

## 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 performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies under Economic Sector.

The primary purpose of the Report is to bring to the notice of the State Legislature, the 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 compliance audit and follow-up on previous Audit Reports.

### 1.2 Profile of units under audit jurisdiction

The Accountant General (Economic and Revenue Sector Audit) Kerala conducts audit of the expenditure under Economic Services incurred by 18 departments at the Secretariat level and also the field offices, two autonomous bodies, 36 other autonomous bodies/institutions, 101 public sector undertakings and two departmental commercial undertakings under the jurisdiction of these departments. The departments are headed by Additional Chief Secretaries/Principal Secretaries/ Secretaries, who are assisted by Directors/Commissioners/Chief Engineers and subordinate officers under them.

The comparative position of expenditure incurred by the Government during the year 2012-13 and in the preceding years is given in **Table 1.1**

**Table 1.1: Comparative position of expenditure incurred by the Government**

(₹ in crore)

Disbursements	2011-12			2012-13			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
<b>Revenue Expenditure</b>							
General Services	72.98	20227.04	20300.02	68.58	22718.03	22786.61	(+)12.25
Social Services	3401.92	12821.94	16223.86	4312.02	14565.47	18877.49	(+)16.36
Economic Services	1852.31	4279.35	6131.66	2468.73	5339.69	7808.42	(+)27.35
Grants-in-aid and Contributions	---	3389.08	3389.08	---	4016.22	4016.22	(+)18.50
<b>Total</b>	<b>5327.21</b>	<b>40717.41</b>	<b>46044.62</b>	<b>6849.33</b>	<b>46639.41</b>	<b>53488.74</b>	(+)16.17

Disbursements	2011-12			2012-13			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
<b>Capital Expenditure</b>							
Capital outlay	3398.10	454.82	3852.92	3465.66	1137.63	4603.29	(+)19.47
Loans and advances disbursed	416.68	581.86	998.54	603.09	533.06	1136.15	(+)13.78
Repayment of public debt		---	2893.06		---	2804.08	(-)3.08
Contingency Fund		---	20.80		---	---	
Public Account disbursements		---	91200.26		---	100455.82	(+)10.15
<b>Total</b>			<b>98965.58</b>	<b>4068.75</b>	<b>1670.69</b>	<b>108999.34</b>	(+)10.14
<b>Grand Total</b>			<b>145010.20</b>		<b>48310.10</b>	<b>162488.08</b>	(+)12.05

(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's DPC Act). C&AG conducts audit of expenditure of the departments of the Government of Kerala under Section 13<sup>1</sup> 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(2), 19(3)<sup>2</sup> and 20(1)<sup>3</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit under Section 14<sup>4</sup> & 15 of C&AG's (DPC) Act in respect of 196 other autonomous bodies 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.

### 1.4 Organisational structure of the Office of the Accountant General (E&RSA), Kerala

Under the directions of the C&AG, the 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. The Accountant General (E&RSA) is assisted by three Group Officers.

- <sup>1</sup> Audit of (i) all transactions from the Consolidated Fund of the State (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts.
- <sup>2</sup> Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.
- <sup>3</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government.
- <sup>4</sup> 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.

## 1.5 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 2012-13, 8,969 party-days were used to carry out audit of 622 units (Performance Audit and Compliance 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.

The present report contains findings of two performance audits and eleven compliance audit paragraphs. The significant audit observations are discussed below:

### Performance Audit

#### ❖ *Implementation of Rashtriya Krishi Vikas Yojana (RKVY)*

Rashtriya Krishi Vikas Yojana (RKVY) has been under implementation in the State from 2007-08 with the objective of providing incentives to the State for increasing public investment in agriculture, reduce the yield gaps in important crops, maximise returns to farmers and bringing about quantifiable changes in production and productivity in Agriculture and Allied sectors. Audit observed that there were numerous deviations from the prescribed guidelines and directions for the implementation of the scheme the financial implication of which worked out to ₹ 258.47 crore. The important findings are:

- The project 'Bull spermatozoa sexing and commercialising sexed semen in India' aiming at increasing female calves by four lakh per year using Flow Cytometry equipment at a cost of ₹ 5.25 crore was sanctioned by Dairy department in March 2011 without conducting

feasibility study or possibility of getting the equipment. After incurring ₹ one lakh on the tender process the equipments were not purchased. This resulted in idling of Plan Funds of ₹ 5.24 crore.

