

CHAPTER I INTRODUCTION

1.1 About this Report

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

Compliance audit refers to examination of transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand, thematic audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

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

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports.

1.2 Profile of units under audit jurisdiction

There are 40 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and 23 autonomous bodies which are audited by the Principal Accountant General (General and Social Sector Audit), Kerala and the Accountant General (Economic and Revenue Sector Audit), Kerala.

The comparative position of expenditure incurred by the Government during the year 2011-12 and in the preceding four years is given in **Table 1.1**

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2007-08			2008-09			2009-10			2010-11			2011-12		
	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total
Revenue expenditure															
General Services	207.10	11976.99	12184.09	158.95	12508.42	12667.37	370.83	13564.69	13935.52	184.43	15233.96	15418.39	72.98	20227.04	20300.02
Social Services	1338.56	6451.32	7789.88	1910.30	7452.54	9362.84	2347.98	8119.17	10467.15	2505.61	9605.19	12110.80	3401.92	12821.94	16223.86
Economic Services	731.63	2086.77	2818.40	1142.61	2785.92	3928.53	1460.24	2780.48	4240.72	1505.70	2851.76	4357.46	1852.31	4279.35	6131.66
Grants-in-aid and Contributions		2099.27	2099.27		2265.12	2265.12	---	2488.98	2488.98	---	2778.16	2778.16	---	3389.08	3389.08
Total	2277.29	22614.35	24891.64	3211.86	25012.00	28223.86	4179.05	26953.32	31132.37	4195.74	30469.07	34664.81	5327.21	40717.41	46044.62
Capital Expenditure															
Capital outlay	1451.71	22.87	1474.58	1670.76	24.84	1695.60	1902.16	157.23	2059.39	2765.66	598.03	3363.69	3398.10	454.82	3852.92
Loans and advances disbursed	819.87	73.29	893.16	579.25	404.44	983.69	704.20	172.48	876.68	319.31	442.43	761.74	416.68	581.86	998.54
Repayment of public debt ¹			1432.79			1650.34	---	---	1765.06	---	---	1975.03	---	---	2893.06
Contingency Fund			80.00			5.84	---	---	26.27	---	---	33.92	---	---	20.80
Public Account disbursements			46413.11			53627.80	---	---	57271.53	---	---	70558.27	---	---	91200.26
Total			50293.64			57963.27			61998.93			76692.65			98965.58
Grand Total			75185.28			86187.13			93131.30			111357.46			145010.20

(Source: Finance Accounts)

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the departments of the Government of Kerala under Section 13² of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 23 autonomous bodies which are audited under sections 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 888 other autonomous bodies/institutions⁵, under Section 14⁶ of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

- 1 Excluding net transactions under ways and means advances
- 2 Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.
- 3 Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.
- 4 Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government.
- 5 Includes Government aided Higher Secondary Schools, Colleges etc.
- 6 Audit of all (i) receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore.

1.4 Organisational structure of the Offices of the Principal Accountant General (G&SSA) and Accountant General (E&RSA), Kerala

Under the directions of the C&AG, the office of the Principal Accountant General (G&SSA), Kerala conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under General and Social Sector, and Accountant General (E&RSA), Kerala conducts audit of Government Departments/Offices/Autonomous Bodies/ Institutions under Economic and Revenue Sector, which are spread all over the State. There are 15⁷ Secretariat departments, two autonomous bodies, 41 other autonomous bodies/institutions, 99 public sector undertakings under the jurisdiction of Accountant General (E&RSA). The Principal Accountant General (G&SSA) is assisted by four Group Officers and Accountant General (E&RSA) is assisted by three Group Officers.

1.5 Planning and conduct of Audit

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

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the offices. The departments are requested to furnish replies to the audit findings within four weeks from the date of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India.

During 2011-12, 3,191 party-days were used to carry out audit of 431 units (compliance audit and thematic audit) of the various departments/organisations coming under Accountant General (E&RSA). The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

1.6 Significant Audit Observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations have also been reported upon.

⁷ Apart from these, certain departments like, Finance, Revenue, Public Works and Water Resources coming under both sectors.

The present report contains two thematic audit paragraphs and seven transaction audit paragraphs. The significant audit observations are discussed below:

Thematic Audit Paragraphs

1.6.1 Execution of Government works through Public Sector Undertakings

In order to overcome the difficulties of delay and high rates, the Government decided to entrust the works to Public Sector Undertakings (PSUs) as a contractor and later as a consultant. Audit observed that these PSUs got the works executed by contractors. Test check revealed that Government had to incur loss/excess liability of ₹ 104.81 crore on 128 works costing ₹ 888.50 crore. The highlights are as follows:

- Out of 79 works awarded to Kerala State Construction Corporation Ltd. during 2009-2012, details of only 58 works were made available to audit as per which 35 works were completed as of March 2012. Out of 35 works three works were only completed in time. Delay in execution of six works led to revision of original estimate of ₹ 52.73 crore to ₹ 97.51 crore resulting in increase of expenditure by ₹ 44.78 crore. Three PSUs obtained work from Government Departments and awarded the same to four sub-contractors and profited ₹ 14.80 crore. Advances of ₹ 25 crore and ₹ 15 crore received by Kerala Shipping and Inland Navigation Corporation Ltd., and Travancore Cements Ltd. respectively from Government were kept in fixed deposit of commercial banks without utilisation due to slow progress of works.

