DLCs/ALCs, recovery certificates were issued in 166 cases (involving 170 child workers), 691 cases were rejected and the balance of 755 cases were pending as of March 2004. Though these 166 cases were referred to the concerned DCs for recovery, no amount had been recovered so far. Further, scrutiny revealed the following:

Delay in disposal of cases deprived 310 children of the benefit of compensation

- Out of total of 691 cases, 168 cases were rejected due to non-production of medical certificate by Labour Inspectors who presented cases. In a few other cases, proof of age produced by Inspectors was contested by employers by producing school records. The Department, however, did not verify the genuineness of such records.
- In 274 pending cases, 310 child workers completed the age of 14 years as of March 2004. As such, these children were outside the scope of definition of child labour and thereby deprived of the benefit of compensation.

Out of seven DLCs/ALCs in the test-checked districts, three (Belgaum, Davanagere and Gulbarga) did not furnish reasons for pendency of cases, while other DLCs/ALCs attributed pendency to their engagement in other functions.

Rejection of cases was due to improper preparation of documents during survey (signatures of the witnesses and statements of the employers not obtained) which were indicative of defective survey and documentation.

## Rehabilitation Programme

### 3.2.15 Enrolment of child labour

The National Child Labour Policy (August 1987) envisaged, *inter alia*, withdrawal of child labour from hazardous employment and their rehabilitation. In order to achieve this objective, the policy provided for establishing NCLP in districts where the incidence of child labour was high. Special schools were to be set up under each project for enrolment of child labour withdrawn from employment. The target group for enrolment in special schools was primarily children in hazardous occupations who had not completed 14 years of age. The position of special schools sanctioned,



established and enrolments in seven districts {Bangalore (Urban), Bangalore (Rural), Bijapur, Dharwad, Gadag, Haveri and Raichur} was as under:

Details	As of March 2000	As of March 2001	As of March 2002	As of March 2003	As of March 2004	Total
Number of schools sanctioned	110	110	190	190	190	
Number of schools actually running	56	104	161	176	159	
Capacity	2,800	5,200	8,050	8,800	7,950	
Enrolled during each year						
Hazardous	467	583	2,129	1,077	1,064	5,320
Non-hazardous	2,333	3,077	1,721	2,626	2,259	12,016
Drop outs	97	-	543	1,111	573	2,324
Mainstreamed	603	625	2,058	2,649	3,953	9,888
Number of special schools closed	-	-	25	15	51	91
Number of children at the time of closure	-	-	162	310	2,178	2,650

Out of 17,336 child workers enrolled, only 5,320 children were from hazardous occupations/processes though 9,731 child workers were employed in hazardous occupations/processes in these seven districts. Besides, 91 special schools with 2,650 enrolled children were closed during 2001-04. The Project Directors attributed (June to August 2004) the closure of schools to migration of child labour, poor attendance, management of schools and teachers not evincing enough interest and school management not responding to advice of project societies. Of these, 1,411 child workers were enrolled in other special schools leaving 1,239 children without rehabilitation.

### 3.2.16 Incorrect reimbursement of maintenance cost

**NCLP reimbursed maintenance cost of 106 child workers who were not enrolled in special schools**

Scrutiny of records of one special school (Thanisandra) in Bangalore (Urban) district revealed that 28 children studying in Government schools were shown as enrolled in special schools also. Similarly, Inspectors during their inspection of special school at Hegadiyala (45 children) and Babuleswar (33 children) in Bijapur district detected that 78 children in these two schools were actually studying in Government schools. The maintenance cost of these 106 children for 2003-04 at the prescribed rate of Rs.3,412 per child (excluding the salary component of the teacher), payable to the concerned NCLP societies, worked out to Rs.3.62 lakh and should not have been paid to them. The payment was irregular and needed to be recovered. The Project Director, NCLP, Bangalore stated (September 2004) that action would be taken while NCLP, Bijapur did not furnish any reply.

### 3.2.17 Denial of stipend

773 child  
workers were  
not paid stipend

Stipend payable to child labour enrolled in NCLP special schools was to be credited to joint account of parent and child opened in a post office. However, it was noticed in audit that 773 children in 30 special schools in Bangalore (Urban) (8 schools; 250 children), Raichur (5 schools; 145 children), Bangalore (Rural) (17 schools; 378 children) though mainstreamed were not paid stipend of Rs.8.53 lakh for periods ranging from three to 32 months. The Project Directors, NCLP, Bangalore (Rural) and Bangalore (Urban) attributed (June 2004) non-payment of stipend to difficulties in opening account in post office but did not mention any specific problem. The Project Directors had also not taken up the matter with higher authorities at the State level.

## State Action Plan for elimination of Child Labour

### 3.2.18 Non-implementation of various programmes of Action Plan

Salient  
programmes of  
Action Plan not  
implemented

Various departments were to implement different programmes envisaged in the Action Plan. It was seen in audit that except for setting up/running of SCLPS by the Labour Department, no other salient programme as mentioned below, was implemented:

- Financial assistance to child labour families through co-operative societies to set up income-generating units.
- Skill training to child labour families.
- Mobilisation of funds through community/private/corporate sponsorships.
- Disconnection of power to industries engaging child labour.
- Entering into memorandum of understanding with employers or their associations for rehabilitation of child labour at the expense of the former.
- Conversion of NCLP schools except in two districts {Bangalore (Rural) and Haveri} into residential schools.

Though, non-implementation of above programmes was within the knowledge of the nodal agency, no action was taken. The district advisory committee who was to review implementation of Action Plan once in three months, never reviewed it in five districts (Kolar, Bijapur, Dharwad, Gadag and Davanagere) and met only once in other three districts {Bangalore (Rural), Gulbarga and Raichur} during 2001-02 to 2003-04. Due to non-participation of the various departments in the implementation of the Action Plan, the concept of convergence of efforts and resources did not materialise at all.



### 3.2.19 Shortfall in rehabilitation of child labour and establishing rehabilitation centres-cum-special schools

Shortfall of 60 per cent in rehabilitation as compared to even the under-estimated data on child labour

As against 220 Rehabilitation Centres-cum-Special Schools (RCSS) required to be established, only 94 RCSS were established as of March 2004. During 2002-04, 6,089 child workers were enrolled against enrolment capacity of 9,400 children. Reasons for shortfall in enrolment in spite of availability of identified child labour were not furnished to Audit. Data regarding number of children mainstreamed was also not furnished. In both NCLP and SCLP special schools, 23,425 children only were rehabilitated out of total of 58,219 child workers identified by the Department and the NGOs. Thus, there was shortfall of 60 per cent in rehabilitation of child labour as compared to the available number of child labour which itself is grossly understated.

### 3.2.20 Monitoring

The State Level High Power Committee (SLHPC) chaired by the Chief Minister, the State Level Coordination Committee (SLCC) headed by the Additional Chief Secretary, the District Advisory and the Executive Committees had been set up (May 2001) for the monitoring of developmental programmes and enforcement functions. Monitoring, enforcement of the provisions of the Act and implementation of the development programmes was inadequate and ineffective for the following reasons:

- SLHPC, which was to review the progress, did not do so at all during 1999-2004.
- SLCC reviewed the progress only twice (May 2002 and September 2003) though the Committee was to meet once in three months.
- District Advisory Committee was to review the progress once in a quarter while the Executive Committee once in a month. However, review of progress by these Committees was also far below the prescribed extent<sup>0</sup> as verified in the test-checked districts for the period 1999-2004.

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Name of the Committee	Number of meetings to be held in test-checked districts	Number of meetings held	Deficiency	Remarks
District Advisory Committee	200	8	192 (96 per cent)	No meetings were held at all in five districts (Bijapur, Davanagere, Dharwad, Gadag and Kolar)
Executive Committee	600	46	554 (92 per cent)	

### **3.2.21 Evaluation**

Evaluation of the enforcement of provisions of the Act and implementation of rehabilitation programmes was not conducted by the Government or by any independent agency after 2001.

### **3.2.22 Conclusions**

- Data on child labour was unreliable and under-reported.
- There was shortfall of 93 *per cent* in registering cases against offending employers.
- Various programmes envisaged in the State Action Plan were not implemented.
- Progress achieved in implementation of Supreme Court Directions relating to recovery of compensation was negligible.
- In Bangalore (Urban) and Bangalore (Rural) districts, 90 *per cent* of the prosecuted employers were acquitted by Courts due to non-production of age certificate. Twenty four *per cent* of cases referred to DLCs/ALCs for issue of recovery certificate were also acquitted for the same reason.
- There was shortfall of 60 *per cent* in rehabilitation of child labour.

### **3.2.23 Recommendations**

- There is a need to compile realistic data on child labour in co-ordination with the Education Department.
- Efforts need to be made to register cases against all employers engaging children in violation of the Act.
- State Level Committees need to be activated.
- Department should ensure early disposal of all cases referred to DLC/ALC for issue of recovery certificate for compensation within the prescribed time frame and assist child labour families.

**3.2.24** The matter was referred to Government in October 2004; reply had not been received (December 2004).



## WATER RESOURCES DEPARTMENT

### MINOR IRRIGATION

#### 3.3 Working of Minor Irrigation Projects

##### *Highlights*

*The objective of the Minor Irrigation Department to provide irrigation through a network of irrigation facilities was not achieved to a large extent as only eight to 29 per cent of the irrigation potential created was utilised during 1999-2004. Non/under-performance of a large number of tanks and lift irrigation projects was due to inadequate power supply, silting of canals, aged pumping machinery, uncontrolled outlets, etc. The execution of projects was not prioritised to ensure that the benefits of investment fructify quickly without spreading resources thinly. There were also instances of non-utilisation of Central assistance, unproductive and avoidable expenditure and excess payment.*

Limited resources were scattered over a large number of new works without prioritising projects and ensuring provision of adequate funds for completing ongoing projects, which were lingering for five to 15 years. Out of 325 ongoing projects as at the beginning of 1999-2000, only 191 were completed leaving 134 projects incomplete as of March 2004 as a result of which investment of Rs.35.37 crore made on them did not fructify.

(Paragraph 3.3.11)

Against a target of completing 242 projects with NABARD assistance by March 2004, only 105 projects were completed after delays ranging from three to 71 months involving a cost over run of Rs.26.37 crore.

(Paragraph 3.3.12)

Due to inadequate investigation, diversion of project funds, delay in acquisition of lands, etc., there was unfruitful and excess expenditure of Rs.41.01 crore.

(Paragraphs 3.3.13 to 3.3.16)

Percentage shortfall in utilisation of irrigation potential ranged between 71 and 92 during 1999-2000 to 2003-04 due to inadequate power supply, silting of canals, aged pumping machinery, non-completion of canals, improper location of tanks, etc.

(Paragraph 3.3.18)

The unplanned execution of 57 new tank works during 1999-2003 at a cost of Rs.125.82 crore proved largely unproductive due to poor utilisation of their irrigation potential.

(Paragraph 3.3.18)



The objective of promoting water management and maintenance of projects with the active participation of farmers through the forum of Water Users' Societies was not achieved at all as none of the irrigation projects was handed over to any of the 488 registered societies.

(Paragraph 3.3.19)

Expenditure during the years 2000-04 exceeded the budget provision by seven to 32 per cent indicating weakness in budgetary control.

(Paragraph 3.3.6)

The liabilities on account of unpaid bills and land compensation claims increased from Rs.73.85 crore at the end of March 1999 to Rs.172.62 crore at the end of March 2004.

(Paragraph 3.3.7)

Against the water rate demand of Rs.26.43 crore, Rs.1.83 crore only were collected during 1999-2004.

(Paragraph 3.3.20)

### 3.3.1 Introduction

Minor Irrigation (MI) Department was set up in April 1984 to provide irrigation to command areas up to 2,000 hectares (ha) through a network of tanks, lift irrigation schemes (LIS), barrages, pick ups<sup>1</sup> and anicuts<sup>2</sup>. The Department apart from maintaining existing projects carries out execution of new projects and flood protection works. Against irrigable area of ten lakh ha in the minor irrigation sector, a potential of 9.73 lakh ha including 3.50 lakh ha created through the agency of Zilla Panchayats was created at the end of March 2004. Out of 6.23 lakh ha of irrigation potential created through MI Department, the utilisation of irrigation potential during the preceding five years ending March 2004 was highest at 1.78 lakh hectares in 2000-01.

### 3.3.2 Objectives

The objective of the Department is to provide irrigation by:

- Creating additional potential through execution of new projects and maintaining the existing projects; and
- Strengthening management of irrigation projects with active participation of farmers through the mechanism of Water Users' Societies (WUS).

<sup>1</sup> Pick up - a structure constructed across a river at the head works of a canal to raise the level of water sufficiently high for it to flow into the channel

<sup>2</sup> Anicuts - A Tamil name for weir



### 3.3.3 Organisational set-up

The Programme was implemented in the State through 18 MI Divisions<sup>3</sup>, headed by Executive Engineers (EE) who work under the supervision of four Superintending Engineers (SE) and two Chief Engineers (CE), one each for the North and the South Zones. The Superintending Engineer, Monitoring and Evaluation (SE-M&E) is associated with formulation, coordination and monitoring of the projects executed from borrowed funds. The overall administrative control of the Department vests with the Secretary, Water Resources Department (Minor Irrigation).

### 3.3.4 Audit objectives

The audit objectives were to assess:

- Whether the execution of projects/schemes was planned properly;
- Whether the works were executed with economy and efficiency; and
- The extent to which the objective of providing irrigation facilities to farmers and their participation in management of projects was attained.

### 3.3.5 Audit coverage

The execution and maintenance of irrigation projects during the period 1999-2004 was reviewed (January-May 2004) by test check of records of the Secretary to Government, Water Resources Department (Minor Irrigation), Chief Engineers (North and South Zones), eight<sup>4</sup> Executive Engineers and the Superintending Engineer, Monitoring and Evaluation, Bangalore covering 48 per cent (Rs.359.54 crore) of the total expenditure of Rs.749.24 crore.

## Financial management

The programme is funded through the budget. Out of the expenditure of Rs.749.24 crore incurred by the Department during 1999-2004, Rs.202.87 crore were spent on projects approved by the National Bank for Agriculture and Rural Development (NABARD). The expenditure on projects approved by NABARD was reimbursed by the bank (since 1995-96) by way of loan assistance. Special Problem Grants on the recommendation of the Eleventh Finance Commission were also received (2000-05) from the Government of India for rejuvenation of sick and defunct lift irrigation schemes.

### 3.3.6 Excess of expenditure over Budget provisions

The year-wise position of funds allocated and expenditure thereagainst during the period 1999-2004 was as follows:

<sup>3</sup> Including two Quality Control Divisions

<sup>4</sup> Bellary, Bidar, Bijapur, Dharwad, Gulbarga, Kolar, Mangalore and Tumkur



(Rupees in crore)

Year	Budget provision	Expenditure	Percentage of expenditure in excess of provision	Unpaid bills at the end of the year <sup>5</sup>
1999-2000	151.07	151.79	-	78.30
2000-01	151.01	161.31	7	87.62
2001-02	126.12	140.51	11	79.65
2002-03	119.71	139.40	16	138.95
2003-04	118.20	156.23	32	172.62
<b>Total</b>	<b>666.11</b>	<b>749.24</b>	<b>-</b>	<b>-</b>

The expenditure during 2000-04 exceeded the budget provision by seven to 32 *per cent* annually indicating weakness in budgetary control. The maintenance works were executed piecemeal without laying down any guidelines for an integrated approach in planning and execution of maintenance works.

### 3.3.7 Unpaid claims

Liability towards pending bills went up from Rs.73.85 crore to Rs.172.62 crore

Liabilities were created during the years 1999-2004 mainly by way of unpaid bills of contractors and non-payment of land compensation. The liabilities increased from Rs.73.85 crore (March 1999) to Rs.172.62 crore (March 2004). The liability of unpaid bills of NABARD assisted projects increased from Rs.2.58 crore at the end of March 2000 to Rs.16.84 crore at the end of March 2004. The liability of State funded works increased from Rs.15.87 crore (March 1999) to Rs.59.55 crore (March 2004). Besides, liabilities for land acquisition and maintenance of projects (March 2004) were Rs.32.73 crore and Rs.44.95 crore respectively. The liabilities increased year after year due to insufficient provision of funds.

### 3.3.8 Rejection of reimbursement claims by NABARD

NABARD rejected claim of Rs.50.34 crore due to delayed completion of works

Reimbursement of expenditure by NABARD on approved projects was subject to their completion within the stipulated period and sanctioned amount. Against the claims of Rs.210.65 crore preferred, reimbursement of Rs.139.34 crore only was made by NABARD. Claims for Rs.50.34 crore pertaining to 92 projects (Rural Infrastructure Development Fund-I, II, III) were rejected by NABARD as these were submitted after their specified closure period due to delay in completion of the works. The balance of Rs.20.97 crore was yet to be reimbursed by NABARD (March 2004).

### Loss of Central assistance

Central assistance of Rs.58.89 crore available for rejuvenation of lift irrigation schemes and flood protection works was not availed of by the Department as discussed below:

<sup>5</sup> The opening balance of unpaid claims as on 01.04.1999 was Rs.73.85 crore



### 3.3.9 Lift irrigation schemes

Central assistance for rejuvenation of sick/defunct LIS and Flood Protection Works was not availed of due to delay in according administrative approval and non-submission of master plan according to guidelines

A scheme for rejuvenating sick and defunct LIS in the State at an estimated cost of Rs.55 crore was sanctioned (November 2000) by Government of India and funds were provided under 'Special Problem Grants' as recommended by the Eleventh Finance Commission. The funds sanctioned during a year were not available for being carried forward beyond the next year or beyond March 2005. Against the planned (March 2001) rejuvenation of 256 LIS, 242 works were taken up incurring an expenditure of Rs.22.35 crore as of March 2004.

The year wise details of funds received and the expenditure incurred during the period 2000-04 were as under:

(Rupees in crore)

Year	Opening balance	Government of India Grants during the year	Total	Expenditure incurred	Closing balance	Remarks
2000-01	-	22.12	22.12	-	22.12	-
2001-02	22.12	11.06	33.18	-	11.06	Grants of 2000-01 (Rs.22.12 crore) lapsed at the end of 2001-02
2002-03	11.06	11.06	22.12	5.15	11.06	Rs.5.91 crore of 2001-02 lapsed at the end of 2002-03
2003-04	11.06	10.76	21.82	17.20	4.62	-
<b>Total</b>	<b>-</b>	<b>55.00</b>	<b>-</b>	<b>22.35</b>	<b>-</b>	<b>Rs.28.03 crore lapsed up to the end of 2003-04</b>

Under-utilisation of funds was due to delay in according (February 2002) administrative approvals by the Government, which resulted in lapse of Central assistance of Rs.28.03 crore up to 2003-04.

### 3.3.10 Flood Protection Works

Government of India, in consultation with the Central Water Commission (CWC) issued (July 1997) guidelines to the State Government to formulate detailed Flood Management Schemes and a Master Plan of flood protection works. Central assistance would be made available for carrying out these works. The MI Department prepared a Master Plan to protect riverbanks for a length of 403 kms (estimated cost: Rs.183.20 crore) and submitted it (July 2002) to CWC after a delay of five years. The plan was not re-submitted to CWC after meeting their requirements such as detailed estimates of the proposed works, details of benefit cost ratio, etc. In the absence of the approval to the plan, the Central assistance offered was not availed of. Meanwhile, the State Government incurred expenditure of Rs.30.86 crore on flood protection works during 1999-2004 from its own funds.

### Programme Management

Review of records relating to planning and execution of the minor irrigation projects and the utilisation of the irrigation potential created during the period 1999-2004 revealed the following:



**3.3.11 Non-prioritisation of execution of works**

Despite limited resources, the execution of works was not prioritised leading to scattering of resources and consequent delay in completion of works

Yearwise and schemewise data of ongoing projects indicating fund allocation for each work, expenditure incurred and their status, which could have formed the basis for prioritisation of works were not available with the Department. Funds were provided for projects on adhoc basis without ensuring adequate resources for completion of ongoing projects so that investment already made on the ongoing works could fructify. However, during audit, data was collected for 11 divisions where the position of ongoing works as in April 1999 and fresh works taken up and completed during the period under review was as under:

(Rupees in crore)

Category	Number of works	Latest estimated cost	Number of works completed	Cumulative expenditure ending March 2004 on works completed	Number of works under progress	Cumulative expenditure ending March 2004 on incomplete works	Amount required for completing works	Number of works relating to column 8
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Works ongoing as on 1.4.1999	325	124.94	191	88.98	134	35.37	6.71 <sup>6</sup>	122
Fresh works taken up between April 1999 and March 2004	1298	258.63	556	50.34	742	58.65	146.14	733

Out of 325 on-going projects, only 191 were completed as of March 2004 leaving 134 projects (41 *per cent*) incomplete as a result of which investment of Rs.35.37 crore made on them did not fructify. Out of 134 works, five were lingering for more than 15 years, six for periods between 10 and 15 years and the remaining 123 works for periods between five and 10 years.

Out of 1,298 new projects, only 556 projects were completed leaving 742 projects (57 *per cent*) incomplete, the cost<sup>7</sup> of which was estimated at Rs.146.14 crore. Thus, limited resources were scattered over a large number of new projects, resulting in 876 works remaining incomplete at the end of March 2004.

**3.3.12 Delay in execution of NABARD works**

In spite of committed assistance from NABARD, the execution of works was delayed leading to time and cost overruns

Out of 338 NABARD assisted projects taken up during the period 1995-2004, only 105 projects<sup>8</sup> were completed incurring expenditure of Rs.199.82 crore. These works were completed after a delay of three to 71 months. Six projects were abandoned due to lack of technical feasibility and/or land acquisition problems rendering expenditure of Rs.59.50 lakh on these works infructuous. The delay in completion of the remaining 131 projects on which an expenditure of Rs.155.80 crore was incurred ranged from one to seven years. It was observed in audit that the delay was mainly due to inadequate survey

<sup>6</sup> Excludes estimates of 12 projects for which the expenditure has exceeded the estimates

<sup>7</sup> Excludes estimates of nine projects for which the expenditure has exceeded the estimates

<sup>8</sup> Includes one project which was partially executed at a cost of Rs.46 lakh irrigating 115 hectares



and investigation of the projects coupled with problems in acquisition of lands. The delay led to cost overrun of Rs.26.37 crore as the originally sanctioned cost of Rs.149.43 crore for 131 projects was revised to Rs.175.80 crore.

### Execution of Projects

Audit scrutiny of execution of projects by the test-checked divisions revealed cases of infructuous, unproductive and avoidable expenditure aggregating Rs.41.01 crore as detailed below:

#### 3.3.13 *Excess payment in construction of tanks at Varchagal and Alur-Belur*

Excess payment of Rs.52 lakh was made to KSCC in two works

The construction of tanks at Varchagal (Bagalkot district) and Alur-Belur (Bidar district) villages was entrusted to Karnataka State Construction Corporation Limited (KSCC) in May 1998 and June 1999 respectively. Subsequently, the Government reduced the rates payable to KSCC (effective from 01.04.1999) for excavation of canals to 15 *per cent* below the Departmental Schedule of Rates (DSR). As excavation work of approach and tail channels was considered easier than that of canals, the Department issued instructions (November 1998) to the Divisions for regulating payments for approach and tail channels at par with the rates applicable for canal excavation. However, it was observed that payments were made to KSCC at pre-revised rates by treating canal works at par with dam and appurtenant works which were 12 *per cent* above DSR. This resulted in excess payment of Rs.45 lakh and Rs.seven lakh to KSCC during the period 1999-2001 on these tanks.

#### 3.3.14 *Unproductive expenditure due to defective selection of sites/diversion of funds*

Improper location of sites for three tanks deprived direct irrigation to 249 hectares

- Bidar Division encompasses large areas falling under laterite zone, which is susceptible to heavy seepage of water as a result of which water cannot be stored in tanks. Work on construction of three tanks (estimated cost: Rs.54 lakh) with a potential of irrigating 249 ha was taken up by the Division during 1985-87 and completed between 1997-98 and 1999-2000 at a cost of Rs.2.64 crore. The tanks located in laterite zone were, however, not put to use as no water could be stored due to heavy seepage. The Department in reply contended (May 2004) that these tanks were acting as percolation tanks. Selection of tank sites without taking into account site conditions led to unproductive expenditure of Rs.2.64 crore as the intended objective of providing direct irrigation to identified command areas was not achieved.
- Construction of a barrage with a submersible bridge (estimated cost: Rs.6.33 crore) across the river Bhima near Hire Anur village in Yadgir taluk of Gulbarga district was sanctioned (March 2000) by Government for irrigating a command area of 1,389 ha, besides providing the facility of a bridge to the people of the surrounding two villages. The construction of the proposed structure was allotted (November 2000) to a contractor at the tendered cost of Rs.5.95 crore after obtaining clearance from Technical Advisory Committee (TAC). Before the work



could be started, the Department proposed to construct a bridge-cum-barrage at a cost of Rs.14.36 crore. The proposal was initially rejected (May 2001) by TAC on the ground that the previously approved structure would meet the requirements of the surrounding villages but was later approved (September 2001) by the TAC and the Government (June 2002). The work was allotted to the same contractor on negotiation basis without re-tendering at a cost of Rs.16.27 crore. The work on which an expenditure of Rs.24.85 crore had actually been incurred was nearing completion as of March 2004.

The Department by executing a major bridge-cum-barrage instead of the originally approved submergible bridge-cum-barrage, not only diverted the NABARD funds borrowed for creating additional irrigation potential towards bridge work but also incurred additional expenditure of Rs.18.52 crore which was not entirely fruitful. The Department while admitting (April 2004) that the major bridge connected only two villages contended that the bridge could be used in future. The reply is not tenable as expenditure met from borrowed funds was rendered unfruitful.

Work on 21 LIS under Special Component Plan and three LIS under Tribal Sub Plan (estimated cost: Rs.2.75 crore) was taken up during 2001-02 and an expenditure of Rs.1.51 crore was incurred during the year. The work on these projects was stopped (April 2002) and funds provided (Rs.17.91 crore) in 2002-03 and 2003-04 were appropriated to other works. In 2003-04, the project cost of these schemes was revised to Rs.3.73 crore and against budget allotment of Rs.1.88 crore, Rs.31 lakh only were released. As the works remained incomplete, the expenditure of Rs.1.82 crore incurred proved unproductive besides delaying creation of irrigation facilities.

### **3.3.15 Unfruitful expenditure due to non-restoration of damages and non-construction of distribution system**

**Rectification of breached portion of tank estimated to cost Rs.67 lakh was not taken up rendering the entire expenditure of Rs.16 crore unfruitful**

- The Kodli Allapur project (estimated cost: Rs.six crore) was partially executed (1997-98) by completing dam and appurtenant works. Due to inadequate surplussing arrangements<sup>9</sup> caused by under-assessment of maximum flood discharge, the dam portion was damaged during September 1998. The damaged portion was, however, not restored (March 2004) despite submission (1998-99) of proposals for an estimated cost of Rs.67 lakh. Consequently, the entire expenditure of Rs.15.93 crore incurred on the project remained unfruitful for over four years as no irrigation was provided from the project.
- Construction of the tank at Takkalaki (estimated cost: Rs.15 lakh) in Bijapur taluk was taken up for execution in 1987. The work lingered on and the tank was completed by March 1999 at a cost of Rs.69 lakh. The canal distribution system was not constructed as the local villagers objected to the use of water from the tank for purposes other than drinking, rendering the expenditure of Rs.69 lakh unfruitful.

<sup>9</sup> The arrangements required for flow of surplus water in the dam by proper design of waste weir, chute and tail channel with reference to maximum flood discharge



### 3.3.16 Wasteful and avoidable extra expenditure

- Work on an LIS near Thambralli (North) in Bellary district (estimated cost: Rs.90 lakh) was allotted (August 2000) to a contractor for execution without acquiring the required land. The work scheduled to be completed by June 2002, was abandoned (October 2001) by the contractor after incurring expenditure of Rs.62 lakh due to non-acquisition of additional land. Consequently, the expenditure of Rs.62 lakh incurred on the scheme was rendered wasteful.
- Construction of the tank at Metriki village in Bellary district (estimated cost: Rs.1.40 crore) was taken up (November 2002) for execution. During execution, the quantities of excavation and embankment increased as their quantity had not been assessed properly in the estimates due to inadequate investigations. Consequently, the increased quantities exceeding 125 per cent of the original estimates had, as per contractual conditions, to be paid at higher rates. This led to extra expenditure of Rs.12 lakh up to March 2004 as detailed below:

Item of work	Quantity executed beyond 125 per cent of tendered quantity (cum)	Tender rate	Rate paid	Difference	Avoidable extra expenditure Rs.
		(Rupees per cum)			
Excavation in soft rock with blasting	23,002	75.00	126.75	51.75	11,90,353
Excavation in hard rock	1,590	81.00	91.68	10.68	16,980
Casing	4,559	72.00	78.15	6.15	28,038
Total					12,35,371

Similarly, excess excavation of approach and tail channel in soft rock to the extent of 11,600 cum beyond sanctioned estimated quantities resulted in avoidable extra expenditure of Rs.15 lakh<sup>10</sup>. The Department while accepting (January 2004) the extra expenditure did not furnish any reasons for excess excavation.

