

**CHAPTER IV
AUDIT OF TRANSACTIONS**

4.1 Fraudulent Drawal/Misappropriation/Embezzlement/Losses

GENERAL EDUCATION DEPARTMENT

4.1.1 Defalcation of Government money

Failure of Drawing and Disbursing Officers to exercise checks prescribed in financial rules led to misappropriation of Rs 10.19 lakh.

Scrutiny of the records (January 2004) of Government Vocational Higher Secondary School (GVHSS), Mulakuzha in Alappuzha district revealed misappropriation of Rs 10.19 lakh. In 72 establishment pay bills pertaining to the period September 2000 to December 2003 the Drawing and Disbursing Officers (DDOs) drew Rs 10.19 lakh in excess of the actual amount required for disbursement by fraudulently inflating the total column of the Bills. The seven Principals of the school, who were the DDOs during the period, failed to check the totalling of each column of the establishment bills and acquittance rolls by themselves or get it checked by some other staff as required under the rules.

The Deputy Director of Education (DDE), Alappuzha who conducted the internal audit of the school in June 2001 and July 2003 did not detect the defalcation. On this being pointed out by Audit, the DDE, Alappuzha suspended the Upper Division Clerk (UDC) of the school in January 2004.

The UDC who was suspected of involvement in the defalcation was punished (August 2000) with barring of three increments in another case of defalcation. In spite of this the Principals of the school failed to conduct the necessary checks on the bills prepared by this UDC.

The DDOs need to exercise all the prescribed checks before the bills are presented to the Treasury. Proper training to the DDOs in financial matters is also necessary. It is suggested that persons punished for misappropriation of Government money should not be entrusted with responsibilities of handling cash at least for a specified period.

While admitting the fact Government stated (October 2004) that the Finance (Inspection) wing would conduct inquiry on the failure of the Drawing and Disbursing Officer.

4.2 Infructuous/Wasteful expenditure and overpayment

PUBLIC WORKS DEPARTMENT

4.2.1 Excess payment to contractor

Excess payment of Rs 0.52 crore to the contractor due to non-availing of rebate over cost of material.

In May 2002, the Superintending Engineer, NH Circle, Kozhikode concluded two contracts with a firm, for the special repairs of NH-17 for a total length of 21.35 km under NH Division, Kannur, with a tender rebate of 17.1 *per cent* in respect of work 'A' and 24.2 *per cent* in respect of work 'B'. According to the conditions of contract, however, the tender rebate was not to be applied over the cost of cement and bitumen and the hire charges of Tools and Plant, if the same were supplied or made available by the Department.

In respect of works 'A' and 'B' the total value of work done was Rs 2.31 crore and Rs 1.66 crore respectively. As the Department neither supplied any materials nor made available Tools & Plant, tender rebate was applicable to the cost of materials/hire charges of Tools and Plant supplied/arranged by the firm. This component was Rs 1.52 crore for work 'A' and Rs 1.07 crore for work 'B'.

While admitting the final claims of the firm, tender rebate was not applied over the cost of materials and hire charges of Tools and Plant supplied/arranged by the firm, leading to lower rebate and thereby excess payment of Rs 0.52 crore.

Government stated (July 2004) that the rebate offered by the firm was over departmental rates less cost of materials, and that the accepted probable amount of contract was worked out and exhibited in the agreement accordingly. According to the contract conditions only the cost of materials supplied by department alone was to be kept outside the purview of rebate. Since the contract conditions did not envisage supply of materials by the department, the accepted Probable Amount of Contract was incorrectly worked out and exhibited in the agreement for which collusion between departmental officers and the contractor cannot be ruled out. As such the reply of Government is not acceptable.

4.2.2 Extra expenditure on execution of works not approved by Government of India

Even though the Government of India had deleted the work of 'levelling undulations' from the sanctioned estimates, the work was done incurring extra expenditure of Rs 0.57 crore.

In January 2000, Chief Engineer, National Highway, Thiruvananthapuram (CE) proposed three estimates for strengthening the Black Top Surface of NH 17 for a total length of 36.415 km (spread over in Kozhikode and Kannur Districts) by providing Bituminous Macadam (BM) and Asphalt Concrete

(AC). The surface strengthening formed part of implementation of Improvement of Riding Quality Programme (IRQP) for the year 2000-01 and the total estimated value of works as per approved estimates was Rs 6.91 crore. The Superintending Engineer, NH (North) Circle, Kozhikode (SE) arranged the works on the basis of three contracts concluded between 16 October 2000 and 27 November 2000 for a total contract outlay of Rs 5.50 crore. The contract agencies completed the works between March 2001 and December 2001. The aggregate value of work executed was Rs 6.28 crore, which was paid to the contract agencies between May 2001 and March 2002.

CE's proposals, among other items, envisaged, 'providing and laying bituminous macadam' on the existing road surface for a total estimated quantity of 16345 cubic metre. While estimating this quantity, the quantity required for levelling undulations on the road surface was also taken into consideration. The Ministry of Road Transport and Highways, Government of India (GOI), while scrutinising the estimates judged that levelling course proposed by CE was not necessary and reduced the total estimated quantity to 14814 cubic metre in the sanctioned estimates. The SE, however, arranged the execution of 'levelling course' also on the plea that it was essential to provide 'minimum profile correction' to the road surface. Against the approved quantity of 14814 cubic metre, the quantity done under the item was 17851 cubic metre resulting in extra expenditure of Rs 0.57 crore.

In the light of the specific observation of the Ministry that levelling course was not considered necessary, execution of the item was irregular and additional expenditure of Rs 0.57 crore incurred on this account was unauthorised and avoidable and not eligible for reimbursement from GOI.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

4.3 Violation of contractual obligations/undue favour to contractors

FISHERIES AND PORTS DEPARTMENT

4.3.1 Avoidable extra financial commitment on construction of breakwaters

Government inherited avoidable liability of Rs 6.40 crore on replenishment of partially damaged structure and overruling the findings of Committee of Secretaries as well as that of Chief Engineer allowed upward revision of agreed rates.

Mention was made in the Report of the Comptroller & Auditor General of India (Civil) for the year ended March 2001 about avoidable expenditure of Rs 0.93 crore on account of conveyance charges of stones on construction of breakwaters for Azheekkal Cargo Harbour in Kannur district. Scrutiny of the accounts of work, targeted for completion in November 2004, revealed that Government further inherited avoidable liability of Rs 6.40 crore on replenishment of partially constructed breakwater damaged during the period of abandonment and also due to post contractual revision of rates as

narrated below:

Consequent to Government's decision (August 1999) to allow higher rates for conveying stones from the alternate source, the firm resumed the construction activity at Mattul site in September 1999 i.e., after a lapse of two years. As the partially constructed structure was in an abandoned state from August 1997 to September 1999, it suffered damages for a length of 430 metres. The damaged portion of the breakwater was replenished through the same firm incurring an additional expenditure of Rs 1.17 crore which turned out to be a loss to Government though the work was stopped by the firm.

Further, claiming delay in completing works due to reasons not attributable to it and consequent escalation in construction cost, the contractor firm demanded (October 1999) payment at revised rates equivalent to 1996/1999 schedule of rates for conveying stones from alternate source and for work done after July 1997. The firm in the meantime approached the High Court and the latter, in March 2000, ordered disposal of the representation, expeditiously in accordance with law. Accordingly, Government constituted a committee of Secretaries to examine contractor's demands and to make recommendations thereon. The Committee judged that the demand for rate revision was not justifiable and recommended its rejection. Government accepted the Committee's recommendations in November 2001 and rejected the contractor's claim.

The firm filed a review petition (November 2001) before the Minister for Ports, requesting to refer the matter to a superior Government official (in service or retired) who has technical knowledge to get the Government orders reviewed or alternatively, to relieve it from the contract after payment of all dues. Government referred the review petition to Chief Engineer, Harbour Engineering Department for his remarks. The Chief Engineer (CE), in his report held (October 2002) that as there was no breach of contract on the part of Government there was no need for review of orders issued by Government in this regard and arrangements could be made to execute the remaining works at the risk and cost of the firm. Government, however, ordered (March 2003) payment to the firm at enhanced rates equivalent to 1996 schedule of rates with the quoted premium of 27.7 per cent for works done between July 1997 and June 1999 and at 1999 schedule of rates without tender premium for works executed from July 1999 onwards. Thus the orders of Government allowing revision of rates disregarding its own earlier orders (November 2001) as well as ignoring the views of Chief Engineer were unjustifiable. The extra liability entailed on Government including the cost of replenishment would work out to Rs 6.40 crore on an estimate basis, of which, Rs 5.84 crore was paid till March 2004.

The matter was referred to Government in May 2004; reply has not been received (November 2004).

PUBLIC WORKS DEPARTMENT**4.3.2 Loss due to non-enforcement of contract conditions****Failure of the Department to enforce the contract conditions resulted in avoidable liability of Rs 1.93 crore.**

Superintending Engineer, Buildings and Local Works, South Circle, Thiruvananthapuram (SE) arranged the construction of buildings (classrooms, laboratory, workshop and hostel) for Government Polytechnic, Pala through a contractor in February 1994 for a contracted outlay of Rs 2.25 crore. The work was to be completed in 24 months from the date of issue of work order. As the contractor did not maintain satisfactory physical progress, the SE terminated the contract in May 1998 when the value of work done by the contractor was only Rs 0.88 crore.

The contractor challenged the termination of contract in the High Court, and the latter in its judgement (October 2001) directed the former to file a representation before Government for revoking the termination order. The Court also ordered to take appropriate action by the department on the representation, in accordance with law, within a period of two months, after a personal hearing of the contractor. Accordingly, the contractor filed a representation before Government and the Principal Secretary to Government, Public Works Department held a personal hearing with the contractor (December 2001). According to the contractor, the foremost handicap in maintaining stipulated physical progress was non-supply of cement and steel by the department in time. He offered to complete the work, subject to the conditions that (i) percentage excess as in the previous contract was allowed over 1999 schedule of rates (quoted rates were 34.11 *per cent* above 1992 SOR); and (ii) 20 *per cent* margin was paid over and above the claim admissible as per condition (i).

Government Arbitration Committee considered (January 2002) the demand and concluded that there was delay in reimbursing the cost of materials purchased by the contractor for the work. The Committee judged that condition (i) only was entertainable and recommended acceptance of the same or alternatively closure of contract without risk and cost. It was noticed that the Committee came to the conclusion on the authority of a written request received from the contractor subsequent to execution of agreement requesting supply of materials by the Department. In April 2002, the contractor intimated that the recommendations of the Committee were not acceptable to him and requested relief from the contract. Government, in May 2002, permitted closure of contract and re-arrangement of balance works. The SE re-arranged (January 2003) the left over works through another agency for an agreed probable amount of contract of Rs 3.30 crore.

Audit scrutiny revealed that provision existed in the contract for contractors to opt for supply of materials by the department and such options were to be exercised at the time of submitting bids. In this case, the tender submitted by the contractor was not accompanied by such an option. This is evident from

the report of the Inspection Wing (Non-technical) of the Finance Department. Finance Department also elaborated the malpractices committed by the officers of the Department in helping the contractor and recommended recovery of the loss sustained to Government from the Chief Engineer and other officers of the Department who were responsible for the irregularity.

As the contractor himself was responsible for the supply of materials required for the work and since the quoted rates were inclusive of cost of all materials, there was no contractual obligation on the part of the department to supply materials for the work. The contract condition in this regard ought to have been enforced strictly and this aspect was not properly brought to the notice of the Arbitration Committee. Closure of contract without risk and cost of the contractor lacked justification and resulted in an avoidable extra liability of Rs 1.93 crore.

The matter was referred to Government in July 2004; reply has not been received (November 2004).

4.3.3 Unintended benefit of Central Excise Duty exemption to contractors

Though the quoted bid amount was inclusive of all duties and taxes payable, Central Excise Duty exemption to the tune of Rs 3.28 crore was extended to the contractors.