(Paragraph 2.1)

1.6.2 Grand Kerala Shopping Festival

The Tourism Department conducted Grand Kerala Shopping Festival (GKSF) with the aim of transforming the State into a hub for international shopping experience within five years and to promote and develop commerce, trade and industrial sector of Kerala apart from creating employment from developing traditional trade centres. Audit observed that the Government launched the scheme without specifying any guidelines/directions for the implementation. Audit of the scheme revealed that the GKSF had incurred extra expenditure/loss of ₹ 44.58 crore. The highlights are as follows:

- In the absence of guidelines for implementation of GKSF, the Director diverted ₹ 5.47 crore out of an allotment of ₹ 10 crore for meeting festival expenses and the balance was deposited in fixed deposit. An amount of ₹ 1.24 crore incurred towards printing charges became infructuous as 27.57 lakh coupons remained unsold. During the five seasons an amount of ₹ 40.60 crore was expended by EMAs without supporting vouchers. The Director, Tourism department had not

furnished utilisation certificate in respect of funds released by Government for season five despite the stipulation that the certificate should be furnished within three months.

(Paragraph 2.2)

1.6.3 Transaction Audit Paragraphs

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments. These are as under:

- Executive Engineer NH Division, Malappuram made an excess payment of ₹ 64.72 lakh for laying additional layer of tack coat in six road works against MoRTH specification and thereby providing undue financial aid to the contractors.

(Paragraph 3.1.1)

- Chief Engineer extended undue benefit of ₹ 2.32 crore to a contractor by enhancing the unit rate of pile work by 528.68 *per cent* on a concluded contract for construction of a bridge.

(Paragraph 3.1.2)

- Use of costlier ‘quarry muck’ in contravention of IRC standards, in place of conventional ordinary earth soil resulted in avoidable expenditure of ₹ 1.63 crore.

(Paragraph 3.1.3)

- Failure of the department to finalise tenders of four building works within firm period resulted in avoidable expenditure of ₹ 4.02 crore on re-tendering of works.

(Paragraph 3.1.4)

- *Tahsildar* Chittur released payment of ₹ 19.95 lakh to the contractor for supply of drinking water in drought hit areas on unauthenticated trip-sheets.

(Paragraph 3.1.5)

- Government sanctioned release of National Co-operative Development Corporation loan to a Society and created an avoidable liability of ₹ 2.68 crore.

(Paragraph 3.1.6)

- A newly constructed wharf at Vizhinjam port at a cost of ₹ 8.87 crore could not be used due to structural defects and lack of infrastructure facilities.

(Paragraph 3.1.7)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Outstanding Inspection Reports

The Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports issued by the State Government in 2010 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure action for rectification in compliance with 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 and promptly report their compliance to the AG within four weeks of receipt of the Inspection Report. Half-yearly reports of pending IRs are being sent to the Secretaries of the Departments concerned to facilitate monitoring of the audit observations.

As of 30 June 2012, 199 IRs (1,235 paragraphs) were outstanding against Harbour Engineering and Public Works Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

A review of the IRs pending due to non-receipt of replies, in respect of these two departments revealed that the Heads of offices had not sent even the initial replies in respect of 75 IRs containing 613 paragraphs.

1.7.2 Departmental Audit Committee Meetings

The Government set up audit committee to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2011-12 and the paragraphs settled are mentioned in the following table.

Table 1.2: Clearance through Audit Committee Meeting

Name of the department	Number of meetings held	Number of paragraphs settled		Number of audit paragraphs outstanding and percentage of settlement
Fisheries	1	2004-05	1	93
		2005-06	1	
		2006-07	1	
		2007-08	3	
		2008-09	2	
		2009-10	7	
		Total	15	
PWD	2	2006-07	11	1192
		2007-08	4	
		2008-09	4	
		2009-10	2	
		Total	21	
Irrigation	2	2006-07	3	418
		2007-08	10	
		2008-09	14	

Name of the department	Number of meetings held	Number of paragraphs settled		Number of audit paragraphs outstanding and percentage of settlement
		2009-10	32	
		2010-11	9	
		Total	68	
Harbour Engineering	1	2009-10	1	127
		2010-11	6	
		Total	7	
Forest and Wildlife	2	2006-07	5	877
		2007-08	5	
		2008-09	11	
		2009-10	19	
		2010-11	4	
		Total	44	
Agriculture	3	2006-07	32	2,617
		2007-08	45	
		2008-09	137	
		2009-10	23	
		2010-11	54	
		2011-12	24	
		Total	315	
Animal Husbandry	3	2008-09	1	606
		2009-10	33	
		2010-11	37	
		2011-12	2	
		Total	73	
Grand Total			543	5930 9.16

During the year 2011-12, the percentage of settlement was less than 10. It is recommended that the Departments may ensure that the percentage of clearance is substantial while conducting Audit Committee Meetings.

1.7.3 Response of departments to the draft paragraphs

Draft Paragraphs and Thematic Draft Paragraphs were forwarded demi-officially to the Additional Chief Secretary/Principal Secretaries/Secretaries of the departments concerned between October 2012 and January 2013 with a request to send their responses within six weeks. The departmental replies for four out of the seven draft paragraphs featured in this Report were received. These replies have been suitably incorporated in the Report.

1.7.4 Follow-up on Audit Reports

The Finance Department issued (January 2001) instructions to all administrative departments of the Government that they should submit Statements of Action Taken Notes on audit paras included in the Audit Reports directly to the Legislature Secretariat with copies thereof to the Audit Office within two months of their being laid on the Table of the Legislature.

The administrative departments did not comply with the instructions, and five departments, as detailed in **Appendix 1.2**, had not submitted Statements of Action Taken for 11 paragraphs for the period 2009-10 to 2010-11, even as of February 2013.

1.7.5 Paragraphs to be discussed by the Public Accounts Committee

The details of paragraphs pending discussion by the Public Accounts Committee as of February 2013 are given in **Appendix 1.3**.