

# **INTRODUCTION**

## 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.

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, performance audit, besides compliance audit, also includes examination of whether the objectives of the programme/activity/department are achieved economically, efficiently and effectively.

The primary purpose of the report is to bring to the notice of the State Legislature important results of audit. 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

There were 41 departments in the State at Secretariat level during 2013-14. The Principal Accountant General (General & Social Sector Audit), Kerala conducts audit of 23 Secretariat departments, all Public Sector Undertakings/Autonomous bodies thereunder and Local Self-Government Institutions in the State. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them. The remaining 18<sup>1</sup> departments are audited by Accountant General (Economic & Revenue Sector Audit).

The comparative position of expenditure incurred by the Government during the year 2013-14 and in the preceding two years is given in **Table 1.1**:

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<sup>1</sup> Three departments included under AG (E&RSA) namely Public Works, Revenue and Water Resources are audited by PAG (G&SSA) also

**Table 1.1: Comparative position of expenditure**

(₹ in crore)

Disbursements	2011-12			2012-13			2013-14		
	Plan	Non plan	Total	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	126.65	26478.44	26605.09
Social Services	3401.92	12821.94	16223.86	4312.02	14565.47	18877.49	4645.93	16333.95	20979.88
Economic Services	1852.31	4279.35	6131.66	2468.73	5339.69	7808.42	2301.08	5627.98	7929.06
Grants-in-aid and Contributions	-	3389.08	3389.08	-	4016.22	4016.22	-	4971.47	4971.47
<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>	<b>7073.66</b>	<b>53411.84</b>	<b>60485.50</b>
<b>Capital Expenditure</b>									
Capital outlay	3398.10	454.82	3852.92	3465.66	1137.63	4603.29	3497.62	796.71	4294.33
Loans and advances disbursed	416.68	581.86	998.54	603.09	533.06	1136.15	537.53	926.64	1464.17
Repayment of public debt	-	-	2893.06	-	-	2804.08	-	-	3244.81
Contingency Fund	-	-	20.80	-	-	-	-	-	67.39
Public Account disbursements	-	-	91200.26	-	-	100455.82	-	-	120992.20
<b>Total</b>			<b>98965.58</b>			<b>108999.34</b>			<b>130062.90</b>
<b>Grand Total</b>			<b>145010.20</b>			<b>162488.08</b>			<b>190548.40</b>

### 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 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 21 autonomous bodies in the General and Social Sector which are audited under Sections 19(2), 19(3) and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 183 Autonomous Bodies which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 748 institutions<sup>2</sup>, 18 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1209 Local Self-Government Institutions<sup>3</sup> under the audit jurisdiction in the General and Social Sector. 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.

<sup>2</sup> Government-aided Colleges: 158  
Government-aided Higher Secondary Schools: 464  
Government-aided Vocational Higher Secondary Schools: 126

<sup>3</sup> Grama Panchayaths: 978, Block Panchayaths: 152, District Panchayaths: 14, Municipal Corporation: 5 and Municipalities: 60

## **1.4 Organisational structure of the Office of the Principal Accountant General (G&SSA)**

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit) Kerala conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under the General and Social Sector which are spread all over the State. The Principal Accountant General (General & Social Sector Audit) is assisted by four Deputy Accountants General.

## **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 departments. 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 2013-14, 12,219 party-days were used to carry out audit of 1,760 units (compliance audits and performance audits) of the various departments/organisations coming under Principal Accountant General (G&SSA). The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

## **1.6 Significant Audit Observations**

### **1.6.1 Performance audits of programmes/activities/departments**

Three performance audits on Sarva Shiksha Abhiyan, Kerala, Indian System of Medicine - Ayurveda and Information System Review on 'FRIENDS, an e-Governance Initiative of Government of Kerala' are included in Chapter II, III and IV. The highlights are given in the following paragraphs.

