

OVERVIEW

This Audit Report contains 39 Audit Paragraphs, 7 Audit Reviews and one long paragraph apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft paragraphs and draft audit reviews are sent to the concerned Secretary to the State Government by the Principal Accountant General demi-officially with a request to furnish replies within 6 weeks. The Secretaries to Government are also reminded by the Principal Accountant General for replies. Despite such efforts no response was received from the concerned Secretaries to Government for 20 Audit paragraphs and 3 Reviews. However, the replies where received from respective Directorate/Head of functional wings have been incorporated.

I Finances of State Government

The revenue receipts during the year increased to Rs 11815 crore, the rate of growth being 11.1 per cent compared to 17.4 per cent in the previous year. Revenue expenditure (Rs 15495 crore during the year), however, was controlled and grew at only 5 per cent compared to 26.5 per cent in the previous year. This led to a reduction in revenue deficit from Rs 4122 crore in the previous year to Rs 3680 crore during the year. The decrease in revenue deficit during the year was on account of showing recoveries in the Consolidated Fund of Rs 581.20 crore that remained unspent out of Plan funds released during 1997-98 to 2002-03 in the PD Accounts of Local Self Government Institutions.

During the current year, the increase in revenue receipts was due to 17.3 per cent increase in Central Tax transfers, 19 per cent increase in non-tax revenue and 10.8 per cent in State's own tax revenue. Grants-in-aid from Central Government showed a marginal decline. Sales tax was the major source of State's own tax revenue, having contributed 74 per cent, followed by State Excise (8 per cent). Of the non-tax sources, Forest Receipts (23 per cent) and State Lotteries (17 per cent) were principal contributors. On an average 74 per cent of the revenue came from State's own resources.

Revenue expenditure constituted 89 per cent of total expenditure in 2003-04 and grew at 5 per cent during 2003-04. Salaries, interest payments and pensions consumed 91 per cent of the revenue receipts during the year crowding out the socio-economic developmental expenditure.

The fiscal liabilities grew by 81 per cent during 1999-2004 and stood at Rs 39231 crore as at the end of March 2004 ie., 3.3 times of the revenue receipts. There was a phenomenal increase in internal debt during the year mainly on account of raising more market loans (Rs 693 crore), securitisation of existing house loan portfolio of Government employees with State Bank of India and Canara Bank (Rs 267 crore) and issue of Power Bonds for Rs 1158.25 crore in favour of Central Public Sector Undertakings towards power purchase dues of the State Electricity Board. The fiscal deficit increased to Rs 5539 crore in 2003-04 from Rs 4990 crore in 2002-03 due to the above additional borrowings though revenue deficit had come down during the year. At the end of 2003-04, the fiscal liabilities of the State including unreckoned liabilities like arrears in contractors' bills

(Rs 891 crore) and power subsidy payable to the State Electricity Board (Rs 3531 crore) stood at an unsustainable level of 48 per cent of GSDP. These liabilities alongwith contingent liabilities in the form of guarantees which accounted for another 16 per cent of GSDP are cause of concern for sustained growth and development in the medium to long-term basis.

It is not uncommon for the State to borrow for increasing its social and economic infrastructure base. However, increasing ratios of fiscal liabilities to GSDP and revenue receipts together with a large revenue deficit indicate that the State is gradually getting into a debt trap. Large revenue and fiscal deficits year after year show continued macro fiscal imbalances. Though the Kerala Fiscal Responsibility Act envisages reduction of revenue deficit to 'nil' and fiscal deficit to 2 per cent of the estimated GSDP by the end of March 2007, the possibility of this happening appears bleak with the current level of revenue deficit of Rs 3680 crore and the fiscal deficit hovering around 6 per cent of GSDP for 2003-04.

The State Government will need to take urgent steps to reduce revenue deficit/fiscal deficit by compressing non-developmental revenue expenditure and enhance additional resource mobilisation through tax reforms and prudent debt management.