The Project Director, Kerala State Transport Project, Thiruvananthapuram (Superintending Engineer) concluded 13 contracts between March 2002 and July 2002 with eight contractors for the improvements and maintenance of State Highway for a total length of 339.1 Km. The contract packages were part of implementation of World Bank aided 'Kerala State Transport Project' and the aggregate outlay of contracts was Rs 96.72 crore. Maintenance works contemplated in nine contract packages were completed and under remaining packages the works were nearing completion and the total amount paid to the contractors towards value of work done was Rs 67.03 crore as of October 2003.

According to the agreed provisions of contracts under discussion (concluded on 'item rate' basis), the bid price quoted by contractors was inclusive of cost of materials and all duties/taxes/levies payable during their procurement. Subsequent to finalisation of contracts, the firms requested the Project Management to issue necessary certificates to enable them to avail of the benefit of Central Excise Duty exemption, introduced by Government of India (GOI) (August 1995) on the cost of bitumen procured for projects approved by GOI and financed by International Organisations. The Project Management, however, issued necessary certificates to the firms (between December 2002 and May 2003) in order to avoid delay in the implementation of the works. The firms, on the authority of these certificates, derived the benefit of Central Excise Duty exemption to the extent of Rs 3.28 crore (at the rate of Rs 1492.80 per tonne for 21995MT representing the rate of duty in force in November 2002) excluding element of Sales Tax payable thereon.

As the contractors themselves were to procure and supply bitumen for works and the quoted bid price was inclusive of all taxes/duties/levies payable on its cost, issuance of certificates to facilitate the firms to claim duty exemption was outside the scope of agreements. Further, the contract packages contemplated adjustment in contract price in case of escalation in cost of bitumen, for which purpose, the retail price of bitumen notified by the Indian Oil Corporation from time to time was to be reckoned as a component and the retail price so notified was inclusive of all taxes and levies.

Moreover, the facility of exemption from payment of Central Excise Duty was introduced by GOI to enable Government departments to effect savings in cost of projects aided by external bodies. Therefore the Project Management should have allowed the availment of benefit only if it entailed reduction in cost of the project. Instead the Project Management extended undue benefit of Rs 3.28 crore to the firms by issue of the certificates without any corresponding reduction in the cost of the project.

Government stated (December 2003) that the contract documents did not specify the rates at which duties and taxes are payable and, therefore, the contractors were entitled to duty exemption introduced by GOI. The Steering Committee was of the view that the price submitted included all taxes and duties and the issue of certificate was ratified (January 2003) in order to avoid delay in the implementation of the works. This was not acceptable as, in the case of contracts negotiated and concluded on item rate basis, in the absence of any specific contractual provision guaranteeing the benefit of duty exemption, quoted rates were inclusive of cost and other taxes payable for the procurement of materials.

The matter was again referred to Government in May 2004. While reiterating their earlier stand regarding the rates of duty payable by contractors, Government, further stated (June 2004) that (i) contractors, while quoting rates were aware of the existence of central excise duty exemption on cost of bitumen and this enabled the department to obtain competitive offers leading to savings in project cost and (ii) the Dispute Review Board for one of the contract packages had recommended extension of the facility of duty exemption to contract agencies. Government's argument mentioned in (i) above, is not tenable as it is not based on any pre-contractual documents confirming the assumption made by contractors. As regards the point mentioned in (ii) the Dispute Review Board has no mandate to take decisions which over ride the contract conditions.

4.3.4 Unjustifiable reclassification of soil as hard rock

After execution of agreement, sizeable quantity of earth to be excavated was reclassified as hard rock, resulting in extra expenditure of Rs 0.87 crore.

The Superintending Engineer, Roads and Bridges (North) Circle, Kozhikode (SE) arranged the work of 'improvements to Angadippuram-Pariyapuram-Cherukara road' (km 0/000 to km 7/610) in Malappuram district, through a contractor in May 2000 for an accepted contract outlay of Rs 1.39 crore

(17.99 *per cent* below estimate). Improvement works were completed (January 2002) and final bill was paid to the contractor in August 2003.

The schedule of works attached to agreement envisaged 98400 cubic metres of 'earth work cutting in all classes of soil except hard rock and medium rock requiring blasting' (@: Rs 1176 per 10 cubic metres). In August 2000, the Executive Engineer, Roads Division, Manjeri (EE) reported to the SE that presence of hard boulders which required blasting was noticed in the alignment of the road and that blasting could be done only under protective measures in certain reaches in view of the existence of residential buildings and electricity lines. The EE also proposed the rates of Rs 7538.70 and Rs 2436.85 each per 10 cubic metres for blasting hard rock under protective measures and in ordinary condition respectively. SE sought approval of the Chief Engineer, Roads and Bridges, Thiruvananthapuram (CE) for the rates in November 2000. Even though the CE sanctioned (11 December 2000) the rate proposed for blasting in ordinary condition, he did not approve the rate for protective blasting on the ground that it was on the higher side but subsequently approved (20 December 2000) this rate also.

The contractor executed supplemental agreement in May 2001 for carrying out blasting for an estimated quantity of 15348 and 4985 cubic metres respectively under protective measures and in ordinary condition. According to the final bill, the contractor had executed blasting of rock of 15731.04 cubic metres under protective measures and 4980.37 cubic metres in ordinary condition.

It was seen in Audit that the rate allowed for providing protective measures was exorbitantly high i.e. 209 *per cent* of the rate allowed for blasting in ordinary condition whereas the rates allowed for similar item in the adjoining districts of Kozhikode (by the same SE during March 2001) and Thrissur were 32 and 30 *per cent* respectively of the rate allowed for blasting in ordinary condition. Even the re-classification of sizeable quantity of earth as hard rock, subsequent to conclusion of contract, lacked justification as the nature of soil of the cutting area was initially reckoned as ordinary rock (which requires no blasting) on the authority of trial pits. Moreover, the tender rebate quoted by the contractor (after ascertaining site conditions) also suggested that risks involved in earth cutting, which was the major component of improvement works, were less. Calculated with reference to the rate for earth work excavation, originally agreed to, the post contractual re-classification of soil resulted in extra expenditure of Rs 0.87 crore.

The matter was referred to Government in July 2004; reply has not been received (November 2004).

4.4 Avoidable/excess/unfruitful expenditure**HEALTH AND FAMILY WELFARE DEPARTMENT****4.4.1 Avoidable payment of surcharge on electricity charges**

Superintendent of a Government Hospital incurred avoidable expenditure of Rs 1.79 crore towards surcharge due to long delay in payment of electricity charges.

Mention was made in paragraph 3.6 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1995 No. 3 (Civil) about payment of penal interest on electricity charges and unnecessary payment of electricity charges for the pay wards of the Kerala Health Research and Welfare Society * (KHRWS) by the District Hospital (DH), Palakkad. It was also pointed out that the electricity consumption of KHRWS were sub metered through the main meter in the DH. The Public Accounts Committee (1998-2000) in its Ninety First Report presented to the Legislature on 18 December 2000 had recommended that sufficient funds should be provided to the hospitals for making payments of electricity and water charges in time and that immediate action should be taken to realise energy charges already paid by the Department in respect of KHRWS pay wards.

A test-check of the records of the institution in January 2004 revealed that the same irregularities persisted. The Superintendent of the Hospital did not pay electricity charges for the period from January 1995 to March 2003 due to paucity of funds and paid Rs 3.03 crore (which was in excess by Rs 29.16 lakh) to Kerala State Electricity Board for settling the pending claims in March – April 2003 (Rs 1.18 crore and Rs 1.85 crore respectively). This included surcharge of Rs 1.79 crore on belated payment of electricity charges of Rs 94.47 lakh. The electricity charges of KHRWS pay wards continued to be included in the invoices of the electricity charges relating to DH, Palakkad. The department, however, had not taken any action to collect energy charges from KHRWS.

Government failed to take corrective steps to avoid the extra payment towards penal charges and stop payment on behalf of KHRWS pay wards though these were mentioned in the Report of Comptroller and Auditor General of India for the year ended 31 March 1995 No. 3 (Civil). Laxity on the part of the Government led to further avoidable payment of Rs 1.79 crore as surcharge. This points to the need of an effective machinery at Government level to monitor remedial action on Audit Paragraphs and recommendation of the Public Accounts Committee so that similar irregularities do not recur. Responsibility also needs to be fixed for such grave lapses involving avoidable payment of Government money.

* An autonomous body engaged in providing pay wards and other medical care facilities in Medical Colleges/Government hospitals

Government admitted (September 2004) the facts and stated that KSEB had adjusted Rs 21.31 lakh out of Rs 29.16 lakh upto February 2004 and the balance pending adjustment was only Rs 7.85 lakh. Regarding recovery of energy charges of KHRWS pay wards, Government stated that the KSEB had been addressed to intimate the minimum charge of electricity based on the connected load. However the DH Palakkad continued to pay energy charges of KHRWS also.

HOUSING DEPARTMENT

4.4.2 Non-recovery of compensation paid in excess

Lapse on the part of KSHB/LAO resulted in payment of excessive compensation of Rs 1.36 crore including interest.

Kerala State Housing Board (KSHB) acquired (May 1982) 3.0214 ha of land for implementation of the Nalanchira Housing Accommodation Scheme. The Land Acquisition Officer (LAO) passed two awards (October 1982) fixing the land value as Rs 4.72 lakh (63.73 ares) and Rs 17.81 lakh (238.41 ares). Even though the land owners had given (1982) a common consent letter accepting the awards passed by the LAO and foregoing their right to make a reference seeking higher compensation, they moved a reference application in the Sub-court, Thiruvananthapuram. This vital evidence was, however, not produced by the LAO in the court. The court enhanced (March 1992) the compensation by Rs 22.07 lakh* and Rs 83.03 lakh* respectively for the above two plots. As these enhancements were considered unjustified the State went in appeal to the Hon'ble High Court.

In the meantime, execution petitions were filed by the land owners for realisation of the decretal amounts due as per the judgment of March 1992, and the court ordered payment of 50 *per cent* decretal amount on the condition that the claimants should offer security which will remain in force till the final disposal of the land acquisition references. Accordingly, KSHB deposited Rs 25 lakh in March-June 1993 in respect of LAR 5/88# and Rs 41.51 lakh in August 1994 for LAR 39/88#.

The amount of Rs 25 lakh was withdrawn by the land owners without offering any security and Rs 41.51 lakh was withdrawn by them after giving a bank guarantee for that amount. However, Bank guarantee for Rs 41.51 lakh was not got renewed by KSHB from time to time till final disposal of the reference.

The Hon'ble High Court set aside (December 1998) the awards of March 1992 and remanded the matter to the reference court for fresh consideration. However, the crucial consent letter from land owners was produced by the LAO only on the penultimate day of the hearing. The Sub-court re-fixed (April 2001) the enhanced compensations as Rs 1.49 lakh against Rs 22.07 lakh and Rs 5.99 lakh against Rs 83.03 lakh.

* Including Solatium and interest

LAR 5/88 for 63.73 ares; LAR 39/88 for 238.41 ares

Consequent on the reduction of the enhanced compensation, KSHB had to recover Rs 1.36 crore⁵ from the land owners including interest of Rs 76.56 lakh. Though the judgment was pronounced in April 2001, KSHB had filed the restitution petition only in April 2002 for recovery of the amount withdrawn by the land owners.

Thus, lapse on the part of the LAO in producing the vital piece of evidence in time and failure of the officials of KSHB to obtain and keep alive the security from land owners for withdrawing the amounts deposited in the court resulted in payment of excessive compensation of Rs 1.36 crore (including interest) which remained unrecovered as of May 2004.

This is a result of defective internal control system in KSHB and lack of monitoring of LA cases. The collusion of the officials with the land owners cannot be ruled out and the matter calls for investigation. Government/KSHB may fix responsibility for the serious lapse on the part of officials and initiate action to recover the loss sustained to KSHB.