### 3.3.17 Implementation of the scheme for rejuvenation of tanks

Works were taken up under Raita Kayaka Kere scheme without following the laid down guidelines

In order to improve the performance of poorly performing MI tanks due to various deficiencies in dam and appurtenant works including distribution system, the Government launched (November 2001) a scheme titled 'Raita Kayaka Kere' for holistic rejuvenation of 745 tanks at an estimated cost of Rs.195 crore, which was later reduced (January 2003) to Rs.38.27 crore in the first stage for 191 tanks. Out of 187 tanks taken up for rejuvenation, work on 171 tanks was completed by March 2004. Expenditure of Rs.20.16 crore was incurred on these works. Test-check of some of these completed works revealed that while works had been shown as completed, some of the components of work such as improvements to canals and catchment areas,

<sup>10</sup> 11,600 cum x Rs.126.75 per cum = Rs.14,70,300



estimated at Rs.1.05 crore had not been carried out. Consequently, the intended objective of holistic rejuvenation of tanks was not achieved in full. The prescribed norms such as selecting only those tanks which had surplussed at least once during the preceding five years and formation of WUS before taking up the works for rejuvenation, were not complied with by the Department. Payments were made without obtaining Quality Control (QC) test certificates for ensuring quality of work done. Besides, project completion reports along with certificates from WUS and QC authorities were not submitted to the higher authorities as envisaged in the scheme.

### 3.3.18 Shortfall in utilisation of irrigation potential

Actual irrigation potential utilised did not exceed 30 per cent of potential created in the last five years

As seen from the sanctioned estimates and the water rate demand statements in respect of the minor irrigation projects, the position of irrigation potential created and the potential actually utilised in the State during each year from 1999-2000 to 2003-04 was as follows:

(in lakh hectares)				
Year	Number of projects	Irrigation potential	Irrigation potential utilised	Percentage shortfall
1999-2000	4,361	6.05	1.29	79
2000-01	4,361	6.05	1.78	71
2001-02	4,387	5.99	1.03	83
2002-03	4,438	6.20	0.63	90
2003-04	4,435	6.23	0.50	92

The extent of shortfall in the utilisation (1999-2000 to 2002-03) of irrigation potential created under LIS and MI tanks is discussed in the following paragraphs:

#### Lift irrigation schemes

In eight test-checked Divisions, 125 LIS were unproductive due to irregular power supply. While 16 hours of pumping per day was required to achieve the desired output of water, power supply was available only for six hours per day with fluctuating voltage, thereby severely affecting performance and causing damage to the motors. Consequently, as against the created potential of 40,603 ha of these LIS, the area actually irrigated ranged from 1,349 to 2,710 ha (three to seven per cent) during the period 1999-2003. The Department had not taken effective action to ensure assured power supply to make the schemes fully functional.

#### Existing tanks

The position of utilisation of irrigation potential of the existing tanks<sup>11</sup> in ten out of 16 Divisions during 1999-2000 to 2002-03 was as follows:

<sup>11</sup> Tanks existing as of March 1999



(in lakh hectares)

Year	'Nil' utilisation			Utilisation of 01 to 20 per cent		
	Number of tanks	Irrigation potential	Irrigation potential utilised	Number of tanks	Irrigation potential	Irrigation potential utilised
1999-2000	1,496	1.77	Nil	179	0.63	0.07
2000-01	1,209	1.47	Nil	171	0.56	0.05
2001-02	1,396	1.67	Nil	166	0.59	0.06
2002-03	1,796	2.25	Nil	104	0.42	0.04

Year	Utilisation of 21 to 70 per cent			Utilisation of 71 per cent & above		
	Number of tanks	Irrigation potential	Irrigation potential utilised	Number of tanks	Irrigation potential	Irrigation potential utilised
1999-2000	203	0.38	0.17	202	0.30	0.38
2000-01	307	0.54	0.22	393	0.51	0.63
2001-02	297	0.52	0.22	221	0.30	0.31
2002-03	111	0.24	0.09	69	0.17	0.30

As could be seen from the table, there was no utilisation of potential from 1999-2000 to 2002-03 in respect of tanks numbering 1,209 to 1,796 catering to command areas ranging from 1.47 lakh ha to 2.25 lakh ha. The utilisation of irrigation potential was more than 70 per cent only in respect of tanks numbering 69 to 393 during the period.

While the shortfall during 2002-03 was attributed (September 2003) by Government to drought, the reasons for shortfall during 1999-2002 were not analysed. It was, however, observed in audit in individual cases that non-utilisation of irrigation potential was due to silting up of tank beds and distribution canals, uncontrolled outlets, etc.

### New tanks

The position of irrigation potential created from the tanks constructed by six test-checked Divisions during 1999-2003 and potential utilised there against was as under:

(in hectares)

Year	'Nil' utilisation			Utilisation of 01 to 20 per cent		
	Number of tanks	Irrigation potential	Irrigation potential utilised	Number of tanks	Irrigation potential	Irrigation potential utilised
1999-2000	42	10,218	Nil	2	1,924	57
2000-01	46	7,977	Nil	3	3,242	203
2001-02	38	4,884	Nil	9	6,087	392
2002-03	49	10,328	Nil	3	2,386	203

Year	Utilisation of 21 to 70 per cent			Utilisation of 71 per cent & above		
	Number of tanks	Irrigation potential	Irrigation potential utilised	Number of tanks	Irrigation potential	Irrigation potential utilised
1999-2000	4	1,050	443	2	220	200
2000-01	6	2,497	829	1	125	99
2001-02	7	2,650	971	3	413	344
2002-03	5	1,320	438	-	-	-



The number of tanks where there was no utilisation of potential ranged from 38 to 49 while utilisation of potential was more than 70 *per cent* in only one to three cases during the period 1999-2003.

The poor performance of the newly constructed tanks was attributed (February-May 2004) by the Department to non completion of distribution canals, improper location of tanks and protest from the villagers not allowing use of water for irrigation. Thus, unplanned execution of projects rendered the expenditure of Rs.125.82 crore incurred on these works largely unproductive.

### 3.3.19 Water Users' Societies

488 Water Users' Societies though formed were not functioning due to non-handing over of projects

The Government initiated (December 2000) action on formation of WUS and entrusting the management of MI tanks and LIS to these societies. However, as at the end of March 2004, only 488 WUS were registered against 3,868 projects and none of the projects was handed over to the concerned WUS for maintenance. Thus, the objective of promoting water management and maintenance of projects with the active participation of farmers through the forum of WUS was not achieved at all.

### 3.3.20 Water rates

The Vaidyanathan Committee constituted by Government of India in its Report (September 1992) recommended that the States should fix water rates in a manner so as to recover the cost of the maintenance in addition to one *per cent* of capital investment on the projects. The water rate demand is raised by the Department for collection by the Revenue Department. The water rates were last revised by the Government in July 2000. The year-wise position of the amount of demand raised and amount actually realised during 1999-2000 to 2003-04 was as under:

(Rupees in crore)			
Year	Actual maintenance expenditure*	Demand raised	Realised
1999-2000	21.59	1.89	0.55
2000-01	31.55	7.90	0.63
2001-02	26.90	7.61	0.65
2002-03	32.29	6.89	Nil
2003-04	41.93	2.14	NA
<b>Total</b>	<b>154.26</b>	<b>26.43</b>	<b>1.83</b>

\* Source: Grant and outlay statements of the Department for the years 1999-2004

The demand raised during the period 1999-2004 on the basis of water rates constituted only 17 *per cent* of the maintenance cost (Rs.154.26 crore) during the period. There was no collection during 2002-03, as Government declared a tax holiday (September 2003) due to drought. As against the demand of Rs.26.43 crore during 1999-2004, the collection was only Rs.1.83 crore.



### 3.3.21 Monitoring and Evaluation

Project implementation and maintenance were affected due to improper monitoring at all levels

The implementation of programmes was not monitored by the Department except by way of holding monthly review meetings by the Administrative Department. No monitoring mechanism had been put in place in the Offices of SEs and CEs for monitoring financial and physical progress of the works. The maintenance of data at Divisional level was not also sound, as year-wise data of works executed, under progress and expenditure incurred was not maintained and wherever reported was incorrect/incomplete. Three out of eight Divisional Offices test-checked in audit had not maintained any monitoring data.

The Divisional Officers are also required to undertake regular pre and post monsoon inspection of tanks and submit Health Status Reports (HSR) annually to Central Water Commission. A review of the HSRs revealed that the reports did not reflect the condition of distribution canals, command area, actual area irrigated and reasons for shortfall. In the absence of this, various deficiencies such as uncontrolled outlets, silting of canals, old pumping machinery and changes in cropping pattern had not been monitored for remedial action.

Each Division is required to maintain a Register of Assets indicating details of assets and their book value so as to provide a comprehensive history of the assets of the Department. However, audit scrutiny revealed that the Department maintained only Registers of tanks/LIS/other projects listing out the assets maintained without indicating the value of assets or additions or alterations made thereof.

### 3.3.22 Conclusions

Large number of new works were taken up without according priority for completion of ongoing works. This resulted in scattering of resources and non-completion of a large number of works rendering investment thereon unfruitful. Preparation of project estimates without adequate investigation coupled with delay in acquisition of land and lack of monitoring led to huge cost and time overruns. Despite low utilisation of created potential in most of the MI projects, the Department did not analyse the reasons for shortfall nor took remedial action. An integrated approach to planning and execution of maintenance works in a cost effective manner was not adopted. None of the 488 WUS was entrusted with water management and maintenance of projects. The collection of water rates was also quite poor.

### **3.3.23 Recommendations**

- Prioritisation of works within available resources without spreading resources thin over a large number of works is essential.
- Reasons for cost and time overruns need to be analysed and measures for speedy completion of works taken.
- The reasons for low or non-utilisation of created irrigation potential in a large number of projects need to be investigated so that appropriate remedial measures are taken for optimal utilisation.
- The maintenance requirements of different projects need to be assessed and detailed guidelines laid down for carrying out maintenance works in a cost effective manner.
- WUS need to be made functional so as to secure participation of farmers for promoting water management and maintenance of projects.
- Recovery of water rates including arrears requires to be speeded up for providing resources for maintenance of projects.

**3.3.24** The above points were referred to Government in September 2004; their reply had not been received (December 2004).



## EDUCATION DEPARTMENT

### 3.4 Working of the Government Film and Television Institute, Hesaraghatta

In order to keep pace with developments in the film industry and to provide sophisticated equipment and studio, State Government accorded (August 1996) sanction to establish the Government Institute of Films and Television (Institute) at Hesaraghatta (30 kilometers from Bangalore City) under the scheme of strengthening technical education. The two three-year diploma courses on Cinematography and Sound Recording Engineering (SRE) earlier conducted at the Government Polytechnic, Bangalore were transferred to the Institute. The Institute was established at a cost of Rs.12.73 crore<sup>♦</sup> and started functioning from July 1998 under the administrative control of Director, Technical Education. Scrutiny of records revealed the following:

#### 3.4.1 Under-utilisation of studios

**Lack of demand for studios from cinema industry due to non-availability of facilities rendered expenditure of Rs.2.16 crore largely unfruitful**

Though, the scheme envisaged hiring out studios and equipment to cinema industry, State Government fixed (February 2002) rates for hiring of only studios and that too after nearly three years. Studios were hired by cinema industry only on two occasions (September 2002 and February 2004) for three days each. The Principal of the Institute attributed (July 2004) the poor response from cinema/TV industry to the distance of the institute and lack of professional staff and other facilities. However, it was observed in audit that the decision of the Government to permit hiring of only the studio, without permitting hiring of equipment which film producers were required to bring from outside was a major constraint in utilising the infrastructure. Failure of the State Government to provide necessary technicians/professionals and permit hiring of equipment and creation of other facilities resulted in under-utilisation of studios (cost: Rs.2.16 crore), spread over an area of 11,100 sft.

#### 3.4.2 Non-utilisation of equipment

**Failure to provide necessary technical staff resulted in non-utilisation of equipment costing Rs.4.47 crore**

Twenty five equipment valued at Rs.4.47 crore consisting of video cameras, sound recording and electrical accessories remained unutilised due to non-availability of professionals/technicians (seven), non-hiring of the equipment (six), non-installation (three) and for want of repairs (nine). Though posts of technicians required to operate these equipment were sanctioned, the same were not filled up.

♦ Building with space of 36,315 sft - Rs.5.99 crore, equipment - Rs.6.52 crore, furniture-Rs.17 lakh, Library - Rs.five lakh)



### 3.4.3 Shortfall in student enrolment

Shortfall in enrolment of students ranged from 27 to 61 per cent under Cinematography and 80 to 97 per cent under SRE

As against the intake capacity of the Institute of 20 students up to 1999-2000 and 33 from 2000-01 for each course (Cinematography and SRE), there was shortfall in admission of students in both the courses. The position of students admitted during the period 1999-2004 was as follows:

Year	Cinematography			Sound Recording Engineering		
	Capacity	Admitted	Percentage of shortfall	Capacity	Admitted	Percentage of shortfall
1999-2000	20	13	35	20	04	80
2000-01	33	13	61	33	01	97
2001-02	33	16	52	33	01	97
2002-03	33	24	27	33	05	85
2003-04	33	20	39	33	04	88

Shortfall in student intake under Cinematography ranged from 27 to 61 per cent while under SRE, it was from 80 to 97 per cent. The Principal attributed (June 2004) shortfall in admissions to the Institute being located away from the city and lack of awareness among students to take SRE as a professional course. However, it was observed in audit that the Directorate/Government had not taken steps to popularise the courses and create awareness among students on availability of facilities for ensuring optimum enrolment of students. Besides, the Institute had neither any placement arrangement with the cinema/TV industry for securing jobs to successful students nor was there any mechanism in place to ensure better co-operation and co-ordination with the industry so that the Institute's facilities are used by the industry and the students too benefit from interaction with industry personnel.

### 3.4.4 Conclusions

The Government did not permit hiring of equipment, thereby losing substantial potential income. The studio facility itself was not popular with the industry. In the absence of any placement service, there was heavy shortfall in the intake of students which raises the question of whether the Institute should continue its activities at all, particularly the course on SRE.

### 3.4.5 Recommendations

Instead of running the Institute as a typical Government department, there should be much more interaction with the industry so that the students get better training and more exposure and the Institute also benefits through use of the studio by the industry. The equipment should also be permitted to be hired out. For doing all this, it is essential to equip the Institute with adequate number of skilled personnel.

**3.4.6** The matter was referred to Government in July 2004; reply had not been received (October 2004).



## WATER RESOURCES DEPARTMENT

### MINOR IRRIGATION

#### 3.5 Stores procurement in Minor Irrigation Department

##### 3.5.1 Introduction

Minor Irrigation Divisions of the Department use steel, cement, pipes, sponge rubber, pressure relief valves, outlet gates, *etc.*, in construction and maintenance of minor irrigation works. Purchase, receipt, issue, custody, sale and condemnation of these stocks are regulated under the provisions of the Karnataka Public Works Accounts Code, the Karnataka Public Works Departmental Code and the Stores Manual.

The stores material costing Rs.8.21 crore<sup>12</sup> purchased by 11<sup>13</sup> of the 16 Divisions of the Department during the period 1999-2004 was test-checked in audit from January to April 2004 which revealed the following:

##### 3.5.2 Irregularities in store accounts

The Stores Manual of the Department lays down that the value of stores purchased by the divisions is to be debited to the suspense head 'Stock' in the Divisional accounts and kept in stores for subsequent issue to works. Only in cases where purchases are made for specific works, the stocks are required to be debited directly to specific works monitoring their accountal and utilisation through Material-at-Site (MAS) account. Each Sub-division is required to render monthly returns to the Divisional Office indicating receipt, utilisation and balances under the MAS account. The material lying at site is subject to physical verification annually or at the completion of work or at the time of change in incumbency of Section Officers.

**The Divisional Officers kept purchases outside the stock account by debiting their cost to works for which funds were available**

In the test-checked Divisions, the entire stores material of Rs.8.21 crore purchased by Divisional Officers during 1999-2004 was kept outside the Divisional stock accounts by debiting the value directly to works for which funds were available for being taken to MAS account. This was done despite the fact that these stocks were not meant for these works. Consequently, the purchases made by the Divisional Officers were kept irregularly outside Divisional stock and monthly Divisional accounts which were susceptible to check by Controlling Officers.

Of Rs.8.21 crore, material costing Rs.2.92 crore purchased in eight Divisions<sup>14</sup> (Rs.2.07 crore in Kushtagi Division) and issued to respective Section Officers

<sup>12</sup> 1999-2000: Rs.2.86 crore, 2000-01: Rs.2.38 crore, 2001-02: Rs.2.07 crore, 2002-03: Rs.0.46 crore and 2003-04: Rs.0.44 crore

<sup>13</sup> Bangalore, Bellary, Belgaum, Bijapur, Bidar, Dharwad, Gulbarga, Kolar, Kushtagi, Mangalore and Tumkur

<sup>14</sup> Bangalore, Belgaum, Bellary, Bijapur, Dharwad, Kushtagi, Mangalore and Tumkur



during 1999-2004 had not actually been taken to MAS account of the Sub-divisions. Audit scrutiny also revealed that material purchased by three Divisions<sup>15</sup> during 1999-2004 at a cost of Rs.1.10 crore had also not been accounted for in MAS accounts although it was certified on supply bills that the stock had been taken to MAS account. Action was not taken to ascertain the factual position.

There were large-scale irregularities in maintenance of MAS accounts leading to non-accountal of material. Material-at-site was also not physically verified.

Material costing Rs.1.74 crore purchased during 1999-2001 and issued to Section Officers was lying outstanding against them as unutilised stores. In the absence of MAS returns, which were not submitted for two to 60 months (up to March 2004) to the Divisional Officers, the utilisation and physical status of these stores was not ascertainable. No action was taken against the defaulting Section Officers for not submitting the returns. In four Sub-divisions (Bellary, Bidar, Gulbarga and Kushtagi), material costing Rs.1.42 crore had not been handed over to their successors by eight Section Officers on their transfer (August 2000 to April 2002) from their Sub-divisions as required under the Codal provisions. The material had neither been taken back to stock nor was its utilisation on record.

Physical verification of Material-at-site had not been carried out in any of the Sub-divisions of 11 test-checked Divisions during the period under review, as required under Codal provisions. In its absence, the existence of materials at site, their condition and actual utilisation was not ascertainable.

### 3.5.3 Splitting up of purchase orders

Divisional Officers procured materials costing Rs.8.21 crore by splitting up the purchases so as to avoid sanction of competent authority

Provisions of the Stores Manual prescribe that procurement of materials required for use in various works should be made after working out their actual requirement and obtaining approval to the Stores Budget. The Manual prohibits purchases being made by splitting up the purchase orders for evading sanction of the higher authorities.

In the test-checked Divisions, purchase of guage plates, expansion joints, core cables, sponge rubber, tender booklets, *etc.*, costing Rs.8.21 crore was made without assessing their requirement, obtaining funds and approval of the competent authority in violation of Codal provisions and financial rules. The purchases were made in piecemeal manner by splitting these so as to evade sanction<sup>16</sup> of higher authorities. It was also observed that orders were placed by the Divisional Officer for the same item of purchase through more than one purchase order on the same day with the same supplier. Division-wise details of purchases made in piecemeal are indicated in **Appendix 3.2**. It would be seen that expenditure of Rs.6.32 crore (77 per cent of total purchases) was incurred by splitting up purchases at Divisional level and Rs.1.89 crore (23 per cent) incurred by obtaining piecemeal approvals from Superintending Engineers and Chief Engineers, which otherwise was beyond their financial powers.

<sup>15</sup> Bijapur, Gulbarga and Kushtagi

<sup>16</sup> Powers delegated: Divisional Officer – up to Rs.15,000, Superintending Engineer – Rs.15,001 to Rs.25,000 and Chief Engineer-Rs.25,001 to Rs. one lakh



### 3.5.4 Purchase at higher rates

Extra expenditure of Rs.1.28 crore was incurred due to purchase of material at higher rates

The Stores Manual provides that stores, the value of which exceeds Rs.2,500 should be purchased after publishing notices inviting tenders in the Karnataka State Gazette and in case the value exceeds Rs.5,000, notices inviting tenders should be published in newspapers.

Review of purchase records in nine<sup>17</sup> test-checked Divisions revealed that material costing Rs.2.49 crore was purchased (April 1999 to September 2003) on the basis of short term local quotations without calling for tenders and publishing them in the newspapers even though the value of purchases exceeded Rs.5,000. The rates at which the purchases were made were higher than the rates fixed for the same items and of same specification by Karnataka Small Industries Marketing Corporation Limited, Karnataka Power Transmission Corporation Limited and Stores Purchase Department and those approved by neighbouring Divisions of Public Works and Water Resources Departments during the corresponding period. Purchase at higher rates resulted in avoidable extra expenditure of Rs.1.28 crore, as per details given in **Appendix 3.3**.

The Divisional Officers in their reply stated (January/April 2004) that the material was purchased on local quotation basis in view of urgency. The reply was not tenable as these store items were routinely required by the Divisions and most of the stocks were still lying unutilised as of March 2004.

### 3.5.5 Surplus and unserviceable stores

Material costing Rs.1.03 crore was declared surplus. Further, material costing Rs.55.45 lakh was declared unserviceable

In eight Divisions<sup>18</sup>, material such as sponge rubber, expansion joints, RCC neon boards, guage plates, *etc.*, costing Rs.1.03 crore procured between 1994 and 2003, were declared surplus as these were not required for use. The material, in the absence of any demand, could not be transferred to other sister divisions. Thus, purchase of materials in excess of requirement resulted in blockage of funds amounting to Rs.1.03 crore. Besides, unused stores like spare parts of vehicles, transformers, building material, *etc.*, procured at a cost of Rs.55.45 lakh between 1984 and 1994 were declared (September 2003) unserviceable resulting in wastage of public money.

### 3.5.6 Shortages

Codal provisions prescribe that pending adjustment/recovery, the value of shortage of materials noticed should be kept under the head Miscellaneous Public Works Advances (MPWA) under the orders of competent authority. Shortages of stores aggregating Rs.1.13 lakh in three Divisions (Dharwad, Kushtagi and Tumkur) and tools and plants articles costing Rs.7.36 lakh (Dharwad Division) were noticed at the time of physical verification (September 2001) and handing over of charge to new incumbents

<sup>17</sup> Bangalore, Bellary, Belgaum, Bidar, Bijapur, Dharwad, Gulbarga, Kolar and Kushtagi

<sup>18</sup> Belgaum, Bidar, Bijapur, Dharwad, Gulbarga, Kolar, Kushtagi and Tumkur



(August 2002). The value of shortages had neither been recovered nor kept under MPWA for watching recoveries (October 2004).

### 3.5.7 Diversion of funds

**Divisional Officers  
irregularly diverted  
Rs.62.66 lakh for  
unauthorised works**

In Belgaum Division, expenditure of Rs.36.63 lakh was incurred on repair of the office building (March-October 2001) by irregularly diverting funds meant for execution of work on three tanks and one barrage. The repair work was taken up unauthorisedly as maintenance of the building was the responsibility of the Public Works Department. Similarly, material like pumps, starters, MS gates, etc., costing Rs.22.20 lakh was purchased during 2002-04 by diverting funds meant for annual maintenance of four lift irrigation schemes. The material which was not required for these schemes was lying unutilised as of March 2004.

Similarly, expenditure of Rs.3.83 lakh was incurred (October 2003) in Kushtagi Division on purchase of aluminium windows and partitions for Divisional office by diverting funds meant for execution of four minor irrigation works.

### 3.5.8 Conclusions

The Divisional Officers purchased stores without assessing their actual requirement and in contravention of the financial rules and Codal provisions. This led to surplus stores and purchases at exorbitantly high rates with the resultant avoidable extra expenditure. The Divisional Officers also failed to account for all the purchases in material-at-site account and to verify their utilisation.

### 3.5.9 Recommendations

- The internal control mechanism of the Department needs to be strengthened so as to ensure procurement and accountal of material in accordance with the laid down Codal provisions.
- Material purchased and issued to Section Officers (material-at-site) and its consumption need to be got verified at appropriate level.
- Responsibility needs to be fixed for effecting purchases irregularly and at higher rates in violation of rules and Codal provisions.
- Surplus and unserviceable store items need to be disposed of at the earliest.

In reply, Government stated (October 2004) that action would be taken to recover value of shortages and value of stores purchased at, exorbitant rates, besides regularising the purchases after proper verification.





## CHAPTER IV

### AUDIT OF TRANSACTIONS

Audit of transactions of the Government, the field formations as well as 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 headings.

#### 4.1 Misappropriation/losses

##### COMMERCE AND INDUSTRIES DEPARTMENT

#### 4.1.1 Misuse of loan by a Co-operative Society

As against Government's loan of Rs.6.73 crore released to a Co-operative Society for setting up a Coir Ply Unit, the investment made by the Society in the unit was only Rs.2.04 crore and the Society had not furnished proof of utilisation of the balance, the misuse of which could not be ruled out 3

State Government approached (August 2000) the National Co-operative Development Corporation (NCDC) for providing loan assistance of Rs.13.46 crore under the Integrated Coir Development Project (ICDP), Phase-II to enable the Coir Industrial Product Co-operative Society Limited (CIPCOS)\*, to set up a Coir Ply and Allied Products Manufacturing Unit with project cost of Rs.17.95<sup>®</sup> crore. NCDC approved (November 2000) the same. State Government released (November 2002) the first instalment of loan of Rs.6.73 crore received from NCDC to CIPCOS through the Directorate of Industries and Commerce (Directorate). CIPCOS submitted (March 2003) utilisation certificate for Rs.6.73 crore and requested for release of the second instalment of loan. The Directorate, on inspection (June 2003) of records of CIPCOS found that CIPCOS had entrusted the project to a firm, National Composite Development Private Limited, of which the President of CIPCOS was a Director and had released the entire amount of Rs.6.73 crore to the firm without obtaining any performance guarantee.

The Directorate arranged valuation (December 2003) through the Technical and Consultancy Services of Karnataka (TECSOK, a Government Undertaking) of the fixed assets claimed to have been procured by CIPCOS. The valuation report revealed that the machinery installed by CIPCOS was worth only Rs.68.25 lakh and that the total investment in the fixed assets of the project was worth only Rs.2.04 crore as against Rs.6.73 crore released by the Directorate. No action was taken by the Government/Directorate after receipt of the valuation report.

\* A Society registered under Co-operative Societies Act

• Loan from NCDC	- Rs.13.46 crore
Subsidy from Coir Board	- Rs.3.59 crore
<u>Contribution from members</u>	- <u>Rs.0.90 crore</u>
<b>Total</b>	<b>- Rs.17.95 crore</b>



Audit scrutiny (May 2004) of the records of the Directorate also revealed that the Director while releasing (November 2002) the loan assistance of Rs.6.73 crore did not ensure that the same was within 50 *per cent* of the actual expenditure incurred at any point of time on the project. This was a condition imposed by the NCDC. Quarterly progress reports during construction/installation period were also not obtained from CIPCOS as per terms and conditions of NCDC.

The first instalment of loan (Rs.1.12 crore) and interest of Rs.1.35 crore due for recovery from CIPCOS as of November 2004 had also not been recovered.

Failure of the Directorate/Government to comply with the terms and conditions while releasing the loan assistance and to initiate action on the valuation report led to a situation where utilisation of the remaining amount of Rs.4.69 crore (Rs.6.73 crore – Rs.2.04 crore) had to be considered doubtful and misuse of the fund could not be ruled out.

## **HEALTH AND FAMILY WELFARE DEPARTMENT**

### **4.1.2 Defalcation of user charges in Bowring and Lady Curzon Hospital**

**Non-maintenance of proper accounts and non-reconciliation of user charge balances with the bank resulted in misappropriation of Rs.25.22 lakh**

Hospitals associated with medical colleges under the Director of Medical Education recover user charges at rates prescribed by the Government from time to time. A committee comprising the Superintendent of the Hospital as Chairman, the Resident Medical Officer of the Hospital and the Principal of the concerned medical college as members was responsible for collection, utilisation and maintenance of accounts for user charges. These charges were to be deposited in a bank account and separate accounts (cash book, remittance register, *etc.*) maintained.

