CHAPTER II
AUDIT OF TRANSACTIONS

Audit of transactions of the Government, its field formations as well as of autonomous bodies, brought out several instances of lapses in management of resources and failures in adherence to the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

2.1 Misappropriation/fraudulent drawal

HEALTH AND FAMILY WELFARE DEPARTMENT

2.1.1 Fraudulent drawal and misappropriation of Government money

In Medical College Chest Hospital, Thrissur, ` 1.12 lakh was fraudulently drawn by presenting bogus bills in the names of employees.

Rule 432 (a) of the Kerala Treasury Code (KTC) stipulates that the head of an office is personally responsible for all moneys drawn as pay, leave salary, allowances, etc., on an establishment bill signed by him or on his behalf until he has paid them to the persons who are entitled to receive them and has obtained their dated acknowledgements, duly stamped when necessary. Further, Form TR 95, prescribed under Rule 432 (a) for obtaining the acquittance for the money disbursed also contain a certificate to be recorded by the Drawing and Disbursing Officer to the effect that aquittance has been taken in respect of each amount paid, from the persons entitled to receive it. Form TR 51, prescribed under Rule 169 (b) of KTC for drawal of bills for pay, allowances, etc., mandates certificates to be recorded by the Drawing and Disbursing Officer to the effect that the claims preferred are verified with relevant rules and are eligible.

Audit scrutiny (January-February 2010) of the accounts of the Medical College Chest Hospital (MCCH), Mulamkunnathukavu, Thrissur, for the period January to December 2009 revealed fraudulent drawal of money from the treasury on presentation of bogus bills by the Lay Secretary and Treasurer[91] of the MCCH as detailed below:

- **A bill for ` 66,384 towards surrender leave salary in respect of four employees was encashed on 31 August 2009 after they were relieved of their duties on transfer between the first and tenth of August 2009[92].**
- **Salary of ` 6,011 for July 2009 relating to a Hospital Attendant, who was relieved on 10 July 2009 on transfer, was drawn on 5 August 2009.**
- **Salary was drawn in August 2009 for the full month of July 2009 (` 10,504) relating to a provisional employee (Pharmacist), though**

[91] Lay Secretary and Treasurer is the Drawing and Disbursing Officer of the Hospital.

[92] Agnes Sebastian (1 August 2009 Afternoon); P.K.Mini (3 August 2009 Forenoon); A.N.Latha (9 August 2009 Afternoon) and G.P.Sophy (10 August 2009 Afternoon)

the employee was eligible for salary for four days only (` 1,355) due to termination of service on 4 July 2009.

- **Salary for August 2009 (` 15,838) and festival advance (` 5,000) relating to a Pharmacist was drawn on 28 August 2009 after she was relieved on 24 July 2009.**
- ***Ad hoc* bonus (` 2,500) and festival advance (` 5,000) were drawn during August 2009 in the name of a Hospital Attendant who was issued Last Pay Certificate on 31 July 2009.**
- ***Ad hoc* bonus of ` 2,500 in respect of a Nursing Assistant was drawn twice in August and October 2009.**

The bogus bills were prepared by the head clerk of the hospital and signed by the Lay Secretary and Treasurer of the hospital and the above amounts were shown as disbursed on fake signatures of the employees. Audit also found specific notings in the Service Book of the head clerk against entrusting the official with cash dealings and other allied matters relating to cash and accounts. Disregarding this, the Drawing and Disbursing Officer of the MCCH entrusted the head clerk to deal with cash transactions. Entrustment of cash transaction to a delinquent person and the failure of the Drawing and Disbursing Officer to adhere to the above mentioned provisions of KTC in regard to the drawal and disbursement of the Government money resulted in fraudulent drawal and misappropriation of ` 1.12 lakh.

Government stated (July 2010) that a case had been registered before the Chief Judicial Magistrate, Wadakkancherry and subsequently the case had been transferred to the Vigilance and Anti-Corruption Bureau. Government added that further action would be taken on the basis of the recommendations of the Vigilance Department.

2.1.2 Misappropriation of funds

Lack of proper checks by supervisory officers led to misappropriation of ` 0.68 lakh from Hospital Development Committee funds of two hospitals. In addition, financial irregularities of ` 12.86 lakh by the Medical Officer of Community Health Centre, Elappully were also noticed.

1. Hospital Development Committee funds

Government constituted (January 1983) Hospital Development Committees (HDC) to ensure constant vigil on the functioning of the medical institutions in the State. The HDCs were required to keep proper accounts of the fees collected for the services rendered so as to utilise the amounts for various developmental activities instead of remitting them to the Government account. A test check of the records of HDCs of Taluk Headquarters Hospital, North Paravoor for the period from July 2007 to October 2009 and Primary Health Centre, Kollengode for the period from January 2006 to March 2010 revealed the following misappropriations of funds amounting to ` 0.68 lakh. The misappropriations had happened due to failure of the HDC to maintain

proper accounts as well as absence of proper checks by the supervisory officers[93].

Taluk Headquarters Hospital, North Paravoor

Between July 2007 and November 2008, ` 51,075 collected by the HDC were not brought to account in the cash book, the details of which were as shown below :-

- **One-third of the bid amount of the canteen (` 23,200) received from a contractor on 16 October 2008.**
- **X-ray charges of ` 18,025 collected at ` 35 each from 515 patients during September 2007 and May-July 2008.**
- **Scanning charges of ` 4200 collected at ` 200 each from 21 patients on 14 March 2008.**
- **Dental service charges amounting to ` 2,390[94] collected during February, March and July 2008.**
- **Hospital stoppage[95], operation and freezer charges amounting to ` 3,260 collected during July 2007 to October 2008.**

The Superintendent of the Hospital confirmed (November 2009) all the above cases of misappropriations. The Director of Health Services informed (September 2010) that ` 26,185 had been remitted by the concerned officials.

Primary Health Centre, Kollengode

Audit scrutiny (March 2010) revealed short accountal of ambulance hire charges, out-patient fees and pay ward charges and inflated accounting of fuel charges as well as shortage of cash totalling ` 16,908, the details of which are given in Appendix IX.

On this being pointed out in audit, the Medical Officer, Primary Health Centre, Kollengode informed (September 2010) that ` 16,908 had been remitted (August and September 2010) in the HDC account by the person concerned. However, departmental action initiated against the official responsible had not been intimated by the Government (October 2010).

