

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.

Performance audit includes examination of whether the objectives of the programme/activity/department are achieved economically, efficiently and effectively. Compliance audit, on the other hand, 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.

The primary purpose of the Report is to bring to the notice of the State Legislature important results of audit. The audit findings are expected to enable the Executive to take corrective action 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 performance and compliance audit and follow-up on previous Audit Reports.

1.2 Profile of units under audit jurisdiction

There were 42 Departments in the State at Secretariat level during 2015-16. The Principal Accountant General (General and 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 19 Departments are audited by Principal Accountant General (Economic and Revenue Sector Audit), Kerala.

The comparative position of expenditure incurred by the Government during the year 2015-16 and in the preceding two years is given in **Table 1.1:**

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2013-14			2014-15			2015-16		
	Plan	Non plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
Revenue Expenditure									
General Services	126.65	26478.44	26605.09	133.76	31298.99	31432.75	116.98	35967.70	36084.68
Social Services	4645.93	16333.95	20979.88	5893.10	17825.01	23718.11	7591.56	20011.73	27603.29
Economic Services	2301.08	5627.98	7929.06	4255.73	5941.84	10197.57	4369.95	6728.47	11098.42
Grants-in-aid and Contributions		4971.47	4971.47		6398.00	6398.00		3903.08	3903.08
Total	7073.66	53411.84	60485.50	10282.59	61463.84	71746.43	12078.49	66610.98	78689.47
Capital Expenditure									
Capital outlay	3497.62	796.71	4294.33	3880.54	374.05	4254.59	6518.48	981.56	7500.04
Loans and advances disbursed	537.53	926.64	1464.17			743.09	407.61	434.64	842.25
Repayment of public debt			3244.81			5842.77			6060.73
Contingency Fund			67.39			-			-
Public Account disbursements			120992.20			136242.59			162824.67
Total			130062.90			147083.04			177227.69
GRAND TOTAL			190548.40			218829.47			255917.16

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 (GOK) under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 22 Autonomous Bodies in the General and Social Sector which are audited under Sections 19 and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 242 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 educational institutions¹, 24 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1200 Local Self-Government Institutions² under the audit jurisdiction in the General and Social Sector. Principles and methodologies for various audits have been prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

¹ Government-aided Colleges: 158
Government-aided Higher Secondary Schools: 464
Government-aided Vocational Higher Secondary Schools: 126

² Grama Panchayaths: 941, Block Panchayaths: 152, District Panchayaths: 14, Municipal Corporations: 6 and Municipalities: 87

1.4 Organisational structure of the Office of the Principal Accountant General (General and Social Sector Audit)

Under the directions of the C&AG, the Office of the Principal Accountant General (General and Social Sector Audit), Kerala (PAG (G&SSA)) conducts audit of Government Departments, Offices, Autonomous Bodies and Institutions under the General and Social Sector which are spread all over the State. The PAG (G&SSA) 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 observations are issued to the heads of the offices and Departments. The Departments are requested to furnish replies to the audit observations within four weeks from the date of receipt of the Inspection Reports. Whenever replies are received, audit observations 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 Reports of the C&AG of India, which are submitted to the Governor of the State under Article 151 of the Constitution of India for placing in the State Legislature.

During 2015-16, the Office of the PAG (G&SSA) utilised 13151 party days to carry out the audit of 1696 units (compliance, performance and financial audits) of various departments/organisations under its jurisdiction. The audit plan covered those units/entities which were vulnerable to significant risks as per risk assessment.

1.6 Significant Audit Observations

1.6.1 Performance audits of programmes/activities/departments

Chapter II includes Performance Audit of 'Functioning of Kerala Public Service Commission', Chapter III includes Performance Audit of 'Functioning of Mahatma Gandhi University' and Chapter IV includes Performance Audit of 'Implementation of Government initiatives in Judicial system'. The highlights are given in the following paragraphs.

1.6.1.1 Functioning of Kerala Public Service Commission

Article 315 of the Constitution of India lays down that, there shall be a Public Service Commission for each State. The duties and functions of the Public Service Commission are to conduct examinations for appointments to the services of the State and was required to be consulted on all matters relating to methods of recruitment to civil services/civil posts, making promotions and transfers from one service to another, disciplinary matters affecting a

Government servant, etc. The Kerala Public Service Commission (KPSC) was established on 01 November 1956. The Chairman and Members of KPSC are appointed by the Governor of the State for a period of six years or till they attain the age of 62 years, whichever is earlier. The expenses connected with the KPSC are charged on the Consolidated Fund of the State. Every year, the KPSC has to present an Annual Report on the work done to the Governor for laying before the Legislature. During the period 2011-12 to 2015-16, the KPSC had conducted 1233 examinations for notified posts and issued appointment advices to 1.51 lakh candidates.