#### ***1.6.1.1 Sarva Shiksha Abhiyan, Kerala***

Sarva Shiksha Abhiyan is a flagship programme of the Government of India (GOI) launched in the year 2000-01. In Kerala, the implementation of the programme was started in 2002-03. This comprehensive programme is being implemented with the objectives of universal access and retention, bridging of gender and social category gaps in education and enhancement of learning levels of children in the 6 to 14 age

group. SSA also focussed on providing Inclusive Education to all Children With Special Needs (CWSN) in schools. SSA ensures that every child with special needs, irrespective of the kind, category and degree of disability, is provided quality inclusive education. The programme also aimed at identification of Out of School Children (OOSC) and developing context specific strategy to provide special training for them. The programme seeks to open new schools and construction of additional classrooms, toilets and drinking water facilities to strengthen existing school infrastructure. It envisages enhancing the capacity of teachers by providing periodic teacher training and through academic resource support. It also provides text books and support for learning achievement. After the enactment of the Right of Children to Free and Compulsory Education Act, 2009 (RTE Act, 2009), the SSA framework for implementation was revised to align various provisions under SSA with the legally mandated norms, standards and free entitlements mandated by the Act.

SSAK did not possess reliable data on OOSC. Out of 128 OOSC surveyed by Audit, 100 belonged to ST and SC communities. SSAK reckoned the number of children as CWSN without proper assessment. SSAK did not ensure delivery of adequate support services required by CWSN. Deployment of Resource Teachers (RTs) was not related to the number of CWSN and the nature of their disability. There was a disproportionately large number of RTs trained to deal with Mental Retardation (MR) with no/few RTs trained in tackling Learning Disability and Autism, visual impairment and hearing speech impairment. RTs did not utilise even one third of school working days to visit schools and provide resource support to CWSN. Fourteen Multi Grade Learning Centres having 174 children (2013-14) were functioning in Thiruvananthapuram District even though there were schools within reasonable distance. Evaluation of learning levels of children conducted by SCERT at the instance of audit revealed poor learning levels of children. Deployment of Block Resource Persons without adhering to norms and lack of adequate on-site support by Cluster Resource Centre Coordinators led to inadequate academic support to teachers.

(Chapter II)

### **1.6.1.2 Indian System of Medicine – Ayurveda**

Ayurveda means "the science of life" (in Sanskrit 'ayur' means "life" and 'veda' means "science"). Ayurveda is an ancient and comprehensive system of health care. The system aims to prevent illness, heal the sick and preserve life. Ayurveda has its origins in India and extended its wings to various parts of the world. Ayurveda was divided into eight clinical specialities such as *Kayachikitsa* (internal medicine), *Salya Tantra* (surgery), *Salakya* (disease of supra-clavicular origin<sup>4</sup>), *Kaumarabhrtya* (paediatrics, obstetrics and gynaecology), *Bhutavidya* (psychiatry), *Agada Tantra* (toxicology), *Rasayana Tantra* (rejuvenation and

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<sup>4</sup> This branch deals with dentistry, disease of ear, nose, throat, head and oral cavity

geriatrics) and *Vajikarana* (aphrodisiology and eugenics<sup>5</sup>). ‘Ayurveda Massage’ is part of the treatment protocol.

Failure to furnish Utilisation Certificates to Government of India (GOI) for funds already received resulted in the State losing GOI assistance of ₹12.75 crore receivable during 2012-14. New departments for Preventive Ayurveda, Yoga, Naturopathy and Vishachikitsa in Government Ayurveda College, Thiruvananthapuram were not setup resulting in refund of GOI assistance of ₹1.50 crore in May 2013. Inadequacies in infrastructure facilities, non-availability of equipment and inadequate number of Medical Officers and Paramedical staff were noticed in the hospitals and dispensaries test checked. In the Government Ayurveda Hospital, Punnapra due to absence of male Nurses/Therapists and Cook, the hospital neither provided therapy treatment to male patients nor provided diet to its patients. The hospital had the lowest bed occupancy of 33 *per cent* out of 14 test checked hospitals. In seven test checked hospitals, there was no heating facility in the therapy/treatment rooms forcing patients to bring fuel and stove for heating *Thailam* for oil massage. Oushadhi, the Government of Kerala Company, did not test the Ayurveda drugs for presence of heavy metals, aflatoxin, toxicity and pesticide residue before supplying to institutions. Indents for purchase of drugs were prepared by the Department of ISM without assessing the consolidated annual requirement resulting in overstocking of drugs. The Patent Cell did not acquire patent rights for any of the 2505 *oushadha* formulations it deciphered from manuscripts.