2. Funds of Community Health Centre, Elappully

During audit of the Community Health Centre (CHC), Elappully in Palakkad District in October 2007, some financial irregularities were noticed by Audit. The District Medical Officer (DMO), Palakkad conducted a surprise check and confirmed the audit findings. Based on the DMO's report, the Director of Health Services (DHS) suspended (October 2007) the Medical Officer in charge of the CHC, pending

[93] The Superintendent of the hospital in the case of Taluk Headquarters hospital and the Medical Officer in the case of the Primary Health Centre.

[94] Outpatient ticket charges of ` 1,790 (` 5 each from 358 patients) collected during February 2008, March 2008 and July 2008 and Scaling charges of ` 600 (` 50 each from 12 patients) collected on 9 July 2008.

[95] Hospital stoppage is the fee at ` 10 per day collected from every inpatient who is above poverty line, admitted in pay wards.

detailed enquiry. No detailed enquiry was, however, conducted and the Medical Officer who is also the Drawing and Disbursing Officer was reinstated (June 2008) in service without imposing any penalty.

During audit of the accounts of the CHC, Elappully held in November 2009, it was found that the Medical Officer had committed financial irregularities of ` 12.86 lakh between January 2005 and July 2007 as indicated below:

Table 2.1: Details of financial irregularities

Sl. No.	Nature of irregularity	Amount (In `)
1.	Fraudulent payment of wages to a driver	28,460
2.	Double withdrawal of money based on the same invoice	24,680
3.	Excess drawal	2,108
4.	Manipulation of bills	2,90,325
5.	Fraudulent claims towards charges for cleaning, repair of vehicle, disposal of waste, etc.	1,99,786
6.	Doubtful cases of the genuineness of the vouchers due to absence of dates, rates, purposes, names of suppliers, etc.	1,14,114
7.	Missing vouchers	5,38,096
8.	Short accountal of receipts towards hire charges of ambulances	88,821
	Total	12,86,390

Audit also detected 17 sets of unused duplicate receipt books in stock which could be used fraudulently.

The DHS informed (October 2010) that an enquiry was conducted at CHC Elappully by the Additional Director of Health Services (Vigilance) in September 2010 and the audit observations were found to be genuine. The DHS also stated that stringent action was being taken against the Medical Officer on the basis of the findings and recommendations of the Enquiry Officer.

The matter was brought to the notice of Government in January 2010; reply had not been received (November 2010).

2.2 *Avoidable/Extra expenditure*

FINANCE DEPARTMENT

2.2.1 Irregular payment of employer's contribution to Employees' Provident Fund

Irregular payment of employer's contribution to Employees' Provident Fund (EPF) resulted in additional burden of ` 1.72 crore to the State Government in respect of employees of five State autonomous institutions.

The Employees Provident Fund and Miscellaneous Provisions Act, 1952 envisages that the employer's contribution shall be paid at the rate of 12 *per cent* of the basic wages (including dearness allowance, retaining allowance, if any, and cash value of food concessions) and employee's contribution shall be equal to the contribution payable by the employer subject to the condition that the employer shall not be under an obligation to pay any contribution over and above the contribution payable under the Act. Further, employees who were drawing more than ` 6,500 per month at the time of enrolment and employees who were drawing lesser amount at the time of enrolment and whose monthly pay subsequently exceeded ` 6,500 were considered as 'excluded employees' under the EPF scheme. However, those employees whose monthly pay exceeded ` 6,500 would be allowed to continue in the EPF scheme and could contribute more than ` 6,500 per month, based on the undertaking that the employer would pay the administrative charges[96] payable and comply with all statutory provisions of the scheme. Even in such cases, the employers' contribution was to be limited to the amount payable on a monthly pay of ` 6,500 (proviso to paragraph 26A (2) of EPF scheme, 1952). Thus the maximum amount payable by the employer towards contribution per annum for an employee would be ` 10,616 only at 13.61 *per cent* of ` 78,000 (` 6,500 x 12).

Audit scrutiny of the implementation of the EPF scheme in the State autonomous institutions revealed that contributions were made by these institutions irrespective of the pay limit fixed (` 6,500 per month) as per the scheme. Excluded employees (whose pay exceeded ` 6,500) were also seen enrolled contrary to the provisions in the scheme. As the autonomous institutions are substantially financed by the State Government, sanctions from the Government should have been obtained to pay employers' contribution in excess of the prescribed limits.

A detailed scrutiny of the annual returns for the period from 2004-05 to 2007-08 submitted to the EPF authorities by five[97] State autonomous institutions revealed that these institutions were contributing towards their share of EPF in excess of the prescribed limit and the excess payment on this account worked out to ` 1.72 crore during 2004-08. As no specific sanction to contribute in excess of the prescribed limit was obtained from Government, the payment was irregular and caused additional burden to the State exchequer without their knowledge.

On this being pointed out in audit, the Finance Department issued (May 2010) instructions to all Government autonomous institutions having the EPF scheme and paying excess employer's contribution, to enquire into the irregularities and to inform the action taken to the Accountant General. The Finance Department also intimated (September 2010) that the concerned administrative departments (Higher Education and Science and Technology) under whom the autonomous institutions functioned had been directed to initiate disciplinary action against the officers responsible for remitting the excess amounts ignoring the statutory provisions and to recover the excess amount. The Finance Department added that it would monitor the action taken by the administrative departments.

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[96] 1.61 *per cent* of the salary of the employee - 0.5 *per cent* towards Employees' Deposit Linked Insurance fund (EDLI), 1.1 *per cent* towards Pension fund and 0.01 *per cent* towards administration charges of EDLI.

[97] Kerala State Audio Visual and Reprographic Centre (` 4.14 lakh)
National Transportation Planning and Research Centre (` 24.99 lakh)
Tropical Botanic Garden and Research Institute (` 59.88 lakh)
Kerala Forest Research Institute (` 74.39 lakh)
Lal Bahadur Sasthri Centre for Science and Technology (` 9.07 lakh)

GENERAL EDUCATION DEPARTMENT

2.2.2 Extra expenditure due to irregular grant of scale of pay instead of consolidated pay to General Foundation Course teachers

Grant of scale of pay instead of consolidated pay to 165 General Foundation Course teachers having workload below six hours per week led to extra expenditure of ` 2.83 crore towards their salary and allowances.