***(Paragraph 2.1.5.2(3))***

- The Agricultural department purchased tractors, vehicles, creation of employments etc. utilising funds amounting to ₹ 6.93 crore in violation of RKVY guidelines.

***(Paragraph 2.1.5.3)***

- In respect of 19 approved projects, against the release of ₹ 52.09 crore the actual expenditure was only ₹ 14.63 crore. However, the Nodal department furnished Utilisation Certificate (UCs) for ₹ 52.09 crore inflating the figure by ₹ 37.45 crore. The submission of inflated UCs was done with a view of obtaining further release of funds from Government of India (GoI).

***(Paragraph 2.1.6.1)***

- Fisheries Resource Management Society (FIRMA) awarded a contract for eradication and utilisation of water hyacinth which included the removal of three lakh cum of water hyacinth within a period of 12 months. The contractor had removed only 56,563.72 cum of weeds by the stipulated time of the contract but was allowed to continue the work without supplementary agreement. Even after 26 months the contractor had removed only 2,09,203.886 cum of weeds. The quantity of weeds removed after the period of contract comes to 1,52,640.166 cum for which the contractor was paid a sum of ₹ 7.40 crore which was not supported by valid order or agreement.

***(Paragraph 2.1.7.1)***

❖ ***Implementation of Kuttanad Development Package***

In order to strengthen the ecological security of Kuttanad Wetland Ecosystem and for expanding sustainable livelihood opportunity for the area, Government of Kerala implemented Kuttanad Development Package which was recommended by M S Swaminathan Research Foundation (MSSRF) with a financial outlay of ₹ 1,840.75 crore. Scrutiny of records of 17 projects revealed that the Government had to incur loss/excess liability of ₹ 285.30 crore on these projects. The main findings are as follows:

- Failure to initiate action on tasks recommended by MSSRF such as, Restoration of water spread area, Modernisation of Thaneermukkom Bund and Thottappally Spillway, Construction of Alappuzha Changanacherry Canal, Measures for Pollution Control, Improving Health and Sanitation resulted in delay in achieving both the objectives of strengthening ecological security and expanding sustainable livelihood opportunities.

***(Paragraph 2.2.7.1)***

- Due to delay in implementation of projects under Flood Management Programme by Irrigation department, out of the budgeted outlay of ₹ 634.63 crore, for the period 2010-2013, ₹ 494.16 crore was

surrendered. Besides, a scrutiny of expenditure details in Irrigation department as of March 2013 revealed that ₹ 67.92 crore, received under Flood Management Programme and XIII Finance Commission Award, was idling in Treasury Savings Bank Account.

*(Paragraph 2.2.8.1(ii))*

- Delay in preparation and submission of DPRs prepared by the Irrigation department caused escalation in cost of the projects from the projected outlay of ₹ 1,518.50 crore to ₹ 3,804.65 crore (151 per cent) as of July 2013. As the Package period was reported (April 2013) by GoI to be over, the State Government may either have to bear additional financial burden for completing the recommended projects in their full scope or curtail their scope as and when taken up for implementation.

*(Paragraph 2.2.9.1)*

- Unwarranted strengthening of outer bunds of Rani and Chithira *padasekharams* lying abandoned for more than the last 20 years due to abuse by dredging, resulted in avoidable expenditure of ₹ 17.31 crore. The amount could have been used for strengthening vulnerable outer bunds of *padasekharams*, where paddy was cultivated. The expenditure of ₹ 13.34 crore and ₹ 1.16 crore paid as compensation for crop loss and on repair of bund breaches, respectively during the period 2009-10 to 2012-13 could thus have been avoided.