Government admitted (August 2004) the facts and stated that all possible steps were being taken to recover the excess amount paid. Government added that an investigation by the Vigilance Officer of the Board had been ordered to fix responsibility on the officers of the Board who failed to follow up the case in time.

LOCAL SELF GOVERNMENT DEPARTMENT

4.4.3 Extra liability due to delay in completion of a remunerative project

Lack of planning on the part of the authority led to unnecessary burden of Rs 1.67 crore, apart from potential loss of rental income.

Government approved (April 1993) the proposal of Thrissur Urban Development Authority for constructing a six storeyed office-cum-commercial complex having 53 shop rooms in the ground and first floors and office space in the remaining floors. The project was conceived as a self supporting and remunerative one with the cost of construction to be financed by availing loans from Kerala Urban Development Finance Corporation (KUDFC) and collecting non-refundable advance by leasing out the shop rooms. Accordingly, the Authority availed a loan of Rs 67.75 lakh at varying interest rates of 14 to 17 *per cent* from KUDFC. During the period from October 1994 to September 1996 they collected non-refundable advance of Rs 89.20 lakh from 12 prospective shop owners at 14 *per cent* interest to be paid from the date of remittance to the date of intimation for occupation.

The Authority entrusted (May 1993) the construction of the office-cum-commercial complex to a contractor for an agreed amount of Rs 1.44 crore (including cost of departmental materials) at 93.5 *per cent* above the estimated cost of Rs 91.82 lakh (based on 1990 schedule of rates), with the date of completion as 18 May 1995. As the Authority failed to supply departmental materials in time, the work could not be completed within the targeted date.

⁵ Excess compensation :Rs 23.51 lakh and Rs 35.52 lakh and interest Rs 33.12 lakh and Rs 43.44 lakh as of October 2002 in LAR 5/88 and LAR 39/88 respectively

There was also delay in payment of part bills of the contractor. The contractor demanded enhanced rates after the scheduled date of completion and as there was no response for his demand from the Authority the contractor stopped the work in October 1997.

It was noticed in audit that though the Executive Committee of the TUDA decided in May 1995 to enhance the rate by 40 *per cent* (overall increase in rates being 133.5 per cent) and requested approval of Government, Government sanctioned the enhancement only in August 2000 i.e. after a lapse of about five years.

The contractor executed a supplemental agreement in September 2000 and the time of completion was fixed as March 2001. Though an expenditure of Rs 2.26 crore had been incurred on the project, the work remained incomplete as of March 2004. Out of the 53 shop rooms only 12 shop rooms could be leased out by the Authority so far (August 2003).

Thus, improper planning on the part of the Authority, its failure to ensure supply of materials and undue delay on the part of Government in approving the enhancement in rates resulted in avoidable extra expenditure of Rs 0.82 crore on account of escalation in the cost of work. The liability on interest to be paid to the 12 lessees on the non-refundable deposits for the period from June 1995 (stipulated date of completion) to July 2003 works out to Rs 0.85 crore. The avoidable expenditure was to the tune of Rs 1.67 crore in addition to the potential loss of rental income.

Government agreed (July 2004) with the facts and stated that the electrification work had been tendered and on completion of the above work the building would be fit for occupancy.

4.4.4 Unproductive expenditure on salary of staff of Kerala State Rural Development Board

Failure to redeploy the staff of defunct Board resulted in unfruitful expenditure of Rs 3.34 crore.

Kerala State Rural Development Board was constituted as a statutory body as per the Kerala State Rural Development Board Act, 1971 with the objective of undertaking remunerative developmental works such as construction of shopping complexes, bus stands, market halls etc., in Grama Panchayats. Based on the recommendations of the first State Finance Commission, Government decided (June 1996) to restructure the Board into a financing institution and directed the Board not to take up any new work. Consequently, the activities of the Board almost came to a standstill.

Mention was made in paragraph 6.18 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 (Civil) about the failure to redeploy the engineering staff and consequent payment of idle wages amounting to Rs 35.35 lakh. Government replied (June 1999) that restructuring of the Board as a pure financial institution would take place shortly and thereafter redeployment of engineering staff would materialise.

Government, however, allowed (July 1999) the Board to continue in the same manner till the 1971 Act was repealed. Government ordered (September 2002) discontinuance of the 189 posts in Engineering Wing of the Board. Though, the Kerala Decentralisation of Powers Act, 2000 contained provisions for repealing the 1971 Act, Government issued notification in this regard only on 22 July 2003. Government further ordered (August 2003) treating the Board's staff as Government employees until further orders. Thus, the Board continued to exist with 32 numbers of staff without serving any purpose as of March 2004. The expenditure incurred for the period from April 1999 to December 2003 on retention of the engineering and other staff of the Board was Rs 3.34 crore.

Thus, inaction/delayed action to redeploy the staff resulted in unfruitful expenditure of Rs 3.34 crore which could have been avoided had the staff been redeployed suitably on cessation of work.

Government stated (September 2004) that it was decided to deploy the staff of the Board to the offices of the Chief Engineer (LSGD)/PWD and the delay was due to administrative reasons.

PUBLIC WORKS DEPARTMENT

4.4.5 Avoidable expenditure due to change in scope of work

Post contractual change in the design of foundation and non-observance of Chief Engineer's guidelines resulted in avoidable liability of Rs 5.89 crore.

The Superintending Engineer, Roads and Bridges (North) Circle, Kozhikode (SE) awarded the contract for the construction of Kadalundi Kadavu Bridge (Malappuram District) in March 1998 at an accepted contract price of Rs 5.92 crore at a tender premium of 90 *per cent*. The contract contemplated well foundation for the abutments and piers of 13 span bridge of 345 metre long. After completing the foundation work of one abutment, one pier and partially completing the foundation work of two piers, the contractor, in December 1998, intimated the Chief Engineer (CE) that the site of the bridge was at the confluence of river and sea and therefore tidal action in the river was severe, rendering well sinking difficult. The contractor also requested for change from well foundation to cast in-situ pile foundation. CE accepted the contractor's request and obtained a new drawing (July 1999) from the Design Wing contemplating cast in-situ pile foundation for nine piers. The partially completed well foundation of two piers were also abandoned and changed to pile foundation. The construction of the bridge was in progress as of March 2004. The estimated extra expenditure due to change in design was Rs 5.05 crore and Rs 0.33 crore spent on the partially completed well foundation became infructuous.

Contract conditions demanded the contractor to construct the bridge and approaches in accordance with the plan and design attached to agreement. The contractor was expected to have quoted rates taking into account the

hostile site conditions and as such the contractor had no valid ground for a request in change of the design of foundation after the contract was concluded.

In the design of the bridge the Department proposed well foundation for piers after taking into consideration all the aspects of the site and as such there was no justification on the part of the department in allowing a change from well foundation to cast in-situ pile foundation.

Further, in March 2002, the CE proposed a revised estimate for Rs 10.29 crore to Government, which, apart from taking the design change into account, envisaged construction of retaining walls in cement concrete for protecting the sides of approaches at places more than the number provided for in the original agreement. The revised estimate also contained provision for cement concrete belts over retaining walls constructed in rubble masonry. According to the instructions issued by CE in December 1990, retaining walls above 3 metres height need be constructed only in rubble masonry avoiding cement concrete belts. Proposal to construct side wall in cement concrete and to provide cement concrete belt over rubble masonry walls deviating from CE's instructions, resulted in extra liability of Rs 0.51 crore.

Government stated (July 2004) that the change in design was necessitated owing to the drastic environmental changes near and around the site during the intervening period after the investigation (1984) and execution of agreement (1998). Regarding construction of side wall in cement and providing cement concrete belt over rubble masonry wall, Government stated that it was due to limitation in space to accommodate the bottom width of embankment and also to accommodate future expansion. However, the reply is silent as to why due professional care was not taken by taking into account these aspects at the time of according technical sanction in 1995 despite specific provision in Kerala PWD Manual that if there is a time lag of two years or more between the date of preparation of an estimate and the date of its sanction, it is necessary that site conditions are examined again to verify whether any changes have occurred necessitating modifications and as such the reply is not acceptable.

4.4.6 Erroneous preparation of estimates and consequential loss

Substitution of an item of work during execution resulted in estimated loss of Rs 35.25 lakh by way of compensation.

The Project Director (SE) who is in charge of implementation of World Bank aided Kerala State Transport Project (KSTP), concluded a contract with a firm in April 2002 for the periodic renewal of Cherkala-Jelsoor road (length 41 km) under the jurisdiction of Executive Engineer, KSTP Division, Kannur for a contract outlay of Rs 9.74 crore.

The Bill of quantities attached to agreement, among other items, included 'surface dressing' of pavement after doing the 'Profile Corrective Course' (PCC). According to the Ministry of Road Transport and Highways' (MORTH) Manual for Construction and Supervision of Bituminous Works, surface dressing is a thin layer of treatment, which does not enhance the

structural strength of pavement, and does nothing to improve riding quality where the existing surface is full of undulations and irregularities.

In September 2002, the firm pointed out that the entire black-topped road surface, running through deep ghat terrain, was full of potholes and that some treatment other than surface dressing was necessary to maintain the structural strength and to improve the riding quality. The firm proposed 'Mix Seal Surface' (MSS) over PCC in the place of surface dressing. The SE rejected this proposal and instructed (November 2002) the firm to proceed with the work of surface dressing as contemplated in the Agreement. The work of surface dressing was undertaken at the agreed rate of Rs 150 per sq.metre.

When surface dressing was completed for a length of one km it was found that performance of this wearing course was unsatisfactory and it was decided to replace 'surface dressing' with MSS (30 mm). The firm demanded (February 2003) a rate of Rs 179 per sq. metre for providing MSS. As the Project authorities perceived the rate as too high, the matter was placed before the Adjudicator. The Adjudicator in May 2003, recommended the rate of Rs 145 per sq. metre. This rate, *inter-alia*, included pro-rata allowances of Rs 15 per sq. metre towards compensation to the firm on account of loss sustained by it on mobilising men, material and machinery for doing the item of surface dressing. Based on the estimated quantity of 235000 sq. metre of MSS, the firm thus became entitled for a claim of Rs 35.25 lakh as compensation due to post contractual change in the nature and scope of work.

Thus the incorporation of an item of work which was not necessary and the failure of SE to address the problem in time resulted in estimated loss of Rs 35.25 lakh towards compensation payable to contractor. The work was completed by the firm in May 2003 and the final payment has not been made (April 2004).

Government stated (July 2004) that surface dressing originally proposed was more cost effective but on ground it was found unsuitable for Kerala conditions and that there was public protest against this item and hence changed to MSS. Thus this reply is an indirect admission that the original contract was not properly concluded. Government further stated that no extra expenditure was incurred due to the change of surface dressing to Mix Seal Surfacing. But the fact remains that had the problem been addressed in time and action taken to substitute the item, payment of the element of compensation @ Rs 15 per sq. metre included in the rate approved by the Adjudicator could have been avoided.

4.4.7 Erroneous preparation of estimates leading to extra expenditure

Post contractual reclassification of soil and execution of excess quantity of work entailed extra liability of Rs 2.76 crore.

Superintending Engineer, Roads and Bridges Circle, Aluva (SE), arranged (September 2002) the work of 'Improvements to Kanjar-Pullikkanam road' (Ch. km 3/500 to km 19/000) in Idukki district through a contractor for a contracted price of Rs 2.68 crore (0.3 per cent below estimate). The work

targeted to be completed in March 2005 is in progress. Audit scrutiny of the accounts of the work revealed the following:-

The contract included a provision for excavating 104400 cubic metre of earth in all classes of soil (except hard rock and medium rock requiring blasting) for widening the road way, easing gradient, etc. After commencement of work, the Executive Engineer (Roads Division, Painavu) re-estimated the quantity as 223115 cubic metre of which 111123 cubic metre of soil was classified as Medium rock.