The Performance Audit of the Functioning of Kerala Public Service Commission focussed on the performance of its mandated functions and duties. The Performance Audit revealed deficiencies in framing of Special Rules, reporting of vacancies and publishing of notifications, denial of selection for appointment to the Differently Abled and defects in rendering advice to Government. KPSC had not issued notifications in respect of at least 452 vacancies to be filled up against 128 posts in different Departments/Institutions. Delay ranging from 11 to 77 months was noticed in publication of notifications by KPSC which delayed the selection process. KPSC had altered the eligibility criteria fixed by Government of India for the Differently Abled thereby denying appointment to persons with disabilities, which was a violation of rights and opportunities guaranteed by Persons with Disabilities Act, 1995. Data on pendency in selection to various services of the State pertaining to the years 2010 to 2015 showed that only 17 to 28 *per cent* of selections were completed within one year. Decision of KPSC to consider Not Joining Duty (NJD) vacancies as fresh vacancies resulted in loss/gain of several turns to various communities/categories including loss of 11 vacancies to Differently Abled candidates. Though the facility of scribe was to be allowed in an examination to any visually challenged person with disability of 40 *per cent* or more, if so desired by the person, KPSC permitted facility of scribe only to visually challenged candidates with disability of 75 *per cent* or more. Failure of KPSC to complete the work of computerisation of rotation process through the entrusted agency/team resulted in non-completion of computerisation process in KPSC.

(Chapter II)

1.6.1.2 Functioning of Mahatma Gandhi University

Mahatma Gandhi University (MGU), Kottayam, was established in October 1983 to provide higher education to the students belonging to the districts of Kottayam, Ernakulam, Idukki and parts of Pathanamthitta and Alappuzha. The MGU conducts Under Graduate, Post Graduate, M.Phil and Doctoral level courses through 17 University departments, seven Inter-University Centres, 10 Inter-School Centres, eight Self Financing Institutions and 250 affiliated colleges (10 Government colleges, 63 aided colleges and 177 unaided colleges). It imparts education in the conventional disciplines of Science, Social Science as well as in professional disciplines of Medicine, Nursing, Pharmacy, Engineering, etc. MGU is accredited by National Assessment and Accreditation Council at 'B' level. The Performance Audit focussed on the academic activities and the financial management of MGU.

MGU commenced a five year Integrated Interdisciplinary MS programme and Integrated Double Degree BA (Criminology)-LLB (Honours) which did not have the approval of University Grants Commission (UGC). The MGU failed to frame uniform syllabus as directed by UGC. The College Development Council envisaged by UGC was ineffective due to non-appointment of full time Director. There was a delay ranging from one to nine months in declaring examination and revaluation results. Fifty nine *per cent* of degree certificates were issued after six months from the date of application. One hundred ninety seven teachers identified as Research Guides by MGU did not possess the eligibility criteria as prescribed by UGC. MGU failed to implement Syndicate decision, made dilution to contractual terms and failed to obtain UGC/GOK assistance leading to loss of revenue of ₹3.98 crore. The Syndicate of the MGU irregularly created 10 non-plan posts of Section Officers without the approval of GOK. Irregular payment of House Rent Allowance against GOK directives resulted in undue benefit of ₹2.20 crore to the staff of MGU. Payment of inadmissible remuneration of ₹13.97 crore to regular teachers towards valuation of answer scripts was observed. Promotions made against the abolished posts in violation of orders of GOK resulted in excess payment of ₹13.36 lakh. Failure of MGU to enrol employees into EPF Scheme from the date of entry into service resulted in avoidable expenditure of ₹2.20 crore and potential liability of ₹3.78 crore towards interest and damages. There was no internal audit wing in the MGU which resulted in lack of internal control mechanism.

(Chapter III)

1.6.1.3 Implementation of Government initiatives in Judicial system

The justice delivery mechanism in the country comprises different types of courts, each with varying powers depending on the tier and jurisdiction bestowed upon them. They form a hierarchy with the Supreme Court of India at the top, followed by High Courts of respective States, District/Chief Judicial Magistrate Courts, Subordinate Courts and Munsiff/Judicial First Class Magistrate Courts at the bottom.

A Performance Audit of the Implementation of Government initiatives in Judicial system was conducted focussing mainly on the award of Thirteenth Finance Commission (ThFC) Grant to Kerala for improving Justice Delivery. The Performance Audit revealed under-utilisation of ThFC grant, foregoing of eligible share from Government of India (GOI), etc.

Evening Courts could not be set up as planned and establishment of Special Judicial First Class Magistrate Courts was delayed. Failure on the part of GOK to issue orders to include direct recruitment also as one of the modes of appointment of Court Managers resulted in delay in their appointment and restricted their services to the period 2014-15 to 2016-17. Failure to set up adequate Alternate Dispute Resolution Centres had resulted in poor utilisation of funds leading to lapse of ThFC grant to the extent of ₹13.31 crore. Clearance of cases filed in the Lok Adalats was lower than the target set by the ThFC. The request of the High Level Monitoring Committee to expand the base of beneficiaries among the marginalised sections by suitably enhancing the income limit for availing legal aid was not complied with by Kerala State

Legal Services Authority. The State did not avail GOI assistance of ₹134.91 crore under the Centrally Sponsored Scheme for Development of Infrastructure facilities for Judiciary.