The Kerala Vocational Higher Secondary Education Subordinate Service Rules, 2004 (Special Rules) considered Non-Vocational Teachers having workload below 15 hours per week per subject as regular staff and classified them as Non-Vocational Teachers (Junior) and granted them scale of pay. However, Non-Vocational Teachers (General Foundation Course) having workload below six hours per week were not separately classified in the Rules as they were not considered as regular staff borne on the establishment. As per the Pay Revision Orders of 2006, these teachers were eligible only for a consolidated pay of ` 3500 per month.

However, scrutiny (January 2010) by Audit revealed that 165 General Foundation Course (GFC) teachers having workload below six hours per week were appointed in 145 Vocational Higher Secondary Schools between June 2008 and December 2009 and were paid in the scale of pay of ` 9190-15510 as applicable to Non-Vocational Teachers (Junior). This resulted in extra expenditure of ` 2.83 crore (reckoned at the minimum of the scale of pay) for the period June 2008 to June 2010.

Government admitted (September 2010) that the irregular grant of scale of pay to the above GFC teachers occurred due to the misinterpretation of the Special Rules by the appointing authority, i.e., the Director, Vocational Higher Secondary Education who was not competent to interpret the rules. Government further stated (September 2010) that the Kerala Vocational Higher Secondary Education Subordinate Service Rules, 2004, had been amended with retrospective effect from 12 March 2004 to distinguish non-vocational teachers (Junior) from GFC teachers having workload below six hours per week. However, Government had not intimated the action initiated against the Director who was responsible for the extra expenditure caused to them (September 2010).

PUBLIC WORKS DEPARTMENT

2.2.3 Extra expenditure due to adoption of higher norms for estimation of unit rate

Sanction of higher labour component and excessive rates for tile flooring in four building works resulted in an extra expenditure of ` 51.50 lakh to Government.

The labour component for flooring with paving tiles as per Sl.No.409 of the Standard Data Book for Civil works (SDB) was one brick mason, 0.5 man and 0.5 boy mazdoor. Audit scrutiny of the records in Special Buildings Division, Thiruvananthapuram during April 2009 disclosed the sanction of higher norms for the labour component for flooring with paving tiles in four building construction works (Super Speciality Block in Medical College Hospital, Civil Station Phase I, Civil Station Phase II and Ambedkar Bhavan) arranged by the Superintending Engineer, Building and Local Works, South Circle, Thiruvananthapuram between May 2005 and April 2006 as detailed below:

Supplying and paving the floor using ceramic/rectified/vitrified tiles of good quality was an item of work in all the four contract schedules. The estimated rate of labour component for flooring work as per the SDB and the Schedule of Rates 2004 was ` 287.38[98] per 10 sq.metre. Against this the rate adopted for the labour component was ` 2,238.50[99] per 10 sq.metre, which was the rate for the work of dadoing[100] walls. This resulted in an excess rate of ` 1,951.12 per 10 sq.metre. For an area of 22,867.33 sq.metre paved using ceramic/rectified/vitrified tiles in the four buildings, the extra amount including tender excess (ranging from 8.92 *per cent* to 23.6 *per cent*) paid during December 2008 to February 2010 due to adoption of higher norms was ` 51.50 lakh.

The Chief Engineer, Buildings, Thiruvananthapuram stated (December 2010) that the data was based on Sl. No.536 of SDB since a uniform rate for flooring was adopted only in May 2008. The reply is not acceptable as Sl. No. 536 is meant for the work of dadoing walls with tiles and Sl.No. 409 of SDB is applicable for flooring with tiles.

The matter was referred to Government in May 2010; reply had not been received (November 2010).

2.2.4 Avoidable expenditure on payment for inadmissible items

Inadmissible payment for removal of obstacles found during well sinking in ordinary rock in a bridge work resulted in avoidable expenditure of ` 36.67 lakh.

Government issued (November 2006) administrative sanction for the construction of Sreemoolanagaram Bridge across Periyar river in Ernakulam District with assistance from the National Bank for Agriculture and Rural Development. The Superintending Engineer (SE), Roads and Bridges, Central Circle, Aluva awarded (July 2007) a contract for ` 13.49 crore (at 22.44 *per cent* above the estimated value) to M/s. Kerala State Construction Corporation Limited (KSCC), a Government company, with due date of completion of 30 July 2009. The date of completion was later extended up to 30 August 2010. The components of the work included sinking of RCC[101] well of 10 metre and 6.5 metre outer diameter for abutment and piers respectively. According to the terms of contract, KSCC had to sink wells in all classes of soil[102] other than hard rock. According to Chapter XV of the 'Standard Data Book for Civil

[98] One brick mason: ` 165 + 0.5 man: ` 55 + 0.5 boy: ` 41.25 + 10 *per cent* contractors profit (CP)

[99] Rate for dadoing walls (Sl.No. 536 of SDB) : nine brick masons: ` 1,485 + five men mazdoor: ` 550 + 10 *per cent* CP

[100] Decorating the lower part of an interior wall

[101] Reinforced Cement Concrete

[102] Soil other than hard rock include ordinary soil, hard soil, ordinary rock, etc.

Works' (SDB), the rate for well-sinking was inclusive of hire and working charges of pumps and air compressors. For obstacles like boulders of size more than 40 decimetre cube (dm^3) or wooden logs of size more than $100dm^3$ found during sinking wells, extra payment was to be made only for cutting down or breaking the obstacles into small pieces.

While sinking the well, ordinary rock mixed with boulders of size more than 40 dm^3 at different depths and wooden logs of size more than 100 dm^3 were found. To remove these obstacles, the Chief Engineer, PWD sanctioned (July 2008) five extra items[103]. The SE entered into a supplementary agreement with KSCC in August 2009 for execution of these extra items. Three out of these five extra items viz., well sinking in ordinary rock, hire charges for 300 CFM[104] air compressor and labour charges for helpers were not admissible, as the rate for well sinking was inclusive of these items. Consequently, payment for the aforesaid items resulted in avoidable expenditure of ` 36.67 lakh[105] to Government.