The reason for increase in quantity of excavation was attributed to steepness of one side of road under improvement where widening by filling with earth was not practicable thereby demanding extra excavation on the other side. As regards re-classification of soil as medium rock, it was reasoned that it was an omission in the original estimate and that its presence was noticed only when excavation commenced. This argument is not acceptable as the categorisation of soil was done after detailed investigation and the admission of the department that there was omission in the reclassification of soil suggests carelessness in preparation of the estimate. Calculated with reference to the rates for excavation in all classes of soil (Rs 848 per 10 cubic metre) and in medium rock (Rs 1560 per 10 cubic metre) the reclassification of soil entailed an extra commitment of Rs 0.79 crore.

In respect of the item of work 'Blasting and removing hard rock' the excavation was estimated at 1200 cubic metre (Rs 0.03 crore). However, after commencement of the work the quantity was re-estimated as 26662 cubic metre (Rs 0.74 crore), an increase of 2122 *per cent* in the quantity, for which no valid reason had been indicated by the department. The extra expenditure on this account was Rs 0.71 crore.

In respect of the item of work of construction of retaining wall to protect sides of the road under improvement, the estimated cost of Dry Rubble Masonry work was Rs 0.07 crore (1168 cubic metre). After commencement of the work the cost of the item was re-estimated as Rs 1.33 crore (13418 cubic metre @ Rs 611 per cubic metre and 17311 cubic metre @ Rs 298 per cubic metre), an increase of 2531 *per cent* in quantity, on the ground that protective walls were needed at more places. This aspect could have very well been foreseen at the time of preparation of the estimate and as such there was no justifiable reason for a conclusion that protective walls were needed at more places after commencement of the work. The estimated avoidable liability on this account was Rs 1.26 crore.

Thus Government incurred an avoidable liability of Rs 2.76 crore in the execution of the above three components of the work due to erroneous preparation of estimates. Apart from this, post contractual reclassification of soil and increase of 2100-2500 *per cent* in quantities executed vitiated the entire tender process. Collusion of officers of the department with the contractor cannot be ruled out as the estimate of the work has been revised to Rs 8.07 crore from Rs 2.69 crore.

The matter was referred to Government in July 2004; reply has not been received (November 2004).

4.4.8 Failure to observe conditions governing tender and resultant avoidable expenditure

Though the circumstances demanded awarding the contract to second lowest bidder, it was not done leading to avoidable expenditure of Rs 1.47 crore.

Superintending Engineer, Buildings and Local Works Circle, Thrissur (SE) invited prequalification bids in March 1998 for arranging the construction of a building for Mini Civil Station at Irinjalakuda in Thrissur District. Four tenders were received from the selected panel of contractors. Though contractor 'A' who quoted a premium of 32.2 *per cent* was the lowest tenderer (accepted Probable Amount of Contract Rs 4.15 crore), Government decided (May 1999) to award the work to M/s. Kerala State Construction Corporation Limited (KSCC), a Government owned company, at their quoted premium of 39.8 *per cent* (accepted probable amount of contract - Rs 4.39 crore) on the ground that the company was entitled for price preference to the extent of 10 *per cent*. Accordingly SE issued selection notice to KSCC on 8 June 1999 with directions to execute an agreement within a week from the date of receipt of notice. KSCC, however, executed the agreement only after six months (December 1999), and commenced the work in January 2000. Even though the time specified in the agreement for completion of the work was 24 months, progress in construction work was very slow and the value of work done by KSCC was only Rs 12.51 lakh as of July 2002 (2.8 *per cent* of contract value). The SE, therefore, terminated (July 2002) the contract at the risk and cost of KSCC and rearranged (March 2003) the balance works through another contractor (incidentally contractor 'A') on competitive tender basis for a contract price of Rs 5.50 crore. The construction of building is targeted for completion in October 2005.

Conditions governing tender enjoin that successful tenderer shall execute agreement within 30 days from the date of acceptance of tender, failing which the work shall be awarded to the next lowest tenderer. Had this condition been followed, and contract awarded to 'A' at the quoted premium of 32.2 *per cent*, the estimated value of contract would have been only Rs 4.15 crore. The failure of the SE to invoke this condition resulted in an avoidable estimated expenditure of Rs 1.47 crore on this work besides the expenditure towards rent of offices occupied in rented buildings.

The Department also failed to assess the risk and cost liability of KSCC even after a lapse of 14 months of rearrangement of the work even though Government orders in force demanded fixation of risk and cost liability provisionally on the basis of estimates within one year from the date of termination of contract.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

4.4.9 Loss due to cost and time over run

Defective preparation of estimate led to cost over run of Rs 10.91 crore and time over run of four years.

Based on sanction accorded by Government of India (GOI) in March 1996 for an estimate of Rs 12 crore, the Superintending Engineer, NH South Circle, Thiruvananthapuram arranged works (estimated to cost Rs 9 crore) relating to construction of Thiruvananthapuram bypass (Ch:5600 m to 5750 m and 6119 m to 10617 m) through a contractor in December 1996. The contract price was Rs 9.35 crore and the construction was to be completed by 30 June 1999. On commencement of construction, it was noticed that the characteristics of sub soil were different from that reckoned for estimation purpose. Fresh soil studies were, therefore, arranged through M/s. Lal Bahadur Shastri Centre for Science and Technology, an autonomous body of Government. The consultant firm, in their study, suggested various remedial measures which included execution of additional cross drainage works providing vertical drain and horizontal drain using metal chips and needled coir fit. The Chief Engineer NH, Thiruvananthapuram, in October 2002, proposed to GOI, a revised estimate of Rs 24.99 crore which included, in addition to provisions suggested by the consultants, increased provision for junction improvement and provision for cost escalation. While approving (March 2003) the first revised estimate of Rs 22.91 crore, the Standing Finance Committee (GOI – MORTH) decided that action for fixing responsibility of the concerned State Government Officers involved on this project at the sanction stage should be taken by the State Government. But State Government has not taken any action against any official so far (June 2004).

The project to be completed in June 1999 could therefore be completed only in December 2003 i.e., after a lapse of more than four years. Audit scrutiny revealed the following points:

- (i) Project estimate was prepared without conducting proper soil study and underestimating quantities which led to re-estimation of project cost. Consequently there was inordinate delay in implementation and the project cost registered an increase of 91 *per cent*.
- (ii) While original estimate did not contain provision for payment of cost escalation, the revised estimate envisaged noticeably huge expenditure of Rs 1.17 crore towards escalation charges, which is attributable to the unprecedented time and cost over run.
- (iii) While approving the revised estimate, GOI rejected the provision for Agency charges on the ground that time and cost over run was primarily because of the poor preparation of the project by State PWD. This resulted in an estimated loss of Rs 0.99 crore to State Government.

While admitting that there was delay at various stages of implementation, Government stated in July 2004 that MORTH, State PWD and Railways are equally responsible for the delay in the execution resulting in cost and time over run.

4.4.10 Loss on account of delay in handing over site to the contractor

Lapse on the part of the Department in handing over site in time to the contractor and consequent post contractual increase in rates resulted in extra financial commitment of Rs 50.92 lakh.

In January 2000, Superintending Engineer (SE), Roads and Bridges, Thiruvananthapuram awarded the contract for the work 'Forming approaches to the Rail Under Bridge' at Varkala in Thiruvananthapuram district to a contractor for an accepted outlay of Rs 2.10 crore (1996 SOR). One of the conditions of the contract was that the work should be completed within six months from 31 December 1999 (date of selection notice). As the land required for forming approaches was not fully in the possession of the department, the site of work could be handed over partially in March 2000. The remaining portion of land (belonging to Kerala Water Authority, Health Department and land leased to a Hospital) was handed over to the contractor only in November 2001 by the Department. In the meantime, the contractor demanded (October 2001) enhancement in agreed rates for works done after the original time of completion.

Considering the contractor's demand Government Arbitration Committee adjudicated (January 2002) that there was lapse on the part of the department in handing over site in time to the contractor and recommended payment of originally quoted tender premium of 7.4 *per cent* over 1999 schedule of rates for works done after February 2001. Government accepted the recommendation in March 2002. Extra financial commitment to Government following the post contractual increase in rates was Rs 50.92 lakh.

According to the provisions of Kerala Public Works Department Manual, departmental officers, before inviting tenders for arranging works should ensure that there is ample provision of funds for the work in the budget and that in no case should tenders be invited before making sure that the land required will be ready for being handed over to the contractor or to start the work in time. Though Administrative sanction was accorded by Government in January 1998 and the tender was invited in August 1999 the land was completely handed over to the contractor only in November 2001, after a lapse of 17 months from the date of completion of the work originally fixed. Thus non-adherence of these provisions by SE resulted in extra liability of Rs 50.92 lakh to Government.

The matter was referred to Government in May 2004; reply has not been received (November 2004).

SOCIAL WELFARE DEPARTMENT**4.4.11 Unfruitful expenditure on purchase of computers**

Computers purchased in the Anganwadi centres at a cost of Rs 43 lakh remained unused due to non provision of electric connection and non-availability of software.

In October 2002, Government sanctioned Rs 55 lakh under Plan scheme to develop Anganwadi Centres as Community Resource Centres (CRCs). The

CRCs are meant for the overall physical, mental and social development of women and children by imparting life and health education through information technology. Government selected (March 2003) 50 Anganwadi Centres each from the backward districts of Palakkad and Malappuram for implementation of the scheme. The Director of Social Welfare (Director) placed (March 2003) orders with Kerala State Electronics Development Corporation Limited (KELTRON) for the supply of 100 Computers and furniture at a cost of Rs 43 lakh. KELTRON supplied the items to the Integrated Child Development Scheme Officers in the Palakkad and Malappuram Districts in May 2003 and the Department paid the entire amount in August 2003.

In Palakkad District, though the electrification works were completed by April 2004 electric connection was provided only in 10 centres and computers were installed in 4 centres. In Malappuram District out of 50 centres, 48 centres were provided with electrical fittings and only 22 centres were electrified and provided with computers. In respect of other 68 centres computers were not installed for want of electrification. Though the guarantee period of the computers had expired by March 2004, the computers could not be put to use in any of the centres as the Department did not take steps to purchase or to develop the required application software (July 2004).

The procurement of computers without making available the infrastructure facility has led to the idling of computers for the last one year. As the price of computers is gradually coming down consequent to reduction in taxes and duties, technological development, etc., the purchase of computers long before providing the infrastructure is a case of serious financial impropriety.

Thus the Scheme has failed to serve the intended purpose of converting the Anganwadi Centres into Community Resource Centres due to improper planning.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

WATER RESOURCES DEPARTMENT

4.4.12 Avoidable expenditure due to change in specification of pipes

The decision to change the specification of pipes while awarding the work resulted in an avoidable expenditure of Rs 66 lakh.

Kerala Water Authority (KWA) sanctioned (March 1996) a Rural Water Supply Scheme estimated to cost Rs 7.85 crore for supplying drinking water to Thirumarady and adjoining three villages with loan assistance from Life Insurance Corporation of India. In the detailed engineering report of the scheme, the gravity main* of length 10038 metres from ground level tank to sump was recommended to be laid with 200 mm Cast Iron (CI Class LA^s) pipes. The Superintending Engineer (SE), PH Circle, Muvattupuzha recommended (November 2000) the use of 200 mm Asbestos Cement (AC)

* Pipeline for transmission of clear water by gravitational pull

^s Lower than A

pipes of classes 10 to 20 which were available as surplus stock in four[#] other divisions of KWA instead of CI pipes, as AC pipes could be safely used for gravity main. It was also indicated in the proposal that by using AC pipes Rs 30 lakh could be saved on the project cost. The Chief Engineer (CE), Southern Region approved (January 2001) the proposal and directed to use 200 mm AC pipes of class 15 and above for this component. However, ignoring the direction of CE, the SE awarded (January 2002) the above work to two contractors for execution with 200 mm CI (Class LA) pipes on 'supplying and laying basis'. The work of laying gravity main was completed in February 2003 at a total cost of Rs 1.44 crore, of which the cost of 10,317 metres of CI pipes used was Rs 1.03 crore. As AC (Class 15) pipes could withstand a working pressure of 7.5 kg per cm² and the working pressure of the gravity main was only 6 kg per cm² the execution of work with CI pipes was avoidable.