(Chapter III)

### 1.6.1.3 Information System Review on ‘FRIENDS, an e-Governance Initiative of Government of Kerala’

FRIENDS (Fast Reliable Instant Efficient Network for Disbursement of Services), a key mission mode e-Governance (G2C) initiative of Government of Kerala and a joint venture of the Department of Information Technology (IT) and Local Self Government Institutions (LSGI), was started as a pilot project in the year 2000 in Thiruvananthapuram district (FRIENDS Janasevanakendram). This application provided facilities to the residents of Kerala State to pay their utility bills, tax and other dues to Government through a single window integrated remittance centre, without any extra cost. It was rolled out to the remaining 13 districts of Kerala by 2001.

The application was developed without preparing User Requirement Specification (URS). Even though envisaged to be an automated system, non-adherence to database normalisation principles, poor system design and inadequate capturing of vital data necessitated manual intervention, which led to control failures and embezzlement of money. There were persistent delays in remittance of money collected from the FRIENDS Centres to Bank. The accumulated amount of money kept out of public exchequer was ₹15.21 crore and ₹11 crore at Ernakulam and Kozhikode Centres respectively. The total accumulated amount of money resided

<sup>5</sup> This branch deals with the means of enhancing sexual vitality and efficiency for producing healthy and ideal progeny

out of public exchequer from all the Centres was ₹136.02 crore. Non-constitution of IT steering committee led to design of the system without proper vision and focus. The application was not upgraded in line with the technological advancements in the external environment. No norms were fixed for the time required for completing a transaction resulting in large variation in the number of transaction of bills by various Service Officers. Absence of change control mechanism resulted in discrepancies in the system generated reports and erroneous debit of ₹10.74 lakh from FRIENDS accounts. Similarly, another change made in the application without test run resulted in variation as high as ₹1.82 crore in different system generated reports. System could not achieve the goal of providing single window remittance centre to the public due to lack of timely managerial interventions and coordination with participating agencies.

*(Chapter IV)*

### **1.6.2 Compliance Audit Paragraphs**

Audit adopted a new approach by identifying certain key issues based on risk factors and topical importance with a focus on deliverables in addition to the regular transaction audit. Significant deficiencies during such audit and transaction audit are detailed in the following paragraphs.

#### *Audit of Selected Topics*

##### **1.6.2.1 Kerala Emergency Medical Services Project (108 Ambulance)**

Government of Kerala, Health and Family Welfare Department (GOK), launched (December 2008) the Kerala Emergency Medical Services Project (KEMP) in Public Private Partnership (PPP) mode in Thiruvananthapuram district from May 2010 and in Alappuzha district from April 2012 through private partners selected through a bidding process. Expansion of the project to other districts had not materialised as of date (October 2014). While GOK provided 50 fully equipped ambulances and space for setting up the Emergency Response Centre (ERC), the private partner was to operate the ambulances equipped with trained paramedical staff. The public were to be provided 24x7 access to the ambulance services free of cost, by using a common toll free telephone number '108'. As per the project, an ERC was set up (May 2010) at Thiruvananthapuram to receive the distress calls from the public and to send the ambulances to the pickup spot. The services of the ambulances were to be provided round the clock through an integrated solution including Voice Logger System, Geographic Information System maps, Global Positioning System (GPS), Automatic Vehicle Tracking and mobile communication system, etc. The designed system was to ensure that on receipt of a distress call, the control room could mobilise the nearest available ambulance to pick up the distressed persons and transport them to the nearest hospitals.