The Chief Engineer, Public Works Department (Roads & Bridges) stated (August 2010) that the items were beyond the scope of the original agreement and specifications but were inevitably required during execution and therefore, executed as extra items. The reply is not acceptable since (i) the agreement was for sinking well in all classes of soil, other[106] than hard rock and soil other than hard rock include ordinary rock and (ii) the rate[107] for sinking well included running expenses of compressor and other appliances and extra amounts were only for cutting down or removing the obstacles into small pieces.

The matter was referred to Government in May 2010; reply had not been received (November 2010).

2.2.5 Extra expenditure on a road work

Execution of road markings at a higher rate on a road work resulted in an extra expenditure of ` 35.93 lakh.

Road markings are defined as lines, patterns, works or other devices except signs set into, applied or attached to the carriageway for control, warning guidance or information of road users. Carriageway markings include *inter alia*, centre lines, border or edge lines and pedestrian crossings. The State Public Works Department (PWD) had no rate for these and hence the rate approved by the Ministry of Road Transport and Highways (MORTH) was adopted in the State. The rate for road marking in 2006 approved by MORTH was ` 630 per sq.metre (sq.m).

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[103] Well sinking in ordinary rock,hire charges for 300 CFM air compressor, labour charges for helpers, labour charges for well sinker diver with diving set and labour charges for well sinker without diving set .

[104] Cubic Feet per Minute

[105] ` 36.67 lakh = payment for well sinking in ordinary rock (` 4.61 lakh) + hire charges for air compressor (` 30.46 lakh), labour charges for helpers (` 1.60 lakh)

[106] Chapter II of SDB

[107] Chapter XV of SDB

The Superintending Engineer, Roads and Bridges South Circle, Thiruvananthapuram in April 2006 awarded the work of providing bituminous macadam and asphaltic concrete from chainage 0/000 to 25/360 of Cherthala-Arookutty Road to a contractor for a contract amount of ` 12.67 crore. The road marking components included in the work were centre lines with white paint at the rate of ` 894 per sq.m, side edges with yellow paint at the rate of ` 927 per sq.m and Pedestrian crossing with white paint at the rate of ` 967 per sq.m for areas of 1200 sq.m, 225 sq.m. and 230 sq.m respectively. In three similar National Highway road works for which agreements were executed during 2005-06 and 2006-07, the rates adopted for various components in road marking was ` 630 per sq.m as approved by MORTH. Though the Superintending Engineer (SE) proposed the rate approved by MORTH (i.e. ` 630 per sq.m) for the road markings, the Chief Engineer, Roads and Bridges, Thiruvananthapuram changed it to the aforesaid rates at the time of approval of the estimate without assigning any reason. The total area of the centre lines and edges was 1425 sq.m which was later revised by clubbing the centre line and edges line areas and increased to 9275.60 sq.m at a uniform rate of ` 894 per sq.m. The area of pedestrian crossings was also increased to 685 sq.m. A supplemental agreement for the additional works was executed in March 2009. The contractor executed 9275.60 sq.metre central and edge line markings and 631.88 sq.m pedestrian crossing markings (total 9907.48 sq.m) and was paid ` 1.20 crore (February 2010) against ` 84.26 lakh as per the approved rate of MORTH. Thus adoption of rate higher than the rate approved by MORTH without adequate justification resulted in an extra expenditure of ` 35.93 lakh.

The Chief Engineer, Roads and Bridges stated (May 2010) that the rate of road markings was approved by him and that the increase in quantity was due to painting the edge lines of the road for 15 cm width which was not originally included. However, it was noticed in audit that in three similar road works for which agreements were executed between October 2005 and February 2007 by SE, NH (Central) circle, Kochi, the width of the edge lines marking was only 10 cm, and the rate adopted was only ` 630 per sq.m. As such the higher rates and increase in line width allowed by the Chief Engineer were not justifiable.

The matter was referred to Government in July 2010 and reply had not been received so far (November 2010).

2.3 Idle establishment/blockage of funds

FISHERIES AND PORTS DEPARTMENT

2.3.1 Blocking of funds with Matsyafed

Conceptualisation of projects without assessing the situation prevailing in the State resulted in blocking of funds of ` 2.53 crore released to Kerala State Co-operative Federation for Fisheries Development Limited (Matsyafed) for implementation of two projects.

The State Government accorded (February 2007) an administrative sanction for implementation of two projects viz. diversification of artisanal fisheries for deep sea fishing (project cost: ` 4.88 crore) and value addition and marketing of fish (project cost: ` 99.95 lakh), in the fisheries sector under the President's Mission Programmes. Government of India had allocated (August 2006) ` five crore[108] for implementation of these two schemes during Annual Plan 2006-07 and released 30 *per cent* of the allocated amount (` 1.50 crore) as one time Additional Central Assistance. The projects were to be implemented by the Kerala State Co-operative Federation for Fisheries Development Limited (Matsyafed). Hence, Government had released ` four crore and ` 99.95 lakh (including their share) in March 2007 and March 2008 respectively to Matsyafed. The following points were noticed during audit of the utilisation of funds:-.

(i) The project 'diversification of artisanal fisheries for deep sea fishing' proposed to convert 20 inboard motor fitted crafts, as a pilot project, to take up gill netting and long lining in the offshore waters of more than 50m depth to exploit the resources of tuna, seer fish, bill fishes, perches, etc. These crafts were also to be equipped with fish holds of about 20 tonnes capacity for enabling multi-day fishing. Apart from investment in capital for modifying the existing crafts, training was also to be provided to traditional fishermen in long lining and gill netting for deep sea resources. The project was implemented in seven districts. Out of the total release of ` four crore by State Government, Matsyafed could utilize only ` 2.48 crore as of October 2010 resulting in non-utilisation of ` 1.52 crore for the last three years. The Managing Director, Matsyafed intimated (June 2010) that underutilization of funds was due to conversion of only 13 out of 20 inboard motor fitted crafts for deep sea fishing and also due to less expenditure incurred on installation of auxiliary equipments in mother vessel and imparting training to fishermen. Government stated (July 2010) that the Matsyafed had taken steps to utilize the funds in the current financial year itself.