During the audit (September 2001, January 2003) of accounts for the years 2000-01 and 2001-02 of Bowring and Lady Curzon Hospital, it was noticed that user charges were accounted for in the general cash book along with other transactions. The cash book was also not written daily or maintained properly and the balance of user charges reflected in the cash book was not reconciled with the bank balance. These omissions were reported (November 2001, April 2003) to the Superintendent of the Hospital and the Director of Medical Education. No remedial action was initiated (June 2003). Following physical verification (July 2003), the Superintendent found cash balance of Rs.4.06 lakh only against the book balance of Rs.29.28 lakh, revealing misappropriation of Rs.25.22 lakh (user charges - Rs.24.69 lakh, others - Rs.0.53 lakh). The official dealing with the account was suspended (August 2003).

Failure of the committee to ensure proper maintenance of accounts of user charges and bank reconciliation of the user charges despite being pointed out by Audit led to misappropriation of Rs.25.22 lakh.



The Secretary to Government, Health and Family Welfare Department (Medical Education) stated (September 2004) that departmental enquiry had been initiated and was in progress (September 2004).

## **URBAN DEVELOPMENT DEPARTMENT**

### **4.1.3 Financial loss on production of tertiary treated sewage water**

**Failure to ensure demand through MoU with the identified buyers for tertiary treated sewage resulted in loss of Rs.10.88 crore**

Bangalore Water Supply and Sewerage Board (Board) proposed to set-up a tertiary treatment plant (TTP) with a capacity of 60 million litres per day (MLD) based on an assessment of demand (230 MLD) for tertiary treated sewage for industrial and non-potable purposes. The Board identified Karnataka Power Corporation Limited (KPCL) and other agencies as potential buyers and proposed to recover the cost of the TTP by sale of tertiary treated sewage.

Government approved (March 2000) establishing of the TTP. The Board commissioned (May 2003) the TTP at a cost of Rs.41.50 crore with loan assistance from France and the Housing and Urban Development Corporation (HUDCO). The Board, however, did not enter into any Memorandum of Understanding (MoU) with the KPCL or any other potential buyer. In the absence of any firm commitment from the identified buyers, the Board failed to market the treated sewage. In order to keep the TTP in working condition, it was run daily and produced 15 MLD of tertiary treated sewage at a cost of Rs.15 per kilolitre which was let into the valley.

The Board/Government contended (September 2004) that tertiary treatment of sewage was mandatory to reduce the presence of nitrate nitrogen in the treated sewage to the level prescribed under pollution control standards. As per pollution control standards, nitrate nitrogen content should not exceed 10 mg per litre and even according to the Board, this could be achieved by adopting further treatment within the existing secondary treatment plant itself. Besides, had the tertiary treatment been mandatory, the Board would have operated TTP to full capacity. Reduction of nitrate nitrogen content to zero level through tertiary treatment was solely intended for supply to industrial and non-potable purposes as stated in the project report. The contention of the Board that the cost of tertiary treatment worked out to Rs.5.77 per kilolitre was also not correct as the Board itself adopted the rate of Rs.15 per kilolitre considering the capital cost, interest, *etc.*, on the project. Evidently, the contention of the Board/ Government was not based on facts.

Failure of the Board to ensure demand for tertiary treated sewage through MoU when potential buyers had been identified resulted in letting treated sewage back into valley and loss of Rs.10.88 crore worked out at Rs.15 per kilolitre on the quantity produced from May 2003 to October 2004 at the rate of 15 MLD.



## **4.2 Infructuous/wasteful expenditure and overpayment**

### **INFORMATION TECHNOLOGY AND BIO-TECHNOLOGY DEPARTMENT**

#### **4.2.1 Wasteful expenditure on Solar Photo Voltaic Wind Hybrid Power Generating System**

**Award of work without tender and failure of Karnataka State Council for Science and Technology, Bangalore to ensure quality of material and availability of expert services during execution rendered the whole system defunct resulting in wasteful expenditure of Rs.26.91 lakh**

The Ministry of Non-conventional Energy Sources, Government of India approved (November 1997) the proposal of Karnataka State Council for Science and Technology, Bangalore (KSCST) for setting up of a Solar Photo Voltaic Wind Hybrid Power Generating System at Kemmannugundi hill station. Funds aggregating Rs.19.73 lakh (Central Government:Rs.9.60 lakh; State Government:Rs.10.13 lakh) were released (September 1995 to December 2000) to KSCST. KSCST awarded (January 1998) the work of supply, fabrication, erection, commissioning and maintenance of the system for one year, at a cost of Rs.19.50 lakh to a Bangalore based firm without calling for tenders on the plea that the firm had agreed to supply wind generator free of cost (value-Rs.five lakh) and the Director of the firm who was an acknowledged expert in similar systems had recommended the firm and that other experienced agencies were not available. The system was completed at a cost of Rs.26.91 lakh and commissioned in March 2000. The system failed in June 2000 and after repairs re-started functioning from February 2001. However, in June 2001, the tower and the wind generator along with its grouting collapsed due to extremely gusty wind and the wind machine got damaged. With the collapse of the tower and the wind generator, the system could not function.

The Project Engineer and Executive Secretary of KSCST attributed (July 2001) the collapse of the tower and the wind generator to failure of guy wires which were not galvanised and were also of thinner diameter. Evidently, materials were not verified properly and compliance with specifications was not ensured during execution. Besides, KSCST did not enter into any agreement with the firm to ensure availability during execution, of the services of the expert Director on whose recommendation the firm was selected.

As the system collapsed within the performance warranty period (September 2001), the firm agreed (July 2001) to carry out repairs (excluding transportation cost), which was not done due to huge costs involved. Meanwhile the firm was declared (March 2002) insolvent and reported not available at the address given by it.

Executive Secretary of KSCST failed to (i) ensure compliance with specification prescribed for the materials, (ii) verify financial soundness of the firm and (iii) ensure the availability of services of the expert through an



agreement. This rendered the whole system defunct resulting in wasteful expenditure of Rs.26.91 lakh.

The matter was referred to Government in June 2004; reply had not been received (September 2004).

## **PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS**

### **4.2.2 Excess payment of additional market value**

**Additional market value beyond the date of declaration of land award was paid in violation of the provisions of the Land Acquisition Act resulting in excess payment of Rs.58.86 lakh**

Under the provisions of the Land Acquisition Act, 1894, apart from compensation determined on the basis of the market value prevailing on the date of publication of the preliminary notification, an additional amount calculated at 12 *per cent* of the market value is payable for the period from the date of publication of preliminary notification to the date of passing the land award or taking possession of the land, whichever is earlier.

Land award for acquiring 20,415 sqm of land at Peenya village in Bangalore North taluk for widening the Bangalore - Pune Section (km 10 to 13) of National Highway 04 was passed (June 1995) by the Special Land Acquisition Officer, National Highways, Bangalore (SLAO) for Rs.1.22 crore. The possession of the land could not be taken as the land owners approached the High Court to restrain the Department from taking possession of their land until some of the leftover contiguous portions of land were also acquired in accordance with law. Following Court orders (July 1998) to this effect, the acquisition proceedings to acquire the leftover land (2,723 sqm) were initiated in November 1999 and the land award was passed in December 2003. While a compensation of Rs.1.78 crore for the land acquired under the first award was paid to the land owners during May 2002, the compensation (Rs.1.50 crore) under the second land award had not been paid and the land under both the awards was yet to be taken possession of (March 2004).

Audit scrutiny (September 2003) of the records revealed that the land award of June 1995 had clearly stated that the land owners in the said award were entitled to additional market value only for the period from 8 May 1992 to 30 June 1995 (the date of passing the award). However, the SLAO while preferring (February 2002) the Award Bill included an additional claim of Rs.58.86 lakh being additional market value payable to the land owners in respect of the land covered under the first award because of the passage of time between passing of the first land award and the anticipated date of payment of compensation (March 2002). This amount was paid by the Divisional Officer, National Highways, Bangalore irregularly and without any authority resulting in an excess payment of Rs.58.86 lakh.

Government in their reply (October 2004) stated that the additional market value was paid to the land owners in lieu of interest payable on compensation,



had possession of land been taken. The reply was not tenable as interest was not payable at all under the Act as possession of the land had not been taken by the Department.

#### **4.3 Violation of contractual obligations/undue favour to contractors**

### **PUBLIC WORKS DEPARTMENT - PORTS AND INLAND WATER TRANSPORT**

#### **4.3.1 Excess payment due to incorrect application of contractual stipulations**

**Failure of the Department to regulate payments as per contract resulted in excess payment of Rs.2.35 crore to the contractor**

The Government approved (April 1992) construction of Breakwater (estimated cost: Rs.5.07 crore) for safe berthing of ships and overcoming siltation at Karwar sea port. The work based on the designs finalised (1989) by Central Water Power Research Station, Pune (CWPRS) with reference to the sea bed level prevailing at that time, was allotted (February 1994) to the contractor at his tendered cost of Rs.7.16 crore<sup>⊕</sup> for completion by October 1998. By the time the work was taken up (February 1994), the bed level at the port had gone down by nearly two metres necessitating revision of the designs. A revised estimate for Rs.14.89 crore incorporating additional quantities of work based on the modified designs furnished (February 1998) by CWPRS was approved (July 1998) by Government. The work slated for completion by April 2003 was in progress and expenditure of Rs.18.26 crore had been incurred (March 2004).

Audit scrutiny (January 2004) of records of the Ports Division, Karwar revealed that the agreement with the contractor provided for payment of quantities executed in excess of 125 *per cent* of tendered quantity at rates to be determined on the basis of the observed data on labour, material and overheads (data rates) as the Departmental Schedule of Rates (DSR) did not provide rates for the items of work included in the construction of Breakwater. Accordingly, the Division worked out data based rates payable for quantities in excess of 125 *per cent* of tendered quantities and then added a premium of 21.60 *per cent*. This percentage was same as that allowed in the original contract above the departmental estimates. The original contract also permitted a further weightage of 15 *per cent* because of the difficult working conditions in the area. As against this, while working out the revised data based rates, the Division loaded a further weightage of 20 *per cent* in order to arrive at the rate actually payable to the contractor. The addition of 21.60 *per cent* was not admissible since the data based rates had been worked out on the basis of actual market prices inclusive of the element of contractor's profit. The further weightage of 20 *per cent* was also not justified against 15 *per cent* permitted as per the DSR.

<sup>⊕</sup> With a premium of 21.60 *per cent* of the estimated cost of work



Failure of the Department to regulate the payments as per the conditions of contract and in accordance with the Departmental Schedule of Rates resulted in excess payment of Rs.2.35 crore to the contractor (**Appendix 4.1**).

Government in reply (October 2004) stated that the rates paid to the contractor were as per the agreement and no excess payment was made. The reply was not based on facts as the agreement did not provide for any premium on the data rates.

### **PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS**

#### **4.3.2 Extra expenditure**

**Injudicious acceptance of additional claims on account of idle charges towards plant and machinery and centering material, interest on delayed payments, etc., resulted in extra contractual payment of Rs.39.55 lakh**

The work of constructing the District Office Complex at Gulbarga (estimated cost: Rs.1.02 crore) was allotted (August 1990) to a contractor at his tendered cost<sup>Ψ</sup> of Rs.1.43 crore for completion by September 1994 (which was extended subsequently up to December 1996) for providing granite stone facing all around the building and a grand stair case in front of the building. The work was completed in December 1996 incurring an expenditure of Rs.2.55 crore.

Scrutiny of the records of Gulbarga Public Works Division revealed that payment of additional claim of Rs.39.55 lakh was made (July 2002) to the contractor on account of idle charges on plant and machinery and centering materials (Rs.33.82 lakh), additional overheads, water charges and interest on delayed payments (Rs.5.73 lakh). Such extra payment was not provided in the contract.

In reply, Government stated (October 2004) that although the additional claim was not admissible as per the agreement, yet the same was paid on considering various pros and cons of the case, which were, however, not spelt out.

### **PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS**

#### **4.3.3 Avoidable expenditure on construction of a bridge**

**Delay in providing approved drawings to the contractor and injudicious extension of time resulted in an avoidable extra expenditure of Rs.52.17 lakh**

The work of constructing a bridge across river Netravathi at km 327 of National Highway 48 was approved (January 1992) by Government of India, Ministry of Surface Transport (MOST) for an estimated cost of Rs.4.05 crore. After inviting tenders (June 1992) Chief Engineer, National Highways, Bangalore (CE) sought approval (April 1993) from the Ministry to the acceptance of the offer of the contractor for a value of Rs.7.04 crore. Before

<sup>Ψ</sup> At a premium of 40.47 per cent of the Departmental Schedule of Rates for 1998-99



the offer was accepted, it was noticed (July 1993) that there was increase in the low-water level at the proposed site due to construction of a vented dam downstream. The Ministry on being informed directed (September 1993) the Department to cancel the tender and redesign the bridge. Accordingly, the work was redesigned (February 1994) and allotted (April 1995), after re-tendering, to the same contractor at a cost of Rs.6.65 crore for completion by April 1998. The work was completed in March 2003 at a cost of Rs.6.95 crore excluding Rs.1.08 crore for additional items of work and due to escalation in prices for which approval of Government of India was awaited (November 2004).

Scrutiny of records (May 2000) of the National Highways Division, Mangalore revealed that delay in execution of work was owing to delay in supply of approved modified designs to the contractor and delay in execution of work by him. The delay in supply of approved designs and drawings by the Department ranged from five to 35 months which was attributed by the CE to delay in supply of drawings by the consultants and their approval by the Ministry.

The extension (49 months) in completion period was granted by the Chief Engineer from time to time up to June 2002 despite the Divisional Officer and the Superintending Engineer bringing unjustified delays to his notice and recommending (March 2000 to February 2001) rescinding of the contract and execution of the balance of the work by any other agency at the risk and cost of the contractor. The work was not completed by the contractor even by June 2002. The date was extended further up to October 2002 and the work was finally completed in March 2003. Inordinate delay in the completion of the work resulted in payment of price escalation charges of Rs.52.17 lakh beyond the originally stipulated date (April 1998) for completion of work.

Thus, owing to the delay of 35 months attributable to delay in providing modified designs and drawings to the contractor, price escalation of Rs.52.17 lakh had to be paid to the contractor.

Government in reply stated (October 2004) that the delays were inevitable due to delay in receipt of designs and drawings from the consultants and their approval by the Chief Engineer and clearance by the Ministry. The reply was not tenable as the Department had 19 months' time for obtaining modified detailed designs and drawings from the consultants before allotting the work to the contractor.

## **SOCIAL WELFARE DEPARTMENT**

### **4.3.4 Undue gains to construction agencies**

**Non-enforcement of contractual terms resulted in undue gains to agencies and extra expenditure to Government – Rs.79.64 lakh**

The Government established (October 1999) "Karnataka Residential Educational Institutions Society" (Society) with the objective, *inter alia*, to construct buildings for Navodaya, Morarji Desai and other residential schools and their administration and maintenance. The construction of 44 school



buildings under the first phase was allotted (July 2000 to August 2000) to five Government agencies on turn-key basis at the negotiated cost of Rs.1.85 crore per school building. An amount of Rs.42.82 lakh was payable towards sanitary and electrical work including light fittings. As of February 2004, Rs.75.51 crore were spent on the project.

As the works were entrusted on turn-key basis, agencies were to necessarily execute all items of work which would make buildings fit for occupation. The agencies, however, refused (March 2003) to provide electrical light fittings in the school buildings contending that electrical work did not include electrical light fittings. The Chief Engineer, Bangalore Electricity Supply Company (a State Government Undertaking), with whom Executive Director of Society discussed (February 2003) the matter, had opined that electrical work includes fittings also. As the agencies refused to provide light fittings, the same were provided (October 2003) by the Society at Rs.1.81 lakh per school building. This enabled the agencies to make undue gain of Rs.79.64 lakh while the Society incurred extra expenditure to the same extent.

The Government agreed (September 2004) to recover the cost of electrical light fittings from the agencies. Progress in recovery of the amount had not been intimated (October 2004).

#### **4.4 Avoidable/extra expenditure**

### **COMMERCE AND INDUSTRIES DEPARTMENT**

#### **4.4.1 Avoidable expenditure on rent**

**Delay in shifting certain offices of Sericulture Department from rented buildings to Reshme Bhavan and failure to surrender the unutilised area of silk exchange building resulted in avoidable expenditure of Rs.13.75 lakh, besides creation of liability of Rs.14.40 lakh**

The Central Silk Board (CSB), under National Sericulture Project constructed Reshme Bhavan in Bangalore with built up space of 5,400 square metres, on land allotted by Sericulture Department. CSB allotted (November 2000) 2,900 square metres (31,216 sft) in Reshme Bhavan to the Department. The Department was to establish silk exchange in Reshme Bhavan by shifting the same from the existing building which the Department had hired on monthly rent of Rs.one lakh (20,040 sft). The Department did not shift the silk exchange as the silk trading community opposed it on the ground that Reshme Bhavan was far from the existing premises and inconvenient.

In order to utilise the allotted area, five offices of the Department housed in different rented buildings were shifted to Reshme Bhavan during December 2000 to February 2001 and four more in May 2001 (one), July 2001 (one), May 2002 (one), and June 2002 (one). Owing to the delay, since February 2001, in shifting the other offices, avoidable expenditure of Rs.11.54 lakh was incurred on rent.



It was further noticed (November 2003) that two<sup>•</sup> offices prior to their shifting to Reshme Bhavan were housed in the same building in which silk exchange was functioning. The space occupied by the two offices (11,078 square feet) on their shifting was not vacated and the Department continued to occupy the entire area of 20,040 square feet in the rented building.

Failure of the Department to surrender unutilised space occupied by the two offices in the silk exchange building and to enter into a fresh agreement for the reduced area resulted in accrual of liability of Rs.16.61 lakh up to September 2004 of which Rs.2.21 lakh were paid up to July 2002.

The matter was referred to Department/Government in August 2004; their reply had not been received (October 2004).

### ***FOREST, ENVIRONMENT AND ECOLOGY DEPARTMENT***

#### **4.4.2 Extra expenditure on removal of dead and fallen trees**

**Removal of dead and fallen trees from forest areas at rates higher than the sanctioned Schedule of Rates resulted in extra expenditure of Rs.21.82 lakh**

Felling and removal of dead and fallen trees from the forest areas for transportation to forest depots is done by the Forest Department. The extraction has to be carried out within Sanctioned Schedule of Rates (SSR) fixed by the Department periodically. The SSR also stipulated that suitable deduction should be made if departmental elephants are used for dragging timber.

Deputy Conservator of Forests, Mangalore Division, Mangalore (DCF) extracted 13,223 cubic metres of dead and fallen wood from his jurisdiction during 1998-2004. The work of extraction and removal of timber was carried out by engaging piecework contractors after obtaining quotations from them or by entrusting the work to Karnataka State Forest Industries Corporation Limited (KSFIC). Payments aggregating Rs.49.99 lakh were made during this period for dragging timber. Audit scrutiny of records (September 2002/ March 2004) revealed that the work included the item 'removal of felled trees to road side'. The rates paid for removal of timber ranged from Rs.250 per cum to Rs.402 per cum, which were higher than the rates provided for this item of work in the SSR<sup>ψ</sup>. Had the work been carried out at the rates provided in SSR, as stipulated in departmental instructions, the Department would have avoided an extra expenditure of Rs.21.82 lakh.

On this being pointed out, the Department stated (July 2004) that the payment at higher rates, had been necessitated due to difficult terrain of the forest which warranted rates different from those provided in SSR. It was also

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<sup>•</sup> Office of Joint Director, Sericulture/Silk Marketing Officer and Deputy Director of Sericulture-Bangalore (Urban)

<sup>ψ</sup> Rs.191.41, Rs.212.40 and Rs.219.45 per cum for 2000-01, 2001-02, 2002-03 respectively and Rs.402 for April/May 2003



contended that a separate rate was arrived at after conducting a test work, which was approved by the Conservator of Forests.

The reply furnished was not tenable as the SSR of the circle specifically provided different rates for difficult areas and other areas and accordingly the work should have been carried out at rates provided in the SSR. Besides, the separate rate was arrived at only on 6 February 2003 following objection raised by Audit, while works were allotted at higher rates to contractors since 1998. In the separate rate, the quantity of timber dragged by one elephant per day was reckoned as 6.457 cum against an average of 11 cum per day actually removed in other cases in the division during 1998-2000. The parameters of the test work also did not indicate the details of distance for which timber was dragged, slope of the terrain, *etc.*

Payments at rates higher than those fixed in SSR for dragging of timber resulted in extra expenditure of Rs.21.82 lakh (**Appendix 4.2**).

The matter was referred to Government (July 2004); reply had not been received (December 2004).

## HOME DEPARTMENT

### 4.4.3 Avoidable extra expenditure on purchase of polycarbonate lathis

**The Director General & Inspector General of Police injudiciously purchased costly polycarbonate lathis in place of cheaper cane lathis from two private firms resulting in avoidable extra expenditure of Rs.89.46 lakh**

Police Personnel are periodically provided kit articles, which include lathis. The Director General and Inspector General of Police (DG&IGP) had been purchasing cane lathis up to 1998-99. However, during 1999-2001, DG&IGP purchased 55,171 polycarbonate lathis from two private firms at a cost of Rs.98.77 lakh due to a reported ban on cutting/sale of cane during the said period. Scrutiny of records revealed the following:

- Polycarbonate lathis were purchased at exorbitant rates of Rs.203.84 (25,500 lathis) and Rs.157.71 (29,671 lathis) each during 1999-2000 and 2000-01 respectively as against the rates of Rs.15 and Rs.17 fixed by the Forest Department for a cane lathi. The cost of the same number of cane lathis would be Rs.9.31 lakh (inclusive of sales tax at five *per cent*) at the rates fixed by the Forest Department as against Rs.98.77 lakh paid for polycarbonate lathis. This resulted in extra expenditure of Rs.89.46 lakh.
- Cutting and sale of cane during 1996-2002 was not banned as clarified (May 2004) by the Additional Principal Chief Conservator of Forest (Protection and Management).

The Government/Department stated (October 2004) that the Direct Purchase Committee (DPC) purchased polycarbonate lathis as there was ban on cutting of bamboo and cane and cane was not available in the market. Besides,



polycarbonate lathis would cause less injury when used. These replies were not tenable for the following reasons:

- DPC had not recorded in its proceedings the non-availability of cane lathis and the ban on cutting and sale of cane as the reasons for purchase of polycarbonate lathis. The Additional Chief Conservator of Forest (Protection and Management) confirmed that there was no such ban during 1999-2001 and cane was available in the market. The contention of the Government/ Department was, therefore, factually incorrect.
- The contention that polycarbonate lathis would cause less injury had also no merit, as the Department reverted to the use of cane lathis from 2002-03.

Thus, injudicious purchase of polycarbonate lathis at abnormally high rate in place of cheaper cane lathis resulted in avoidable extra expenditure of Rs.89.46 lakh.

## HOUSING DEPARTMENT

### 4.4.4 Unfruitful investment on unallotted houses, tenements and sites

**KHB could not market 999 houses/tenements in Hootagally, Mysore City due to construction of houses in excess of assessed demand resulting in unfruitful investment of borrowed funds of Rs.25.03 crore with interest liability of Rs.13.97 crore. Similarly, in 76 other towns/cities, 1,777 houses/tenements and 2,039 sites involving investment of borrowed funds of Rs.51.91 crore had also remained unallotted**

Karnataka Housing Board (KHB) made a survey (March 1991) and assessed the demand of 1,249 houses/tenements in Hootagally, Mysore City. As against this, KHB proposed construction of 3,116 houses/tenements which the State Government approved (March 1992), besides furnishing guarantee for raising loan of Rs.79.72 crore from the Housing and Urban Development Corporation. The position of houses/tenements constructed, sold and unallotted as of June 2004 was as under:

Number of houses/tenements	Category of houses/tenements			
	High Income Group	Middle Income Group	Low Income Group	Total
Demand, as per survey	147	568	534	1,249
Constructed (date of completion)	127 (May 1995) 92 (November 1998)	495 (May 1995) 313 (November 1998)	540 (May 1995) 556 (November 1998)	2,123
Sold	219	380	525	1,124
Not allotted	Nil	428	571	999
Period from which unallotted		May 1995 (115) November 1998 (313)	May 1995 (15) November 1998 (556)	

The cost of construction of 2,123 houses was Rs.53.20 crore. Reasons for construction of houses/tenements in excess of the assessed demand and evidence of any publicity in leading newspapers, pamphlets offering incentives/concessions for allotting the remaining houses/tenements were not furnished to Audit (October 2004).



Injudicious decision of the Government and KHB to construct houses in excess of the assessed demand compounded by their inability to market these, resulted in 130 houses and 869 tenements lying unsold for five and nine years respectively involving unfruitful investment of borrowed funds of Rs.25.03\* crore. The interest liability on the amount worked out to Rs.13.97 crore up to June 2004.

In addition, in 76 other towns/cities of the State, 810 houses, 967 tenements and 2,039 sites in which KHB invested borrowed funds of Rs.51.91 crore (September 2003) had also remained unallotted (October 2004). Details regarding period for which these had remained unallotted, whether survey to arrive at the demand was conducted in all cases, etc., were not available with the Housing Commissioner, KHB.

The matter was referred to KHB/Government in September 2004; their reply had not been received (October 2004).

## **PUBLIC WORKS DEPARTMENT – NATIONAL HIGHWAYS**

### **4.4.5 Avoidable expenditure on road improvement works**

**Failure to give effect to the revised specification in the execution of road surfacing works resulted in avoidable expenditure of Rs.37.52 lakh**

As per Indian Road Congress (IRC) specifications (third revision), the work of single coat surface dressing comprises application of a bituminous binder sprayed on a previously prepared base followed by a cover of stone chippings rolled to form a wearing course. The specifications, *inter alia*, provide for using 0.015 cum of stone chippings of 13.2 mm nominal size and 18 kgs bitumen per 10 sq metres of road surface. These specifications were, however, revised (November 2000) by Ministry of Road Transport and Highways. The revised specifications provide for use of 12 kgs bitumen with 19 mm nominal size stone chippings per 10 sq metres of road surface.

Audit scrutiny (October 2003) of records of five divisions<sup>Ψ</sup> revealed that 48 road works involving 8.93 lakh sq metres of single coat surface dressing were executed by contractors during 2001-03 as per pre-revised specifications, the unit cost of which was more than that as per the revised specifications. The Divisions had not worked out the revised rates for the revised quantities of bitumen and stone chippings in estimates. The unit cost as per revised specification was Rs.19.10 per sq metre, as against Rs.23.30 per sq metre as per pre-revised specification, which was adopted in the estimates. Failure to adopt revised specification and execute the works as per revised specification resulted in an avoidable expenditure of Rs.37.52 lakh (**Appendix 4.3**).

\* Proportionate cost of construction of 999 houses = Rs.25.03 crore

Ψ National Highway divisions of Belgaum, Bijapur, Bangalore, Special Division- Bangalore and Chitradurga



Government in their reply stated (October 2004) that there was delay in the communication of revised specifications and as such the excess expenditure could not be avoided in respect of works executed up to the end of March 2003. The reply is not tenable as the Ministry of Road Transport and Highways had published the revised specifications in their addendum to third revision of IRC specifications as early as November 2000 which should have been communicated to the divisions concerned for adoption.

## **URBAN DEVELOPMENT DEPARTMENT**

### **4.4.6 Avoidable expenditure on restoration of tank bund**

**Defective execution of work by a Government agency, Board's failure to detect the same during execution and non-maintenance for five years resulted in collapse of portion of a bund and avoidable expenditure of Rs.2.10 crore on reconstruction and strengthening of the bund**

State Government approved (March 1990) augmentation of water supply scheme to Sindhanoor town at an estimated cost of Rs.8.60 crore with Tungabhadra left bank canal as source. Karnataka Urban Water Supply and Drainage Board (Board) was to implement the scheme. The scheme comprised *inter alia* construction of a tank bund for impounding water. The Board entrusted (November 1990) the work to Karnataka State Construction Corporation (KSCC) which completed the same in March 1993 at a cost of Rs.2.58 crore. During audit, it was seen that:

Formal handing/taking over of the completed tank bund did not take place.

Other related components of the scheme such as jack well-cum-pump house and raw water rising main were commenced belatedly during August 1996 and completed in January 1998 by different agencies. Thus, there was no synchronisation in execution of related components. As a result, water was not impounded and the scheme not commissioned till January 1998. The Board attributed (May 2004) this to the delay in approval of estimates/designs and the tendering procedure. The reply was not tenable as administrative/technical sanction was obtained in June 1990 itself and necessary designs should have been prepared earlier.

After lapse of four and half years of completion of the tank bund, the Board reported (September 1997 to January 1998) to KSCC that the tank bund had developed longitudinal cracks, *etc.* However, KSCC refuted (October 2000) these charges claiming that work was executed according to specification and check measured by Board Engineers. A joint inspection (March 2001) by officers (EE, AE) of the Board and KSCC (Resident Engineer) confirmed longitudinal cracks for three-fourths of the length of the tank bund. It was also found that the side slopes were not conforming to specification.