The project was launched with the commendable objective of providing emergency ambulance services to the needy, free of cost. Agencies, entrusted with delivering 24x7 services failed to attend to 28102 calls due to non-availability of vehicles. In

54.48 per cent of cases test checked, response time of ambulances was beyond the stipulated 10 minutes.

The project was implemented only in Thiruvananthapuram and Alappuzha districts. Laxity of the department resulted in the project not being extended to other districts, despite availability of funds. Kerala Medical Services Corporation Limited allowed much higher rate for additional kilometres run beyond 2000 kilometres. Instances of flouting tender procedures in the procurement of delivery vans and fabrication of the same into ambulances were noticed. The delivery vehicles were converted as ambulances without reckoning the safety aspects of ambulances *vis-a-vis* delivery vans. The State level committee to monitor implementation of the project in the State did not meet even once.

*(Paragraph 5.1)*

### ***1.6.2.2 Role of Kerala State Nirmithi Kendra in Civil Construction Works***

The Kerala State Nirmithi Kendra (KESNIK) was set up in 1989 under the Travancore Cochin Literary, Scientific and Charitable Societies Act 1955 as an Apex body to co-ordinate, monitor and regulate the activities of the various Nirmithi Kendras<sup>6</sup> in the State. The main objective of KESNIK was to act as a seminal agency, to generate innovative ideas in the construction sector, undertake research and development activities in the housing sector, to propagate Cost Effective Environment Friendly and Energy Efficient (CEEF) technologies, etc.

KESNIK had not prepared separate Schedule of Rates for construction works using CEEF technology. The works undertaken by KESNIK involving CEEF technology was negligible. It did not exercise control over the activities of the DNKs. It did not focus on developing new cost effective, environment friendly and disaster resistant building materials due to lack of research activities. The scheme to provide building materials at discounted rates to the BPL families failed to attract sufficient number of beneficiaries. LaBISHaS, the Research and Development wing of the KESNIK did not undertake Research and Development activities due to failure to have the minimum number of faculty with prescribed qualifications.

*(Paragraph 5.2)*

### ***1.6.2.3 Health Insurance schemes implemented through Labour and Skills Department***

The Rashtriya Swasthya Bima Yojana (RSBY) and Comprehensive Health Insurance Scheme (CHIS) are two insurance schemes implemented in the State through the Labour and Skills Department. The RSBY was launched in 2008 by Ministry of Labour and Employment, Government of India (GOI) to provide health insurance coverage for Below Poverty Line (BPL) families<sup>7</sup> and to protect them

<sup>6</sup> Nirmithi Kendras were intended to provide an institutional framework to meet the challenges in the housing sector. India's first 'Nirmithi Kendra' was set up in Kollam district of Kerala in 1985 to provide cost effective and environment friendly (CEEF) building technology and affordable solutions to housing

<sup>7</sup> BPL list was prepared on the basis of score based ranking of rural households for which 13 socio economic parameters representing various deprivations faced by the poor were used



from financial liabilities that involve hospitalization. The Government of Kerala (GOK) formulated CHIS (2008) to provide similar health insurance coverage to an additional 10 lakh families identified by the State as BPL (Poor)<sup>8</sup> and Above Poverty Line (APL) families.

Despite rise in number of registered beneficiaries year after year, all eligible government/ESI hospitals were not empanelled. There was shortfall in enrolment of identified beneficiaries under RSBY/CHIS. Enrolment of Scheduled Tribe beneficiaries in the State was only 42 *per cent* while enrolment of ST beneficiaries in Wayanad district was only 29 *per cent* during 2013-14. Government's intention to utilise the flow back of insurance premium to improve the health care system did not materialise fully as about 24 *per cent* of the funds remained unutilised with the hospitals. Test checked empanelled hospitals also failed to recover ₹12.65 crore from insurance companies due to partial settlement/loss of data on claims. The patients were also deprived of the benefit of Transport Allowance.