Thus, the action of the SE in awarding the work of laying of gravity main with CI pipes instead of AC pipes, disregarding the direction of CE and his own earlier recommendation led to avoidable expenditure of Rs 66 lakh for which no responsibility has been fixed.

The matter was referred to Government in May 2004; reply has not been received (November 2004).

4.5 Idle investment/idle establishment/blockage of funds

GENERAL EDUCATION DEPARTMENT

4.5.1 Idle investment on buildings

Four staff quarters and one students' hostel costing Rs 58.29 lakh remained unoccupied for over four years.

Under centrally sponsored scheme of Teacher Education, Public Works Department constructed (September 1998) one students' hostel and four staff quarters for the District Institute for Education and Training (DIET) Kottarakkara at a cost of Rs 58.29 lakh. The buildings were handed over (October 1999) to the Principal, DIET, Kottarakkara without providing electric connection. The Principal remitted Rs 0.10 lakh to the Kerala State Electricity Board in March 2002 for electric connection.

Though electric connection was provided (June 2002) to one of the four quarters this was not occupied as its toilets, doors, etc., were damaged. Electric connection could not be provided to the remaining three quarters and hostel building as the wiring/fittings had been damaged by antisocial elements. Thus the quarters and hostel constructed at a cost of Rs 58.29 lakh remained unoccupied for over four years as of March 2004.

The matter was referred to Government in April 2004; reply has not been received (November 2004).

[#] PH Divisions at Pathanamthitta, Alappuzha, Edappal and WS Division, Attingal

FISHERIES DEPARTMENT

4.5.2 Non-implementation of a Scheme

Lethargic attitude of Matsyafed in implementing a scheme despite availability of funds resulted in non-achievement of the objective of uplifting the living conditions of fisherwomen.

Government of India (GOI) released an amount of Rs 45 lakh to the State Government during 1991-92 for implementation of a 50 per cent Centrally Sponsored Scheme of Trash Fish Project. Accordingly, the State Government released Rs 99.83 lakh (Rs 49.83 lakh in March 1995 and Rs 50 lakh in March 1996) to the Kerala State Co-operative Federation for Fisheries Development Limited (Matsyafed) for implementation of the Project. The project aimed at the production and marketing of value added products of trash fish* as a joint venture with private sector firms and thus to provide employment to 2500 women beneficiaries directly and three to four times of it indirectly. The scheme was to be implemented in five southern districts** of Kerala through 135 Vanitha Societies of Matsyafed. As the offers received from the private firms were not viable, the project was not implemented. Matsyafed could spend only Rs 0.57 lakh as of February 2004 and the balance amount was kept in TP Account in the District Treasury.

The Director of Fisheries directed (September 1998) Matsyafed either to implement the project or to refund the assistance received. Instead of refunding the amount Matsyafed submitted (June 2000) an alternative project costing Rs 1.50 crore which was not approved (July 2000) by GOI and Matsyafed was directed to refund the unutilised Central assistance. Though the State Government again directed (January 2001) Matsyafed to refund the Central assistance, they, however, did not make any refund. Matsyafed submitted another project in February 2004 for which sanction was accorded by Government on 27 March 2004. This project had not, however, been approved by GOI so far (June 2004).

The non-implementation of the project was brought to the notice of the Government as well as Matsyafed by Audit in May 2004 and Matsyafed stated (June 2004) that the amount was utilised by 31 March 2004. It was noticed that Matsyafed had only transferred Rs 16.50 lakh each to the five district offices and Rs 9.25 lakh to Matsyafed Ice and Freezing Plant, Kochi by the end of March 2004 while retaining the balance amount.

The lethargic attitude of Matsyafed in implementing the scheme resulted in non- achievement of the social objective of providing employment to 2500 fisher women and thereby uplifting their living conditions.

Managing Director, Matsyafed stated (August 2004) that 500 beneficiaries in 50 Self Help Groups were given training before 31 March 2004 and they had started production and marketing of value added products. Government endorsed (September 2004) the reply of the Managing Director. The reply is not acceptable for the following reasons:

* Low value fishes and seasonally abundant fishes.

** Thiruvananthapuram, Kollam, Alappuzha, Kottayam and Ernakulam

- (i) As per guidelines, the assistance was to be utilized for training establishing production centres with equipment and furniture, procurement of raw materials, marketing support etc. But the reply is silent on the details of physical achievement, number of production centres established etc. Component wise details of expenditure incurred were also not available with the Matsyafed.
- (ii) The original project approved by GOI and for which central assistance was released aimed at providing direct employment to 2500 fisherwomen whereas the scheme now stated to have been implemented would benefit only 500 fisherwomen.

GENERAL ADMINISTRATION (TOURISM) DEPARTMENT

4.5.3 Blockage of funds in an ill-conceived project

Failure of the Government initially to assess the viability of the project 'Guest House at Mumbai' led to abandonment of work midway resulting in blocking of funds of Rs 3.48 crore.

State Government decided (February 1997) to construct a Guest House at Mumbai for the Kerala Tourism Department to provide accommodation to Ministers, officials and people from Kerala visiting Mumbai. In October 1997 the department took possession of 2000 square metres of land at Vashi, New Mumbai on lease for 90 years from the City and Industrial Development Corporation, Mumbai by paying lease premium of Rs 1.29 crore for the land.

Based on the administrative sanction issued by Government (September 1998) for construction of the Guest House at a cost of Rs 7.27 crore, Kerala Public Works Department entrusted (November 1999) the construction of civil works of the building to a Mumbai based firm for Rs 2.96 crore. After spending Rs 1.62 crore for completing the structure, Government felt (February 2002) that further provision of funds would not be possible due to financial constraints and that the project would not be viable due to limited utility and huge recurring and non-recurring expenditure. As the lease deed prohibited sale of land or transfer of ownership Government decided to convert the project into a Joint Venture Concern (JVC) and ICICI Kinfra was appointed (May 2003) as a Consultant for finding a partner, which has not been done as of October 2004.

Though it was decided in February 2002 not to go ahead with the project, the work was terminated only in July 2003. The expenditure incurred on the project upto May 2004 was Rs 3.48 crore.

Failure of the Government initially to assess the viability of the project led to abandonment of work midway resulting in blocking of funds of Rs 3.48 crore.

Government stated (August 2004) that the Guest houses are not constructed as commercial projects. The reply of the Government is not convincing as Government itself decided (February 2002) not to go ahead with the project after it was found that the project was not at all viable due to limited utility.

Government added that the consultant ICICI Kinfra had submitted a draft bid document for inviting JVC partner.

INDUSTRIES DEPARTMENT

4.5.4 Blockage of funds in setting up of an Industrial Development Area

Government's inaction led to non acquisition of full extent of land required for an Industrial Development Area and the non-utilisation of even the acquired land resulted in blocking up of Rs 1.65 crore.

Government accorded sanction (June 1993) for setting up of a 200 acre (80.97 hectares) Industrial Development Area at Puzhakkalpadam in Thrissur district. Notification for acquisition of land was published (October 1994) under the Kerala Land Acquisition Act (Act). But as the declaration under Section 6 of the Act was not made before the expiry of one year from the date of issue of notification, the notification lapsed and Government had to issue the administrative sanction again in January 1998 for the purchase of land invoking urgency clause of the Act. The revised notifications were issued between July 1999 and July 2000.

District Industries Centre paid Rs 1.65 crore[♦] between February 1996 and October 2002 to the Special Tahsildar, Land Acquisition, (General) (LAO), Thrissur towards cost of the land and other incidental charges. Of this, Rs 1.02 crore was irregularly drawn before issuing the notification for acquisition of land. The LAO credited the entire amount under 8443-Civil Deposits. The acquisition of land was started in December 2001 and 20.81 hectares only were acquired at a cost of Rs 1.38 crore.

Even after ten years of sanctioning of the project only one fourth of the land required could be acquired and the acquired land has not yet been developed. Consequently the acquired land could not be allotted to the prospective entrepreneurs. The department stated (June 2004) that Government decided (December 2002) to drop further acquisition of land. This would indicate that the project was conceived without proper planning and a definite time schedule. The lackadaisical approach of the department and Government led to abnormal delay in setting up the Industrial Development Area and resulted in blocking up of Government money to the extent of Rs 1.65 crore.

The matter was referred to Government in May 2004; reply has not been received (November 2004).

4.5.5 Release of grants for a scheme without considering its viability

Failure to ensure viability of the project before releasing the assistance resulted in blocking of fund of Rupees one crore.

Government approved (January 2001) a project for establishment of a High Tech Coir Park at Perumon in Kollam District. The objective of the park was

[♦] February 1996 – Rs 0.25 lakh; March 1997 – Rs 101.32 lakh; October 2002 – Rs 63 lakh

to provide the environment and infrastructure required to promote high technology coir manufacturing, research, design, development and training establishment. The project envisaged setting up of six coir manufacturing units by Co-operative societies, dyeing unit, a unit for designing and manufacturing of coir machinery, testing and quality control unit and a Research and Development Centre at an investment of Rs 18.48 crore to be met from various sources. The project was to be implemented by the Centre for Development of Coir Technology (C-DOCT), a State autonomous body.

Government released (January 2001) Rupees one crore to C-DOCT for the project. However, C-DOCT deposited the entire amount of Rupees one crore in the current account of Indian Overseas Bank (IOB), Main Branch, Thiruvananthapuram upto 17 November 2002 and thereafter Rs 89 lakh was transferred to term deposits. C-DOCT had purchased (December 2001) only one Geo-textile making powerloom and accessories spending Rs 7.49 lakh which is lying idle as of May 2004.

C-DOCT stated (May 2004) that the Governing Body had since decided to establish a National Coir Research and Management Institute at Thiruvananthapuram and to maintain the unit at Perumon as a Training Institute and pilot project location. It was also opined that if the proposed High-Tech Coir Park was established as such, it would lead to the creation of another Public Sector Undertaking in coir and as per the policy of the Government this was not acceptable.

Government stated (September 2004) that they do not agree with the opinion of the Governing Body. Government added that steps for implementation of the High Tech Coir Park were initiated and building for Research and Training Institute for Coir Geo-textiles had been constructed with MPLAD fund and trial run of the powerloom purchased for coir Geo-textiles production had been conducted between January-December 2003. Government further stated that activities for the establishment of the proposed National Coir Research and Management Institute at Thiruvananthapuram were in progress. The reply of Government is not acceptable as none of the components of the High-tech Coir Park had been fully established even after three years of sanctioning the project and allotment of funds. Thus, Rupees one crore released to C-DOCT did not serve any purpose and resulted in unnecessary retention of funds outside Government account for more than three years, thereby entailing avoidable interest payment of approximately Rs 20 lakh* on the financing of working capital requirements of the Government.

REVENUE DEPARTMENT

4.5.6 Non-utilisation of River Management Fund

District Collectors did not undertake river bank protection works though Rs 37.65 crore was available in the River Management Fund.

River sand is an essential raw material for building construction. The indiscriminate and uncontrolled removal of sand from the rivers causes large

* Calculated at the bank rate of interest

scale river bank sliding and disturbs the biophysical environment system of the rivers in different degrees. To ensure protection of river banks, Government set up a River Management Fund in November 1998. Subsequently, Government enacted the Kerala Protection of River Banks and Regulation of Removal of Sand Act, 2001 (Act) and notified the related Rules in April 2002 (Rules).

According to the Rules, the corpus of the Fund consisted of fifty *per cent* of the amount collected by the Local Self Government Institutions through sale of sand, grants given by Government, donations or contributions from public or from non-governmental agencies, penalties imposed under the Act, etc. The District Collector (DC) was responsible for maintaining and operating the Fund. The District Expert Committee (DEC) with the approval of Government was to implement the River Bank Development Plan for establishing, co-ordinating and protecting river banks within the district.