(ii) The project 'value addition and marketing of fresh fish to reduce post harvest losses to traditional fishermen' was intended to provide insulated boxes to carry ice to the sea so as to preserve the freshness of the catch and to introduce flake ice machines and temporary storage at the level of primary co-operatives. Though Matsyafed had to identify nine primary co-operative societies for establishing flake ice manufacturing units, only three Societies (two in Thiruvananthapuram district and one in Ernakulam district) were identified (January 2009) to establish flake ice manufacturing units. It was informed (June 2010) by the Managing Director, Matsyafed that as there was no flake ice machine manufacturers in Kerala, national level bidding process for tenders was resorted to and agreement was executed (April 2010) with a Pune based company to supply and install machines within six months. Thus, ` 99.95 lakh released in March 2008 for installing flake ice manufacturing machines and providing temporary storage facilities at the level of primary co-operatives remained unutilised as of September 2010. Government stated (August 2010) that the major cause of delay was to identify a qualified manufacturer of flake ice machines and the entire components of the project would be completed during the financial year 2010-11 itself. However, it was further seen (October 2010) in audit that the cost of establishing a flake ice manufacturing unit had increased from ` seven lakh to ` 12.70 lakh due to

[108] ` four crore for 'Diversification of Artisanal Fisheries for Deep Sea fishing' and ` one crore for 'Value addition and marketing of fish'

delayed execution of the project and the amount sanctioned under the project (` 63 lakh for nine units) for this purpose had become insufficient.

Audit scrutiny also revealed that Matsyafed had not conducted any feasibility study to assess the prevailing situation in the fisheries sector of the State and to identify units/societies for implementing the projects, before giving the project proposals to Government of India. Consequently Matsyafed could not identify the required number of units/societies for implementing the projects during the last three years. Thus conceptualisation of the projects without proper study resulted in blockage of funds amounting to ` 2.53 crore (October 2010) with Matsyafed.

FOREST AND WILDLIFE DEPARTMENT

2.3.2 Expenditure on idle establishment

Retention of staff in the office of the Tribal Rehabilitation Commissioner without work during April 2005 to February 2010 resulted in infructuous expenditure of ` 1.32 crore.

Government of India conveyed (August 2003 and February 2004) in principle (Stage I) approval under the Forest (Conservation) Act, 1980 for diversion of 7693.2257 hectare of Reserved Forest/Vested[109] Forest land for the resettlement and rehabilitation of landless tribal in the five[110] districts of the State. The conditions of the approval stipulated that the transfer of forest land should not be effected till the State Government deposited the Net Present Value (NPV), of the forest area diverted, with the Compensatory Afforestation Management and Planning Agency.

The State Government sanctioned (December 2003 and June 2004) the creation of posts of a Tribal Rehabilitation Commissioner (TRC) and six[111] supporting staff for the integrated development and rehabilitation scheme/works in respect of the tribal to be resettled. However, the State Government failed to remit NPV amounting to ` 560 crore (approximately) and hence the project could not be implemented. This resulted in idling of the entire staff. Consequently the establishment expenditure of ` 1.32 crore incurred on the office of the TRC for the period from April 2005 to February 2010 was infructuous. On this being pointed out, the department stated (March 2010) that the Government would be requested to abolish the office.

The formation of the office and posting the full complement of staff in June 2004 without fulfilling the conditions for transfer of forest land and its continuance even after absence of work became evident, resulted in wastage of resources.

The matter was referred to Government in July 2010; reply had not been received (November 2010).

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[109] Private forests vested in the Government under Kerala Private Forest(Vesting assignment) Rules,1974
[110] Kannur, Kasaragod, Malappuram, Palakkad and Wayanad
[111] One post each of Confidential Assistant, Assistant Conservator of Forests, Ranger, Lower Division Clerk and Peon.

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HIGHER EDUCATION DEPARTMENT

2.3.3 Non-utilisation of Additional Central Assistance

Additional Central Assistance of ` five crore released by Government of India for setting up a super speciality hospital under Mahatma Gandhi University remained unutilised in the University's bank account for the last four years.

Government of India sanctioned (November 2005) ` five crore as a one time Additional Central Assistance (ACA) to the State Government for the establishment of the University Institute of Medical Sciences and Research, High-tech state-of-the-art Super Speciality Health care centre, etc., at Puthupally campus of School of Medical Education under Mahatma Gandhi University, Kottayam District. The Central Public Works Department (CPWD) prepared a preliminary estimate for an amount of ` 16.52 crore for this project. In March 2006, the State Government released ACA of ` five crore to the University for this purpose and directed them to meet the remaining amount from their own resources. The University deposited (March 2006) this amount in a separate bank account. In August 2006, the Syndicate of the University resolved to sanction ` 10 crore towards the University's contribution and allocations of ` eight crore and ` six crore were made in the annual budgets of 2007-08 and 2008-09 respectively for the construction. However, no expenditure was incurred during these years.

Government stated (July 2010) that the project demanded a lot of deliberations and consultations at the highest level with eminent academicians and institution builders. They added that the University finally decided to establish a Bio-medical Research Centre as the first phase of Super-Speciality Hospital and Research Centre and the foundation stone for the centre was laid in April 2010. The construction work was entrusted to Bharat Sanchar Nigam Limited at an estimated cost of ` 7.21 crore and 10 *per cent* of the cost was released in June 2010 as advance payment.

Thus, the ACA of ` five crore released by Government of India in 2005-06 for setting up a super speciality hospital under Mahatma Gandhi University remained unutilised in the University's bank account for the last four years. This had resulted in non-establishment of the hospital thereby denying quality treatment to the public and quality education to the students of School of Medical Education.

2.3.4 Blocking of Central funds with Centre for Continuing Education, Kerala

Rupees 1.28 crore out of the Additional Central assistance of ` 1.95 crore, released by Government of India for the establishment of the K.R.Narayanan National Institute of Visual Arts and Science remained blocked with the Centre for Continuing Education, Kerala for the last four years.