Detailed inspection was also conducted by the Indian Institute of Science (IISc) during December 2001 and again in August 2002 after collapse (July 2002) of a stretch of 100 metres length of the tank bund. IISc in their report (September 2002) ascribed the collapse of the bund to (i) use of



improper casing material (Murrum) (ii) inadequate compaction and (iii) hearting work (core of the bund) which was to be done with impervious clayey soil as per approved specification but which got mixed up with layers of sandy soil. Besides, the rock-toe and toe-drains required to control seepage of water though specified in the approved drawings were not provided for. Based on the technical advice of IISc, the Board reconstructed the collapsed portion and strengthened the entire defective bund incurring an extra cost of Rs.2.10 crore through another contractor in December 2002.

State Government/Board stated (September 2004) that KSCC was responsible for all the defects and the collapse of the bund. It was, however, seen in audit that the engineers of the Board as well as the Managing Director had frequently inspected and supervised the work but failed to notice the defective execution and deviation from the approved designs/specifications. In fact, they had certified the work as satisfactory before the contractors' bills were passed. Thus, failure on the part of the KSCC and the Board during construction and non-maintenance of the tank bund for nearly five years led to the collapse of the bund and the resultant avoidable expenditure of Rs.2.10 crore on restoration.

#### **4.4.7 Cost and time overruns on water supply scheme**

**Lack of firm decision of the Government/Board regarding the scope and water source and non-synchronisation of execution of different components of water supply scheme resulted in time overrun of over 12 years and cost overrun of Rs.7.47 crore besides rendering the expenditure of Rs.13.86 crore unfruitful**

Government approved (October 1991) a water supply scheme for Shiggaon, Savanur and Bankapur towns with Varada river as source at an estimated cost of Rs.7.45 crore for execution by the Karnataka Urban Water Supply and Drainage Board. The Board, on finding that the land proposed for construction of impounding reservoir at Bankapur town was not actually available, decided to convert the Naganur minor irrigation tank near Shiggaon as the source. With change in source, Board submitted (December 1993) a modified estimate for Rs.17.93 crore to Government for approval. Pending approval of the modified estimate, the Board continued with the execution of the works.

While the works were in progress, the people of Shiggaon town protested in April 2000 against pumping water from Naganur tank. The Board informed the Government of the same. The issue of approval of the said estimate (Rs.17.93 crore) remained under prolonged correspondence between Government and the Board resulting in frequent revision of estimates and the scope of the scheme. The scheme was finally confined to Savanur and Shiggaon towns only and the Board submitted revised estimates (July 2000) for Rs.14.92 crore. The Board also proposed (November 2002) revival of the original scheme (to use Varada river as source) at an estimated cost of Rs.25.54 crore, to mitigate the problems of water scarcity. However, without considering the latest proposal for revival of the original scheme and despite being aware of public protest, Government approved the estimate for



Rs.14.92 crore in January 2003. The Board completed (March 2004) the scheme at a cost of Rs.13.86 crore except for certain minor finishing works. But the scheme had not been commissioned (October 2004), which was attributed (July 2004) by the Board to failure of rains for over three years as a result of which water could not be impounded in Naganur tank. The reply of the Board was not convincing as records of the tahsildar concerned revealed 73 per cent of normal rainfall during 2003-04.

Thus, lack of firm decision of Government/Board regarding selection of the water source of the scheme resulted in time overrun of over 12 years and cost overrun of Rs.7.47 crore (100 per cent), besides rendering the expenditure of Rs.13.86 crore on the scheme unfruitful.

### **WATER RESOURCES DEPARTMENT - BHADRA PROJECT**

#### **4.4.8 Avoidable payment on acquisition of land**

**Inordinate delay in furnishing land acquisition proposals and the injudicious action of the Department to pay interest on land compensation without taking possession of lands resulted in an avoidable expenditure of Rs.75.17 lakh and excess payment of Rs.83.09 lakh**

Land measuring 1,635 acres coming under submergence of Devarabelekere dam (Davanagere district) was acquired in 1978. With the storage of water in the dam up to the full reservoir level (FRL), it was found that an additional area of 70 acres was getting inundated under the dam waters. Besides, a further area of 286 acres was found submerged (November 1992) due to rise in water level to about 0.6 metre above the FRL. Government, therefore, decided (1999) to acquire these lands too and accordingly land awards were passed (June 2001 and February 2003) acquiring 356 acres of land. These lands were deemed to have been acquired with effect from 15 May 1978 (70 acres) and 17 November 1992 (286 acres) respectively and compensation of Rs.2.91 crore (including interest of Rs.1.58 crore) was paid between 2001 and 2004.

Audit scrutiny (June 2003) of the records of Special Land Acquisition Officer (SLAO), Bhadra Project, Davanagere and Executive Engineer, No.3, Canal Division, Malebennur, revealed that although the requirement of additional land was noticed by the project authorities in 1978 and 1992, yet the acquisition proposals were sent to the SLAO only during 1999. Consequently, the compensation for 70 acres of land was determined in April 1999 by the SLAO at Rs.28.84 lakh and an interest of Rs.60.23 lakh was paid on compensation from the date of submergence of these lands (May 1978) as against Rs.13.90 lakh<sup>⊕</sup> payable had these lands been acquired under the original land award (1981) for acquiring 1,635 acres. This resulted in avoidable expenditure of Rs.75.17 lakh (**Appendix 4.4**). The Chief Engineer attributed (September 2004) the delay to the time involved in surveying the affected areas.

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<sup>⊕</sup> Rs.9.23 lakh towards land compensation and Rs.4.67 lakh being interest on compensation



In respect of 286 acres of land acquired with retrospective effect from 17 November 1992, records revealed that these areas were subject to water logging only when the storage of water in the dam was above FRL. As verified from the revenue records *viz.*, 'Right of Tenancy and Crops grown' (RTC), the land owners were cultivating these lands up to the date of their taking over by Government (January and August 2002). Thus, the injudicious decision of the Department to acquire these lands from a retrospective date without actually taking possession of land resulted in avoidable excess payment of interest of Rs.83.09 lakh (**Appendix 4.5**).

In reply, the Government stated (September 2004) that a departmental enquiry would be initiated to ascertain the reasons for delay in the matter and also to recover the excess payment from the officers concerned.

### **PUBLIC WORKS DEPARTMENT - PORTS AND INLAND WATER TRANSPORT**

#### **4.4.9 Unfruitful outlay on fish landing and berthing facilities**

**Execution of the project without ensuring flow of water in the river as advised by the experts and delay in construction of bridge led to unproductive outlay of Rs.1.36 crore on creation of berthing facility**

The work of providing fish landing and berthing facilities at the mouth of the river Shambhavi near Hejmadikodi in Udupi district was intended to ease the traffic at the over crowded fishing harbours of Malpe and Mangalore as well as to reduce the distance to be covered by the local fishermen for landing their fish harvest. The work involving construction of quay, auction hall and dredging in front of quay (estimated cost: Rs.95 lakh) was entrusted (April 1998) to a contractor for completion by October 1999. The work was actually completed in September 2001 at a cost of Rs.1.36 crore.

It was observed in audit that the facilities created by the Department could not be utilised by the fishermen as their vessels could not safely navigate to the newly built quay due to accumulation of silt in the boat channel and the quay. The problem of silt accumulation arose due to unauthorised construction of a road embankment (1998) by the people of an adjacent village across the river upstream which impeded the normal water flow in the river course. The road spanned about half the width of the river from the right bank up to a small riverine island midstream. The Department did not take timely action to prevent unauthorised construction of road embankment by villagers despite caution (June 1992) by Director, Central Institute of Coastal Engineering for Fisheries (CICEF) that the course of the flow in the river should not change, as it would make the project infructuous. The Director, CICEF had also suggested (June 1999) to take up the balance of the works of the project only after dismantling the embankment and ensuring the original flow in the river. The Department, however, continued with the execution of project and completed it in September 2001 despite the expert opinion to dismantle the embankment.



As per the recommendations (April 1999) of an expert team, the Department constructed (May 2003) a bridge to replace the existing road embankment. But the problem of siltation continued as before as the flow in the river did not flush out the already accumulated silt/sand. The National Institute of Technology (NIT), Karnataka, suggested (March 2004) dredging from river mouth up to bridge site and diversion of a portion of flow from left branch into right branch for flushing out the accumulated sediment. Though the Divisional Officer, Ports & Fisheries Division, Udupi placed (October 2004) a demand of Rs.4.03 crore for the purpose with the Director of Fisheries, Bangalore, the final decision on such dredging was awaited (October 2004). Meanwhile the berthing facility could not be put to use.

Thus, failure of the Department to prevent unauthorised construction of road embankment across the river and to construct a bridge in its place early led to unproductive outlay of Rs.1.36 crore.

In reply, Government stated (October 2004) that the said facility could not be utilised fully because of the construction of road embankment by the public.

#### **WATER RESOURCES DEPARTMENT - HEMAVATHY PROJECT**

##### **4.4.10 Unproductive investment in guest house**

**Injudicious decision to construct an additional guest house and delay in its completion led to an unproductive investment of Rs.28.40 lakh**

The Government approved (December 1996) construction of a VIP Cottage near Circuit House at Gorur in Hassan district at a cost of Rs.21.70 lakh. The work was technically sanctioned (April 1998) by Chief Engineer, Hemavathy Project, Gorur (CE) for Rs.29.50 lakh. Civil works of the cottage (estimated cost: Rs.20.99 lakh) were completed (September 2001) at a cost of Rs.26.29 lakh. The other works like electrification, sanitation, etc., were completed only in August 2003.

Audit scrutiny (August 2003) of records revealed that construction of the VIP Cottage was taken up despite availability of a Circuit House at the same place, the occupancy of which was only three to ten *per cent* during the preceding five years. The building completed at a cost of Rs.28.40 lakh was taken over (August 2003) by the Cauvery Neeravari Nigam Limited who was contemplating renting the building to the Karnataka State Tourism Development Corporation Limited (December 2003).

In reply, Government stated (September 2004) that the construction of the guest house fulfilled the need to provide secured accommodation to VVIPs. But no VVIPs ever stayed in the guest house and, in fact, the building was no longer in possession of the Government.



**WATER RESOURCES DEPARTMENT - MINOR IRRIGATION****4.4.11 Unfruitful outlay on minor irrigation tank**

**Inadequate soil investigation and delay in acquisition of land rendered the expenditure of Rs.2.60 crore incurred on construction of a minor irrigation tank unfruitful**

Construction of a minor irrigation tank near Purdal village of Sindhagi taluk in Bijapur district (estimated cost: Rs.1.17 crore) was allotted (June 1999) to a contractor at a cost of Rs.1.29 crore\* for completion in May 2001. The work excluding distributory canals was completed (September 2002) at a cost of Rs.2.27 crore. Due to delay in getting possession of the land required for construction of distributory canals, the contract was closed and the balance of the work (estimated cost: Rs.5.84 lakh) allotted (May 2004) to another contractor for Rs.6.08 lakh.

Audit scrutiny (December 2002) of the records of the Minor Irrigation Division, Bijapur revealed that:

- In the approved estimate, the length of waste weir was provided for 44 metres only as against the designed length of 115 metres. Soil investigation was not conducted for waste weir, approach channel and tail channel. Consequently, the work involved execution of additional quantities of earthwork excavation, embankment and concreting items besides earthwork in ordinary rock with blasting as an extra item. The additional quantities and extra item of work were executed (cost: Rs.57.83 lakh) by the contractor at current SR plus tender premium which resulted in extra expenditure of Rs.26.70 lakh (**Appendix 4.6**).
- The contractor was paid Rs.18.76 lakh for earthwork excavation in ordinary rock with blasting at the rate of Rs.150.72 per cum for a total quantity of 12,450 cums. The Department did not issue instructions to the contractor to carry out this item of work nor any blasting material was issued to him and the actual execution of this item of work was not verifiable in audit.
- Proposals for acquisition of 198 acres of land were sent in staggered manner (159 acres in December 1999, 11 acres in December 2000 and 18 acres in April 2003). The delay in acquisition of land led to foreclosure of contract, delaying completion of the work. The construction of both right bank and left bank canals had not been taken up (July 2004). Consequently, the expenditure of Rs.2.60 crore incurred on the work did not prove fruitful (June 2004).

The matter was referred to Department/Government in February 2004; their reply had not been received (December 2004).

\* At 10.18 per cent above the cost of work put to tender at the DSR of 1996-97



#### **4.5 Idle investment/idle establishment/blockage of funds**

### **HEALTH AND FAMILY WELFARE DEPARTMENT**

#### **4.5.1 Unfruitful expenditure on hospital equipment**

**Heparin-induced Extra Corporeal Low-density Lipoprotein Precipitation System purchased at a cost of Rs.61 lakh had remained unutilised from February 2000**

The Government sanctioned (September 1999) purchase of Heparin-induced Extra Corporeal Low-density Lipoprotein Precipitation (HELP) System for Krishnarajendra Hospital, Mysore for determining and controlling cholesterol level in patients based on the hospital's indent. The Director, Medical Education placed orders on the Karnataka Antibiotics and Pharmaceuticals Limited who supplied (February 2000) the HELP system at a cost of Rs.61 lakh to Bowring and Lady Curzon Hospital, Bangalore, though there was no indent/request for such an equipment from that hospital. The HELP system was not put to use in the hospital since its purchase except twice in March 2000. The Superintendent, Bowring and Lady Curzon Hospital attributed (November 2003) non-utilisation of HELP system to the high cost of consumables and accessories (Rs.80,000 to Rs.82,000 per patient). Thus, purchase of HELP system without assessing its utility in view of the high cost of the tests rendered expenditure of Rs.61 lakh unfruitful.

The Secretary to Government, Health and Family Welfare Department (Medical Education), while accepting the audit observation, stated (April and September 2004) that the matter relating to purchase of the equipment had been referred (December 2003) to Lokayuktha for enquiry and that supply of the equipment to the Bowring and Lady Curzon Hospital would facilitate imparting training to medical officers/staff. However, the equipment was primarily meant for treatment and not for training.

#### **4.5.2 Equipment not put to use for want of infrastructure**

**Due to lack of proper planning in purchase and operationalisation of Blood Cell Separator, the equipment remained unused for four years rendering expenditure of Rs.1.03 crore thereon unfruitful**

In accordance with Government sanction of March 1999, the Director of Medical Education (DME) purchased and supplied one Blood Cell Separator, each to Victoria Hospital, Bangalore and Krishnarajendra Hospital, Mysore in March 2000 at a cost of Rs.48.24 lakh. Complementary equipment viz., Platelet Agitator, Refrigerated Centrifuge and Blood Donor Couch costing Rs.55.02 lakh were, however, supplied between March 2000 and May 2003 to both the hospitals. The Superintendents of these hospitals applied to the Drug Controller for licence to operate the equipment only in September 2003 due to delayed supply of complementary equipment. However, the licence was not granted by the Drug Controller as other requirements like trained technician, separate room for equipment, etc., had not been fulfilled. Government/



Department failed to synchronise purchase of Blood Cell Separator, complementary equipment, appointment of trained technicians, provision of separate rooms, *etc.*, resulting in refusal of licence and the equipment lying unused since March 2000.

The Secretary to Government, Health and Family Welfare Department (Medical Education) stated (September 2004) that these requirements could not be fulfilled immediately. The reply was indicative of improper planning in purchase and operationalisation of the equipment thereby denying the benefit of this facility to needy patients despite the Government having spent Rs.1.03 crore.

## **HOME DEPARTMENT**

### **4.5.3 Equipment remaining idle for want of replacement/repairs**

**Closed Circuit Television based High Security and Surveillance system at Central Prison, Belgaum had remained defunct from December 1998**

Under the scheme of Modernisation of Prison Administration, Government sanctioned (February 1991) Closed Circuit Television based High Security and Surveillance System (CCTV) at the Central Prison, Belgaum with the objective of keeping strict vigil over the movements of prisoners and events within the premises of prison from a single control point. Supply and installation of CCTV was allotted (April 1993) to Karnataka State Electronics Development Corporation Limited (KEONICS) at a cost of Rs.39.71 lakh. KEONICS installed (July 1995) the CCTV which functioned up to December 1998.

According to report of KEONICS (December 1998), six\* components of the system needed replacement at a cost of Rs.40,000. Though, the amount was deposited (May 1999), KEONICS replaced only one monitor. KEONICS subsequently (September 2001) stated that the network was not functioning due to damage caused by lightning and damages to underground cable during earth excavation by gardening staff and all these parts required repairs/replacements. After protracted correspondence and delay of four years, KEONICS submitted (August 2002) another estimate for Rs.5.31 lakh which the DGP&IGP recommended (September 2002) to Government for approval. Government had not released the amount so far (December 2004). Government, however, in their reply to Audit (September 2004) stated that neither excavation by gardening staff nor lightning strike were the cause of network's failure to function. However, the fact remains that delay caused by Department and Government in assessing repairs and release of funds resulted in CCTV remaining non-functional since December 1998 rendering expenditure of Rs.39.71 lakh unfruitful.

\* Six black and white monitors, two camera controllers, auto switch controller, control console's lock, two telephone instruments and soft light

## **4.6 Regularity issues and other points**

### **FINANCE DEPARTMENT**

#### **4.6.1 Inspection of Treasuries**

**Public Sector Banks made excess payment of family pension of Rs.1.25 crore in 701 cases as of February 2004**

Treasuries and sub-treasuries in Karnataka are under the administrative control of Director of Treasuries, Bangalore. All district treasuries (30), sub-treasuries (184) and stamps depot were inspected by the Accountant General (Accounts & Entitlement) during 2003-04. The following major irregularities and failure in control were noticed during inspection of the treasuries.

#### ***Excess Payment of Family Pension***

Karnataka Government Servants (Family Pension) Rules 1964, provides that 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 his 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, whichever is earlier.

In 701 cases, family pension amounting to Rs.1.25 crore (**Appendix 4.7**) was paid in excess by public sector banks because of payment at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E).

In respect of five treasuries (Bijapur, Davanagere, Hassan, Kolar, Raichur), in spite of similar cases having been pointed out during earlier inspections, family pension continued to be paid at a higher rate by the banks in 62 cases resulting in excess payment of Rs.19.97 lakh (**Appendix 4.8**) during the period from April 2002 to February 2004.

Though excess payment of family pension was pointed out repeatedly in the Inspection Reports of the concerned treasuries and in successive Audit Reports, effective steps had not been taken by the Treasury Officers/Director of Treasuries to prevent further excess payments.

The matter was brought to the special notice of the Principal Secretary, Finance Department, Government of Karnataka (September 2004). It was stated (November 2004) that the concerned Treasury Officers and Reserve Bank of India had been instructed to recover the family pension paid in excess.



***Non-receipt of Paid vouchers/recovery schedules of General Provident Fund***

Paid vouchers in support of withdrawals from General Provident Fund (GPF) for an amount of Rs.5.63 crore (4,520 cases) were not received with the accounts sent by 29 treasuries during 2002-03 (**Appendix 4.9**). The omission might result in non-accountal of the drawal and resultant over payment at the time of final settlement of the account of the subscriber. The matter needs urgent corrective action.

Further, recovery schedules in respect of GPF subscription by the Government Servants, for Rs.5.23 crore (2,926 cases) did not accompany the vouchers sent by 27 treasuries during 2002-03 (**Appendix 4.10**). This resulted in large number of missing credits in the individual accounts of the subscribers, besides delay in finalisation of their claims.

**4.6.2 Abstract Contingent Bills*****Introduction***

Manual of Contingent Expenditure, 1958 (Manual), permitted the Drawing and Disbursing Officers (DDOs) to draw contingent charges required for immediate disbursement on Abstract Contingent (AC) bills subject to rendering detailed bills to their Controlling Officers for countersignature and onward transmission to the Accountant General (Accounts and Entitlement).

Review of AC bills was conducted covering Rs.108.66 crore drawn on 1,284 AC bills during the period 1999-2004 by 36 DDOs of five<sup>⊗</sup> departments in five<sup>⊙</sup> districts. It was supplemented with information collected in respect of Rs.12.96 crore drawn on 1,342 AC bills by 65 DDOs of three<sup>\*†</sup> departments in 19<sup>\*</sup> districts during the period 1999-2004. Important points noticed are brought out in the succeeding paragraphs.

***(a) Non-submission/delayed submission of Detailed Contingent bills***

As per Rule 37(3) of the Manual, the DDOs are required to send the detailed bills in respect of AC bills drawn by them to their Controlling Officers before the closure of the first week of the following month in which the AC bills are drawn for onward transmission to Accountant General (A&E) by the 15th of the same month. Further, the DDOs are also required to enclose with their salary bills a certificate issued by the Controlling Officers to the effect that the detailed bills for all amounts of AC bills drawn prior to the current month have been rendered.

⊗ Home (Police), Stamps & Registration, Education, Revenue (Election) and Personnel & Administrative Reforms

⊙ Bangalore (Rural), Bangalore (Urban), Belgaum, Chickmagalur and Tumkur

\* Home (Police), Education, Revenue (Election)

† Bagalkot, Bangalore (Rural), Bangalore (Urban), Belgaum, Bellary, Bidar, Chamarajnagar, Chitradurga, Dakshina Kannada, Davanagere, Dharwad, Gulbarga, Hassan, Haveri, Kolar, Madikeri, Mysore, Shimoga, Tumkur

As of July 2004 detailed contingent bills for Rs.16.83 crore were pending submission as detailed below:

(Rupees in lakh)

Department	Number of DDOs	Number of AC bills	Amount	Drawn between	Reasons for pendency
Home (Police)	03	20	1,319.39	January & March 2004	Non- receipt of equipment ordered for
Stamps & Registration	01	08	246.75	March 2001 & July 2003	Non-completion of computerisation work by the agency
Education	19	155	78.70	August 1998 & March 2004	Non-receipt of sub-vouchers from programme coordinators/sub-ordinate officers
Revenue (Election)	12	42	38.28	January 1998 & March 2004	
<b>Total</b>	<b>35</b>	<b>225</b>	<b>1,683.12</b>		

In these cases, the Controlling Officers disregarding the system of internal controls issued the certificate of submission of detailed contingent bills by the DDOs as a matter of routine which enabled the latter to draw their salaries.

Delay up to five years was noticed in forwarding detailed contingent bills for Rs.3,583.62 lakh drawn during 1999-2004 on 1,134 AC bills by 74 DDOs\* of four departments as detailed below:

(Rupees in lakh)

Period of delay	No. of AC Bills	Amount
Up to one month	191	1,971.17
Up to six months	542	874.87
Up to one year	294	578.54
Up to two years	48	23.20
Up to three years	35	82.75
Up to four years	23	52.73
Up to five years	01	0.36
<b>Total</b>	<b>1,134</b>	<b>3,583.62</b>

It was observed that the Government while prescribing (September 2004) the revised procedure to route all the detailed contingent bills through Treasuries, directed the Treasury Officers not to honour AC bills for payment till the submission of all pending detailed contingent bills.

**(b) Delay in remittance of un-utilised amount**

As per the Manual, if due to unforeseen causes, the advance drawn could not be disbursed within a day or two, the amount or the unspent portion should be

\* Home (Police) – (Nine DDOs), Stamps and Registrations – (One DDO), Education – (32 DDOs), Revenue (Election) – (32 DDOs)



refunded to treasury forthwith. During 1999-2004, 18 DDOs of three<sup>★</sup> departments remitted unspent balance of Rs.42.57 lakh pertaining to 33 AC bills with delays ranging from one month to four years as detailed below.

(Rupees in lakh)		
Period of delay	No. of AC Bills	Amount
Up to one month	01	0.06
Up to six months	22	10.95
Up to one year	05	28.42
Up to two years	03	2.18
Up to three years	01	0.02
Up to four years	01	0.94
<b>Total</b>	<b>33</b>	<b>42.57</b>

**(c) Drawal of amounts on AC bills in excess of limits prescribed**

For drawal of amounts exceeding Rupees one lakh on AC bills permission of Finance Department was required to be obtained by the DDOs. However, in Education and Home (Police) Departments, four DDOs drew Rs.15.75 lakh on five AC bills, each bill exceeding Rupees one lakh without permission of Government. The Treasury Officers also in violation of the instructions of the Finance Department passed the bills. Fifteen DDOs of Education and Home (Police) departments drew Rs.99.21 lakh on 118 AC bills by splitting the bills to avoid seeking permission from Finance Department.

## **4.7 General**

### **4.7.1 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, 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 Horticulture, Labour and Water Resources Departments are detailed in **Appendix 4.11** and **Appendix 4.12** respectively.

<sup>★</sup> Education -15 DDOs, Revenue (Election) - Two DDOs, Personnel and Administrative Reforms - One DDO.

A review of the IRs which were pending due to non-receipt of replies in respect of these 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 to seven IRs (23 paragraphs), four IRs (10 paragraphs) and 39 IRs (410 paragraphs) pertaining to Horticulture, Labour and Water Resources Departments respectively 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.

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

##### **(a) Action Taken Notes**

The Hand Book of Instructions (Finance Department) for speedy settlement of audit observations and Rules of Procedure (Internal Working), 1995 of Public Accounts Committee provide for furnishing detailed explanations *ie.*, Action Taken Notes (ATNs) to the audit observations featured in Audit Reports within four months of its being laid on the table of Legislature, to the Karnataka Legislature Secretariat and copies thereof to Audit Office by all the departments of Government.

Though the Audit Reports for the years 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 were presented to the State Legislature on 27 March 1997, 14 May 1998, 1 July 1999, 3 May 2000, 24 July 2001, 22 March 2002 and 28 March 2003 respectively, 19 Departments, as detailed in **Appendix 4.13** had not submitted ATNs, as of December 2004.

In respect of the following important irregularities, which featured in the Audit Reports 1998-99, 1999-2000, 2000-01 and 2001-02, ATNs were not received even after 21 to 55 months.

#### **Audit Report 1998-99**

##### **1. Social Welfare Department**

##### **3.16 Fictitious payment of scholarships**

District Social Welfare Officer, Bangalore Urban District failed to exercise checks on sanction/disbursement of scholarships, resulting in payment of scholarship of Rs.6.65 lakh to fictitious students during 1997-98 and 1998-99. Genuineness of disbursement of scholarship for Rs.3.10 lakh was also doubtful. ATNs have not been received (December 2004).



**Audit Report 1999-2000****2. Youth Services and Sports Department****3.2 Fourth National Games**

State Government conducted Fourth National Games during May - June 1997. Due to delay in providing budgetary support, major part of expenditure was met through overdrafts availed of from Banks resulting in fruitless payment of interest of Rs.18.59 crore. ATNs have not been received (December 2004).

**Audit Report 2000-01****3. Commerce and Industries Department****6.3 Extra contractual/excess payments and undue favour to a contractor**

Chief Executive Officer and Executive Member/Chief Development Officer of the Karnataka Industrial Areas Development Board failed to enforce the contractual provisions compounded by departmental lapses facilitated excess payments and undue favours aggregating Rs.17.97 crore to the contractor causing huge financial loss to the Board.

**Audit Report 2001-02****4. Revenue Department****3.12 Excess transfer of Additional Stamp Duty to Urban Local Bodies in Bangalore District (Urban)**

Failure of the Government to monitor transfer of Additional Stamp Duty to Urban Local Bodies facilitated misuse of authority by the District Registrar who transferred Rs.239.84 crore in excess.

**(b) Status of paragraphs to be discussed by Public Accounts Committee**

Comments on Appropriation Accounts appeared in Audit Reports for the years 1989-90 onwards are pending discussion by Public Accounts Committee. Status of paragraphs (excluding General and Statistical) pending discussion as of October 2004 are detailed in **Appendix 4.14**.