During the period 1998 to 2003 (as of 31 December 2003) the amount of Rs 38.58 crore received by the 14 DCs were deposited in the Treasury Public (TP) Accounts. Out of this Rs 0.93 crore were spent by the 11 DCs towards fuel charges, hiring of speed boats, etc., and the balance of Rs 37.65 crore was retained in the TP accounts. Though Government approved the plan in four districts[@], the protection work was taken up only in Pathanamthitta district as of January 2004. In six districts[#] plans were pending approval by Government and in four districts[§] plans were under preparation.

Despite availability of funds DEC's under the Chairmanship of District Collectors failed to formulate and implement riverbank protection works even after a lapse of two years. Government also failed to monitor and ensure timely utilisation of the funds collected for the intended purpose. Considering the serious deterioration caused to river banks and biophysical environment system of rivers, Government need to set up an effective internal control mechanism to monitor implementation of such schemes meant to prevent ecological disasters.

The matter was referred to Government in April 2004; reply has not been received (November 2004).

WATER RESOURCES DEPARTMENT

4.5.7 Delay in commissioning of a Water Supply Scheme.

Selection of water source without ensuring its availability resulted in non-commissioning of a water supply scheme on which Rs 2.01 crore had been spent.

Managing Director (MD), Kerala Water Authority (KWA) sanctioned (December 1995) a comprehensive rural water supply scheme under the Centrally Sponsored Accelerated Rural Water Supply Programme for providing drinking water to Thekkumkara and three adjoining water problem

[@] Kottayam, Wayanad, Pathanamthitta and Malappuram

[#] Kollam, Alappuzha, Ernakulam, Thrissur, Palakkad and Kozhikode

[§] Thiruvananthapuram, Idukki, Kasaragod and Kannur

villages in Thrissur District at an estimated cost of Rs 3.25 crore. The scheme comprising of eight components was to be commissioned in December 1998. According to the detailed engineering report prepared by the Chief Engineer, KWA about 1.69 mld* of water was proposed to be tapped from the reservoir of Vazhani Dam in Thrissur District, managed by Irrigation Department, through a control system to be installed at the dam and through a water channel and a sump to be constructed at the dam site. KWA requested (July 1997) Irrigation Department to hand over 25 cents of land for construction of sump and a water channel at the dam site for completion of intake arrangements. Irrigation Department, however, denied (September 1997) permission to tap water for the scheme from the reservoir due to insufficiency of water and informed KWA that Government had already directed (June 1994) not to transfer land belonging to Irrigation Department to other departments. KWA decided only in December 2002 i.e., after a lapse of five years to construct an alternative source in the down stream of the dam, for which sanction of Government was not obtained as of February 2004. Pending finalisation of source, other components of the scheme constructed at a cost of Rs 2.01 crore as of November 2003 could not be put to use.

The failure of the Chief Engineer, KWA to ensure the availability of source while formulating the project proposals and also the failure of Managing Director to identify an alternative source had resulted in the non-completion of the scheme even after 8 years of its sanction thereby depriving the facility of drinking water to the people in the problem villages.

The matter was referred to Government in July 2004; the reply has not been received (November 2004).

4.5.8 Inordinate delay in completion of a Rural Water Supply Scheme

Failure of Kerala Water Authority to monitor the execution of work resulted in non completion of a scheme sanctioned 20 years ago and expenditure of Rs 1.25 crore remained unproductive.

Government sanctioned (December 1983) a Rural Water Supply Scheme to benefit a population of 25,000 in Thelliyoor, Valakuzhy and Ezhumattoor in Alappuzha District at an estimated cost of Rs 73.18 lakh. Kerala Water Authority (KWA) awarded works relating to the six[#] components of the scheme to a contractor (first contractor) in March 1984 at a cost of Rs 5.90 lakh and the work of laying distribution system to another contractor (second contractor) in August 1984 at a cost of Rs 8.19 lakh. The scheme scheduled to be completed in December 1986 could not be completed and commissioned as of September 2004 even after incurring an expenditure of Rs 1.25 crore as detailed below:

The first contractor executed only a small portion of the work awarded to him and did not undertake the construction of well-cum-pumphouse, as the revised design of the well to increase the diameter from 6 metre (original proposal) to

* mld – million litres per day

[#] Construction of well cum pump house, infiltration gallery, pumping main, booster pumphouse and sump, ground level tanks and retaining wall.

9 metre was not made available. Due to the delay in execution of the works the SE, PH circle, Kottayam relieved (December 1988) the contractor from executing these works but allowed (January 1990) the contractor to complete the construction of booster pump house, sump and one ground level tank which were completed in July 1991.

The agreement with the second contractor was also terminated in April 1992 as he had laid only 45186 metres out of 53528 metres of pipes issued to him. Though the contract was terminated in April 1992 KWA did not recover the amount of Rs 19.80 lakh being the value of materials not returned by the contractor for which revenue recovery proceedings was initiated only in September 2001. The amount had not been recovered so far (September 2004).

Although the balance works of the scheme viz., laying of pump main, construction of one GL tank, laying gravity main, erection of pump sets and balance work of distribution system remained at a standstill since January 1992, only the construction of a 6 metre diameter well cum pump house was awarded to another contractor in January 2001 which was completed in May 2003 at a cost of Rs 45.06 lakh. The remaining works of the scheme for which an amount of Rs 1.35 crore was required were not re-arranged as of September 2004.

Though the delay in making available the revised design of the proposed well from 6 metre to 9 metre diameter was the main reason for the delay in work it was noticed in audit that the well constructed after 19 years was of 6 metre diameter as originally proposed and the cost incurred was Rs 45.06 lakh as against the estimated cost of Rs 2 lakh in 1984.

The Executive Engineer, PH Division, Thiruvalla stated (August 2004) that due to paucity of funds it had been decided (June 2004) to recast the estimate for balance works by limiting the distribution system and complete the works by December 2005.

Thus, failure of SE, KWA, Kottayam in arranging the works and KWA to monitor the progress of execution of work led to the non-completion of a scheme intended to benefit a population of 25000 and their aspirations of safe drinking water remained unfulfilled even after 20 years of its commencement. It is suggested that Government may investigate the matter and take action against the persons responsible for the lapse.

The matter was referred to Government in July 2004; reply has not been received (November 2004).

4.5.9 Non-commissioning of a Water Supply Scheme due to purchase of poor quality pipes for its gravity main

Purchase of defective pipes delayed the completion of a scheme on which Rs 14.38 crore had been spent thereby depriving the population from supply of safe drinking water.

The comprehensive Water Supply Scheme to Varkala Municipality and adjoining villages envisaged supply 18.70 million litres per day (mld) of drinking water (ultimate demand) to 2.47 lakh population in the municipality

and in seven adjoining villages where the shortage of drinking water was such that in the Municipality against the demand of 6 mld of water only 0.5 mld (8 per cent of the demand) was being distributed. Government sanctioned (March 1993) part of the scheme for supplying water to the municipal area (9.75 mld) at an estimated cost of Rs 8.25 crore to be commissioned in December 1997. In March 2000 Government sanctioned the remaining part of the scheme for the rural area (8.95 mld) at an estimated cost of Rs 9.06 crore under Centrally Sponsored Accelerated Rural Water Supply Scheme to be commissioned in March 2003. Source, Treatment Plant, Pumping Main, Gravity Main, Sumps, Service Reservoirs and Distribution Network were to be established, of which the first four components were common to both parts of the scheme. Kerala Water Authority (KWA) availed a loan of Rs 6.59 crore from HUDCO (Rs 5.59 crore in March 1999 and Rupees one crore in March 2001) for implementation of the scheme.

In September 1995, KWA placed orders with a firm for supply of 6490 metres of 600 mm class 10 AC pipes required for the scheme. During inspection (June 1996) of pipes at the premises of the firm, the agency authorised by KWA detected inherent defects in the pipes. Though this fact was brought to the notice of the Chief Engineer, Planning, Services and General (CE) of KWA, the matter was not taken up with the firm. The pipes supplied (6487 metres) by the firm during May-August 1996 were, however, accepted by KWA and Rs 1.05 crore was paid in October 1996.

The work of laying gravity main* was awarded to a contractor in May 1997 with the completion date as 29 November 1997. The contractor could, however, start the work only in March 1998 and the time of completion was extended up to 30 March 1999 by the Managing Director, KWA. The contractor laid pipes for a length of 1697 metres till June 1998. During pressure tests conducted (June 1998), a total length of 1489 metres of pipes could not withstand the required test pressure of 7.5 kg/cm², of which 520 metres could not withstand even the test pressure of 4.5 kg/cm². On reporting the matter to the supplier firm, it arranged (December 1998) testing of pipes and found that 45 per cent of pipes were defective due to peeling of shell layers in the edges. Hence they shortened the length of each pipe by 10 to 30 cm which was not in conformity with the standard of maximum tolerance on the nominal length of 40 mm of each pipe as prescribed by Bureau of Indian Standards. KWA, however, allowed these defective pipes to be laid for a length of 5150 metres by incurring an expenditure of Rs 20.54 lakh as of July 2000. Laying of pipes was held up thereafter and the work was resumed in January 2003 only. Although the components of the scheme for the supply of 9.75 mld of water to the municipal area were completed, supply of water had not commenced (July 2004) pending completion of rectification of leak of pipes. The remaining works of construction of one sump, six service reservoirs and distribution system of the scheme to supply 8.95 mld of water to seven villages had not commenced (July 2004) even though they were to be commissioned by March 2003.

The action of the Chief Engineer in accepting defective pipes delayed the commissioning of the scheme by more than six years and the expenditure of

* Pipeline for transmission of clear water by gravitational pull

Rs 14.38 crore incurred on it remained unproductive. Further, as the gravity main was common to both portions of the scheme intended to distribute 18.70 mld of water to the municipal and rural areas, the capacity of the pipes to withstand the pressure when both the portions of the scheme are commissioned is doubtful.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

4.6 Delays in commissioning equipment

AGRICULTURE DEPARTMENT

4.6.1 Delay in implementation of a scheme for providing Copra Dryers

A scheme for providing Copra Dryers was sanctioned by Government without proper study necessitating revision of scheme on several occasions and delaying its implementation.

Under the special package of relief measures for agricultural sector, Government sanctioned (March 2002) the scheme for providing seed money assistance for purchase of copra dryers* of capacity 10000 to 30000 nuts a day by Service Co-operative Banks. An amount of Rs 11 crore was earmarked for providing 220 dryers at the rate of Rs 5 lakh or 25 per cent of the cost of the dryer whichever is less. Government provided Rs 9.40 crore through Supplementary Grant in February 2003 for the scheme.

In March 2003 Government modified the scheme mainly to provide assistance of Rs 0.75 lakh to selected women self help groups for purchasing 220 dryers of capacity of upto 5000 nuts a day. Though the outlay was thus reduced to Rs 1.65 crore, the Director drew Rs 9.40 crore provided in the Supplementary Grant on the last day of the financial year (31 March 2003) and deposited it in a Treasury Savings Bank (TSB) Account. Four months later in July 2003 Government again modified the scheme by reducing the number of dryers to 150* and decided to meet the cost of shed and 20 per cent of working capital in addition to the cost of dryers thereby limiting the Government contribution to Rs 1.37# crore. Government again modified the scheme in December 2003 enhancing the working capital to each unit to Rs 0.20 lakh thus increasing the total commitment to Rs 1.63 crore.

The Kerala Agro Industries Corporation Limited (KAICO), a Government Company, was the implementing agency and the project was to be completed by July 2003. As per Government order the cost was to be released to KAICO only after commissioning of the dryers. However, Rs 50 lakh each was paid as advance in August 2003 and March 2004. KAICO commissioned only one dryer as of March 2004.