[Paragraphs 1.1 to 1.12]

II Allocative Priorities and Appropriation

Overall savings of Rs 396.29 crore was the net result of savings of Rs 1704.14 crore in 82 Grants and Appropriations offset by excess of Rs 1307.85 crore in 11 Grants and Appropriations.

As of August 2004 excess expenditure of Rs 2164.30 crore for the years 1983-84 to 1985-86 and 1988-89 to 2002-03 was yet to be regularised by the Legislature. During 2003-04, excess expenditure of Rs 1307.85 crore occurred in 8 Grants and 3 Appropriations, which also required regularisation.

Substantial savings of Rs 5 crore or more and also more than 10 per cent of the total provision occurred in 30 cases. During the last three years there was persistent savings in excess of Rs 10 lakh in each case and also 20 per cent or more of provision in 15 cases.

In 16 cases savings of Rs 5 crore or more in each case aggregating to Rs 497.79 crore remained unsurrendered at the end of the year.

Out of the total surrender of Rs 1289.60 crore, Rs 1280.33 crore (99.3 per cent) was surrendered on the last working day of the financial year.

In 12 cases, amount in excess of actual savings was surrendered resulting in excess surrender of Rs 33.23 crore.

The Secretary, Kochi Corporation withdrew Rs 2.64 crore disregarding the Government instruction and the same amount was again drawn and distributed to Kochi Corporation by the Director of Urban Affairs resulting in double drawal.

[Paragraphs 2.1 to 2.6]

III. Performance Reviews

1. Integrated Audit of the Department for Development of Scheduled Castes

The Scheduled Castes (SCs) are a non-homogenous spatially dispersed community. According to the 2001 census the SCs constitute 10 per cent of State's population. Several schemes including Centrally Sponsored Schemes are implemented mainly by the SC Development Department for the welfare and development of the SC community.

Funds of Rs 147.40 crore provided during 1999-2004 for implementing various schemes for the benefit of SC population were not utilised. Similarly, under Special Central Assistance to Special Component Plan 85 per cent of GOI funds (Rs 15.96 crore) received during 1999-2002 for the welfare of the SCs remained unutilised.

An amount of Rs 16.72 crore meant for implementing Agricultural Land Purchase Scheme was kept by Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited for the last three years as the scheme was taken up without assessing its feasibility.

Government's decision in March 1997 to conduct a comprehensive survey of SC population to prepare a database for planning future developmental process was not implemented even after a lapse of seven years.

Department claimed and obtained Rs 6.96 crore in excess from GOI towards maintenance allowance/tuition fee.

Computer training through various institutions was conducted incurring an expenditure of Rs 7.87 crore without preparing a project report and assessing the suitability of the courses and institutions. Similarly, the impact of various training programmes imparted by the pre-examination training centres incurring an expenditure of Rs 80.72 lakh was not evaluated.

Investment of Rs 2.73 crore on purchase of Shop rooms in Kairali-Sree Theatre Complex at Thrissur without assessing the demand was not prudent.

There was delay of more than one year in disbursing immediate assistance to victims of atrocities against SC people.

[Paragraph 3.1]

2. District Audit - Kollam

A review of the Government Departments engaged in the activities of the Kollam district viz., availability of safe drinking water, primary health care and fishing sector revealed several deficiencies such as non-utilisation of funds, delay in implementation of schemes, shortage of manpower and idling of equipment.

Out of 14 Water Supply Schemes, work in respect of 9 Schemes sanctioned between 1993 and 1999 could not be started due to non-availability of land.

Out of the loan amount of Rs 9.49 crore obtained for implementation of various schemes, Rs 6.99 crore were diverted for other activities of Kerala Water Authority.

Out of 5944 samples of water analysed, 2399 samples contained high bacteriological and chemical impurities indicating that the water was not potable.