**4.7.3 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 its 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 October 2004 are mentioned below:

Serial Number	Department	Year(s) for which accounts are due
1.	Agriculture - Director of Agriculture	2003-04
2.	Animal Husbandry & Veterinary Services - Director of Animal Husbandry & Veterinary Services	2003-04
3.	Commerce and Industries - Director of Industries	2002-03 & 2003-04
4.	Health and Family Welfare	
	(i) Director , Health and Family Welfare Services	2003-04
	(ii) Director of Medical Education	2002-03 & 2003-04
	(iii) Joint Director of Government Medical Stores	1999-2000 to 2003-04
	(iv) Indian System of Medicine and Homeopathy	2002-03 & 2003-04
5.	Information, Tourism and Youth Services - Director of Information and Publicity	2003-04
6.	Education - Director of Printing & Stationery	2003-04
7.	Revenue (Registration) - Inspector General of Registration and Commissioner of Stamps	2001-02 to 2003-04
8.	Public Works, Water Resources and Minor Irrigation	*1995-96 to 2003-04

**\* Accounts due from :**

- (a) One Division - for 18 half yearly periods (1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 & 2003-04)
- (b) Two Divisions - for 12 half yearly periods (1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 & 2003-04)
- (c) Two Divisions - for nine half yearly periods (October 1999 to March 2000, 2000-01, 2001-02, 2002-03 & 2003-04)
- (d) One Division - for eight half yearly periods (2000-01, 2001-02, 2002-03 & 2003-04)
- (e) One Division - for seven half yearly periods (October 2000 to March 2001, 2001-02, 2002-03 & 2003-04)
- (f) Three Divisions - for six half yearly periods (2001-02, 2002-03 & 2003-04)
- (g) Four Divisions - for five half yearly periods (October 2001 to March 2002, 2002-03 & 2003-04)
- (h) Five Divisions - for four half yearly periods (2002-03 & 2003-04)
- (i) 18 Divisions - for three half yearly periods (October 2002 to March 2003 & 2003-04)
- (j) 23 Divisions - for two half yearly periods (2003-04)
- (k) 45 Divisions - for one half yearly period (October 2003 to March 2004)





## CHAPTER V

### INTERNAL CONTROL SYSTEM

#### HOME DEPARTMENT

##### 5.1 Evaluation of Internal Control System and Internal Audit in the Department of Prisons

###### Highlights

*Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control System and strict adherence to statutes, codes and manuals minimise the risk of errors and irregularities and help to protect resources against loss due to waste, abuse, mismanagement, etc. The main functions of the Department of Prisons were admission and custody of prisoners, providing employment and rehabilitation, monitor their release, etc. Evaluation of the Internal Control System revealed instances of non-compliance with rules, manual and codes. Prevention of entry of prohibited articles into prison was not effective. Prisoners accommodated in several prisons exceeded the capacity of such prisons. Prison authorities did not submit to courts the prescribed monthly statements of undertrial prisoners. The Board of visitors who were to inspect prisons periodically and ensure compliance with rules and procedures had not been constituted in test-checked prisons.*

Though, undertrial prisoners constituted 79 to 83 per cent of total prisoners, prison authorities did not submit to courts the monthly statements indicating the number of undertrial prisoners awaiting trial for more than three months and those eligible for bail.

(Paragraph 5.1.11)

Some test-checked prisons were over-crowded due to insufficient accommodation and inaction of prison administration to transfer prisoners to less congested prisons.

(Paragraph 5.1.10)

During 2001-02, there were cases of prisoners possessing prohibited articles inside prisons. Similar information for 2002-04 was not furnished.

(Paragraph 5.1.8)



**Data regarding escape of convicted and undertrial prisoners during 2002-04 for the State as a whole was not furnished. In test-checked prisons, cases of 18 prisoners escaping from custody during 2002-04 were reported, revealing non-compliance with controls prescribed for custody and security of prisoners.**

**(Paragraph 5.1.13)**

**Board of visitors who were to inspect prisons, had not been constituted in test-checked prisons.**

**(Paragraph 5.1.15)**

**State Government had not implemented recommendations of the National Human Rights Commission regarding new Prison Bill and Jail Manual.**

**(Paragraph 5.1.16)**

### **5.1.1 Introduction**

An Internal Control System may be defined as methods, procedures and other measures to achieve:

- Economical, efficient and effective operations consistent with the organisation's mandate,
- Prevention of loss, wasteful expenditure and other irregularities and
- Adherence to laws, regulations and management directives.

Thus, Internal Control is a process to provide reasonable assurance regarding performance, achievement of objectives, reliability of financial reporting and compliance with Rules and Regulations.

The various internal controls as applicable to the Department of Prisons have been prescribed in the Karnataka Prisons Act, 1963 (Act), the Karnataka Prisons Rules, 1974 (Rules) and the Karnataka Prisons Manual, 1978 (Manual), for effective functioning of the Department.

### **5.1.2 Objectives of Internal Control**

The main objectives of Internal Control in the Prison Department are:

- Custody, security, reformation and rehabilitation of prisoners
- Ensuring proper maintenance of control registers and records
- Ensuring proper compliance with provisions of Act, Rules and Manual by the Jail authorities through periodical inspections and internal audit.



### 5.1.3 Organisational set-up

The Department of Prisons is under the administrative control of the Principal Secretary to Government, Home Department and is headed by the Director General of Police and Inspector General of Prisons (DGP&IGP), assisted by the Deputy Inspector General of Prisons (DIG). There are 53 prisons, classified as Central Prisons (six), district prisons (six), district headquarters sub-jails (seven), special sub-jails (two), taluk sub-jails (29), open-air jail (one), juvenile jail (one) and borstal school (one).

### 5.1.4 Audit objectives

To assess the extent of compliance with the financial and operational controls in relation to physical verification of prisoners at the time of entry and exit, segregation of prisoners, producing undertrials to courts, rehabilitation measures, transfer and release of prisoners, *etc.*, as prescribed in the Act, Rules and Manual.

### 5.1.5 Audit coverage

Internal control system relating to financial as well as operational areas of the Department for the period from 2000-01 to 2003-04 was reviewed during January to June 2004 by test-check of records maintained at the Secretariat (Home Department), Office of the DGP&IGP, four<sup>♦</sup> Central Prisons, four<sup>®</sup> district prisons/district headquarters sub-jails and five<sup>\*</sup> taluk sub-jails. The results of the test-check are brought out in the succeeding paragraphs.

## Financial controls

### 5.1.6 Budget and expenditure

Budget provision and expenditure of the Department during 1999-2004 were as under:

(Rupees in crore)			
Year	Budget provision	Actual Expenditure	Excess (Percentage)
1999-2000	19.53	19.75	0.22 (1.1)
2000-01	22.56	22.96	0.40 (1.8)
2001-02	25.30	25.96	0.66 (2.6)
2002-03	27.48	27.92	0.44 (1.6)
2003-04	41.54	49.46	7.92 (19.1)
<b>Total</b>	<b>136.41</b>	<b>146.05</b>	<b>9.64 (7.1)</b>

♦ Bangalore, Belgaum, Bellary and Mysore

® Dharwad, Kolar, Shimoga and Tumkur

\* Arasikere, Chickballapur, Ramanagara, Gokak and Tiptur



Excess expenditure occurred under Salaries (22.2 *per cent*) and modernisation of prisons (27.5 *per cent*) during 2003-04. Excess of expenditure over the budget provision reflected on the quality of control over expenditure.

### 5.1.7 Deficiencies in maintenance of personal deposit accounts

Personal deposit account relating to prisoners cash not maintained properly

Superintendents of jails were to maintain personal deposit (PD) account (Paragraph 802 of Prison Manual) in the treasury into which money belonging to prisoners including wages earned by them were to be deposited and also to account for all payments. Besides, they were to maintain a Prisoners' Private Property Register indicating prisoner-wise amount collected, paid and balance as on any date. The balance as reflected in the PD account and the balance as per Prisoners' Private Property Register was to be reconciled once in every six months. Totals of Prisoners' Property Register had never been drawn and agreed with the PD account in any of the test-checked prisons.

Cash collected from prisoners was to be remitted to PD account within a month. The Superintendent in charge of Central Prison, Shimoga, delayed remittance by 270 days (two cases aggregating Rs.3,000) and 30 days (Rs.1,500) while in Central Prison, Mysore, it was delayed by 10 to 30 days (five cases involving Rs.3.62 lakh) and 91 to 153 days (eight cases involving Rs.2.47 lakh). The Superintendent, Central Prison, Mysore, stated (June 2004) that the amount retained was not huge. The reply was not tenable as balance on each occasion ranged from Rs.0.51 lakh to Rs.0.60 lakh which was retained in violation of Rules.

## Operational controls

### 5.1.8 Prevention of entry of prohibited articles into prison

Possession of prohibited articles by the prisoners indicated ineffectiveness of control

The prisoners at the time of admission and on every subsequent occasion of entry/exit are to be physically checked by the Jailor and the subordinate staff to prevent entry of prohibited articles into prison (Paragraph 184(i) of Prison Manual). Besides, any person passing through the prison gate and suspected of bringing any prohibited article into or out of prison shall be searched by the gatekeeper. During 2000-02, 48 cases of prisoners possessing prohibited articles were reported. Similar details for 2002-04 were not furnished. However, review of the Superintendent's Journal in respect of Central Prison, Bangalore revealed two such cases (mobile telephone and gutka parcels) (July 2002, October 2002). This also indicated that eight cell phone de-activators and mobile phone jammer system installed (June 2002) at a cost of Rs.2.56 lakh in the Central Prison, Bangalore, were not effective. DIG, Central Prison, Bangalore, stated (May 2004) that the range of these de-activators was small and Government had sanctioned purchase of a sophisticated mobile phone jammer at a cost of Rs.96.37 lakh. DGP&IGP, however, did not intimate whether this jammer had been purchased and installed or not. These cases, though illustrative, indicated that the existing procedure of physical verification of prisoners was not quite effectively followed leading to entry of prohibited articles into prisons.



### 5.1.9 Prisoners not subjected to quarantine

Prisoners on their admission not subjected to quarantine due to lack of accommodation

Prisoners, on their admission, were to be subjected to quarantine for a minimum of ten days to acquaint them with the rules/discipline of prisons and also to ensure that they were free from epidemic disease (Paragraph 202(i) of Prison Manual). In the test-checked prisons, though on an average 43 to 385\* prisoners were admitted during each fortnight in 2001-04, none was subjected to quarantine. The prison authorities while admitting the lapse attributed (July 2004) the same to non-availability of accommodation. However, in the Central Prison, Bangalore, prisoners were not subjected to quarantine despite availability of separate quarantine block which was used for accommodating high security prisoners.

### 5.1.10 Custody and segregation of prisoners

As against the prescribed area of 50 square feet (Paragraph 902 of Prison Manual) to be provided to a prisoner, actual space provided was not available on record in any of the test-checked prisons.

Details of daily average number of prisoners held in custody during 2001-03 as against the authorised capacity in eight test-checked prisons were as follows:

Name of the Prison/ Intake capacity	2001-02			2002-03		
	Convict prisoners	Undertrial prisoners	Percentage of over-crowding	Convict prisoners	Undertrial prisoners	Percentage of over-crowding
Bangalore/2100	620	2101	30	652	2073	30
Mysore/362	364	609	169	416	580	175
Tumkur/69	-	216	213	-	-	-
Shimoga/167	6	287	75	11	361	123
Kolar/82	-	207	152	-	-	-
Dharwad/120	75	-	-	8	158	38
Belgaum/1162	279	495	-	365	432	-
Bellary/747	-	400	-	-	443	-

There was huge congestion and non-categorisation of prisoners

Despite availability of accommodation for additional 304 to 388 prisoners in the Central Prisons at Bellary and Belgaum during 2001-03, action was not taken to transfer (Rule 155 of Karnataka Prison Rules) convict prisoners from other prisons where there was heavy congestion. Details of daily average number of prisoners for 2000-01 and 2003-04 were not furnished.

Male prisoners were to be categorised<sup>®</sup> age-wise and each category was to be kept separately in all central and district prisons. This was to be ensured through inspections by DGP&IGP, DIG and Board of Visitors.

\* Bangalore-385, Kolar-64, Mysore-81, Shimoga-102 and Tumkur-43

® Male prisoners below age of 21 years from those above that age and male prisoners who had reached the age of puberty but were below 21 years



Information on such categorisation and segregation for the State as a whole was not available with DGP&IGP. However, prisoners were not categorised in two (Bangalore and Mysore) out of eight prisons test-checked. The Superintendents in charge of these prisons attributed (June 2004) the over crowding and non-segregation of prisoners to non-availability of accommodation.

It was, however, noticed in audit that Government of India had released its 50 *per cent* share of grant of Rs.1.40 crore during 1999-2002 for modernisation of prison administration in the State which included Rs.12 lakh for construction of additional accommodation. The State Government failed to release its matching share and the accommodation problem in the jails remained largely unsolved.

#### 5.1.11 Producing undertrial prisoners to courts

Undertrial prisoners constituted 79 to 83 *per cent* of total prisoners held in custody during 2000-03 as per details given below:

(Daily average)

Year	Number of convicts	Number of undertrials	Total	Percentage of undertrials
2000-01	1,623	7,769	9,392	83
2001-02	2,058	8,400	10,458	80
2002-03	2,136	8,253	10,389	79

The percentage of undertrial prisoners produced to courts declined continuously from January 2003 in Central Prison, Bangalore

The undertrial prisoners are to be produced to courts on the date stipulated in warrants (Paragraph 723(ii) of Prison Manual). However, all the undertrial prisoners required to be produced on a particular date were not produced on that date but were produced on second/ subsequent occasions in a staggered manner. Undertrial prisoners produced in courts in different months during 2001-04 ranged from 71 to 94 *per cent* of total number of undertrial prisoners in test-checked prisons excluding the Central Prison, Bangalore. In the Central Prison, Bangalore, the number of undertrial prisoners produced to courts declined continuously from 85 *per cent* (January 2003) to 30 *per cent* (February 2004) of total number of undertrial prisoners required to be produced in respective months as shown below:

	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	June 2003	July 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003	Jan 2004	Feb 2004	Mar 2004
Total number of undertrial prisoners	6,377	6,127	7,111	7,272	7,487	7,162	8,124	5,550	6,042	8,070	7,099	6,742	7,353	7,400	5,990
Number of undertrial prisoners produced to Court	5,399	4,622	5,083	4,891	3,472	2,310	3,431	2,902	3,095	2,508	2,194	2,062	2,330	2,207	1,972
Percentage	85	75	71	67	46	32	42	52	51	31	31	31	32	30	33



The deficiency in producing undertrial prisoners to court was attributed (May 2004) by DGP&IGP to change in escort arrangement effected (November 2000) by the Government. Earlier, required number of escorts were provided by the Police Department on requisition from the Prisons Department as and when required. However, from November 2000, the Government provided escorts (Police Department) on deputation basis for a fixed period against 947 sanctioned posts in Prisons Department. Though, DGP&IGP had written (September 2003) to the Government to either restore the earlier system or to sanction 768 additional deputation posts of escorts, the Government had not taken any action in the matter (December 2004).

#### ***5.1.12 Statements of pendencies of undertrial cases not produced***

**Large number of undertrial prisoners ranging from 1137 to 82 awaiting completion of investigation/trial for two to five years**

Prison authorities were to submit to courts on the fifth of each month (Paragraph 724(3) of Prison Manual), a monthly statement indicating details of undertrial prisoners whose cases are pending in courts for more than three months. This would enable courts to review cases pending for long and expedite their disposal. However, the statement had not been furnished to courts though a large number of undertrial prisoners (1137 up to two years, 411 up to three years, 100 up to four years, 82 up to five years as of March 2004) were awaiting completion of investigation/trial in various prisons of the State. Similarly, a periodical statement indicating undertrial prisoners who might be eligible for bail was also to be furnished to the courts. Such statements were also not furnished. Due to non-submission of the said statements, the position of cases pending for long could not be reviewed. Expenditure of Rs.3.93 crore was incurred on diet and uniforms of the undertrial prisoners for periods ranging from two to five years excluding the initial period of three months.

#### ***5.1.13 Escape of prisoners from custody***

Prison authorities were to ensure safe custody and security of prisoners through effective watch/surveillance over their movement, verification during exit from or entry into barracks and cells (Paragraph 251, 253 and 265 of Prison Manual) and confining in iron where warranted (Rule 119 of Karnataka Prison Rules). However, 82 convict prisoners had escaped from custody as of March 2002. DGP&IGP did not furnish details of undertrials/convicted prisoners who escaped from the jails of the State during 2002-04. Test-check in Central Prisons at Mysore, Belgaum, Shimoga and Bangalore, revealed that 18 prisoners (five convicts, 13 undertrials) escaped during 2002-04. Superintendents of these jails attributed (March 2004) escape of these prisoners to inadequate guarding staff and non-availability of fencing/compound wall for gardening area outside the jail premises. The recurring feature of prisoners escaping from jails indicated non-compliance with controls prescribed for ensuring safe custody/safety of prisoners.



#### **5.1.14 Non-maintenance of Medical Records**

At the Central Prison, Bangalore, the following records were not maintained:

Medical Treatment Register to note entries in respect of treatment given to sick prisoners as in-patient or out-patient.

A Hospital Roll and Prescription Book to record the names of prisoners, who were detained for observation in a hospital for more than 24 hours and indicating the treatment given to them.

A Case Book to record the history of every case admitted in the hospital daily.

### **Monitoring and Evaluation**

#### **5.1.15 Non-constitution of Board of visitors**

**Board of  
visitors not  
constituted**

Government was to constitute a Board of visitors\* for each prison (paragraph 624 of Prison Manual). Board of visitors was to inspect the prison once a week to ensure that management of prisons and prisoners was carried out in accordance with the prescribed rules and procedures. They were also to ensure that (a) health, cleanliness and proper discipline were maintained, (b) no person was illegally detained or detained for undue length of time while awaiting trial, (c) examine various registers, (d) inspect food supplied to prisoners and (e) hear complaints and petitions from prisoners. The Board of visitors was also to meet once in a quarter. It was seen in audit that the Board of visitors had not been constituted in the test-checked prisons. Information regarding whether the same was constituted for other jails and functioned as prescribed was not furnished to audit.

#### **5.1.16 Non-compliance with the recommendations of National Human Rights Commission**

The National Human Rights Commission (NHRC) had prepared a Draft Indian Prison Bill during 1996 and circulated it to the States and Union Territories for consideration. The Commission in its Annual Report for the year 2000-01 had observed that its recommendation to draft a new Prison Bill and a Jail Manual had not been implemented by the Government of Karnataka. It was stated (May 2004) by the Department that action would be taken to draft a new Prison Bill and Jail Manual.

#### **5.1.17 Shortfall in inspection of prisons**

As per Para 19 of the Manual, the Deputy Inspector General of Prisons was to inspect 50 *per cent* of the district prisons and at least one-third of the Taluk sub-jails every year and complete inspection of all the taluk sub-jails in three

\* Board of Visitors consists of Ex-officio visitors viz.- Deputy Commissioner as Chairman, Sessions Judge, Inspector General of Police, Deputy Inspector General of Police, Director of Public Instruction, Director of Health and Family Planning Services, Superintending Engineer, Director of Industries and Commerce, Secretary to Government, Home Department and 10 non-official visitors appointed by the Government



years with a view to ensuring that administration of prisons and management of prisoners were carried out properly and in accordance with the prescribed rules and procedures. The Superintendents of Central Prisons and Borstal School, Dharwad were to inspect taluk sub-jails in their jurisdiction twice in a year. It was observed that no such inspection of taluk sub-jails was being carried out by the Superintendents of the Central Prisons during the period 2001-04. The shortfall in inspection was as under:

Period	No of Jails actually inspected		Shortfall in coverage	
	District prison	Taluk sub-jails	District prison	Taluk sub-jails
2001-02	02	05	05	05
2002-03	02	04	05	05
2003-04	06	04	01	09

Evidently, in respect of prisons not inspected, compliance with rules and procedure, quality of food, discipline, existence of hygienic conditions, etc. was not verified.

### Evaluation of Internal Audit System

#### 5.1.18 Non-preparation of Manual for internal audit

The department had not prescribed internal auditing standards

There was no Internal Audit Manual in the Department, codifying the practices and procedure relating to conduct of internal audit. The guidelines issued (December 1992) by Government provided that all offices of the Department be audited annually. The mandays required are to be fixed on the basis of volume of transactions in the auditee organisation and the quantum of audit checks are to include detailed examination of one monthly account and general coverage of the entire year under audit. Internal Audit Reports are to be issued within a month from the date of conduct of audit and replies thereto furnished by the auditee office within one month. A Control Register is to be maintained in the Internal Audit Wing (IAW) to watch receipt and clearance of the outstanding paragraphs and money value of objections. IAW is to verify invariably encashments and remittances and check correctness of reconciliation of expenditure. The IAW of the Department had not complied with any of the above requirements.

#### 5.1.19 Internal Audit Wing not functioning independently

As per guidelines issued by the Finance Department, the IAW was to function with personnel drawn from the Department of State Accounts with overall responsibility for internal audit remaining with the Administrative Department. On the contrary, the IAW of the Department of Prisons was completely manned by the Departmental staff (one Audit Superintendent and four Grade-II Auditors) and was functioning under the overall control of the Department and was thus, not an independent entity.

#### **5.1.20 Planning & Poor internal audit coverage**

All the units in the Department are to be audited annually and no unit is to be left unaudited for more than two years. Besides, internal audit of units has to precede external audit by the Accountant General. There were 53 prisons in the Department. Percentage of units covered in internal audit during the period 2000-03 ranged between zero and six *per cent*. Audit of 31 prisons was in arrears for three or more years.

The DGP&IGP stated (February 2004) that the poor coverage was due to inadequate staff provided for IAW and hence offices were selected on the basis of quantum of transactions. It was, however, seen that even the available staff was not exclusively used for internal audit purposes and internal audit of even the six central prisons where the quantum of expenditure was huge had not been audited annually.

#### **5.1.21 Issue of Inspection Reports & Compliance**

Timely issue of Inspection Reports to the Drawing and Disbursing Officers (DDOs) and monitoring the outstanding paragraphs and money value of objections of internal audit as required under the guidelines could not be verified as the relevant control registers were not maintained in the IAW. However, the statement of outstanding objections furnished (February 2004) by the Department indicated the following position as of 2002-03.

(Number of paragraphs)				
Year	OB	Additions	Clearance	Total
2000-01	42	14	12	44
2001-02	44	53	14	83
2002-03	83	-	14	69

Financial implication of the above paragraphs was not furnished by the Department.

#### **5.1.22 Evaluation of the working of Internal Audit Wing**

Inadequate staff, absence of a departmental internal audit manual, lack of audit planning and severe shortfall in the coverage of units rendered internal audit in the Department of Prisons ineffective.

#### **5.1.23 Conclusion**

Physical check of prisoners during their entry/exit was ineffective which resulted in possession of prohibited articles by convicts inside prisons. There was huge delay in producing undertrials to court due to problems of escorting and the prescribed reports were not sent to courts causing delayed justice to them. There was over-crowding of prisoners due to insufficient accommodation in prisons. Non-constitution of Board of visitors deprived the convicts of opportunities for redressal of their grievances through an independent body.



#### 5.1.24 Recommendations

- System of physical check of prisoners during entry/exit should be made more effective by installing sophisticated gadgets and deploying trained staff.
- The system of providing escorts to undertrials when they are taken to courts should be streamlined and monthly reports regarding undertrials submitted to courts regularly.
- Immediate action is necessary to constitute the Boards of Visitors and to draft a new Prison Bill and Jail Manual as per the recommendations of the NHRC.

**5.1.25** The matter was referred to Government in August 2004; their reply had not been received (December 2004).

*K. P. Lakshmana. Rao*

**BANGALORE**

**THE 27 MAY 2005**

**(K.P. LAKSHMANA.RAO)**  
**Principal Accountant General**  
**(Civil & Commercial Audit)**

**COUNTERSIGNED**



**NEW DELHI**

**THE 13 JUN 2005**

**(VIJAYENDRA N. KAUL)**  
**Comptroller and Auditor General of India**





# APPENDICES





**Appendix 1.1****Part A : Structure and form of Government Accounts****(Reference: Paragraph 1.1, Page 2)**

**I. Structure:** The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

**Part I: Consolidated Fund**

All receipts of the State Government from revenues, loans and recoveries of loans go into the Consolidated Fund of the State, constituted under Article 266(1) of the Constitution of India. All expenditure of the Government is incurred from this Fund from which no amount can be withdrawn without authorisation from the State Legislature. This part consists of two main divisions, namely, Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Capital Receipts, Capital Expenditure, Public Debt and Loans, etc).

**Part II : Contingency Fund**

The Contingency Fund created under Article 267(2) of the Constitution of India is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorisation from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorised by the Legislature during the year was Rs.80 crore.

**Part III : Public Account:**

Receipts and disbursements in respect of small savings, provident funds, deposits, reserve funds, suspense, remittances, etc., which do not form part of the Consolidated Fund, are accounted for in Public Account and are not subject to vote by the State legislature.

**II. Form of Annual Accounts:**

The accounts of the State Government are prepared in two volumes viz., the Finance Accounts and the Appropriation Accounts. The Finance Accounts present the details of all transactions pertaining to both receipts and expenditure under appropriate classification in the Government accounts. The Appropriation Accounts, present the details of expenditure by the State Government vis-à-vis the amounts authorised by the State Legislature in the budget grants. Any expenditure in excess of the grants requires regularisation by the Legislature.

**Part B: List of terms used in Chapter-I and basis for their calculation**

(Reference: Paragraph 1.4, Page 5)

Terms	Basis for calculation
Buoyancy of a parameter	$\frac{\text{Rate of Growth of the parameter}}{\text{GSDP Growth}}$
Buoyancy of a parameter (X) with respect to another parameter (Y)	$\frac{\text{Rate of Growth of parameter (X)}}{\text{Rate of Growth of parameter (Y)}}$
Rate of Growth (ROG)	$[(\text{Current year Amount} / \text{Previous year Amount}) - 1] * 100$
Development Expenditure	Social Services + Economic Services
Weighted Interest Rate (Average interest paid by the State)	$\text{Interest Payment} / [(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) / 2] * 100$
Interest spread	GSDP growth - Weighted Interest rates
Interest received as <i>per cent</i> to Loans Advanced	$\text{Interest Received} [(\text{Opening balance} + \text{Closing balance of Loans and Advances}) / 2] * 100$
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest Payments
Balance from Current Revenue (BCR)	Revenue Receipts <b>minus</b> all Plan grants and Non-plan Revenue Expenditure excluding expenditure recorded under the major head 2048 – Appropriation for reduction or Avoidance of debt



## Appendix 1.2

## Utilisation Certificates outstanding as on 31 March 2004

(Reference: Paragraph 1.7.1, Page 15)

(Amount: Rupees in lakh)

Sl. No.	Department	Year of Payment of grant	Total grants paid		Utilisation Certificates			
			Number	Amount	Received		Outstanding	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>I</b>	<b>EDUCATION</b>							
	2203-Technical Education	1992-93	11	6.60	-	-	11	6.60
	<b>Total</b>		<b>11</b>	<b>6.60</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>6.60</b>
<b>II</b>	<b>INFORMATION, TOURISM AND YOUTH SERVICES</b>							
<b>1</b>	2204-Sports and Youth Services	1989-90	15	9.10	3	3.17	12	5.93
		1990-91	01	0.10	-	-	1	0.10
		1996-97	04	1580.40	4	1580.40	-	-
		1997-98	06	2064.77	6	2064.77	-	-
		1998-99	08	184.75	6	90.00	2	94.75
	<b>Total</b>		<b>34</b>	<b>3839.12</b>	<b>19</b>	<b>3738.34</b>	<b>15</b>	<b>100.78</b>
<b>2</b>	2220 - Information & Publicity	1999-00	4	44.50	-	-	4	44.50
		2000-01	11	50.00	-	-	11	50.00
		2001-02	11	40.00	7	23.00	4	17.00
		2002-03	4	18.50	-	-	4	18.50
	<b>Total</b>		<b>30</b>	<b>153.00</b>	<b>7</b>	<b>23.00</b>	<b>23</b>	<b>130.00</b>
<b>III</b>	<b>KANNADA AND CULTURE</b>							
<b>1</b>	2205- Art & Culture	1986-87	3	5.30	-	-	3	5.30
		1987-88	5	5.01	-	-	5	5.01
		1988-89	23	19.48	-	-	23	19.48
		1990-91	21	63.70	-	-	21	63.70
		1991-92	3	2.25	-	-	3	2.25
		1993-94	26	52.98	1	0.50	25	52.48
		1999-00	9	159.65	-	-	9	159.65
		2000-01	4	2.07	-	-	4	2.07
		2001-02	4	46.65	4	46.65	-	-
	<b>Total</b>		<b>98</b>	<b>357.09</b>	<b>5</b>	<b>47.15</b>	<b>93</b>	<b>309.94</b>