It was further noticed that Government sanctioned (October 2003) drawal of Rupees three crore from the balance available in the TSB Account of the

* Equipment for drying coconut

* Dryers of 5000 nuts capacity – 30 numbers, 3000 nuts capacity – 40 numbers, 2000 nuts capacity – 80 numbers

cost of 150 dryers : Rs 80.50 lakh, cost of 150 sheds : Rs 52.50 lakh, working capital : Rs 4.30 lakh

scheme for making payments under an entirely different scheme of Paddy Procurement on the plea that budget provision was exhausted, savings could not be located and funds were urgently required. Thus the balance left in the TSB Account as on 31 March 2004 was Rs 5.40 crore.

This reveals serious discrepancies and gross violation of financial rules as indicated below:

- The scheme was sanctioned without any proper study of requirements or practicability of the proposals necessitating four revisions of the scheme of which two of these were after the drawal of funds.
- Though the outlay of the scheme was reduced to Rs 1.65 crore in March 2003 and the Director was aware of this fact, he drew the entire supplementary provision of Rs 9.40 crore and lodged it in TSB account mainly to avoid lapsing of provision.
- The pace of implementation of the scheme was very slow due to frequent modification and thus only one out of 150 targeted dryers could be set up even after payment of advance of Rs 1.00 crore to the implementing agency.
- Government committed gross violation of principles of budgetary control by sanctioning drawal of unrequired funds for another budgetted scheme instead of refunding the funds.
- The diversion of Rupees three crore to another scheme vitiated the accounts and resulted in inflating the expenditure on the original scheme and thus expenditure was without the approval of the Legislature.

Thus the department failed to achieve the main objectives envisaged in the scheme.

The matter was referred to Government in May 2004; reply has not been received (November 2004).

4.7 Regularity issues and other points

FISHERIES AND PORTS DEPARTMENT

4.7.1 Delay in receipt of Central assistance on a scheme

Non-adoption of revised pattern for the saving-cum-relief scheme for marine fishermen during 2000-01 resulted in delay in receipt of Central assistance of Rs 1.91 crore and avoidable liability of Rs 3.82 crore.

Saving-cum-relief scheme was introduced for marine fishermen in the State from 1991-92. The scheme provided for collection of Rs 360 from fishermen at the rate of Rs 45 per month during eight months from July to February and payment of Rs 1080 in four equal instalments during the lean fishing season from March to June. The share of the State Government and Government of India (GOI) was fixed as Rs 360 each. In July 2000, GOI modified the scheme commencing from April 2000 onwards by enhancing the beneficiary contribution to Rs 600 for eight months and reducing contributions of State

Government and GOI to 50 *per cent* each of the beneficiary contribution for distribution of Rs 1200 to the fishermen during the lean months. State Government did not implement the modified scheme from 2000-01 though orders from GOI were received in August 2000 and collected Rs 3.82 crore from 107127 fishermen as per old pattern and paid Rs 7.64 crore as contribution of State Government and GOI.

GOI clarified (November 2000) that if the modified scheme was not implemented from April 2000 onwards, Central assistance would be released at the rate of 50 *per cent* of amount collected from the beneficiaries. But the State Government did not forward any proposal to GOI to claim the admissible central assistance of Rs 1.91 crore based on the clarification issued. Director of Fisheries sought (September 2002) administrative approval for the scheme in the old pattern despite specific instruction (July 2000) by GOI that no request for *ex post facto* sanction would be entertained. On a reference, GOI intimated Audit (April 2004) that *ex post facto* approval on the basis of old funding pattern was not permissible as per the guidelines of the scheme.

State Government did not receive Central assistance of Rs 1.91 crore for 2000-01 due to the failure of the Fisheries Department to prefer the claim within the stipulated period. In addition to this, the State Government had to incur an extra liability of Rs 3.82 crore because of implementation of the scheme in the old pattern during 2000-01.

Government stated (January 2004) that it was difficult to collect the enhanced rates as prescribed by GOI from the beneficiaries as collection of contribution according to the old pattern had begun (July 2000) well before the receipt of the new guidelines (August 2000) and a sudden reduction in matching contribution might have caused much 'hue and cry' among them. This contention of Government is not tenable as Government conveyed approval for implementation of the scheme in the revised pattern for 2001-02 only in October 2001 after commencement of collection in July 2001 and this issue was not raised at that time.

Government intimated in July 2004 that the claim was preferred in March 2004 based on assurance received (August 2003) from GOI that assistance would be released on receipt of claim in the revised pattern from State Government. However, the central assistance has not been received so far (September 2004).

GENERAL EDUCATION DEPARTMENT

4.7.2 Diversion of funds received from Government for implementation of specific programme

Diversion of Rupees two crore received from Government for implementation of modernisation of Printing Technology course in Vocational Higher Secondary Schools.

Government sanctioned (March 2003) Rupees two crore for the project 'Modernisation of Printing Technology Course' offered by Government Vocational Higher Secondary Schools based on the proposal submitted by the

Director, Vocational Higher Secondary Education (VHSE). Kerala State Audio Visual and Reprographic Centre (KSAVRC), a State autonomous body, was the implementing agency. The funds were transfer credited on 31 March 2003 to the Treasury Public Account (TP Account) of the implementing agency.

The Director, VHSE had stipulated (April 2003) that KSAVRC should get his prior approval for the specification of machinery and equipment and these were to be procured only after complying with tender formalities. The work was to be completed before July 2003 so as to commence the practical training in the schools in the academic year 2003-04. KSAVRC was also to identify the availability of the buildings in the schools before-hand for installation of the equipment. Though KSAVRC stated that tenders were invited in July 2003, nothing had materialised so far (May 2004). A technical committee was constituted by Government only in May 2004 for implementation of the scheme.

Meanwhile, the amount deposited in the Treasury Public Account was withdrawn by the Commissioner, Employees Provident Fund (EPF), Thiruvananthapuram in May and July 2003 towards dues payable by KSAVRC. Though KSAVRC stated (November 2003) that the funds required would be generated from its own sources, they could not locate the funds for implementing the VHSE scheme so far (August 2004).

The severe financial crisis of the implementing agency thus derailed the modernisation project as funds provided for were diverted to pay off statutory dues. Thus, the objective of imparting training on modern printing technology techniques to the students in Vocational Higher Secondary Schools from 2003-04 academic year could not be achieved inspite of release of Rs 2 crore by Government.

Government stated (June 2004) that EPF arrears had accumulated due to the mismanagement of the former management of KSAVRC and it was not possible to implement the project without getting the fund back from the Commissioner, EPF. The reply of Government is not acceptable as the Commissioner, EPF had withdrawn the amount from the TP Account of KSAVRC towards arrears of EPF dues from January 2001 and there was no scope for getting refund of the amount. Therefore, it can be inferred that the Government was not interested in implementing the project in the VHSE Schools. Further, Government reply is silent on why the funds for implementing a project in VHSE Schools were released to an autonomous body in a difficult financial situation.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.7.3 Non-payment of assistance meant for poor patients

The Superintendent failed to pay the amounts received even before 1996 from various Government and other agencies for partially meeting the cost of treatment of poor patients.

Superintendent, Medical College Hospital, Thiruvananthapuram operates a current account in a Nationalised Bank for crediting amounts received from

various agencies for partially meeting the cost of treatment of economically poor patients, pending disbursement to the beneficiaries. As per records Rs 1.27 crore remained undisbursed in the Bank account as on 31 December 2003. Of this Rs 1.24 crore[∞] received from various agencies from 1996 to 2003 was payable to 450 patients. The balance amount related to periods prior to 1996 for which proper records were not available. The assistance sanctioned ranged from Rs 1 lakh to Rs 2.26 lakh in 13 cases, Rs 0.50 lakh to Rs 0.99 lakh in 89 cases, Rs 0.10 lakh to Rs 0.49 lakh in 286 cases and below Rs 0.10 lakh in 62 cases. In reply to an enquiry, the Superintendent stated (March 2004) that the disbursement could not be made since the patients had not approached them for financial assistance. The Superintendent, however, was unable to explain why the patients of the hospital, belonging to economically poor sections of society, after producing various certificates and other documents required for obtaining the assistance did not turn-up to receive the amounts after the cheques for assistance were received in the hospital. He also did not make any attempt to release the payment even though the details of the patients were available with him. It was also seen that against the undisbursed balance of Rs 1.27 crore as per the records of the hospital the bank pass book showed only a balance of Rs 1.05 crore as on 31 December 2003 and therefore the possibility of misappropriation/defalcation of funds could not be ruled out. This reveals:-

- Failure of the Superintendent to take effective action to disburse the assistance to the beneficiaries who were the patients of the hospital.
- Failure of the financing agencies to ensure that assistance sanctioned by them was actually disbursed in time and unpaid amounts were refunded by the hospital.
- Failure of the Superintendent to maintain proper accounts of the receipts and disbursement and to reconcile the Departmental balance and Bank balance.

As a result of the administrative apathy and weak internal controls, funds intended for extending relief to poor patients for partially defraying the cost of treatment, although have reached the hospital, did not reach the beneficiaries.

It is recommended that Government may set up an effective control mechanism involving the hospital and financing agencies to ensure the timely disbursement of assistance. Government also need to enquire into the various lapses in the maintenance of accounts in the hospital and also investigate why the patients did not approach the hospital for receiving assistance as claimed by Superintendent.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

[∞] Prime Minister's Relief Fund (Rs 29.98 lakh), Society for medical assistance to the poor (Director of Health Services) (Rs 59.15 lakh), Director of Insurance Medical Services (Rs 31.74 lakh), Scheduled Caste Development Department (Rs 1.68 lakh), Charitable Trust, Individuals (Rs 1.45 lakh)

4.7.4 Retention of surplus staff**Failure of Government to redeploy 417 surplus vertical staff in the National Leprosy Eradication Programme led to payment of idle wages of Rs 11.79 crore.**

Consequent on the declining trend in the prevalence rate of Leprosy, Government of India (GOI) decided to integrate the National Leprosy Eradication Programme (NLEP), with General Health Services (GHS) of the State. Accordingly, first phase of the NLEP came to an end in September 2000 and phase II of the NLEP with less funds and reduced staff commenced for a period of three years from 01 October 2000 which was extended upto 31 December 2004. GOI agreed in principle for retaining State unit, District units, Urban Centres and one Non-Medical Supervisor/Senior Para-Medical worker at each Community Health Centre and Block Primary Health Centre in rural areas. As a result, there were 618 surplus staff as of October 2000. GOI expected (July 2003) to reduce the regular vertical leprosy staff by 75 per cent by March 2003 by absorbing them within the General Health Care system.

At the instance of Government, the Director of Health Services submitted (April 2004) proposals to Government to retain 82 personnel (79 vertical staff and 3 general staff) in the NLEP consequent on reduction in the prevalence rate of leprosy to less than 1 per 10,000 population by 2000-01. Director also proposed to absorb the 201 surplus staff working in the general wing, in the Health Department and to integrate the remaining 417 vertical leprosy staff with the Technical staff against vacant/arising posts in the General Health wing. However, Government had not issued any orders to integrate the services of vertical staff as of August 2004.

Delay in integration of surplus vertical staff of leprosy with General Health Services even after three years of winding up of Phase I of World Bank assisted NLEP resulted in retention of these staff without any work to perform. The consequential payment of idle wages to the 417 vertical staff for the period from October 2000 to March 2004 was Rs 11.79 crore.

Government stated (September 2004) that 417 vertical staff were continuously working in the ongoing leprosy Programme and additional responsibilities related to National Health Programmes were given to them from time to time. The reply of the Government is not acceptable as the implementation of NLEP Phase II required only 82 staff and Government could have redeployed the excess staff in the available/arising vacancies of General Health Wing.

HIGHER EDUCATION DEPARTMENT

4.7.5 Inefficient management in execution of civil works

Failure of the University in monitoring the progress of civil works and to enforce the conditions of contract led to time and cost overrun apart from the blocking of (Rs 2.03 crore) the scarce resources of the University.