*(Paragraph 5.3)*

### *Audit of transactions*

#### *1.6.2.4 Failure of Oversight/Administrative Controls*

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the area of health, education, development and upgradation of infrastructure and public service, etc. However, Audit noticed instances where funds released by the Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Two cases of misappropriation amounting to ₹16.66 lakh occurred due to absence of proper supervisory controls were noticed. The details are given below.

- Non-adherence to codal provisions by the Chief Medical Officer and lack of supervision by the District Medical Officer (ISM) resulted in misappropriation of ₹9.30 lakh from District Ayurveda Hospital, Palakkad.

*(Paragraph 5.4)*

- Failure to adhere to the codal provisions led to misappropriation of Rashtriya Swasthya Bima Yojana funds of ₹7.36 lakh from Medical College Hospital, Thiruvananthapuram.

*(Paragraph 5.5)*

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<sup>8</sup> BPL (Poor) – List prepared by the State Government which excludes those in the list prepared by the Planning Commission

- Inordinate delay in construction of open enclosures for crocodiles in Thiruvananthapuram zoo resulted in unfruitful expenditure of ₹59.50 lakh. Irregular receipt of ₹62.90 lakh from GOI for the same purpose and its diversion was also noticed.

*(Paragraph 5.6)*

- Failure of three departments to comply with the provisions of High Tension Tariff Revision Order of Kerala State Electricity Board led to avoidable payment of penalty charges amounting to ₹2.85 crore.

*(Paragraph 5.7)*

- Despite availability of ₹2.80 crore in March 2011, a scheme to engage unemployed Scheduled Castes in poultry production failed to take off due to failure in identifying eligible beneficiaries.

*(Paragraph 5.8)*

- Improper planning resulted in unfruitful expenditure of ₹4.67 crore in implementation of a water supply scheme.

*(Paragraph 5.9)*

## **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/timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, 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) for rectification in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspection. The Head 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 Principal Accountant General within four weeks of receipt of Inspection Report. Half-yearly reports of pending IRs are being sent to the Secretary of the Department to facilitate monitoring of the audit observations.

As of 30 June 2014, 386 Inspection Reports (2250 paragraphs) were outstanding against Police, Scheduled Tribe Development, Higher Education and Local Self Government Departments. A review of the Inspection Reports pending due to non-receipt of replies in respect of these four departments revealed that the initial replies in respect of 46 Inspection Reports containing 350 paragraphs issued up to 2013-14 were pending from the Police and Scheduled Tribe Development Department.

Year-wise details of Inspection Reports and paragraphs outstanding are given in **Appendix 1.1**.

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

Draft Paragraphs and Reviews were forwarded demi-officially to the Principal Secretaries/Secretaries of the departments concerned between July and November 2014 with a request to send their responses within six weeks. The replies from Government for two out of the three reviews and seven out of nine draft paragraphs featured in this Report were received. These replies have been suitably incorporated in the Report. In addition, in the remaining review, the views of the Government as expressed in the exit conferences, were duly considered and included.

### **1.7.3 Follow-up on Audit Reports**

According to the Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports/timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, issued by the State Government in 2010, the administrative departments should submit statements of Action Taken Notes on audit paragraphs included in the Audit Reports directly to the Legislature Secretariat, with copies to the AG within two months of their being laid on the table of the Legislature. The administrative departments did not comply with the instructions and seven departments, as detailed in **Appendix 1.2**, had not submitted statements of Action Taken for 14 paragraphs for the period 2011-12 to 2012-13, even as of September 2014.

### **1.7.4 Paragraphs to be discussed by the Public Accounts Committee**

The details of paragraphs pending discussion by the Public Accounts Committee as of 30 September 2014 are given in **Appendix 1.3**.