The urban population was only 9 per cent of the total population. But 48 per cent of the bed strength of the hospitals was in urban area.

A boat purchased at a cost of Rs 1.81 crore and provided to the district for patrolling was used only for 57 days between May 1997 and February 2002 rendering the expenditure wasteful.

[Paragraph 3.2]

3. Indian Systems of Medicine and Homoeopathy

Indian Systems of Medicine consist of Ayurveda, Siddha, Unani and Naturopathy. Ayurveda is widely practiced and Homoeopathy also enjoys popularity in Kerala. Thrissur district has the highest number (95) of Ayurveda hospitals/dispensaries and Thiruvananthapuram district has the highest number (55) of Homoeo dispensaries/hospitals, whereas Wayanad district has the lowest number of institutions under both the systems. During 1999-2004 expenditure on Indian Systems of Medicine and Homoeopathy was about 11 per cent of the total expenditure on Health and Family Welfare.

Ayurveda

There was shortfall in teaching posts compared to norms of Central Council of Indian Medicine in 5 Ayurveda Colleges (AVC) ranging from 37 to 72 per cent as of March 2004. In these AVCs 49 teaching staff were under-qualified which would affect the quality of education. In AVC, Thiruvananthapuram and Kottakkal, Preliminary Examination for Post Graduate course was conducted by the Institutions themselves instead of by the Affiliated University according to the guidelines.

Buildings constructed for 28 hospitals/dispensaries costing Rs 1.28 crore remained unoccupied for want of staff and basic amenities.

Acceptance of medicines not indented (cost: Rs 2.04 crore) from 'Oushadhi', a Government company, caused reduction in availability of funds for essential medicines.

Construction of hospitals one each for AVC, Kannur and AVC, Thripunithura have not been completed though Rs 8.72 crore were spent as of March 2004. There was an unspent balance of Central funds amounting to Rs 69.45 lakh as of March 2004.

Homoeopathy

Buildings constructed for four hospitals/dispensaries (cost:Rs 61 lakh) remained unoccupied as water and electricity have not been provided. Only one out of 31 Homoeo hospitals has staff quarters. Government Homoeo Dispensary, Chavakkad and Government Homoeo Hospital, Muvattupuzha were functioning in places which are not easily accessible.

Herbal Garden could not be established as part of Homoeo Medical College, Thiruvananthapuram even after three years of acquisition of land.

[Paragraph 3.3]

4. Implementation of the Child Labour (Prohibition and Regulation) Act, 1986 in Kerala

The Kerala Child Labour (Prohibition and Regulation) Rules, 1993 and the directions issued in 1996 by the Honourable Supreme Court of India laid down the procedure and regulated the implementation of Child Labour (Prohibition and Regulation) Act, 1986 in Kerala.

There were significant limitations in the scope of the Act. Children employed in domestic labour and cases where the children are migrant labourers from other States are not covered under the Act.

Recommendations of the Working Group on Amendment and Enforcement of the Act regarding recovery of the compensation as arrears of land revenue as also vesting the onus of proof of age of the children on the employers were not acted upon.

Surveys conducted in the State on the directions of the Hon'ble Supreme Court in 1997 and 2004 failed to identify child labour. The directions of the Hon'ble Supreme Court to provide education to the children engaged in non-hazardous occupations were not followed.

Department failed to effectively frame charges, resulting in acquittal of offenders in most of the cases filed.

No modalities had been evolved to perform inspections in a systematic manner. There was no proper monitoring system in the Department.

[Paragraph 3.4]

5. Pradhan Mantri Gram Sadak Yojana

Government of India launched (December 2000) a cent per cent Centrally Sponsored Scheme viz., Pradhan Mantri Gram Sadak Yojana aimed at providing good all-weather road connectivity to the unconnected habitation in rural areas. Unconnected habitations with a population of 1000 persons and above were to be covered in three years (2000-03) and those with a population of 500 and above by the end of the Tenth Plan period (2007).