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2	<b>2235 – Social Security &amp; Welfare</b>	1986-87	1	1.27	-	-	1	1.27
		1992-93	1	0.31	-	-	1	0.31
		1993-94	4	1.61	-	-	4	1.61
		1994-95	2	0.19	-	-	2	0.19
	<b>Total</b>		<b>8</b>	<b>3.38</b>	-	-	<b>8</b>	<b>3.38</b>
<b>IV</b>	<b>HEALTH AND FAMILY WELFARE</b>							
	<b>2210-Medical &amp; Public Health</b>	1999-00	7	674.57	7	674.57	-	-
		2000-01	19	711.98	16	657.37	3	54.61
		2001-02	10	81.01	-	-	10	81.01
	<b>Total</b>		<b>36</b>	<b>1467.56</b>	<b>23</b>	<b>1331.94</b>	<b>13</b>	<b>135.62</b>
<b>V</b>	<b>URBAN DEVELOPMENT</b>							
	<b>2217- Urban Development</b>	1993-94	6	271.52	-	-	6	271.52
		1994-95	1	25.00	1	25.00	-	-
		1997-98	19	1174.80	-	-	19	1174.80
		1998-99	4	254.50	-	-	4	254.50
		1999-00	9	175.63	-	-	9	175.63
		2001-02	16	1043.84	-	-	16	1043.84
		2002-03	14	2439.50	-	-	14	2439.50
	<b>Total</b>		<b>69</b>	<b>5384.79</b>	<b>1</b>	<b>25.00</b>	<b>68</b>	<b>5359.79</b>
<b>VI</b>	<b>CO-OPERATION</b>							
1	<b>2425 – Co-operation</b>	1986-87	1	1.96	-	-	1	1.96
		1988-89	21	4043.52	-	-	21	4043.52
		1989-90	20	3551.68	-	-	20	3551.68
	<b>Total</b>		<b>42</b>	<b>7597.16</b>	-	-	<b>42</b>	<b>7597.16</b>
2	<b>3475-Other General Economic Services</b>	1997-98	1	979.13	-	-	1	979.13
		1998-99	2	371.34	-	-	2	371.34
		2001-02	5	120.41	-	-	5	120.41
		2002-03	11	243.40	-	-	11	243.40
	<b>Total</b>		<b>19</b>	<b>1714.28</b>	-	-	<b>19</b>	<b>1714.28</b>
<b>VII</b>	<b>AGRICULTURE AND HORTICULTURE</b>							
	<b>2515- Other Rural Development Programme</b>	1990-91	6	156.58	-	-	6	156.58



(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		1991-92	39	1233.84	-	-	39	1233.84
		1992-93	6	96.22	-	-	6	96.22
		1993-94	33	1419.37	-	-	33	1419.37
		1994-95	61	2327.86	-	-	61	2327.86
		2001-02	73	7532.50	-	-	73	7532.50
		2002-03	28	3879.37	-	-	28	3879.37
	<b>Total</b>		<b>246</b>	<b>16645.74</b>	<b>-</b>	<b>-</b>	<b>246</b>	<b>16645.74</b>
<b>VIII</b>	<b>PLANNING, STATISTICS, SCIENCE AND TECHNOLOGY</b>							
	<b>3425-Other Scientific Research</b>	1986-87	1	2.05	1	2.05	-	-
		1990-91	7	4.80	7	4.80	-	-
		1993-94	2	2.88	2	2.88	-	-
		1994-95	4	36.85	4	36.85	-	-
		1996-97	35	142.75	35	142.75	-	-
		1997-98	38	211.70	38	211.70	-	-
		1998-99	8	62.00	8	62.00	-	-
		1999-00	20	109.47	17	71.47	3	38.00
		2001-02	18	149.00	10	114.00	8	35.00
		2002-03	16	72.00	-	-	16	72.00
	<b>Total</b>		<b>149</b>	<b>793.50</b>	<b>122</b>	<b>648.50</b>	<b>27</b>	<b>145.00</b>
	<b>Grand Total</b>		<b>742</b>	<b>37962.22</b>	<b>177</b>	<b>5813.93</b>	<b>565</b>	<b>32148.29</b>

### Appendix 1.3

#### Submission of accounts by Autonomous Bodies

(Reference: Paragraph 1.7.1, Page 16)

Sl. No	Body/Authority	Section under DPC Act	Period of entrustment	Date of entrustment	Years for which accounts due	Year up to which accounts received	Year up to which Audit Report issued
1.	Bangalore Water Supply and Sewerage Board, Bangalore	19(3)	1999-2000 to 2003-04	14.9.2001	2003-04	2003-04	2003-04
2.	Karnataka State Khadi and Village Industries Board, Bangalore	19 (3)	2002-03 to 2006-07	28.11.2002	2003-04	2003-04	2003-04
3.	Bangalore Development Authority, Bangalore	19(3)	2003-04	30-7-2004	2003-04	2003-04	2003-04
4.	Karnataka Urban Water Supply and Drainage Board, Bangalore	19(3)	2002-03 to 2003-04	27.4.2002	2003-04	2003-04	2003-04
5.	Karnataka Industrial Areas Development Board, Bangalore	19(3)	2003-04	16-4-2004	2003-04	2003-04	2002-03
6.	Karnataka State Legal Service Authority	19(2)	KSLS Act, 1987 amended in 1994	-	2003-04	2003-04	2002-03
7.	Karnataka Slum Clearance Board, Bangalore	19(3)	2002-03 to 2006-07	2.9.2003	2003-04	2003-04	2002-03
8.	Karnataka Housing Board, Bangalore	19(3)	2001-02 to 2005-06	29.7.2003	2003-04	2003-04	2002-03



**Appendix 1.4**  
**Non-receipt of accounts of Local Bodies/Authorities**  
**(Reference: Paragraph 1.7.1 , Page 16)**

Sl. No.	Department	Periods for which accounts not furnished	Number of accounts due
1.	Co-operation	1980-81 to 1982-83 and 1993-94 to 2002-03	192
2.	Commerce and Industries	2000-01 to 2002-03	03
3.	Education	1992-93 to 2002-03	208
4.	Forest, Environment and Ecology	2001-02 to 2002-03	02
5.	Health & Family Welfare Services	1998-99 to 2002-03	19
6.	Labour	1999-2000 to 2002-03	04
7.	Law	2001-02 and 2002-03	02
8.	Planning	2000-01 to 2002-03	08
9.	Public works and CADA	1999-2000 to 2002-03	07
11.	Revenue	2001-02 to 2002-03	02
12.	Rural Development and Panchayati Raj	2000-01 to 2002-03	03
13.	Science and Technology (State)	2000-01 to 2002-03	04
14.	Urban Development	1994-95 to 2002-03	50
15.	Youth Services and Sports	1999-2000 to 2002-03	05
	<b>Total</b>		<b>509</b>

### Appendix 1.5

#### Department-wise details of cases of misappropriations/defalcations

(Reference: Para 1.7.2, Page 16)

(Rupees in lakh)

Sl. No.	Department	No. of cases	Amount
1	Horticulture	8	41.25
2	Animal Husbandry and Veterinary Services	2	1.20
3	Commerce and Industries	6	19.69
4	Labour	7	13.92
5	Law and Parliamentary Affairs	9	3.49
6	Education	7	2.70
7	Finance	5	6.28
8	Forest, Environment and Ecology	11	265.74
9	Health and Family Welfare	19	15.28
10	Home	4	86.55
11	Information, Tourism and Youth Services	15	32.19
12	Planning	1	1.55
13	Public Works	25	212.32
14	Water Resources	72	256.13
15	Revenue	13	10.98
16	Rural Development and Panchayat Raj	9	0.37
17	Social Welfare	4	3.37
18	Women and Child Development	3	0.88
	<b>Total</b>	<b>220</b>	<b>973.89</b>



## Appendix 2.1

## Savings due to non-release of funds

(Reference: Paragraph 2.3.1, Page 35)

(Rupees in crore)

Sl. No.	Grant	Head of account	Savings
1	Grant No.2 - Animal Husbandry & Fisheries	2403-00-101-0-17 C.S.S of setting up of State Veterinary Council	0.28
2	-do-	2403-00-102-2-28 C.S.S for Foot and Mouth Disease Control Programme 221 M&S	1.20
3	-do-	2403-00-104-0-02 Karnataka Sheep and Sheep Product Development Board -Grant-in-Aid	1.30
4	-do-	2403-00-107-0-05 C.S.S of Establishment of Fodder Bank	0.56
5	-do-	2403-00-800-19 Enrichment of Straws and Cellulose waste	0.29
6	Grant No.8 - Forest, Ecology and Environment	3435-03-003-0-13 Lake Conservation Programme	8.75
7	Grant No.9 - Co-operation	2425-00-107-2 General	40.30
		(a)2425-00-107-2-36 Waiver of interest on Co-operative Short term Loan for Rabi 2002-Subsidies	
		(b)2425-00-107-2-37 Interest concession on Long Term Current Loans - Subsidies	33.00
		(c)2425-00-107-2-38 Waiver of interest on Long Term Current Loans of Horticultural Crops-subsidies	20.00
		(d)2425-00-107-2-39 Revival of KCC Bank, Dharwad-Subsidies	25.00
8	Grant No.14 - Revenue	2250-00-800-1 Muzarai Department	8.70
9	Grant No.22 - Health and Family Welfare	2210-03-110-06 - RIDF Works	10.00
10	Grant No.26 - Planning, Statistics, Science and Technology	3541-800-02- Centre for Public policy at Indian Institute of Management, Bangalore	1.96
	<b>Total</b>		<b>151.34</b>

**Appendix 2.2**  
**Excess requiring regularisation**  
**(Reference: Paragraph 2.3.2, Page 36)**

(Rupees in crore)

Year	Number of grants/ Appropriation	Grant/Appropriation numbers	Amount of excess required to be regularised as commented in the Appropriation Accounts/Audit Reports	Actual excess	Remarks
1989-90	12/5	7,8,10,24,27,46,47,49,53,20,35,56,23, 45, 12, Interest payments	25.89	25.89	
1990-91	13/4	6,7,10,13,20,32,45,46,47,52,27,33,35, 47,4	35.73	35.68	Excess reduced on account of reconciliation of expenditure
1991-92	13/3	7,11, 14,22,23,36,45,46,47,51,57,27, 24, 41, 43	58.99	58.47	-do-
1992-93	12/3	6,9,27,32,34,41,43,44,45,46,50,52,25, 33, 34,48	107.47	107.47	
1993-94	7/3	22,36,46,49,54,13,29,49,24,43, Internal debt, Loans and advances from Central Government and Inter State Settlements	57.47	57.47	
1994-95	4/6	21,35,3,48,15,24,46,47,55	8.35	7.95	Due to erroneous budget provision
1995-96	9/2	2,33,39,43,45,49,1,46,52,21,44	27.79	27.79	
1996-97	9/3	2, 16, 33, 43, 49, 51, 8, 24, 25, 45, 1, 21, 43, 44	104.40	104.40	
1997-98	11	12,33,37,39,43,49,51,24,27,32,55	84.01	84.01	
1998-99	12	9,17,33,37,39,40,4,25,46,43,52	35.86	34.74	Excess reduced on account of reconciliation of expenditure
1999-00	11/2	10, 16, 19, 33, 34, 39, 48, 49, 65, 66, 8, 43.	333.22	333.22	
2000-01	11	5, 15, 24, 35, 38, 49, 7, 10, 42, 30, 44	114.46	114.46	
2001-02	10	5, 10, 13, 15, 24, 30, 35, 42, 44, 50	112.64	112.64	
2002-03	3/5	53,13,60,15,30,44,55,44	1090.49	1090.49	
<b>Total</b>			<b>2196.77</b>	<b>2194.68</b>	



## Appendix 2.3

## Cases where supplementary provisions proved unnecessary

(Reference: Paragraph 2.3.4, Page 37)

(Rupees in crore)

Sl. No.	Grant No. & Section	No. of Detailed Heads	Amount of Grant/Appropriation			
			Original	Supplementary	Expenditure	Savings
1	1 (Revenue-Voted)	1	1.25	1.00	0.32	1.93
2	3 (Revenue –Voted)	1	17.45	260.81	--	278.26
3	4 (Revenue –Voted)	1	0.50	15.00	0.36	15.14
4	5 (Revenue –Voted)	1	75.00	5.65	60.21	20.44
5	8 (Revenue –Voted)	1	2.00	1.00	1.77	1.23
6	10 (Revenue –Voted)	2	79.49	4.81	62.79	21.51
7	14 (Revenue –Voted)	1	--	5.00	--	5.00
8	17 (Revenue –Voted)	1	3.81	0.45	3.59	0.67
9	18 (Revenue –Voted)	2	37.70	1.60	11.39	27.91
10	19 (Revenue –Voted)	1	40.00	1.74	31.70	10.04
11	20 (Revenue –Voted)	1	2.85	0.54	2.64	0.75
12	24 (Revenue – Voted)	1	--	5.00	--	5.00
13	29 (Revenue – Charged)	1	1.65	1.38	1.42	1.61
	<b>Total</b>	<b>15</b>	<b>261.70</b>	<b>303.98</b>	<b>176.19</b>	<b>389.49</b>

## Appendix 2.4

### Cases where supplementary provisions proved insufficient

(Reference: Paragraph 2.3.4, Page 37)

(Rupees in crore)

Sl. No.	Grant No. & Section	No. of Detailed Heads involved	Amount of Grant/Appropriation			
			Original	Supplementary	Expenditure	Excess uncovered
1	1 (Revenue – Voted)	2	1.25	0.17	2.17	0.75
2	4 (Revenue – Voted)	1	0.10	0.25	0.49	0.14
3	5 (Revenue – Voted)	1	0.60	9.18	12.47	2.69
4	7 (Revenue – Voted)	1	2.10	1.00	4.51	1.41
5	12 (Revenue – Voted)	1	0.12	0.15	0.67	0.40
6	14 (Revenue – Voted)	1	21.58	18.48	98.65	58.59
7	15 (Revenue – Voted)	1	1.50	0.75	2.45	0.20
8	20 (Capital - Voted)	2	16.01	25.24	60.19	18.94
9	21 (Capital – Voted)	2	0.96	2.62	7.98	4.40
10	29 (Capital - Charged)	2	1188.68	4431.67	6835.30	1214.95
	<b>Total</b>	<b>14</b>	<b>1232.90</b>	<b>4489.51</b>	<b>7024.88</b>	<b>1302.47</b>



## Appendix 2.5

## Cases where supplementary provisions proved excessive

(Reference: Paragraph 2.3.4, Page 37)

(Rupees in crore)

Sl. No.	Grant No. & Section	No. of Detailed Heads involved	Amount of Grant/Appropriation			
			Original	Supplementary	Expenditure	Savings
1	3 (Revenue-Voted)	2	22.52	1326.87	1100.59	248.80
2	4 (Revenue-Voted)	1	1.00	9.00	5.61	4.39
3	5 (Revenue-Voted)	1	0.03	0.54	0.07	0.50
4	7 (Revenue-Voted)	2	68.98	1.99	46.86	24.11
5	9 (Revenue-Voted)	1	--	82.00	45.00	37.00
6	10 (Revenue-Voted)	1	120.29	0.79	77.69	43.39
7	12 (Revenue-Voted)	1	--	2.00	0.50	1.50
8	13 (Revenue-Voted)	1	128.00	31.70	142.74	16.96
9	17 (Revenue-Voted)	1	12.00	9.50	19.01	2.49
10	20 (Capital-Voted)	1	65.57	23.26	76.89	11.94
11	21 (Capital-Voted)	2	0.58	0.58	0.55	0.61
12	22 (Revenue-Voted)	1	4.11	5.50	4.92	4.69
13	24 (Revenue-Voted)	3	--	265.42	87.07	178.35
14	29 (Revenue-Voted)	1	--	29.19	24.14	5.05
<b>Total</b>		<b>19</b>	<b>423.08</b>	<b>1788.34</b>	<b>1631.64</b>	<b>579.78</b>

**Appendix 2.6**  
**Injudicious re-appropriation of funds**  
**(Reference: Paragraph 2.3.5, Page 37)**

(Rupees in crore)

Sl. No.	Head of Account	Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Actual Expenditure	Excess (+)/ Savings (-)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	2702 Minor Irrigation 80 General 800 Other Expenditure 01 Survey Works – Minor Irrigation, Bangalore	0.04	(+)0.19	0.23	2.04	(+)1.81
2	2401 Crop Husbandry 109 Extension and Farmers Training 22 District Agriculture Training Centre - Salaries	2.16	(+)0.64	2.80	3.89	(+)1.09
3	2055 Police 109 District Police 4 Police Radio Grid - General Expenses	0.80	(+)0.27	1.07	1.79	(+)0.72
4	4701 Capital outlay on Minor and Medium Irrigation 01 Minor Irrigation – Commercial 401 Karanja Project 1 Direction and Administration 01 Project Establishment - Salaries	5.55	(+)0.23	5.78	6.21	(+)0.43
5	2055 Police 108 State Head Quarters Police 10 Improvement of Traffic in Bangalore City - Other expenses	6.00	(+)0.94	6.94	1.38	(-)5.56
6	2210 Medical and Public Health 01 Urban Health Services – Allopathy 001 Direction and Administration 01 Directorate of Health and Family Welfare Services (Medical Branch) - Subsidiary expenses	2.39	(+)1.08	3.47	-	(-)3.47
7	4701 Capital Outlay on Major and Medium Irrigation 03 Medium Irrigation 337 Hirehalla Tank – AIBP 4 Other expenditure 01 Research - Capital expenses	1.23	(+)1.42	2.65	0.44	(-)2.21
8	2055 Police 800 Other expenditure 03 VVIP Security - Maintenance	2.23	(+)0.32	2.55	1.20	(-)1.35



(1)	(2)	(3)	(4)	(5)	(6)	(7)
9	2210 Medical and Public Health 05 Medical Education Training and Research 105 Allopathy 1 Education including Education in Pharmacy 33 Medical Colleges - Scholarships and Incentives	2.10	(+)2.11	4.21	2.88	(-)1.33
10	2406 Forestry and Wild Life 02 Environmental Forestry and Wild Life 110 Wild Life Preservation 47 Development of Wild Life Sanctuaries and National Parks – CSS - Major works	6.12	(+)2.05	8.17	7.87	(-)0.30
11	4701 Capital outlay on Minor and Medium Irrigation 01 Minor Irrigation – Commercial 401 Karanja Project 1 Direction and Administration 03 Central Mechanical Organisation - Salaries	0.41	(+)0.21	0.62	0.35	(-)0.27
12	2210 Medical and Public Health 80 General 196 Assistance to Zilla Panchayats 01 Block Grants - Lumpsum – ZP	13.82	(-)2.00	11.82	3.69	(-)8.13
13	2406 Forestry and Wild Life 02 Environmental Forestry and Wild Life 110 Wild Life Preservation 40 India Eco-Development Project 139 Major Works	7.50	(-)2.08	5.42	1.73	(-)3.69
14	4701 Capital Outlay on Major and Medium Irrigation 03 Medium Irrigation 370 Basapur LIS (NABARD) 4 Other Expenditure 03 Canal and Branches - Major Works	2.00	(-)0.54	1.46	-	(-)1.46
15	2401 Crop Husbandry 001 Direction and Administration 1 Agriculture Department 01 Directorate of Agriculture	2.25	(-)0.47	1.78	0.33	(-)1.45
16	4701 Capital Outlay on Major and Medium Irrigation 03 Medium Irrigation 369 Itagi Sasalwad LIS (NABARD) - Major Works	3.00	(-)1.64	1.36	-	(-)1.36

(1)	(2)	(3)	(4)	(5)	(6)	(7)
17	2401 Crop Husbandry 001 Direction and Administration 2 Horticulture Department - Salaries	18.94	(-)0.18	18.76	18.44	(-)0.32
18	3054 Roads and Bridges 01 National Highways 001 Direction and Administration 1 Direction 01 Chief Engineer, National Highways	1.73	(-)0.09	1.64	5.32	(+)3.68
19	2055 Police 104 Special Police 01 Karnataka State Reserve Police and Karnataka Armed Reserve Police - Travel expenses	4.50	(-)0.20	4.30	4.97	(+)0.67
20	2702 Minor Irrigation 80 General 001 Direction and Administration 1 Chief Engineer, Minor Irrigation 01 Chief Engineer, Minor Irrigation (South) - Salaries	1.39	(-)0.22	1.17	1.81	(+)0.64
21	2401 Crop Husbandry 109 Extension and Farmers Training 21 Farmer's Contact Centres - Farm Clinic 71 Building expenses	1.15	(-)0.70	0.45	0.73	(+)0.28
22	2055 Police 101 Criminal Investigation and Vigilance 01 Criminal Investigation Department - Travel Expenses	0.40	(-)0.06	0.34	0.63	(+)0.29



**Appendix 2.7**  
**Cases where amount of anticipated savings were not surrendered**  
**(Reference: Paragraph 2.3.6, Page 38)**

(Rupees in crore)

Sl. No.	Grant number	Name of the Grant /Section	Amount of Savings	Amount actually surrendered	Amount not surrendered	Percentage
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1	<i>Agriculture and Horticulture</i>				
		Revenue Voted	153.79	86.69	67.10	44
		Revenue Charged	0.23	0.05	0.18	78
		Capital Voted	0.25	-	0.25	100
2	2	<i>Animal Husbandry &amp; Fisheries</i>				
		Revenue Voted	22.17	7.05	15.12	68
		Revenue Charged	0.05	0.03	0.02	40
3	3	<i>Finance</i>				
		Revenue Voted	890.95	20.45	870.50	98
		Revenue Charged	4.57	-	4.57	100
		Capital Voted	25.66	15.98	9.68	38
4	4	<i>Department of Personal and Administrative Reforms</i>				
		Revenue Voted	30.62	8.76	21.86	71
5	5	<i>Home and Transport</i>				
		Revenue Voted	133.37	19.46	113.91	85
		Capital Voted	0.10	-	0.10	100
6	6	<i>Infrastructure Development</i>				
		Revenue Voted	0.32	0.03	0.30	94
		Capital Voted	117.72	-	117.72	100
7	7	<i>Rural Development and Panchayat Raj</i>				
		Revenue Voted	462.23	1.10	461.12	99.76
		Capital Voted	124.69	-	124.69	100
8	8	<i>Forest, Ecology and Environment</i>				
		Revenue Voted	100.92	86.60	14.32	14
9	9	<i>Co-operation</i>				
		Revenue Voted	170.72	128.18	42.54	25
		Capital Voted	8.67	2.87	5.80	67
10	10	<i>Social Welfare</i>				
		Revenue Voted	150.76	0.16	150.60	99.89
		Capital Voted	16.58	5.50	11.08	67
11	11	<i>Women and Child Development</i>				
		Revenue Voted	6.07	0.42	5.65	93
		Capital Voted	0.88	-	0.88	100
12	12	<i>Information, Tourism and Youth Services</i>				
		Revenue Voted	14.59	7.14	7.45	51
13	13	<i>Food and Civil Supplies</i>				
		Revenue Voted	12.72	9.18	3.54	28
14	14	<i>Revenue</i>				
		Revenue Charged	1.28	-	1.28	100
		Capital Voted	0.01	-	0.01	100
15	15	<i>Information Technology</i>				
		Revenue Voted	0.70	-	0.70	100
		Capital Voted	0.41	-	0.41	100

(1)	(2)	(3)	(4)	(5)	(6)	(7)
16	16	<i>Housing</i>				
		Capital Voted	3.05	-	3.05	100
17	17	<i>Education</i>				
		Revenue Voted	231.16	-	231.16	100
		Capital Voted	1.11	-	1.11	100
18	18	<i>Commerce and Industries</i>				
		Revenue Voted	67.27	3.05	64.23	95
		Capital Voted	51.34	-	51.34	100
19	19	<i>Urban Development</i>				
		Revenue Voted	283.47	0.11	283.35	99.96
		Capital Voted	69.36	-	69.36	100.00
20	20	<i>Public Works</i>				
		Revenue Voted	267.80	1.58	266.21	99
21	21	<i>Water Resources</i>				
		Revenue Voted	14.41	0.96	13.45	93
		Capital Voted	478.99	127.85	351.15	73
		Capital Charged	0.25	-	0.25	100
22	22	<i>Health and Family Welfare</i>				
		Revenue Voted	136.78	75.04	61.74	45
		Capital Voted	8.36	5.44	2.92	35
23	23	<i>Labour</i>				
		Revenue Voted	37.17	10.63	26.54	71
24	24	<i>Energy</i>				
		Revenue Voted	634.52	389.96	244.56	39
25	25	<i>Kannada and Culture</i>				
		Revenue Voted	5.14	4.52	0.62	12
26	26	<i>Planning, Statistics, Science and Technology</i>				
		Revenue Voted	6.40	3.92	2.48	39
27	27	<i>Law</i>				
		Revenue Charged	0.36	-	0.36	100
		<b>Total</b>	<b>4747.97</b>	<b>1022.71</b>	<b>3725.26</b>	



**Appendix 2.8**  
**Statement showing the errors in budgeting**  
**(Reference: Paragraph 2.3.8, Page 38)**

Sl. No.	Grant under which provision was made	Supplementary Provision Amount (Rupees in crore)	Grant under which provision was to be made
1	3 – Finance	0.23	Included in 3 Finance instead of in 4 DPAR & 6 Infrastructure Development
2	4 – Department of Personnel and Administrative Reforms	2.36	Supplementary estimate for Rs.236 lakh under 2070- Other Administrative Services- Purchase & Maintenance of Transport – Operation of Helicopter Services was included in this grant instead of under Grant No.20 – Public Works.
3	7 – Rural Development & Panchayat Raj	42.00	Original provision was made under Grant No.19 while Supplementary Provision was obtained under Grant No.7 RDPR.
4	11 – Women and Child Development	0.10	Supplementary Provision was provided under this grant instead of under Grant No. 20 - Public Works
5	11 – Women and Child Development	0.20	Supplementary Provision obtained in Grant No.11 instead of under Grant No.5
6	16 – Housing	3.00	Supplementary Provision provided under this head, instead of under Grant No.20 - Public Works
7	21 – Water Resources	0.003	Error in Budget under recovery side of 4701 Capital Outlay on Major & Medium Irrigation – Arithmetical Error
8	27 – Law	0.36	In the charged appropriation, Supplementary Provision was included in this grant under 'Administration of Justice - High Court- Establishment Charges- Transport Expenses' instead of under Grant No.4 - Department of Personnel and Administrative Reforms.
<b>Total</b>		<b>48.25</b>	

**Appendix 2.9**  
**Cases of defective re-appropriation orders**  
**(Reference: Paragraph 2.4, Page 39)**

Sl. No.	Number & Nomenclature of the Grant	Re-appropriation Order Number & Date	Total amount included in the Re-appropriation Order (Rs. in lakh)	Authority issuing the re-appropriation orders	Reasons for rejection
1	2	3	4	5	6
1	1-Agriculture & Horticulture	FD 1118/EXPIV/2003 dt:31.3.2004	247.00	Additional Chief Secretary & Principal Secretary to Government of Karnataka Agriculture & Horticulture Department	The re-appropriation order included an item of expenditure on 'New Service'
2	2-Animal Husbandry and Fisheries	AHF/12/FDP/2004/ (Division-2) dt:31.3.2004 (2405)	7.00	Secretary to Government of Karnataka Animal Husbandry and Fisheries Dept.	Statement not self balanced. Delegation of Powers for sanctioning the re-appropriation above Rs. five lakh
3	do	AHF/52/FDP/2004 dt:30.3.04	10.00	do	do
4	do	FD.268 Exp-4/2004 dt:31.3.2004	98.66	Secretary to Government of Karnataka FD (Exp-2&3)	Break up for the saving under different heads not furnished
5	3-Finance	FD 23 RLF 2004 dt:24.1.04	0.75	The Principal Secretary to Government, F.D (Admn) V.S Bangalore	Re-appropriation Statement not self balanced
6	do	FD 147 AKE 03 dt:27.1.04	40.65	do	Specific reason not communicated Re-appropriation Statement not signed in ink.
7	do	FD 77 EAA 2003 dt:25.3.04	50.00	The Principal Secretary to Government, F.D (Excise) V.S Bangalore	Statement enclosed are in contravention of the cuts imposed in the GO.No.FD 2 BEM 2003 dt:29.9.03
8	4-Department of Personnel & Administrative Reforms	No.DPAR/38/2003/ dt:28.1.04	5.00	Secretary to Government of Karnataka D.P.A.R	Concurrence from F.D required
9	4-Department of Personnel & Administrative Reforms	NO.DPAR/32/2003/4 dt:7.2.2004	6.00	Secretary to Government of Karnataka D.P.A.R	Concurrence from F.D required
10	do	No.DPAR 08/2004 dt:10.3.04	65.92	do	do
11	do	No.FD 16 CAM 2004 dt:4.2.04	5.00	do	Re-appropriation order required to be signed in ink and the statement not self balanced
12	7-Rural Development & Panchayat Raj	RD 34 RD 2003 dt:14.11.2003	96.87	Secretary to Government, RD & PR	Not self balanced
13	do	RD 2 2004 dt:19.3.04	1.21	do	No provision for re-appropriation
14	8-Forest, Ecology & Environment	APG 20 ENG 2003 dt:23.10.03	0.89	Secretary to Government, Forest, Ecology & Environment M.S. Building Bangalore	As per GO.No.FD 8 BRS 2003 dt:19.6.03 & Sanction not conveyed