(Chapter IV)

1.6.2 Compliance Audit Paragraphs

Audit identified certain key compliance issues based on risk factors and topical importance for conduct of regularity audit in addition to conduct of regular propriety audit. Significant deficiencies observed during such audits are detailed in the following paragraphs.

1.6.2.1 Enforcement of fire safety provisions in respect of buildings by the Kerala Fire and Rescue Services Department

The Kerala Fire and Rescue Services Department (Fire and Rescue Department) with five Divisional Offices, 14 District Offices and 121 fire stations is entrusted with the responsibilities of fire fighting operations/salvaging or rescue of life and property during fire accidents/hazards. The Fire and Rescue Department is governed by the Kerala Fire Force Act, 1962 (Fire Force Act). While the Home and Vigilance Department is in overall control of the Fire and Rescue Department at the Government level, the administrative powers are vested with the Director General of Fire and Rescue, Home Guard and Civil Defence (DG).

As the new Kerala Fire Force Act was not enacted as per National Disaster Management Authority guidelines, there were no enabling provisions empowering the Fire and Rescue Department to proceed legally and impose penalty on perpetrators of fire safety violations. In the absence of Rules, the activities of the Fire and Rescue Department were regulated by standing orders issued by the DG which did not possess statutory backing.

GOK did not issue appropriate notifications resulting in inability of officers of the Fire and Rescue Department to conduct inspections legally, to discharge their duties effectively and to ensure the availability of fire safety arrangements. Joint verification by us revealed deficiencies in compliance to fire safety standards, thereby exposing the buildings to grave threat of fire accidents. Failure of GOK to adopt good practices as prescribed in National Building Code led to non-inclusion of such provisions in the Kerala Municipal Building Rules, 1999, to ensure safety of life and property of people.

Fire fighters were also exposed to risk due to shortage of safety equipment like breathing apparatus, fire fighting suits and walkie talkies. In the absence of equipment like Aerial Platform Ladder and Turn Table Ladder, the Fire and Rescue Department was not capable of conducting rescue operations beyond the fourth floor of high rise buildings in the State.

The failure of GOK in ensuring the above aspects of fire protection and prevention has put the life and property of people at risk.

(Paragraph 5.1)

1.6.2.2 Failure of Oversight/Administrative Controls

The Government has an obligation to improve the quality of life of the people as it works towards fulfilment of certain goals in the area of health, education, development and upgradation of infrastructure and public service, etc. We 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. The details are given below.

- Failure of supervisory authorities to exercise stipulated checks and laxity of the Drawing and Disbursing Officer in complying with the codal provisions relating to maintenance of Cash Book resulted in misappropriation of ₹17.20 lakh in Government TD Medical College, Alappuzha.

(Paragraph 5.2)

- Violation of prescribed procedure by the Finance Officer, Mahatma Gandhi University in payment of remuneration to examiners for valuation of answer scripts led to a fraudulent drawal of ₹11.26 lakh.

(Paragraph 5.3)

- A portion of Travancore House in New Delhi was leased out to State Bank of Travancore on the basis of ‘carpet area’ instead of ‘plinth area’ resulting in loss of ₹3.68 crore to GOK.

(Paragraph 5.4)

- A recording theatre constructed and fully equipped at a cost of ₹1.48 crore remained idle since August 2011 due to failure of GOK to engage technical and administrative staff.

(Paragraph 5.5)

- Contrary to the directions of Kerala Water Authority, tenders were invited for a water supply scheme without ensuring physical possession of adequate land, resulting in unproductive expenditure of ₹4.18 crore, besides denial of potable water to the targeted population.

(Paragraph 5.6)

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 for rectification in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses etc., noticed during audit inspection. The Heads of Offices and next higher authorities are required to comply with the audit observations contained in the IRs, rectify the defects and omissions and promptly report

their compliance to the Accountant General within four weeks of receipt of Inspection Reports. Half-yearly reports of pending IRs are being sent to the Secretaries of the Departments to facilitate monitoring of audit observations.

It was noticed that, as of 30 June 2016, 913 IRs (3086 paragraphs) were outstanding in respect of Scheduled Caste Development, Rural Development, Labour and Skills and Planning and Economic Affairs Department. Even initial replies in respect of 308 Inspection Reports containing 1283 paragraphs issued up to 2015-16 were pending from the Scheduled Caste Development Department and Rural Development Department.

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

1.7.2 Response of Departments to the paragraphs included in this Report

Performance and Compliance Audit paragraphs were forwarded to the Principal Secretaries/Secretaries of Departments concerned during July to December 2016 to send their replies within six weeks. Replies from Government for one out of three Performance Audits and all the six compliance paragraphs featured in this Report were received. These replies have been suitably incorporated in the Report.

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 Reports of the C&AG 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 nine Departments, as detailed in **Appendix 1.2**, had not submitted Statements of Action Taken for 23 paragraphs for the period 2011-12 to 2014-15, as of September 2016.

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 2016 are given in **Appendix 1.3**.