*(Paragraph 2.2.9.2(iv))*

- Slow progress in implementation of the projects KEL I and II resulted in non release of subsequent instalments of Central Assistance of ₹ 11.10 crore and ₹ 74.18 crore respectively (March 2013) as the projects could not be finished by the original completion date of 31 March 2012.

*(Paragraph 2.2.9.2(v))*

## **Compliance Audit**

### **Food, Civil Supplies and Consumer Affairs Department**

#### *❖ Leakages in Public Distribution System*

- The Authorised Retail Dealers were diverting ration commodities to the open market by falsely showing them as issued to the ration card holders. The commodities were sold at subsidised rate through KSCSC beyond the entitlement limits fixed per family. The amount of extra subsidy borne by Government of Kerala (GoK) on this account worked out to ₹ 9.88 crore. The diversion/unrestricted sales made were mainly due to the lack of supervision and monitoring on the part of the department.

*(Paragraph 3.1)*

- ❖ An excess amount of ₹ 14.23 crore was re-imbursed to Food Corporation of India due to incorrect computation of VAT on Central Issue Price.

*(Paragraph 3.2)*

## **Irrigation Department**

### *❖ Functioning of Lift Irrigation Schemes*

- Department instructions stipulate that Minor Irrigation works benefitting an area less than 80 ha. were to be maintained either by lift irrigation co-operative societies or by ryots themselves. However, out of 279 Lift Irrigation Schemes in three districts, 156 schemes having irrigable area less than 80 ha. were being maintained by the department resulting in avoidable expenditure of ₹ 27.25 crore.

*(Paragraph 3.3.4.5)*

- Out of 279 LISs implemented in three districts, 19 schemes implemented at a cost of ₹ 4.74 crore were not functioning for many years as of March 2013 for various reasons such as non availability of water near pump house, damage to motor and pump sets etc. Out of the 19, eight schemes could not even be commissioned in spite of spending an amount of ₹ 3.39 crore.

*(Paragraph 3.3.4.6)*

- ❖ There was extension of undue benefit of ₹ 2.43 crore to the contractor by facilitating supply of sand at reduced rate for construction of Regulator-cum-Bridge across Bharathapuzha at Chamravattom.

*(Paragraph 3.4)*

## **Public Works Department**

### *❖ Execution of State Road Projects using Central Road Fund*

- In violation of Central Road Fund (State Road) Rules, 2007 a project on construction of Dharmadom Bridge in NH 17 costing ₹ 4.00 crore relating to State roads was taken up by National Highways Division.

*(Paragraph 3.5.4.4)*

- Lack of clearance from GoI to divert forest land for a project Anakkayam bridge led to de-sanctioning of a road project costing ₹ 5.17 crore.

*(Paragraph 3.5.4.5)*

- Delay in providing hindrance free site to a contractor resulted in enhancement of contract value to the tune of ₹ 1.61 crore for part of Ezhimala-Pulingome project.

*(Paragraph 3.5.4.5)*

- Absence of planning and evaluation of benefits to the public resulted in stopping of two projects Ezhimala-Pulingome and Kalpetta bypass mid-way and remaining incomplete indefinitely after incurring ₹ 5.91 crore.

*(Paragraph 3.5.4.6)*

- Delay in awarding works of two projects – improvement of riding quality SH 52 Palakkad - Pollachi road and improvement to Thrikkunnapuzha – Mavelikkara road resulted in costs overrun of ₹ 2.08 crore.

*(Paragraph 3.5.5)*

- ❖ There was over payment of ₹ 0.91 crore by the Executive Engineer due to improper assessment of actual work executed in respect of improvement to Karyavattom - Ananalloor Road and Mankada-Pattikkad Road.

*(Paragraph 3.6)*

- ❖ Absence of adequate field work and subsequent delay in revising design in construction of Mattool-Madakkara bridge resulted in time overrun by more than six years and cost overrun of ₹ 13.79 crore.

*(Paragraph 3.7)*

- ❖ There was extra expenditure of ₹ 0.80 crore due to calculation of rates for 'extra item' based on SoR 2010 instead of SoR 2007 and mistake in reckoning the distance from source of material to the work site in respect of the project Kottayam – Kumarakaom – Thanneermukkom Road.