1	2	3	4	5	6
15	do	FEE 135 ENV2003 dt:4.11.2003	100.00	do	GO.No.FD 8 BRS 2003 dt:19.6.03
16	8-Forest, Ecology & Environment	APG 85 ECD2003 dt:23.1.04	75.00	Secretary to Government, Forest, Ecology & Environment M.S. Building Bangalore	G.O.No.FD 8 BRS 2003 dt:19.6.03, as against the BP of Rs.50,00,000/- expenditure shown is Rs.50,00,000 and the amount available for re-appropriation is Rs.75,00,000
17	10-Social Welfare	SWD 56 2003 dt:9.1.04	10.00	Secretary to Government of Karnataka, Social Welfare Department	No Delegation of powers to sanction
18	11-women & Child Development	WCD/294/PHP/2003 dt:8.1.04	2.93	Secretary to Government of Karnataka, Women & Child Welfare Department	(1) providing funds under a new head of Account is not permissible (2) Increasing the Plan Expenditure
19	do	WCD/60/PHP/2004 dt:10.3.04	0.54	do	(1) Specific reasons not furnished (2) sanction order not signed in ink
20	do	WCD/490/PHP/03 dt:3.01.04	20.00	do	Sanctioning order & Re- appropriation order not signed in ink
21	do	WCD/274/PHP/2003 dt:9.9.03	40.00	do	Sanction of re-appropriation not been communicated
22	13-Food & Civil Supplies	FCS 161 2002 dt:10.10.03	5.25	Secretary to Government, Food & Civil Supplies, Consumer Affairs Department	(1) Not self balanced (2) Exceeded the delegation of powers (3) correct Object head not mentioned
23	do	FC 97 2002 dt:29.9.03	1.38	Desk Officer, Food & Civil Supplies and Consumer Affairs Department	(1) want of specific reasons (2) Expenditure incurred during 2002-03 cannot be regularised during current year
24	14-Revenue	G.O.No. RD 04 WHJ 2004 dt: 27.3.04	20.00	Under Secretary to Government, Revenue Department (Wakf & Haj) Bangalore	Re-appropriation Statement not tallied, exceeded the delegation powers for Re-appropriation
25	do	G.O.No. RD 20 WHJ 2004 dt: 11.3.04	7.00	do	do
26	do	G.O.No. RD 64 RME 2003 dt: 7.11.03	4.50	Under Secretary to Government, Revenue Department (KAT) Bangalore	For want of Re-appropriation Statement in KFC 22A duly signed in ink
27	15-Information Technology	No.FD 528/Exp-1/ 2004 dt:27.3.04	54.00	Secretary to Government of Karnataka, FD (Exp-1)	Coloums in the Statement does not agree (3,4 does not agree with 2&5)
28	17-Education	FD 2039 Exp-1/2003 Bangalore dt:5.12.03	0.44	Finance Department	(1) Want of Specific reason (2) Want of Sanction for Re-appropriation Statement
29	do	ED 403 TPE 2003 Bangalore dt:29.3.04	20.00	Education Department	(1) Re-appropriation statement not self balanced (2) Exceeded the delegation of powers
30	do	ED 402 TPE 2003 Bangalore dt:27.3.04	40.00	do	(1)Re-appropriation statement not self balanced (2) Exceeded the delegation of powers

1	2	3	4	5	6
31	18-Commerce & Industry	FD 1752 Exp-1/2003 dt:22.11.03	36.81	Secretary, Government of Karnataka Finance Department (Exp-1)	Sanction for re-appropriation not communicated
32	20-Public Works	CA C5 2761-65 2003-04 dt:28.1.04	0.30	Chief Architect, PWD	As per circular No.FD 8/BRS/2003 dt:19.6.03
33	do	CA C53-325-29 2003-04 dt:31.3.04	0.25	do	Re-appropriation Statement not self balanced
34	do	PWD 13 FC 1 dt:31.3.04	10.50	Secretary to Government, PW (Finance Cell)	Saving already surrendered vide G.O.No.PW 13 FC-1 2004 dt:31.3.04
35	21-Water Resource	PWD 12 FC 3/04 dt:31.3.04	547.84	Under Secretary to Government of Karnataka, PWD, Finance Cell, Bangalore	(1) New Service Item included (2) Re-appropriation between Revenue & Capital
36	do	PWD 24 FC 1/04 dt:31.3.04	890.83	do	New Service Item included
37	22-Health and Family Welfare	No.HFW IPTD 2004 dt:12.1.04 and No.HFW 660 PIM 2003 dt:22.12.03	5.50 0.75	Secretary to Government of Karnataka, Health and Family Welfare Services	Rejected as per G.O.No.FD 8 BRS 2003 dt:19.6.03
38	do	No.HFW 149 04 dt:25.3.04	8.00	Secretary, Health and family Welfare Department	Re-appropriation Statement required in the prescribed form and not self balanced not signed in ink
39	25-Kannada & Culture	CKD 98 KCC 2003, Bangalore 31.10.03	5.00	Department of Kannada & Culture	(1) Want of Specific reason (2) Want of Sanction for Re-appropriation (3) sanction order not signed in ink (4) Re-appropriation order not accepted as per Circular No.FD 8/BRS/2003 dt:19.6.03
40	26-Planning, Statistics, Science & Technology	PDS 13/SMC 2004 Bangalore dt:24.3.04	10.00	Secretary to Government, Planning & Statistics Department	Concurrence from FD is required
41	do	ITDAct1/103/2003-04 dt:17.12.03	1.00	Director, Department of Information Technology & Bio technology	do
42	do	PDS 74/SMC 2003 Bangalore dt:1.10.03	3.50	Secretary to Government, Planning & Statistics Department	do
<b>Total</b>			<b>2556.27</b>		



## Appendix 2.10

Statement showing flow of expenditure during the four quarters of 2003-04

(Reference: Paragraph 2.5, Page 39)

(Rupees in crore)

Sl. No.	Head of Account	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	Total	March 2004	Percentage of expenditure in March 2004 to total expenditure of 2003-04
1	2015	3.47	3.13	4.58	13.79	24.97	9.47	37.9
2	2205	9.60	9.82	10.02	21.62	51.06	15.03	29.4
3	2225	50.34	81.01	72.33	202.53	406.21	104.87	25.8
4	2236	20.44	25.08	25.47	60.95	131.94	39.22	29.7
5	2245	106.00	36.03	52.44	169.16	363.63	104.32	28.7
6	2551	0.05	7.57	2.34	5.66	15.62	4.02	25.7
7	2705	1.88	5.22	7.82	11.55	26.47	6.66	25.2
8	3055	-	-	-	28.74	28.74	15.26	53.1
9	3425	0.06	0.15	0.31	0.95	1.47	0.40	27.2
10	3435	0.07	1.06	1.87	7.84	10.84	5.21	48.1
11	3452	2.67	4.21	2.86	8.31	18.05	5.02	27.8
12	4202	0.01	0.78	0.98	3.06	4.83	2.11	43.7
13	4210	4.30	7.49	0.58	12.89	25.26	12.41	49.1
14	4217	5.00	5.95	-	14.05	25.00	7.80	31.2
15	4852	-	-	-	1.85	1.85	1.85	100.0
16	6217	6.50	27.41	27.45	23.48	84.85	18.98	22.4
17	6235	-	-	0.62	2.29	2.91	1.65	56.7
18	6416	0.46	0.30	-	2.40	3.16	1.68	53.2
19	7610	0.09	0.22	0.35	0.93	1.59	0.61	38.4

**Appendix 2.11**  
**Cases of New Service/New Instrument of Service**  
**(Reference: Paragraph 2.6, Page 39)**

(Rupees in crore)

Sl. No.	Grant	Head of Account	Budget Provision	Expenditure	Excess
(1)	(2)	(3)	(4)	(5)	(6)
1	3 - Finance	2071- Pensions and Other Retirement Benefits			
		01 -Civil			
		103 - Compassionate allowance			
		3 - Compassionate allowance - Karnataka			
		251- Pension and Retirement Benefits	0.01	1.85	1.84
		2071- Pensions and Other Retirement Benefits			
		01 -Civil			
		104 - Gratuities			
		2 - Other Gratuities- Karnataka			
		04- DCRG under the Triple benefit Scheme			
		251- Pension and Retirement Benefits	0.02	1.74	1.72
		2071 - Pensions and other Retirement Benefits			
		01 - Civil			
		107-Contributions to Pensions and Gratuities			
		104-Contributions	0.03	55.47	55.44
		2071- Pensions and Other Retirement Benefits			
		01 -Civil			
		115- Leave encashment benefits			
		1- General Services			
		70-Other administrative Services			
2	7 - Rural Development and Panchayat Raj	251-Pension and other Retirement Benefits	0.06	1.84	1.78
		2071- Pensions and Other Retirement Benefits			
		01 -Civil			
		800- Other Expenditure			
		01- Cost of remittance of pension by Money Orders			
		059-Other Expenses	0.01	19.28	19.27
		3054 -Roads and Bridges			
		80-General			
		196-Assistance to Zilla Panchayats			
		1- Zilla Panchayats			
3	13 - Food and Civil Supplies	01- Chief Engineer, Rural Development and Engineering Department	-	1.83	1.83
		2575- Other Special Area Programmes			
		02- Backward Areas			
		196- Assistance to Zilla Panchayats			
		01- Rastriya Sama Vikas Yojana	-	3.75	3.75
		2408- Food, Storage and Warehousing			
		01- Food			
		001- Direction and Administration			
		01- Director, Food and Civil Supplies			
		195- Transport Expenses	0.02	1.62	1.60



(1)	(2)	(3)	(4)	(5)	(6)
		2408- Food, Storage and Warehousing	0.16	1.86	1.70
		01- Food			
		001- Direction and Administration			
		02- Executive Establishment			
		051- General Expenses			
		2408- Food, Storage and Warehousing	0.32	1.86	1.54
		01- Food			
		001- Direction and Administration			
		02- Executive Establishment			
		195- Transport Expenses			
4	14 – Revenue	2245- Relief on Account of Natural Calamities	40.00	242.30	202.30
		01 - Drought			
		102- Drinking Water Supply			
		2245- Relief on Account of Natural Calamities	2.00	10.00	8.00
		02- Floods, Cyclones, etc			
		114- Assistance to farmers for purchase of Agricultural inputs			
5	17 – Education	2202 – General Education	0.50	2.20	1.70
		01 – Elementary Education			
		196 – Assistance to Zilla Panchayats			
		1 – Zilla Panchayats			
		01- Block Assistance to Zilla Panchayats			
		411 – Kodagu	0.50	4.02	3.52
		2202 – General Education			
		01 – Elementary Education			
		196 – Assistance to Zilla Panchayats			
		1 – Zilla Panchayats			
		01- Block Assistance to Zilla Panchayats			
		463 – Haveri	31.55	149.46	117.91
		2202 – General Education			
		01 – Elementary Education			
		800 – Other expenditure			
		1 – Other Schemes			
		35 – Activities to promote Universalisation of primary Education			
		422 – Special Component Plan	2.55	16.07	13.52
		2202 – General Education			
		01 – Elementary Education			
		800 – Other expenditure			
		2 – Construction of new Primary Schools			
		01 - Construction of new Primary Schools	0.16	3.64	3.48
		059 – Other expenses			
		2202 – General Education			
		02 – Secondary Education			
		001 – Direction and Administration			
		01 – Director of pre-university education	0.14	2.47	2.33
		051 – General Education			
		2202 – General Education			
		02 – Secondary Education			
		101 – Inspection			
		002 – 014 – Salaries			

(1)	(2)	(3)	(4)	(5)	(6)
		2202 – General Education			
		02 – Secondary Education			
		106 – Text Books			
		09 – Text Books – Directorate, Press and Depots			
		051 – General Expenses	0.04	3.89	3.85
		2202 – General Education			
		02 – Secondary Education			
		109 – Government Secondary Schools			
		01 – Junior Colleges	--	2.31	2.31
		2202 – General Education			
		02 – Secondary Education			
		109 – Government Secondary Schools			
		02 – Government Higher Secondary Schools converted into Junior Colleges (District Sector Schemes)	-	12.91	12.91
		2202 – General Education			
		02 – Secondary Education			
		109 – Government Secondary Schools			
		17 – Junior Colleges			
		051 – General Expenses	0.17	6.14	5.97
		2202 – General Education			
		02 – Secondary Education			
		109 – Government Secondary Schools			
		17 - Junior Colleges			
		071 – Buildings	0.16	1.24	1.08
		2202 – General Education			
		02 – Secondary Education			
		109 – Government Secondary Schools			
		13 - Junior Colleges			
		500 – Lumpsum	-	1.51	1.51
		2202 – General Education			
		02 – Secondary Education			
		110 – Assistance to Non-Government secondary schools			
		1 – Private Junior Colleges	-	4.31	4.31
		2202 – General Education			
		02 – Secondary Education			
		110 – Assistance to Non-Government secondary schools			
		2 – Private Higher Secondary schools converted into Junior colleges	-	2.41	2.41
		2202 – General Education			
		02 – Secondary Education			
		800 – Other expenditure			
		2 – Transferred scheme of vocationalisation of Higher Secondary Education	-	1.07	1.07
		2202 – General Education			
		02 – Secondary Education			
		800 – Other expenditure			
		4 – Vocationalisation of Secondary Education			
		051 – General Expenses	0.02	4.02	4.00



(1)	(2)	(3)	(4)	(5)	(6)
6	18 – Commerce and Industries	2851 – Village and Small Industries			
		108 – Powerloom Industries			
		19 – Assistance to Power loom			
		100 – Financial assistance/relief	0.20	1.65	1.45
7	19 – Urban Development	2215 – Water Supply and Sanitation			
		01 – Water Supply			
		191 – Assistance to local bodies, Municipalities, etc			
		2 – Zilla Panchayats and Mandal Panchayats			
		02 – Centrally sponsored scheme for Accelerated Rural Water Supply Programme			
		201 – Grants-in-aid to ZP	-	6.97	6.97
		2215 – Water Supply and Sanitation			
		01 – Water Supply			
		191 – Assistance to local bodies, Municipalities, etc			
		3 – Bangalore Water Supply And Sewerage Board			
		80 – BWSSB Project, IDB 109			
		102 – Special Grants	-	2.02	2.02
		2215 – Water Supply and Sanitation			
		01 – Water Supply			
		191 – Assistance to local bodies, Municipalities, etc			
		3 – Bangalore Water Supply And Sewerage Board			
		84 – BWSSB Project, FRGL 4013 E	-	1.12	1.12
		2217 – Urban Development			
		80 – General			
		001 – Direction and Administration			
		4 – Directorate of Municipal Administration			
		01 – Director of Municipal Administration			
		125 – Modernisation	0.10	1.38	1.28
		6215 – Loans for Water Supply and Sanitation			
		01 – Water Supply			
		190 – Loans to Public Sector and Other Undertakings			
		2 – Improvement of sanitation in newly added areas			
		14 – BWSSB projects, FRGL 4013 E	-	2.61	2.61
		6217 – Loans for Urban Development			
		60 – Other Urban Development Schemes			
		191 – Loans to local bodies and Corporations, etc,			
		3 – Karnataka Urban Infrastructure Development and Finance Corporation			
		80 – Karnataka Urban Development and Coastal Environment Management			
		500 – Lump sum	-	1.11	1.11

(1)	(2)	(3)	(4)	(5)	(6)
8	20 – Public Works	2059 – Public Works			
		80 – General			
		001 – Direction and Administration			
		03 – Government Architect			
		002 – 014 – Salaries	0.62	5.20	4.58
		2059 – Public Works			
		80 – General			
		053 – Maintenance and Repairs			
		4 – Repairs, Maintenance and Minor alterations to various departmental buildings			
		071 – Building expenses	0.81	4.42	3.61
		3054 – Roads and Bridges			
		01 – National Highways			
		001 – Direction and Administration			
		1 – Direction			
		01 – Chief Engineer, National Highways			
		002-014 – Salaries	1.73	5.32	3.59
		5054 – Capital Outlay on Roads and Bridges			
		05 – Roads of Inter-State or Economic importance			
		337 – Road works			
		2 – Works of economic importance			
9	21 – Water Resources	01 – Road works			
		172 – Roads	0.10	2.11	2.01
		2702 – Minor Irrigation			
		80 – General			
		800 – Other expenditure			
		01 – Survey works, minor irrigation Bangalore			
		132 – Capital expenses	0.04	2.03	1.99
		4701 – Capital Outlay on Major and Medium Irrigation			
		01 – Major Irrigation commercial			
		206 – Harangi Project			
		4 – Other expenditure			
		03 – Canals and Branches			
		132 – Capital works	0.75	2.50	1.75
		4701 – Capital Outlay on Major and Medium Irrigation			
		01 – Major Irrigation commercial			
		208 – Hemavathi Project (Canal Zone), Tumkur			
		4 – Other expenditure			
		07 – Distributaries			
		132 – Capital expenses	0.40	2.71	2.31
		4701 – Capital Outlay on Major and Medium Irrigation			
		03 – Medium Irrigation – Commercial			
		211 – Arkavathi Project			
		4 – Other expenditure			
		02 – Dam and appurtenant works			
		132 – Capital expenses	0.20	4.09	3.89
		4701 – Capital Outlay on Major and Medium Irrigation			
		03 – Medium Irrigation – Commercial			



(1)	(2)	(3)	(4)	(5)	(6)
		337 – Hirehalla Tank			
		1 – Direction and Administration			
		01 – Project Establishment			
		002-014 – Salaries	0.22	2.48	2.26
		4701 – Capital Outlay on Major and Medium Irrigation			
		03 – Medium Irrigation – Commercial			
		337 – Hirehalla Tank			
		4 – Other expenditure			
		07 –Distributaries			
		132 – Capital expenses	0.86	3.25	2.39
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		1 – Water tanks – Construction of new tanks, pickups, etc			
		04 – Construction of new tanks-Bangalore Urban			
		139 – Major works	0.50	4.23	3.73
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		1 – Water tanks – Construction of new tanks, pickups, etc			
		04 – Construction of new tanks-Bangalore Urban			
		436 – NABARD works	2.00	15.77	13.77
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		1 – Water tanks – Construction of new tanks, pickups, etc			
		06 – Restoration of old and breached tanks and de-silting of tanks	0.0001	4.9601	4.96
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		1 – Water tanks – Construction of new tanks, pickups, etc			
		06 – Restoration of old and breached tanks and de-silting of tanks			
		436 – NABARD works	-	4.18	4.18
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		1 – Water tanks – Construction of new tanks, pickups, etc			
		07 – Modernisation of tanks by NABARD			
		436 – NABARD works	0.0001	1.1101	1.11
		4702 – Capital outlay on Minor Irrigation			
		101 – Surface Water			
		5 – Barrages			
		01 – Construction of barrages			
		139 - Major works	3.19	15.52	12.33

(1)	(2)	(3)	(4)	(5)	(6)
		4702 – Capital outlay on Minor Irrigation			
		800 – Other expenditure			
		1 – Land acquisition charges and settlement of claims			
		132 – Capital expenses	0.0001	4.4701	4.47
10	22 – Health and Family Welfare	2210 – Medical and Public Health			
		01 – Urban Health Services – Allopathy			
		110 – Hospitals and dispensaries			
		2 – Major hospitals			
		80 – Secondary level hospitals	-	9.70	9.70
		2210 – Medical and Public Health			
		03 – Rural Health services – Allopathy			
		110 – Hospitals and dispensaries			
		05 – CSS – Pradhan Mantri Gramodaya Yojana – Strengthening of PHCs/Sub-centres	1.03	8.62	7.59
		2211 – Family Welfare			
		196 – Assistance to Zilla Panchayats			
		1 – Zilla Panchayats and Grama Panchayats			
		01 – Block assistance to Zilla Panchayats and Grama Panchayats			
		419 – Bidar	0.03	1.05	1.02
		2210 – Medical and Public Health			
		80 – General			
		197 – Assistance to Taluk Panchayats			
		1 – Taluk Panchayats			
		01 – Block grants			
		410 – Hassan	1.01	4.59	3.58
		<b>Total</b>	<b>92.21</b>	<b>686.24</b>	<b>594.03</b>



**Appendix 2.12**  
**Expenditure without budget provision 2003-04**  
**(Reference: Paragraph 2.7, Page 39)**

(Rupees in crore)

Sl. No.	Grant	Head of Account	Amount
1	2	3	4
1	7 – Rural Development and Panchayat Raj	2215 – Water Supply and Sanitation 01 – Water Supply 001 – Direction and Administration 2 – Supervision - Public Health Engineering Circle	0.28
2		2575 – Other Special Area Programmes 02 – Backward Areas 196 – Assistance to Zilla Panchayats 1 – Zilla Panchayats - Rastriya Sama Vikasa Yojana by Zilla Panchayats, Gulbarga Division	3.75
3		2215 – Water Supply and Sanitation 01 – Water Supply 001 – Direction and Administration 3 – Execution	0.13
4	17 – Education	2202 – General Education 02 – Secondary Education 800 – Other Expenditure 3 – National policy on Education – CPS of vocationalisation of Secondary Education	0.12
5		2202 – General Education 02 – Secondary Education 110 – Assistance to Non-government Secondary Schools 3 – Assistance to Non-government Secondary Schools (State Sector Schemes) 02 – Equipment to Sainik School, Bijapur – Grants-in-aid	0.57
6		2202 – General Education 02 – Secondary Education 106 – Text Books 02 – Text Books Press, Mysore	0.50
7		2202 – General Education 02 – Secondary Education 106 – Text Books 01 – Directorate of Text Books	0.23
8		2202 – General Education 02 – Secondary Education 106 – Text Books 03 – Divisional and District Text Book Depots	0.06
9		2203 – Technical Education 001 – Direction and Administration 105 – Polytechnic 07 – Starting of Women polytechnics in IT related course	0.02
10	19 – Urban Development	2217 – Urban Development 05 – Other Urban Development Schemes 196 – Assistance to Local Bodies, Corporation, Urban Development Authorities, Town Improvement Boards, etc. 2 – Karnataka Urban Development Coastal Management 80 – Lumpsum	0.48

1	2	3	4
11		2215 – Water Supply and Sanitation 01 – Water Supply 191 – Assistance to Local Bodies, municipalities <i>etc.</i> 2 – Zilla Parishads and Mandal Panchayats - Block assistance to ZP and MP – Grants-in-aid to ZP-Chickmagalur	0.11
12		2215 – Water Supply and Sanitation 01 – Water Supply 191 – Assistance to Local Bodies, municipalities <i>etc.</i> 2 – Zilla Parishads and Mandal Panchayats - Block Assistance to ZP & MP G-I-A to ZP Bidar	0.09
13		2215 – Water Supply and Sanitation 01 – Water Supply 191 – Assistance to Local Bodies, municipalities <i>etc.</i> 3 – Karnataka Urban Infrastructure Development and Finance Corporation 82 –Improvement to Water Supply and FRGL 4009 E	0.68
14		2217 – Urban Development 05 – Other Urban Development Schemes 800 – Other Expenditure 05 – Other Urban Development Schemes - Digital Mapping Information System for Bangalore (BDA) – FRGL 4501 F	0.76
15	20 – Public Works	3054 – Roads and Bridges 01 – National Highways 799 – Suspense 01 – Stock	0.23
16		3054 – Roads and Bridges 80 – General 797 – Transfer to/from Reserve fund/Deposit account 03 – Transfer of cess to Rural Road Development Fund	12.87
17		5054 – Capital outlay on Roads and Bridges 03 – State Highways 799 – Suspense - Miscellaneous PW Advances	3.46
18	21 – Water Resources	2702 – Minor Irrigation 01 – Surface Water 101 – Water Tanks 02 – Special Repairs	0.15
19		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 202 – Krishnaraja Sagar Right Bank Canal 4 – Other Expenditure - Establishment charges transferred from 2701 M&MI – Inter account Transfer	5.75
20		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 202 – Krishnaraja Sagar Right Bank Canal 1 – Direction and Administration - Establishment Charges transferred from 2701 Major & Medium Irrigation - Inter account transfers	1.47
21		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 203 – Modernisation of Krishnaraja Sagar Canal 4 – Other Expenditure - Buildings	0.57



1	2	3	4
22		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 203 – Modernisation of Krishnaraja Sagar Canal 2 – Machinery and Equipment - Project Repairs and carriages	0.10
23		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 207 – Hemavathi Project 4 – Other Expenditure - Roads	0.34
24		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 207 – Hemavathi Project 4 – Other Expenditure - Buildings	0.17
25		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 207 – Hemavathi Project 2 – Machinery and Equipments - Repairs and Carriage	0.21
26		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 206 – Harangi Project 2 – Machinery & Equipments - Project Repairs	0.08
27		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 208 – Hemavathi Project Canal Zone, Tumkur 1 – Direction and Administration - Establishment charges transferred from 2701 M&MI – Inter account transfer	0.91
28		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 208 – Hemavathi Project Canal Zone, Tumkur 2 – Machinery and Equipment - Repairs and Carriages	0.25
29		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 209 – Yagachi 2 – Machinery & Equipments	0.05
30		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 315 – Bhadra Project 3 – Suspense - Miscellaneous works advances	0.16
31		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 315 – Bhadra Project 3 – Suspense - Stock	0.09
32		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 321 – Malaprabha Project 1 – Direction and Administration - Establishment charges transferred from 2701 M&MI Inter account transfer	0.61

1	2	3	4
33		4701 – Capital Outlay on Major and Medium Irrigation 01 – Major Irrigation- Commercial 416 – Varahi Project 4 – Other Expenditure - Canal and Branches Normal	0.49
34		4701 – Capital Outlay on Major and Medium Irrigation 03 – Medium Irrigation – Commercial 213 – Votehole project 4 – Other Expenditure - Distributaries – Capital Expenses	0.12
35		4702 – Capital outlay on Minor Irrigation 101 – Surface Water 1 – Water tanks – Construction of New Tanks, Pickups, etc. 06 – NABARD Works	4.18
36	29 – Debt Servicing	2049 – Interest Payments 01 – Interest on Internal Debt 101 - Interest on Market Loans 1 – Interest on Current Loans - 6.20% KSDL 2013	21.07
37		2049 – Interest Payments 01 – Interest on Internal Debt 101 - Interest on Market Loans 1 – Interest on Current Loans - 6.75% KSDL 2013	10.22
		<b>Total</b>	<b>71.33</b>



## Appendix 3.1

## Details of wasteful expenditure on computer education

(Reference: Paragraph No.3.1.9, Page 45)

(Rupees in lakh)

School Category	Amount paid/payable per school (for three hours per week)	
	For five years	For one year
A	14.69	2.93
B	19.10	3.82
C	24.20	4.84

Average cost per school per year – Rs.3.87 lakh

Year	Average cost per school per year	Number of schools with deficiency of two hours per week	Average cost per school proportionate to the deficiency of two hours per week	Amount (Rupees in lakh)
2001-02	3.87	88	$3.87 \times 2/3$	227.04
2002-03	3.87	164	$3.87 \times 2/3$	423.12
2003-04	3.87	242	$3.87 \times 2/3$	624.36
Total				1,274.52

Year	Average cost per school per year	Number of schools with deficiency of one hour per week	Average cost per school proportionate to the deficiency of one hour per week	Amount (Rupees in lakh)
2001-02	3.87	327	$3.87 \times 1/3$	421.83
2002-03	3.87	389	$3.87 \times 1/3$	501.81
2003-04	3.87	544	$3.87 \times 1/3$	701.76
Total				1,625.40
Grand Total				2,899.92

### Appendix 3.2

#### Division-wise details of piecemeal purchases

(Reference: Paragraph 3.5.3, Page 82)

(Amount in Rupees)

Division	Total purchase during 1999-2004	Purchases made at divisional level	Purchases made in piecemeal with the approval of SE/CE
Bijapur	96,52,925	92,53,925	3,99,000
Mangalore	48,72,346	74,333	47,98,013
Bangalore	21,49,636	13,31,894	8,17,742
Bidar	17,96,974	17,96,974	-
Tumkur	7,95,578	7,95,578	-
Bellary	15,40,129	13,50,128	1,90,001
Dharwad	1,08,66,259	1,08,66,259	-
Belgaum	1,89,94,557	1,62,91,423	27,03,134
Kolar	13,91,764	13,91,764	-
Gulbarga	1,18,34,909	73,88,626	44,46,283
Kushtagi	1,81,41,675	1,26,45,884	54,95,791
<b>Total</b>	<b>8,20,36,752</b>	<b>6,31,86,788</b>	<b>1,88,49,964</b>



### Appendix 3.3

#### Statement showing the purchase of materials at exorbitantly high rates

(Reference: Paragraph 3.5.4, Page 83)

(Amount in Rupees)