The civil works of the University of Kerala are executed by the Engineering Wing of the University. Scrutiny (November 2003) of eight works (PAC - Rs 4.03 crore) undertaken by the University during the period from July 1990 to April 1998 revealed mis-management of works evidenced by non-completion, partial completion, failure to terminate or rearrange the abandoned works at the risk and cost of the original contractor, etc. Details of four works with a PAC of Rs 3.31 crore remaining incomplete even after spending Rs 3.59 crore as of May 2004 (though scheduled dates of completion of the works were between July 1992 and July 1999) are discussed below.

(i) The work of construction of the prestigious Golden Jubilee Complex comprising of a Jubilee Hall, Academic Staff College and Centre for Special Education awarded (June 1990) to a contractor to be completed by July 1992 for an agreed amount of Rs 2.03 crore could not be completed even as of May 2004. The first contractor completed only the Jubilee Hall by December 1996 incurring an expenditure of Rs 1.56 crore including an enhancement of Rs 19.45 lakh awarded in April 1995. The work of other two blocks were rearranged and awarded to a second contractor for the same contract amount. As the works dragged on, inspite of awarding two arbitration awards involving enhancement in rates amounting to Rs 60.99 lakh, the contract was terminated (September 2002) and the work of Block II was awarded (October 2002) to a third contractor. However, the second contractor was allowed to complete the balance works of block III. The works have not been completed. Though an expenditure of Rs 2.89 crore had been incurred against the agreed rate of Rs 2.03 crore, the construction of Golden Jubilee Complex taken up to commemorate the Golden Jubilee of the University remained incomplete even after a decade.

(ii) The work of construction of the Women's Hostel Block III was awarded to a contractor in April 1998 for an agreed amount of Rs 61.50 lakh. Though five years had elapsed from the stipulated date of completion (November 1998) only structure of the three storied building was completed incurring an expenditure of Rs 25.01 lakh and the work was in an abandoned stage (December 2003). Due to non-completion of the work UGC assistance of Rs 8 lakh was lost.

(iii) Similarly, construction of Golden Jubilee Library building entrusted to a contractor in December 1997 for a contract amount of Rs 43.43 lakh to be completed by November 1998 had not been completed though the time of completion was extended upto December 2002. The expenditure incurred aggregated to Rs 24.03 lakh.

(iv) Kerala State Nirmithi Kendra was entrusted (March 1997) with the work of construction of Bio-technology building at an estimated cost of

Rs 23.06 lakh with stipulated date of completion as July 1999. After incurring an expenditure of Rs 20.74 lakh, the work was at a standstill from June 2001. No action had been taken by University for completion of the work.

No specific reasons were adduced by the University for the inordinate delay in completion of the works. Failure of the University to monitor the progress of works despite having a full fledged Engineering wing cannot be justified and the undue delay in completing the works rendered blocking of (Rs 2.03 crore) scarce resources of the University, apart from denying the benefits to the students. Besides, the action of the University in granting repeated enhancement in rates and extension of time as demanded by the contractors and its inaction in enforcing the conditions stipulated in the contract also indicated absence of due professional care in safeguarding the financial interests of the University.

The matter was referred to Government in August 2004; reply has not been received (November 2004).

4.7.6 Inordinate delay in publication of Malayalam Encyclopaedia

Out of 20 volumes of Malayalam encyclopaedia only 12 volumes could be published so far even after three decades of the publication of the first volume suggesting poor governance by the Board/Government.

State Institute of Encyclopaedic Publications, Kerala (Society) was constituted by Government in May 1976 by converting the erstwhile Malayalam Encyclopaedia Department into a society registered under the Travancore Cochin Literary, Scientific and Charitable Societies Act, 1955. The aim of the Institute was to publish encyclopaedia in Malayalam and similar other publications in Malayalam. The Institute having a staff strength of 63 is financed by grants from Government and an expenditure of Rupees one crore is being incurred annually by the Institute.

Mention was made in paragraph 7.3 of the Report of the Comptroller and Auditor General of India for the year 1983-84 (Civil) about certain serious deficiencies in the functioning of the Institute and its unsatisfactory performance in bringing out only seven of the 20 volumes of the encyclopaedia. The Public Accounts Committee (1984-86) in its 106th Report severely criticised (March 1986) the functioning of the Institute and urged that a time schedule be drawn up to bring out the remaining 13 volumes. A scrutiny conducted (October 2003) revealed that there was no improvement in the functioning of the Institute.

- No time-frame had been drawn up by the Institute for publishing the remaining volumes. Only five more volumes of Malayalam encyclopaedia were published in a span of 20 years.
- During this period four out of the 10 volumes of Encyclopaedia of World Literature were also published. A complete set of encyclopaedia in Malayalam language could not be made available even after three decades of the publication of the first volume by the former Malayalam Encyclopaedia Department.

- Though the Board of Trustees of the Institute was to meet once in four months and also approve the programme of work for each year and the annual Budget to be submitted to Government, the Board did not meet regularly; the last meeting of the Board was held in November 2001.
- The report to be submitted to the Government by the Board within six months after the close of each financial year on the working of the Institute was also not being prepared by the Institute.
- The Institute supplied copies of the encyclopaedia to educational institutions, libraries etc. on credit basis. An amount of Rs 26.28 lakh was awaiting collection from them which included amounts relating to the period from 1977 which indicated that the Institute had not taken adequate steps to realise the amounts due.

The above facts suggest poor governance of the Institute by the Board/Government. It is recommended that the Government may review urgently the progress of work made by the Institute and take necessary steps to bring out the remaining volumes within a limited time frame.

Government stated (September 2004) that a master plan had been chalked out to bring out the remaining volumes within four years.

REVENUE DEPARTMENT

4.7.7 Inordinate delay in preparation of Kerala Land Revenue Manual

Failure of Government in prescribing a definite time frame for preparation of Kerala Land Revenue Manual resulted in non-publication of the Manual even after six years.

Consequent on the abolition of the Board of Revenue, Government created (June 1998) a temporary ex-cadre post of Special Officer and five* temporary posts (November 1998) for the preparation of Kerala Land Revenue Manual (Manual). One officer of the Indian Administrative Service assumed charge of the post of Special Officer in July 1998 and he was of the view that the Manual could be prepared within a period of six months of posting of additional staff.

The Special Officer requested (August 1998) Government to specify the time limit, issue guidelines for the preparation of the Manual and also post additional staff requested for early completion of the Manual. Consequently five other staff joined duty on various dates in 1999. The Government has, however, neither issued the guidelines nor fixed any time limit for the preparation of the Manual as of May 2004. Upto June 2004 Government had ordered continuance of the post of Special Officer six times and other posts two times and the present sanction for continuance of posts expires by June 2004/September 2004 respectively. An amount of Rs 70.56 lakh* has so far been incurred towards pay and allowances of the Special Officer and staff as of May 2004.

* Deputy Collector, Special Tahsildar, Junior Superintendent, Upper Division Clerk and Peon

* Based on average monthly expenditure of Rs 0.98 lakh for six years

The Special Officer submitted the first volume in December 1999 and second volume in June 2002 to Government. The drafts of the Manual sent by Government to the Commissioner of Land Revenue (Commissioner) for his remarks have not been received back (May 2004). The Special Officer reported (June 2004) that the preparation of third and fourth volumes were in progress.

Though the Government had stated (September 2003) that it was decided to dispense with the present arrangement of Special Officer for preparation of the Manual and to entrust the Commissioner with the balance work to be completed within six months, nothing has materialised (June 2004).

There was abnormal delay in preparation of the manual. The work which was assessed to require six months for completion could not be completed even after six years. Therefore the expenditure of Rs 70.56 lakh incurred so far was unjustifiable.

SOCIAL WELFARE DEPARTMENT

4.7.8 Delay in implementation of World Bank assisted Scheme

A World Bank assisted scheme intended to ensure supply of safe drinking water in 800 Anganwadi Centres was implemented partially.

State Government sanctioned (September 2001 and October 2002) a scheme for installing hand pumps/construction of well/provision of pipe connection for 800 Anganwadi Centres (AWCs). This was a component of World Bank assisted Integrated Child Development Services - III Project under which each AWC was entitled to receive Rs 0.40 lakh to ensure supply of safe drinking water to the children. State Government entrusted the scheme to Local Self Government Institutions (LSGIs), on condition that the works would be completed within one month of the receipt of funds.

Between March 2002 and March 2003 Child Development Project Officers (CDPOs) released Rs 2.70 crore to LSGIs for implementing the scheme in 764 AWCs. Audit scrutiny revealed that as of March 2004 LSGIs completed the work only in 304 AWCs (cost : Rs 1.22 crore). Funds provided for eight AWCs were surrendered (Rs 0.03 crore) and works were just started in 151 AWCs. In 301 AWCs, LSGIs did not start the work due to restriction in operation of PD accounts, non-sanction of estimates, delay in finalisation of tenders, etc. Thus out of the unspent balance of Rs 1.48 crore, LSGIs retained Rs 1.45 crore for periods ranging from one to two years.

Though the works were to be completed within one month, only 40 per cent of the AWCs implemented the scheme despite advance release of funds.

Thus the priority given by the Government/LSGIs in the implementation of a very important social welfare scheme was inadequate. This resulted in denying the benefit of safe drinking water to a large segment of the poor children.

It is suggested that Government may set up a machinery at appropriate level to monitor progress of such welfare scheme to avoid undue delay in its

implementation.

The matter was referred to Government in June 2004; reply has not been received (November 2004).

GENERAL

4.7.9 Lack of responsiveness of Government to Audit

The Accountant General (Audit) arranges to conduct periodical inspection of the Government departments to test check the 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) to the Heads of Offices inspected with a copy to the next higher authorities. The provisions of Article 63 (C) of Kerala Financial Code and instructions* issued by Government provide for prompt response by the Executive to the IRs to ensure rectificatory action and accountability for the deficiencies, lapses etc. The Heads of offices and next higher authorities are required to report their compliance to the Accountant General within four weeks of receipt of IRs. A half yearly report of pending IRs is sent to the Secretary of the concerned department to facilitate monitoring of the pending IRs.

At the end of June 2004, 10962 IRs and 40888 paragraphs issued upto December 2003 were outstanding for settlement. The year-wise breakup of these IRs is given below:-

Year	Number of IRs	Number of Paragraphs
Upto 1999-2000	3886	10396
2000-01	1232	3875
2001-02	1608	8014
2002-03	2118	8783
2003-04	2118	9820
Total	10962	40888

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

A review of the outstanding IRs pertaining to Industries Department and Insurance Medical Services Department revealed that 504 paragraphs contained in 195 IRs having money value of Rs 230.07 crore remained unsettled at the end of June 2004. The Year-wise position of the outstanding IRs and paragraphs and the nature of irregularities are indicated in **Appendix XXXVIII**.

4.7.10 Follow up action on Audit Reports

Government had to finalise remedial action on all 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 were required to furnish notes explaining the remedial/corrective action taken (ATNs) on the audit paragraphs to the Public Accounts

* 'Hand book of Instructions for the speedy settlement of audit objections/inspection reports etc' issued by Finance Department

Committee (PAC)/Committee on Public Undertakings (CoPU)[#] as well as to the Accountant General within the prescribed time limit.

The position of pendency as of August 2004 in furnishing ATNs on paragraphs included in the Reports of the Comptroller and Auditor General of India, Government of Kerala (Civil) pertaining to the years 1993-94 and 1995-96 to 2002-03 was as indicated below:

Reference to Report (year and number)	Number of Paragraphs included	Number of Paragraphs for which ATNs have been furnished by Government	Number of paragraphs for which ATNs were due from Government
1993-94 (No.2)	83	78	5
1995-96 (No.3)	62	55	7
1996-97 (No.3)	53	45	8
1997-98 (No.3)	64	59	5
1998-99 (No.3)	62	48	14
1999-2000	58	31	27
2000-01	51	25	26
2001-02	24	3	21
2002-03	63	21	42
Total	520	365	155

The department-wise details of the ATNs pending are furnished in **Appendix XXXIX**.

[#] Paragraphs relating to Kerala Water Authority and Kerala Khadi and Village Industries Board are examined by CoPU