The State Government accorded (November 2005) administrative sanction to the Centre for Continuing Education[112], Kerala (CCEK), for the establishment of the K.R.Narayanan National Institute of Visual Arts and Science at Thekkumthala, Kottayam at a project cost of ` 31 crore for conducting courses in film-making, video production, visual communication and related subjects. The State Government released (January 2006) ` 1.95 crore sanctioned by Government of India in November 2005 as a one time Additional Central Assistance for establishment of the above Institute. The State Government also transferred (September 2005) the land and building of closed down Government Lower Primary School, Thekkumthala for the establishment of the Institute. In March 2006, the State Government decided to provide the entire project cost of ` 31 crore from State funds, over a period of time depending on the progress of the project. However, no additional funds were provided for this purpose in the subsequent years' budgets, till 2009-10. Additional area of 10.5 acres surrounding the school was acquired by CCEK at a cost of ` 66.53 lakh during June-July 2007.

In response to an audit query, the Director, CCEK informed (November 2009) that as the campus was situated nearly 30 km away from Kottayam town, all the facilities including the residential complexes were to be completed before the Institute commenced its functioning. The balance funds (` 1.28 crore) available with the Institute were insufficient to meet the expenditure relating to construction of buildings, hostels and purchase of machinery and equipment. Though proposals had been submitted for additional assistance, no funds were provided in the budget after 2005-06.

Thus, even after four years of conceptualisation, the K.R.Narayanan National Institute of Visual Arts and Science was not established due to failure of the State Government to provide necessary funds through the budget to meet the cost of the project and hence ` 1.28 crore out of ` 1.95 crore released by Government of India remained blocked with CCEK.

The matter was referred to Government in April 2010; reply had not been received (November 2010).

2.4 Unfruitful/wasteful expenditure

[112] A State autonomous body

TRANSPORT DEPARTMENT

2.4.1 Wasteful expenditure on purchase of fibre reinforced plastic boats

Hasty decision to purchase fibre reinforced plastic boats for service operations resulted in wasteful expenditure of ` 3.80 crore.

Following the Kumarakom boat tragedy of July 2002 in the State, Government ordered the replacement of all the service boats above 25 years old. Accordingly, the State Water Transport Department (SWTD) sought administrative sanction for the purchase of Fibre Reinforced Plastic (FRP) boats and the Government accorded (August 2003) sanction for the purchase of 10 FRP boats at ` 3.90 crore. The Director, SWTD placed (July 2004) purchase orders for 10 FRP boats at ` 3.80 crore[113] with M/s Kerala Shipping and Inland Navigation Corporation Limited (KSINC) and the order specified delivery of boats after satisfactory trial run with and without load. KSINC delivered the first batch of three boats for trial run in June 2005. In the trial run the SWTD observed (June 2005) that there were problems of visibility from the Syrang's[114] cabin, deficiency in steering stability and sea water system and redesigning was required for wheel house. Hence in a joint meeting convened (June 2005) by SWTD and KSINC, it was mutually agreed to rectify the above defects. Subsequently the Government constituted (January 2006) an inspection team, consisting of the Naval Architect of Cochin University of Science and Technology, the Chief Inspector of boats, the Assistant Engineer, KSINC, the Works Manager of SWTD and the Traffic Superintendent of SWTD, to inspect the work done in the FRP boats and also to provide practical suggestions to get the boats launched for service operations. The inspection team observed the following:

(i) The purchase order was placed by SWTD without mentioning anything about their requirement and the thickness of the fibre for each and every part of the vessel and the cost of the boats was finalized before approving the drawings/design.

(ii) Boat Syrangs could not get all round views such as front, rear and both sides, which was essential for a passenger boat.

(iii) KSINC/SWTD had not constituted any supervision team at the time of construction of vessel, which was highly essential.

(iv) While in operation, the bodies of the boats always rubbed the concrete jetty. Since the abrasion resistance of the fibre glass was low and thickness of the hull was below 10mm, the boats were unsuitable for the Kuttanad area.

As per directions (March 2006) from the Government, SWTD had taken the five (including the earlier three boats) FRP boats to be run on experimental basis with fitness certificates from the Chief Inspector of Boats. During the service operations of two boats on experimental basis, the technical experts and crew of the SWTD reported that the major defects pointed out earlier (June 2005) in the trial run had not been rectified. On expiry of the fitness

[113] Cost of 10 boats at ` 36.50 lakh per boat (` 3.65 crore) plus sales tax at 4 *per cent* (` 0.146 crore)
[114] The persons who navigate the boats

certificates, the Chief Inspector of Boats refused (May 2006) to renew fitness certificates to these boats, pointing out certain defects such as low abrasion resistance of fibre, overheating of engine due to low air circulation, water logging in the hull of the boat, lack of all round view of the boat Syrang, etc. A joint meeting was again held between SWTD and KSINC in July 2006 to rectify the operational problems to make the boats serviceable.

However, based on the Government's decision (February 2008) SWTD took possession of all the 10 boats, without rectifying the defects pointed out in the joint meeting held in July 2006, subject to the condition that the crew of KSINC would operate these boats for six months from the date of handing over and would provide warranties for one year. In September 2008, full payment for 10 FRP boats (` 3.80 crore) was made. It was seen in audit that SWTD/ KSINC had not operated even a single schedule using these boats due to defects in hydraulic steering system, exhaust pipe, radiator, stork pump, fresh water pump, etc. As of March 2010, seven out of 10 boats were withdrawn from service and were held at various operative centres/yards and the remaining three boats were used sparingly without fitness certificates.

Thus, the Government's decision to take over possession of ten FRP boats from KSINC without rectifying the defects resulted in expenditure of ` 3.80 crore incurred towards the cost of 10 FRP boats became largely wasteful.

The matter was referred to Government in June 2010; reply had not been received (November 2010).

WATER RESOURCES DEPARTMENT

2.4.2 Unfruitful expenditure due to partial execution of work

Due to execution of desilting work without a demarcated survey map and obstruction from local residents, a canal work could not be fully executed rendering expenditure of ` 81.75 lakh unfruitful.

The Superintending Engineer, South Circle, Thiruvananthapuram (August 2006) awarded the execution of the work of 'Revival of Veli-Kovalam stretch of T.S.Canal (Restoration of Parvathy Puthanar Canal) to a firm for a contract amount of ` 4.34 crore with due date of completion as June 2007. The work involved desilting and deepening of the Parvathy Puthanar Canal up to 1.75 metres from Kovalam to Akkulam for a length of 16.045 kilometre to make it navigable.