Sl No.	Name of the material	Period of purchase	Total quantity purchased	Unit rate of purchase	Rate payable as per remarks column	Difference	Extra expenditure	Remarks
1 (a)	Tender booklets	02/2001 to 09/2003	6,630	150.00	110.00	40.00	2,65,200	Rates of KSIMC and neighbouring divisions
(b)		12/2001	500	124.00	110.00	14.00	7,000	
(c)		05/2000	1,034	150.00	110.00	40.00	41,360	
(d)		03/2000 to 12/2001	6,990	210.00	110.00	100.00	6,99,000	
(e)		07/2003	336	350.00	110.00	240.00	80,640	
(f)		07/2003	306	450.00	110.00	340.00	1,04,040	
(g)		01/2001 to 09/2001	451	357.50	110.00	247.50	1,11,623	
(h)		04/2001 to 06/2001	1,135	175.00	110.00	65.00	73,775	
(i)		1999-00 to 2002-03	2,964	245.00	110.00	135.00	4,00,140	
(j)		2000-01	330	220.00	110.00	110.00	36,300	
(k)		04/1999	1,008	302.50	110.00	192.50	1,94,040	
(l)		10/1999	2,009	300.00	110.00	190.00	3,81,710	
(m)		04/2001	2,41,900 pages	2.50	0.55	1.95	4,71,705	
(n)		02/2001	1500	55.00	22.00	33.00	49,500	
(o)		02/2001	1,71,100 pages	2.50	0.55	1.95	3,33,645	
(p)		04/1999 to 07/2003	5,607	195.00	110.00	85.00	4,76,595	
2 (a)	Guage plates (10 cm width 14 guage thick)	09/2000	400 mtrs	2,200.00	1,000.00	1,200.00	4,80,000	Rate approved by CE, Irrigation Central Zone, Munirabad
(b)	Guage plates 10 cm width	01/1999 to 05/2000	41 Nos of 3 mtrs	14,700.00	2,500.00	12,200.00	5,00,200	
		11/2000	3 Nos of 2.5 mtrs	12,250.00	2,500.00	9,750.00	29,250	
(c)	Guage plate superior quality	03/2001	18 mtrs	6,750.00	1,000.00	5,750.00	1,03,500	SPD rates
3 (a)	Expansion joint 25 mm 4' X 2'	03/2000	845	1,096.00	557.85	538.15	4,54,737	
(b)	Asphalt pad 25 mm	04/1999	230	750.00	557.85	192.15	44,195	
(c)		05/1999	317	3,650.00	557.85	3,092.15	9,80,208	
(d)	Expansion joint 25 mm	06/2000	168	1,500.00	408.00	1,092.00	1,83,456	
4 (a)	Transformer oil	08/1999 to 08/2000	6,695 lts	120.00	25.40	94.60	6,33,347	Rates of KPTCL SR
(b)		12/2001	800 lts	72.00	25.40	46.60	37,280	
(c)		09/2000 to 06/2002	5,296 lts	91.00	25.40	65.60	3,47,418	
(d)		09/2001	840 lts	85.00	25.40	59.60	50,064	
(e)			400 lts	72.00	25.40	46.60	18,640	
5 (a)	Sponge rubber 25 x 25	06/1999 to 09/2000	325	535.00	60.00	475.00	1,54,375	Rates approved by SE, MI, Belgaum
(b)			21,120	68.00	60.00	8.00	1,68,960	
6	Chainlink fencing	02/2001 to 05/2001	1,620	725.00	304.00	421.00	6,82,020	Rates of PWD, Belgaum Circle

Sl No.	Name of the material	Period of purchase	Total quantity purchased	Unit rate of purchase	Rate payable as per remarks column	Difference	Extra expenditure	Remarks
7	75 mm polyprine pressure relief valves	03/2001	841	505.00	113.36	391.64	3,29,369	Rates approved by CE, Irrigation (South) Mysore
8	Providing & fixing AC corrugated sheets of size 3m x 1m	03/2001	54	7,499.00	900.00	6,599.00	3,56,346	Rates of PWD, Belgaum Circle
9	Anodised Aluminium sliding windows	03/2001	370 sq ft	1,499.00	177.00	1,322.00	4,89,140	
10	2 x 40 watt box type tube set	09/1999	10	1,200.00	934.00	266.00	2,660	Rates of KPTCL
11	Oil tube Gunmetal bushes	04/1999	20	7,475.00	4,975.00	2,500.00	50,000	Rates of MI, Bellary
12	MS gates 0.75x0.3 m	09/1999	38	5,383.00	1,655.00	3,728.00	1,41,664	Rates of SPD
13	RCC poles	12/1999	65	1,860.00	1,158.00	702.00	45,630	Rates of KPTCL
14	Torfelt sheet roll size 20 x 1 mtrs	07/2000	90	3,800.00	1,100.00	2,700.00	2,43,000	Departmental investigation reports
15	Flanges for 350mm pipes	05/1999	14	7,485.00	700.00	6,785.00	94,990	Rates of MI, Kushtagi
16	Providing & fixing bearing plates	06/2001	96	13,416.00	4,180.00	9,236.00	8,86,656	Rates of PWD, Gulbarga circle
17	Steel table	04/1999	05	14,990.00	3,148.00	11,842.00	59,210	Rates of KSIMC
18	Steel almairah 6½ ‘	04/1999	05	14,980.00	4,336.00	10,644.00	53,220	
19	Steel almairah 4½ ‘	04/1999	05	12,630.00	3,084.00	9,546.00	47,730	
20	Steel rack	04/1999	05	9,600.00	797.00	8,803.00	44,015	
21	3 core 185 sq mm 1100V UG Al Cable	07/2000	52 mtrs	12,000.00	656.00	11,344.00	5,89,888	Rates of KPTCL SR
22	XLPE cable 3 core 120 sq mm	08/2001	48 mtrs	3,980.00	1,600.00	2,380.00	1,14,240	
23	3½ core 240 sq mm cable	01/2003	25 mtrs	3,000.00	890.00	2,110.00	52,750	
24	3½ core 120 sq mm	01/2003	14 mtrs	2,000.00	470.00	1,530.00	21,420	
25	3½ core 70 sq mm	01/2003	29 mtrs	1,500.00	305.00	1,195.00	34,655	
26	3½ core 50 sq mm	08/2003	28 mtrs	1,000.00	235.00	765.00	21,420	
27	3½ core 150 sq mm	08/2001	90 mtrs	3,770.00	560.00	3,210.00	2,88,900	
28	Exhaust fan	03/2001	01	14,990.00	1,200.00	13,790.00	13,790	Rates of PWD, Belgaum circle
29	Nahani trap	03/2001	06	2,488.00	155.00	2,333.00	13,998	
30	PVC pipes of 1”	03/2001	700 ft	105.50	7.50	98.00	68,600	
31	Pillar cock	03/2001	02	6,500.00	145.00	6,355.00	12,710	
32	Wash basin	03/2001	02	7,495.00	2,360.00	5,135.00	10,270	
33	PVC pipe 4”	08/2001	120 ft	374.75	38.00	336.75	40,410	
34	GI pipe 1”	08/2001	300 ft	149.50	47.00	102.50	30,750	
<b>Total</b>							<b>1,27,51,354</b>	



## Appendix 4.1

## Statement of excess payment to the contractor for construction of southern breakwaters at Karwar Port

(Reference: Paragraph 4.3.1, Page 91)

(Amount in Rupees)

Serial Number	Item of work	Tendered quantity (TQ) (in MT)	Tender rate	Quantity executed in excess of 125 per cent of TQ (in MT)	Rate payable for quantity in excess of 125 per cent of TQ (per MT) (*)	Rate paid	Amount payable	Amount paid	Excess paid
1	Stones up to 10 kg	10,020	180	28,384	435	552.00	1,23,47,040	1,56,67,968	33,20,928
2	10 to 100 kg	1,58,010	225	32,684	440	556.00	1,43,80,960	1,81,72,304	37,91,344
3	100 to 500 kg	10,050	190	3,232	462	586.11	14,93,184	18,94,307	4,01,123
4	500 to 1000 kg	22,960	275	17,523	462	586.11	80,95,626	1,02,70,405	21,74,779
5	1 to 2 MT	500	221	630	517	556.00	3,25,710	3,50,280	24,570
6	2 to 4 MT	12,860	325	56,553	637	808.64	3,60,24,261	4,57,31,018	97,06,757
7	7 to 10 MT	9,740	370	16,009	944	1,196.54	1,51,12,496	1,91,55,409	40,42,913
Total							8,77,79,277	11,12,41,691	2,34,62,414

(\*) Worked out as per Data Rates of the Department with an area weightage of 15 per cent (as against 20 per cent adopted) excluding the tender premium of 21.60 per cent

## Appendix 4.2

### Statement showing the avoidable extra expenditure on dragging of timber (Reference: Paragraph 4.4.2, Page 95)

(Amount in Rupees)

Year	Quantity of timber extracted (in cum)	Rate paid by the Department	Rate payable as per SSR	Total expenditure incurred	Total expenditure admissible at SSR rates	Avoidable extra expenditure
1998-99	414.71	528.07	153.90	2,19,000	63,824	1,55,176
1999-00	265.54	685.39	182.10	1,82,000	48,355	1,33,645
2000-01	821.01	* 265.35	191.40	2,17,858	1,57,141	60,717
2001-02	3,590.15	* 327.93	212.45	11,77,345	7,62,727	4,14,618
2002-03	6,525.91	* 392.12	219.45	25,58,940	14,32,111	11,26,829
2003-04	1,605.49	400.95	219.45	6,43,721	3,52,325	2,91,396
<b>Total</b>	<b>13,222.81</b>	<b>-</b>	<b>-</b>	<b>49,98,864</b>	<b>28,16,483</b>	<b>21,82,381</b>

\* Average of the rates paid by the Department and by KSFIC



## Appendix 4.3

Statement showing the quantity of single coat surface dressing work done and avoidable extra expenditure

(Reference: Paragraph 4.4.5, Page 97)

Serial Number	National Highway Division	Number of works	Quantity of single coat surface dressing work done (sqm)
1	Bangalore	36	4,37,475
2	Special Division, Bangalore	2	96,265
3	Bijapur	4	51,761
4	Belgaum	3	45,540
5	Chitradurga	3	2,62,267
<b>Total</b>		<b>48</b>	<b>8,93,308</b>

Rate approved for the item of work in the SR of Rs.23.30 per sqm (A)  
NH Circle for the year 1999-2000:

**Less:** Cost of 0.60 kg bitumen per sqm at Rs. 4.80  
Rs.8,000 per MT:

Rs.18.50

**Add :** Difference in cost of road metal: Rs.00.60

Rs.19.10 per sqm (B)

Cost of 0.015 cum of 19 mm jelly at Rs.375 per cum: Rs.5.62

**Less:** Cost of 0.015 cum of 13.2 mm jelly at Rs.335 per cum adopted in the SR: Rs.5.02

Net difference: Rs.0.60

Excess rate paid = (A) – (B) = Rs.23.30 – Rs.19.10 = Rs.4.20 per sqm

Total quantum of surface dressing work done = 8,93,308 sqm

**Total avoidable extra expenditure = Rs.4.20 x 8,93,308 sqm = Rs.37,51,894**

#### Appendix 4.4

#### Avoidable extra expenditure due to delay in acquisition of land

(Reference: Paragraph 4.4.8, Page 100)

(Amount in Rupees)

Sl No.	Type of land	Total area acquired (acres-guntas)	Valuation at 1996-99 rates + 30 per cent solatium	Valuation at 1979-80 rates + 30 per cent solatium <sup>ψ</sup>	Difference of columns 4 and 5	Interest paid (23 years and one month) <sup>*</sup>	Interest payable (three years) <sup>*</sup>	Difference of columns 7 and 8	Avoidable extra expenditure (columns 6 + 9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Dry land and malkies	67-20	26,56,309	8,39,778	18,16,531	55,66,039	3,02,320	52,63,719	70,80,250
2	Wet lands	04-12	2,28,000	83,850	1,44,150	4,57,217	1,64,598	2,92,619	4,36,769
<b>Total</b>			<b>28,84,309</b>	<b>9,23,628</b>	<b>19,60,681</b>	<b>60,23,256</b>	<b>4,66,918</b>	<b>55,56,338</b>	<b>75,17,019</b>

<sup>ψ</sup> Valuation of lands reckoned at the rate of Rs.7,500 per acre of dry land {maximum sale price registered and reckoned by SLAO in one of his Land Awards (No. SR/ 214-15179-80 dated 06.04.1981) for acquiring lands to the same project} and at the rate of Rs.15,000 per acre of wet land (at twice the price of dry land per acre).

<sup>\*</sup> Interest calculated at the rate of nine per cent for first one year and at the rate of 15 per cent for the remaining 22 years and one month.

<sup>ν</sup> Interest calculated at the rate of six per cent for first one year and at the rate of 15 per cent for the remaining two years as per the interest rates prevailing during 1978-81.



## Appendix 4.5

## Excess payment due to interest allowed on land compensation

(Reference: Paragraph 4.4.8, Page 101)

(Amount in Rupees)

Sl.No.	Payments	Payable	Paid	Excess paid
1	Compensation	83,68,086	83,68,086	-
2	Additional Market value @ 12 per cent	17,50,871	-	(-) 17,50,871
3	Solatum @ 30 per cent	22,23,091	22,23,091	-
<b>Total</b>		<b>1,23,42,048</b>	<b>1,05,91,177</b>	<b>(-) 17,50,871</b>
<b>Interest on total compensation</b>		<b>Nil</b>	<b>1,00,59,798</b>	<b>1,00,59,798</b>
<b>Net excess paid</b>		<b>-</b>	<b>-</b>	<b>83,08,927</b>

## Appendix 4.6

### Avoidable extra cost in construction of minor irrigation tank near Purdal

(Reference: Paragraph 4.4.11, Page 103)

Sl No.	Item of work	(in cmt)			(in Rupees)				Remarks
		Estimated quantity	Quantity up to 125 per cent	Quantity more than 125 per cent	Rate u/s 13 (ii)	Tender rate	Difference in rate	Extra cost	
01	EWE in soft rock	110.95	138.66	29,531.33	107.91	60.50	47.41	14,00,080	Excess quantity is due to defective estimation
02	EWE in ordinary rock without blasting	564.75	705.93	16,877.28	125.36	74.35	51.01	8,60,910	
03	Providing and laying CC 1:3:6 with plum	540.00	675.00	759.92	1,584.08	1,238.75	345.33	2,62,423	Excess quantity is due to calculation mistake in the estimate
04	Providing and laying CC 1:3:6	104.70	130.87	238.73	1,690.23	1,274.40	415.83	99,271	
05	Providing and laying CC 1:2:4	195.00	243.64	92.08	2,081.94	1,570.00	511.84	47,130	
<b>Total</b>								<b>26,69,814</b>	



**Appendix 4.7**  
**Excess payment of family pension**  
**(Reference: Paragraph 4.6.1, Page 106)**

(Rupees in lakh)

Sl.No.	Treasury	No. of cases	Amount	Period
1	Bangalore (PPT)	186	41.24	2/00 to 9/03
2	Bangalore (Rural)	18	3.47	1/02 to 2/04
3	Bangalore(Urban)	1	0.03	5/03 to 7/03
4	Belgaum	10	1.50	1/02 to 6/03
5	Bellary	26	5.13	2/00 to 2/03
6	Bidar	41	6.90	4/02 to 1/04
7	Bijapur	36	4.72	9/01 to 1/04
8	Bagalakot	24	3.79	7/00 to 9/03
9	Chamarajanagar	4	0.07	2/03 to 4/03
10	Chikkamagalur	4	0.57	1/01 to 3/03
11	Chitradurga	46	12.21	7/99 to 11/03
12	Davanagere	6	1.04	6/01 to 6/03
13	Dharwar	4	1.86	3/96 to 8/03
14	Gadag	8	0.39	2/03 to 8/03
15	Gulbarga	60	8.98	9/96 to 12/03
16	Hassan	29	4.17	7/01 to 11/03
17	Haveri	7	0.72	6/02 to 6/03
18	Hubli	3	0.92	9/00 to 7/03
19	Koppal	11	2.26	5/00 to 6/03
20	Karwar (Uttara Kannada)	19	3.00	12/98 to 11/03
21	Kolar	20	2.58	3/02 to 5/03
22	Mandya	16	1.68	3/02 to 9/03
23	Mysore	17	1.35	1/02 to 4/03
24	Mangalore (Dakshina Kannada)	25	2.94	5/02 to 10/03
25	Madikeri (Kodagu)	16	2.15	4/02 to 2/04
26	Raichur	14	4.68	3/97 to 6/03
27	Shimoga	24	3.30	6/02 to 5/03
28	Tumkur	24	3.56	4/01 to 11/03
29	Udupi	2	0.22	2/03 to 10/03
<b>Total</b>		<b>701</b>	<b>125.43</b>	

**Appendix 4.8**

**Continued excess payment of family pension**

**(Reference: Paragraph 4.6.1, Page 106)**

**(Rupees in lakh)**

<b>Sl.No.</b>	<b>Treasury</b>	<b>No. of cases</b>	<b>Amount</b>
1	Bijapur	29	14.64
2	Davanagere	5	1.13
3	Hassan	12	0.62
4	Kolar	9	2.22
5	Raichur	7	1.36
	<b>Total</b>	<b>62</b>	<b>19.97</b>



## Appendix 4.9

## Non-receipt of GPF withdrawal vouchers

(Reference: Paragraph 4.6.1, Page 107 )

(Rupees in lakh)

Sl.No.	Treasury	Withdrawals from GPF Account	
		Number of items	Amount
1	State Huzur Treasury	39	116.77
2	Bangalore Urban	9	10.62
3	Bangalore Rural	4	1.59
4	Haveri	2	2.47
5	Hassan	3	1.10
6	Hubli	1	0.04
7	Kolar	2	0.13
8	Udupi	2	1.36
9	Kodagu	4	0.29
10	Mandya	1	0.51
11	Mangalore	7	4.84
12	Bellary	7	8.32
13	Gadag	4	1.13
14	Dharwar	1	0.06
15	Tumkur	196	16.31
16	Shimoga	139	12.49
17	Chikkamagalur	279	27.24
18	Chitradurga	441	33.39
19	Mysore	83	72.23
20	Raichur	192	16.69
21	Bidar	573	18.93
22	Gulbarga	319	21.83
23	Belgaum	660	62.51
24	Bijapur	302	32.85
25	Davanagere	301	21.54
26	Chamarajnagar	103	6.57
27	Bagalkot	302	27.43
28	Koppal	177	20.71
29	Karwar	367	23.22
Total		4,520	563.17

**Appendix 4.10**

**Non-receipt of GPF recovery schedules**

**(Reference: Paragraph 4.6.1, Page107)**

**(Rupees in lakh)**

Sl.No.	Treasury	Recovery of subscription	
		Number of items	Amount
1	State Huzur Treasury	43	1.92
2	Bangalore Urban	425	121.46
3	Bangalore Rural	90	3.98
4	Haveri	325	31.05
5	Hassan	640	94.15
6	Hubli	25	2.52
7	Kolar	306	53.17
8	Udupi	63	1.82
9	Kodagu	161	15.43
10	Mandya	114	9.94
11	Mangalore	126	7.54
12	Bellary	141	10.61
13	Gadag	304	38.87
14	Dharwar	70	5.15
15	Shimoga	2	4.05
16	Chikkamagalur	1	0.01
17	Chitradurga	7	55.21
18	Mysore	5	- 0.32
19	Raichur	2	0.13
20	Gulbarga	4	1.51
21	Belgaum	3	3.27
22	Bijapur	25	1.98
23	Davanagere	4	1.27
24	Chamarajnagar	6	21.59
25	Bagalkot	1	6.17
26	Koppal	20	19.14
27	Karwar	13	10.98
	<b>Total</b>	<b>2,926</b>	<b>522.60</b>



### Appendix 4.11

#### Year-wise breakup of Outstanding Inspection Reports pertaining to Horticulture, Labour and Water Resources Departments

(Reference: Paragraph 4.7.1, Page 109)

Year	Horticulture Department		Labour Department		Water Resources Department	
	Number of Inspection Reports	Number of paragraphs	Number of Inspection Reports	Number of paragraphs	Number of Inspection Reports	Number of paragraphs
Upto 1994-95	157	509	81	240	239	392
1995-96	15	43	2	2	26	47
1996-97	18	54	5	10	40	94
1997-98	2	4	Nil	Nil	37	114
1998-99	45	182	70	175	34	81
1999-2000	14	37	7	22	51	185
2000-01	15	43	15	58	59	314
2001-02	15	52	6	27	57	275
2002-03	7	21	4	10	54	354
2003-04	1	1	Nil	Nil	65	703
<b>Total</b>	<b>289</b>	<b>946</b>	<b>190</b>	<b>544</b>	<b>662</b>	<b>2,559</b>

## Appendix 4.12

(Reference: Paragraph 4.7.1, Page 109)

### (A) Irregularities noticed in the Inspection Reports pertaining to Horticulture Department

Serial Number	Nature of irregularities	Number of paragraphs	Amount (Rupees in lakh)
1.	Non /improper maintenance of initial records, cash book, imprest account, reconciliation with treasury, etc.	43	0.63
2.	Extra/excess/infructuous/wasteful/unauthorised/irregular expenditure	119	1,470.49
3.	Irregular expenditure on purchase/purchase of defective machinery	20	14.14
4.	Withdrawal of funds to avoid lapse of grants and locking up of Government funds	16	24.28
5.	Excess/over payment/mis-utilisation of grants, loans and subsidies	19	27.22
6.	Wanting payees' receipts/UCs and non-receipt of completion certificates of buildings	3	23.87
7.	Non-achievement of objectives	59	45.31
8.	Outstanding dues/loans, advances, share capital contribution/interest	48	3,078.77
9.	Machinery, spares, furniture, etc., lying idle	12	0.25
10.	Unauthorised financial aid to contractors	3	NA
11.	Non-adherence to prescribed procedure while dealing with cash	17	0.05
12.	Losses due to deterioration of seeds, shortages, thefts, etc., awaiting regularisation	88	161.21
13.	Irregularities in respect of acceptance of tenders/quotations	1	NA
14.	Unspent balances or amounts recovered but not credited to Government	6	1.45
15.	Non-recovery of rent, water charges, etc., from occupants of Government residential quarters	22	2.32
16.	Other miscellaneous irregularities	470	136.80
<b>Total</b>		<b>946</b>	<b>4,986.79</b>



**(B) Irregularities noticed in the Inspection Reports pertaining to Labour Department**

Serial Number	Nature of irregularities	Number of paragraphs	Amount (Rupees in lakh)
1.	Non /improper maintenance of initial records, cash book, imprest account, reconciliation with treasury, <i>etc.</i>	35	3.75
2.	Extra/excess/infructuous/wasteful/unauthorised/irregular expenditure	29	78.67
3.	Irregular expenditure on purchase/purchase of defective machinery	10	112.08
4.	Excess/over payment/mis-utilisation of grants, loans and subsidies	4	4.70
5.	Withdrawal of funds to avoid lapse of grants and locking up of Government funds	4	40.44
6.	Outstanding dues/loans, advances, share capital contribution/interest	15	42.84
7.	Machinery, spares, furniture, <i>etc.</i> , lying idle	18	138.87
8.	Non-adherence to prescribed procedure while dealing with cash	3	NA
9.	Losses due to deterioration of seeds, shortages, thefts, <i>etc.</i> , awaiting regularisation	6	64.39
10.	Unspent balances or amounts recovered but not credited to Government	3	0.05
11.	Unauthorised financial aid to contractors	3	77.22
12.	Non-achievement of objectives	1	NA
13.	Non-recovery of rent, water charges, <i>etc.</i> , from occupants of Government residential Quarters.	11	0.03
14.	Other miscellaneous irregularities	402	103.04
<b>Total</b>		<b>544</b>	<b>666.08</b>

**(C) Irregularities noticed in the Inspection Reports pertaining to Water Resources Department**

Serial Number	Nature of Irregularities	Number of paragraphs	Amount (Rupees in lakh)
1.	Extra/excess/infructuous/wasteful/ unfruitful expenditure on works	736	61,749.29
2.	Shortages/losses/obsolescence of stores and T&P articles	210	1,126.48
3.	Purchases without proper sanction/split sanction	29	828.99
4.	Injudicious purchase of Stores and T&P articles	65	1,684.03
5.	Excess expenditure due to rejection/non-acceptance of tenders	5	34.76
6.	Recoveries due from contractors including extra cost recoverable due to abandonment of works/rescinding contracts	172	989.08
7.	Licence fee/rent recoverable - outstanding	22	35.21
8.	Amount recoverable from employees due to wrong fixation of pay and other reasons	90	124.93
9.	Unauthorised/un-intended benefit to contractors	24	439.42
10.	Demand, collection and balance of water rates	41	27,456.08
11.	Irregular expenditure on water management	8	999.00
12.	Other miscellaneous irregularities	1,153	17,156.27
13.	Diversion of letter of credit towards purchase of stores and stock articles	4	21.48
<b>Total</b>		<b>2,559</b>	<b>1,12,645.02</b>



### Appendix 4.13

#### Details of Departmental Notes pending as of December 2004 (excluding General and Statistical Paragraphs)

(Reference: Paragraph 4.7.2(a) Page 110)

Sl. No.	Department	Audit Report (Civil)							Total
		1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	
1.	Forest, Home & Transport	-	1	-	-	-	-		1
2.	Animal Husbandry & Veterinary Services	-	-	-	1	-	2		3
3.	Commerce and Industries	-	-	2	2	3	2	1	10
4.	Co-operation	-	-	-	-	-	-	1	1
5.	Education	-	-	-	1	1	-	-	2
6.	Finance	-	-	-	4	2	3	2	11
7.	Forest, Ecology and Environment	-	-	-	-	-	-	3	3
8.	Health & Family Welfare	3	5	1	2	3	3	2	19
9.	Home	-	2	-	-	2	-	2	6
10.	Housing	1	-	-	-	-	-		1
11.	Information, Tourism, Youth Services & Sports	-	-	-	-	1	-	-	1
12.	Labour	-	-	-	-	-	-	1	1
13.	Legislature Secretariat	-	-	-	-	1	-	-	1
14.	Minor Irrigation	-	-	2	2	1	2	3	10
15.	Planning	-	-	-	-	1	-		1
16.	Public Works	1	-	-	-	-	-	-	1
17.	Revenue	-	1	1	-	1	-	1	4
18.	Social Welfare	2	-	3	3	1	1	-	10
19.	Urban Development	-	-	-	-	-	-	2	2
<b>Total</b>		<b>7</b>	<b>9</b>	<b>9</b>	<b>15</b>	<b>17</b>	<b>13</b>	<b>18</b>	<b>88</b>

### Appendix 4.14

**Paragraphs (excluding General and Statistical) yet to be discussed by Public Accounts Committee as of October 2004  
(Reference: Paragraph 4.7.2(b), Page 111)**

Sl.No.	Department	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-2000	2000-01	2001-02	Total
1.	Agriculture	-	-	-	-	2	-	-	-	-	-	2
2.	Animal Husbandry and Veterinary Services	-	-	-	-	-	3	1	1	2	-	7
3.	Commerce and Industries	-	-	-	-	-	2	3	1	5	1	12
4.	Co-operation	1	-	-	-	-	-	-	-	-	1	2
5.	Education	2	1	4	5	1	-	1	2	2	1	19
6.	Ecology and Environment	-	-	-	-	-	-	-	-	1	1	2
7.	Forest	1	-	1	2	-	-	-	-	1	3	8
8.	Finance	-	-	-	-	-	-	4	2	3	2	11
9.	Health and Family Welfare	3	-	1	4	6	1	2	3	3	2	25
10.	Home	-	2	2	-	2	-	-	2	-	2	10
11.	Horticulture	-	-	-	-	1	1	-	-	-	-	2
12.	Housing	-	-	-	2	1	-	3	-	1	-	7
13.	Information, Tourism, Youth Services & Sports	-	-	-	-	-	2	1	3	-	-	6
14.	Kannada and Culture (Archeology & Museums)	-	-	-	-	-	-	2	-	-	-	2
15.	Labour	-	-	-	-	-	-	-	-	-	1	1
16.	Legislature Secretariat	-	-	-	-	-	-	-	1	-	-	1
17.	Minor Irrigation	1	6	3	6	4	4	3	1	9	4	41
18.	Planning	-	-	-	-	-	-	-	1	-	-	1
19.	Public Works	-	2	2	4	2	2	1	-	-	-	13
20.	Rural Development	-	1	-	-	-	-	-	-	-	1	2
21.	Revenue	-	-	-	1	1	1	-	1	1	2	7
22.	Sericulture (Under C&I)	-	-	-	-	-	1	1	1	-	-	3
23.	Social Welfare	-	-	-	2	-	3	3	1	1	-	10
24.	Transport	-	1	-	-	-	-	-	-	-	-	1
25.	Urban Development	-	-	-	-	-	-	-	-	7	6	13
26.	Water Resources	14	7	8	6	8	8	2	3	5	6	67
27.	Women & Child Welfare	-	-	-	-	1	-	-	-	-	-	1
28.	Agriculture, Forest, Home & Transport	-	-	-	-	1	-	-	-	-	-	1
	<b>Total</b>	<b>22</b>	<b>20</b>	<b>21</b>	<b>32</b>	<b>30</b>	<b>28</b>	<b>27</b>	<b>23</b>	<b>41</b>	<b>33</b>	<b>277</b>