*(Paragraph 3.8)*

### **Tourism Department**

- ❖ Adoption of unsuitable design for construction of wooden cottages at Ponnudi resulted in infructuous expenditure of ₹ 1.24 crore.

*(Paragraph 3.9)*

### **Water Resources Department**

- ❖ *Idle investment on incomplete irrigation projects*

- Due to delay in execution of works, the estimate of five incomplete major/medium irrigation projects viz. MVIP, IIP, KRP, BSP and ARCB originally envisaged as ₹ 80.35 crore was revised to ₹ 2,270.30 crore and the total up to date expenditure incurred amounted to ₹ 1,568.10 crore as on March 2013.

*(Paragraph 3.10.2.2)*

- Lack of coordination between the Railways and Irrigation department, led to an amount of ₹ 90.76 lakh, deposited with Railways during 2008 for the construction of aqueduct over the railway line lying blocked.

*(Paragraph 3.10.3.4(b))*

- Non-commencement of water distribution in IIP, BSP and ARCB led to an amount of ₹ 525.23 crore incurred for the project becoming blocked.

*(Paragraphs 3.10.3.5, 3.10.4.6, 3.10.5.6, 3.10.6.3 & 3.10.7.1)*

- ❖ Non-execution of agreements as provided for in tenders resulted in granting undue benefit of ₹ 1.03 crore to contractor in five canal improvement works undertaken in Kottayam district.

*(Paragraph 3.11)*

## 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 2013, 737 IRs (2,697 paragraphs) were outstanding against Forest and Agriculture 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 167 IRs containing 716 paragraphs.

### 1.7.2 Departmental Audit Committee Meetings

The Government set up department wise audit committees 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 2012-13 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
Animal Husbandry	4	2006-07	3	550
		2007-08	11	
		2008-09	6	
		2009-10	30	
		2010-11	39	
		2011-12	31	
		<b>Total</b>	<b>120</b>	
Fisheries	1	2006-07	5	84
		2007-08	4	
		2008-09	4	
		2009-10	4	
		2010-11	8	
		2011-12	13	
		<b>Total</b>	<b>38</b>	
Forest & Wildlife	1	2007-08	5	1167
		2008-09	7	



Name of the department	Number of meetings held	Number of paragraphs settled		Number of audit paragraphs outstanding and percentage of settlement
		2009-10	11	
		2010-11	25	
		2011-12	8	
		<b>Total</b>	<b>56</b>	
PWD Roads & Bridges	2	2006-07	4	942
		2007-08	8	
		2008-09	5	
		2009-10	4	
		2010-11	10	
		2011-12	2	
		<b>Total</b>	<b>33</b>	
Irrigation Department	2	2006-07	3	420
		2007-08	1	
		2008-09	1	
		2009-10	4	
		2010-11	3	
		2011-12	2	
		<b>Total</b>	<b>14</b>	
Harbour Engineering Department	1	2006-07	5	117
		2007-08	3	
		2008-09	0	
		2009-10	1	
		2010-11	5	
		2011-12	2	
		<b>Total</b>	<b>16</b>	
<b>Grand Total</b>			<b>277</b>	<b>3280</b> <b>8.45</b>

During the year 2012-13, the settlement was less than 10 *per cent*.

### **1.7.3 Response of departments to the draft paragraphs**

Draft Paragraphs and Reviews were forwarded demi-officially to the Additional Chief Secretary/Principal Secretaries/Secretaries of the departments concerned between April 2013 and March 2014 with a request to send their responses within six weeks. The departmental replies for only one out of two Reviews and one out of 11 compliance audit 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 two departments viz. Public Works department and Revenue department had not submitted Statements of Action Taken for two and one paragraphs for the period 2010-11 and 2011-12 respectively even as of February 2014.

***1.7.5 Paragraphs to be discussed by the Public Accounts Committee***

There are nine paragraphs relating to Departments of Industries, Public Works and Revenue pertaining to the period 2010-11 and 2011-12 pending discussion by the Public Accounts Committee as of February 2014.