According to paragraphs 15.2.2 and 22.2.2 of the Kerala Public Works Department Manual (KPWDM) the land required for any work should be ready for being handed over to the contractor to start the work and encroachments in the navigable waterway should be promptly got removed. A demarcated survey map was required to fix the alignment and boundaries and initiate action to remove encroachments/obstacles so as to have a hindrance free site to execute the work. However, the work was awarded without fixing the alignment and demarcation of canal boundaries. It was seen in audit that the Advisor to the Government on Canal Development for Inland Water Ways during inspection observed (March 2007) the necessity of demarcation for further work. Similarly, the Director, Inland Navigation reported(March 2008) to Government that lack of demarcation affected the works adversely. The department deposited (` four lakh) funds for demarcation with the District Collector, Thiruvananthapuram in February 2008 only and the demarcated survey map of the canal had not been received as of August 2010.

According to Para 16.10.6 of KPWDM where level sections are taken for computing the quantity of earthwork, the initial and final levels should be entered in properly numbered field books. The site was handed over to the contractor in September 2006 and for convenience of execution, the canal length was divided into five reaches. However, initial level measurement could not be commenced in the first two reaches due to strong protests from the local people who used the portion for retting coconut husk. Consequently, the contractor firm could not take up the works in these two reaches. No work could be proceeded within the third reach also due to encroachment and existence of numerous constructions abutting the existing canal. In the remaining two reaches the deepening work was confined to the middle portion of the navigation route and proper depth could not be achieved on either side due to protests from the locals residing on the canal banks. No work was carried out after the due date of completion (June 2007). The contractor firm was paid ` 81.75 lakh in March 2008 for the portion of the work executed. Finally the Director, Inland Navigation, Kollam foreclosed the work in March 2009. The Chief Engineer, Irrigation and Administration (August 2010) stated that the aim of dredging the canal in its full width could not be achieved due to the unfavourable conditions prevailing at the site and non-dredging of the sides was due to the administrative inability to evict various encroachments.

The failure of the department to obtain a demarcated survey map and provide a hindrance free site as stipulated in the department manual resulted in unfruitful expenditure of ` 81.75 lakh.

The matter was reported to Government in July 2010; reply has not been received so far (November 2010).

2.5 Regularity issues and others

HIGHER EDUCATION DEPARTMENT

2.5.1 Loss of assistance from University Grants Commission to Calicut and Mahatma Gandhi Universities

Delayed execution of schemes envisaged in the Tenth Plan resulted in forfeiture of General Development Assistance of ` 1.44 crore and violation of University Grants Commission guidelines regarding construction of building by Calicut and Mahatma Gandhi Universities led to disallowance of expenditure of ` 1.75 crore out of ` 5.74 crore released.

During the Tenth Plan period (2002-07) the University Grants Commission (UGC) sanctioned General Development Assistance (GDA) of ` 3.71 crore and ` 3.47 crore to Calicut and Mahatma Gandhi (MG) universities[115]

[115] Calicut University with headquarters at Malappuram and Mahatma Gandhi University with headquarters at Kottayam

respectively. The objective of GDA was to improve the infrastructure and basic facilities in the universities, so as to achieve the threshold level besides bringing qualitative development. The assistance was on the basis of the outlays determined and communicated by the universities and approved by UGC. The release of funds was in instalments and based on receipt of progress reports and statement of expenditure/utilization certificate of grants already released. The guidelines stipulated that the Universities were to constitute building committees which should scrutinize the project proposals for building construction and forward to UGC for approval. No financial approval was to be provided for such construction which were started without obtaining the prior approval of the UGC.

Scrutiny of records in April 2009 and March 2010 of the MG and Calicut universities respectively revealed that due to slow progress in execution of projects and non-submission of utilization certificates in time MG University and Calicut University did not receive the balance grant of ` 69.46 lakh and ` 74.10 lakh respectively during the Tenth Plan period. Government stated (September 2010) that according to the Registrar of Calicut University, UGC had not given any specific reason for not releasing the balance grant.

It was also seen in audit that out of ` 2.96 crore released to Calicut University and ` 2.78 crore to MG University as GDA during Tenth Plan, UGC had disallowed expenditure of ` 62.04 lakh and ` 1.13 crore respectively, incurred on construction activities. This was because the universities had not obtained prior financial approval of UGC for undertaking the construction work. Government stated (September 2010) that UGC had been approached by the universities (Calicut University-July 2010 and MG University-February 2009) to condone the lapse of not securing prior sanction. However, UGC had neither communicated their decision nor recovered any amount from the Eleventh Plan allocation (September 2010).

Thus delayed execution of schemes envisaged in the Tenth Plan resulted in non-release of ` 1.44 crore and violation of guidelines regarding construction of building led to disallowance of expenditure of ` 1.75 crore incurred by Calicut and MG Universities on this account.

PUBLIC WORKS DEPARTMENT

2.5.2 Penalty for execution of extra items at higher rates on a National Highway road work

Government sustained loss of ` 3.55 crore due to imposition and recovery of penalty by the Ministry of Road Transport and Highways for sanctioning higher rates for extra items without getting their prior approval.

Government of India, Ministry of Road Transport and Highways (MORTH) accorded (September 2005 to November 2007) technical approval and financial sanction for the work 'Improvement of riding quality of National Highway (NH) 208 from chainage 45/000 to 81/250' for a length of 36.250

km for execution in four reaches[116] based on four separate estimates prepared by the State NH authorities. All the four works were awarded to the same contractor and agreements were executed with the Superintending Engineer, NH South Circle, Thiruvananthapuram in October 2008. During the course of execution of the works, certain extra items mainly bituminous macadam, granular sub-base and wet mix macadam were found necessary and the rates for the extra items were arrived at through negotiations as per the conditions of contract. The aforesaid works were completed in June 2009 incurring an expenditure of ` 33.17 crore including cost of extra items amounting to ` 12.21 crore.

The conditions for technical approval and financial sanction, *inter alia*, stipulated prior sanction of MORTH for incurring expenditure beyond permissible limits. However, the extra items were executed without obtaining MORTH's sanction. During scrutiny of the revised estimate for approval, MORTH found (August 2009) that the rate for extra items finalised through negotiation were higher than the rates accepted by the State Public Works Department for similar works to the same contractor in the adjacent reaches of NH 208. The additional financial implication on account of adopting higher rates on extra/additional items amounted to ` 3.55 crore. MORTH, while approving the revised estimates, ordered (August 2009) the recovery of the additional expenditure consequent on execution of extra items at higher rates from the agency charges due to the State as penalty to curb the tendency of State Government/State PWD to get the work done on site without taking prior approval of MORTH. MORTH recovered ` 1.87 crore from the four works and ordered recovery of ` 1.68 crore from the agency charges of the other projects sanctioned/to be sanctioned for the State of Kerala.

Thus execution of extra items at higher rates without getting prior approval of MORTH resulted in a loss of ` 3.55 crore to the State exchequer.

The matter was referred to Government in April 2010; reply had not been received (November 2010).

AGRICULTURE DEPARTMENT

2.5.3 Improper management of funds deducted towards General Provident Fund from employees of Kerala Agricultural University and consequent interest burden

Failure to manage funds deducted from salaries of employees towards General Provident Fund resulted in shortage of funds in Provident Fund account which led to extra burden of ` 15.93 crore to Kerala Agricultural University towards interest.

As per the Kerala Agricultural University (KAU) Act 1971, KAU has constituted a Provident Fund (PF) for the benefit of its employees and the Government subsequently notified (June 1972) that the General Provident Fund (Kerala) Rules would be applicable to the employees of KAU. The

[116] Reach I – Chainage 45/000 to 52/000 (cost: ` 4.79 crore), Reach II – Chainage 52/000 to 66/000 (cost: ` 7.19 crore), Reach III – Chainage 66/000 to 76/000 (cost ` 12.94 crore) and Reach IV – Chainage 76/000 to 81/250 (cost ` 8.25 crore).

Provident Fund transactions were being carried out through a Treasury Public (TP) account[117] maintained at the District Treasury, Thrissur and a Savings Bank account[118] opened in State Bank of Travancore, Thrissur. The University invested the PF balances in fixed deposits and ` 17.81 crore was available as of March 2008 in the District Treasury, Thrissur and Sub Treasury, Thrissur. Interests realised on these fixed deposits were being credited to the TP account maintained at the District Treasury, Thrissur and in the Savings Bank account in the State Bank of Travancore, Thrissur. Payments, such as temporary advances, part final withdrawals and final withdrawals, out of the PF account of the employees were effected from the above two accounts by the University.

From 2001-02 onwards, the deductions made towards PF from the salary of the employees were not being credited in full to either the TP account or to the bank account. Consequently, as against the balance of ` 80.75 crore (including interest credited) that should have been available in the PF account as per the University records, the actual balance (` 18.95 crore) as at the end of March 2008, in the savings bank account, treasury public account and fixed deposit account taken together was short by ` 61.85 crore. During 2001-02 to 2007-08, the actual interest accrued on the deposits/refunds made by the employees was ` 34.70 crore whereas the interest received by the KAU from the investments made out of PF collections was ` 18.77 crore. This resulted in an avoidable burden of interest by ` 15.93 crore to KAU from their own resources.

Thus, failure of the KAU to manage its funds deducted from the salary of its employees towards PF resulted in shortage of funds in the PF account which, in turn, led to extra burden of ` 15.93 crore on KAU towards payment of interest to PF subscribers. The State Government stated (September 2010) that the KAU could not deposit the full amount deducted from the employees towards PF from 2001-02 onwards to either the Treasury Public account or to the bank account due to inadequate allocation of Non-Plan grant by Government. The reply cannot be accepted as it was the obligation of the Government to provide sufficient funds for all the activities envisaged in the KAU Act.

General

2.5.4 Lack of responsiveness of Government to Audit

The Principal Accountant General (Audit) arranges to conduct periodical inspections of the Government departments to test check their transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs) being sent to the heads of the offices inspected with copies to the next higher authorities. Article 63 (c) of the Kerala Financial Code provides for prompt response by the Executive to the IRs to ensure rectificatory action and accountability for deficiencies, lapses, etc. The heads of offices and the next higher authorities are required to report their

[117] Account number 723
[118] Account number 57006546359

compliance to the Principal Accountant General within four weeks of receipt of the IRs. Half-yearly reports of pending IRs are sent to the Secretaries of the concerned department to facilitate monitoring of the pending IRs.

At the end of June 2010, 8,070 IRs and 33,993 paragraphs issued up to March 2010 were pending for settlement. The year-wise break-up of these IRs is given in **Table 2.2:**

Table 2.2 Details of inspections reports and paragraphs pending for settlement

Year	Number of Inspection Reports	Number of paragraphs
Up to 2005-06	1549	5151
2006-07	816	3599
2007-08	1113	5020
2008-09	2157	8675
2009-10	2435	11548
Total	**8070**	**33993**

The department-wise break-up of these IRs and paragraphs is indicated in **Appendix X**.

A review of the outstanding IRs pertaining to Forest and Wildlife Department and Technical Education Department revealed that 1123 paragraphs contained in 410 IRs having money value of ` 67.72 crore remained unsettled at the end of June 2010. The year-wise position of outstanding IRs and paragraphs and the nature of irregularities are indicated in **Appendix XI**.

2.5.5 Follow-up action on Audit Reports

The Government is required to finalise remedial action on audit paragraphs within a period of two months of the presentation of the Reports of the Comptroller and Auditor General of India to the Legislature. The Administrative Departments concerned are required to furnish notes explaining the remedial action taken (ATNs) on the audit paragraphs to the Public Accounts Committee as well as to the Principal Accountant General within the prescribed time limit.

Position of pendency as of October 2010 in furnishing ATNs on paragraphs included in the Report of the Comptroller and Auditor General of India (Civil), Government of Kerala, pertaining to the years 2003-04 to 2008-09 is as follows:

Table 2.3: Position of pendency in furnishing ATNs

Reference to Report (Year)	Number of paragraphs included	Number of paragraphs for which ATNs have been furnished by the Government	Number of paragraphs for which ATNs were due from the Government
2003-04	43	43	Nil
2004-05	32	31	1
2005-06	32	32	Nil
2006-07	39	39	Nil
2007-08	33	27	6
2008-09	31	6	25
Total			**32**

Department-wise details of pending ATNs are furnished in **Appendix XII**.