Core Network of roads as prescribed in the guidelines had not been prepared and got approved so far. Though 5677 unconnected habitations had been identified by NATPAC, only 217 (4 per cent) had been proposed and got approved for implementation as of March 2004.

State failed to utilise the funds released by GOI and the unspent balance as at the end of 31 March 2004 amounted to Rs 20.68 crore, being 30 per cent of the funds allotted.

Four road works entrusted to a contractor for Rs 3.75 crore in 2000-01 were in an abandoned stage from June 2002 after incurring Rs 99.72 lakh. Works were retendered only in January 2004 resulting in increase in cost by Rs 1.12 crore.

Payment of lead charges for conveyance of earth and allowing concessional rate of sales tax for procurement of bitumen resulted in extending unintended benefit of Rs 93.98 lakh to contractors.

[Paragraph 3.5]

6. Information Technology Audit of Treasury Information System

The computerisation of treasuries in the State taken up in 1998 at an estimated cost of Rs 13.70 crore was implemented in 23 District Treasuries and 165 out of 166 Sub Treasuries by September 2004 incurring an expenditure of Rs 29.54 crore. Information Technology audit of Treasury Information System (TIS) was conducted to assess the extent of benefit derived from TIS and its accuracy and reliability.

There was no record of testing and acceptance of the TIS version 3.0 software by the Department.

Treasury Wide Area Network for interconnecting the treasuries and Data Centre vital for updating master files and macro level budget monitoring had not yet been set up.

Improper data validation in the case of Savings Bank Accounts resulted in inflating of the balance to the extent of Rs 310.73 crore.

Savings Bank Account, Personal Deposit Account and Fixed Deposit Account balances increased by Rs 4.62 crore, Rs 103.30 crore and Rs 211.60 crore respectively using the facility in TIS for alteration of balances, without any supporting documents to verify such transactions.

[Paragraph 3.6]

7. Special Development Fund for MLAs

The objective of the scheme was to enable the Members of Legislative Assembly (MLAs) to suggest developmental activities based on locally felt needs in their Legislative Assembly Constituencies (LACs). The annual contribution for each MLA was enhanced from Rs 25 lakh in 2001-02 to Rs 50 lakh from 2003-04 onwards.

Out of Rs 58.50 crore released to 58 LACs in five districts, District Collectors sanctioned works for Rs 42.23 crore. Of the amount released Rs 43.95 crore remained unspent.

District Collectors accorded sanction for 101 works proposed by 24 MLAs after delays ranging from 103 to 415 days.

Administrative sanction for works were issued without ascertaining the availability of land, proper estimates, infrastructure, etc., resulting in abandoning/non-completion of works.

Though the main purpose of the scheme was creation of durable assets, out of 676 works completed 315 works (47 per cent) were for repairs and maintenance of roads which cannot be considered as creation of durable assets.

[Paragraph 3.7]

IV Audit of Transactions

1. Fraudulent drawal/misappropriation/embezzlement/losses

Failure of Drawing and Disbursing Officers to exercise prescribed checks, especially when the UDC entrusted with the duties of preparation of bills, etc.,

was a person who was punished for involvement in defalcation on an earlier occasion, led to misappropriation of Rs 10.19 lakh.

[Paragraph 4.1.1]

2. Violation of contractual obligations/undue favour to contractors

In the work of construction of Azheekkal Cargo Harbour in Kannur District Government inherited avoidable liability of Rs 6.40 crore on replenishment of partially damaged structure and allowing upward revision of agreed rates overruling the findings of Committee of Secretaries as well as that of Chief Engineer.

[Paragraph 4.3.1]

Failure of the Department to enforce the contract conditions in arranging the work of construction of building of Government Polytechnic, Pala resulted in avoidable liability of Rs 1.93 crore.

[Paragraph 4.3.2]

Though the quoted bid amount in the 13 contracts concluded by the Project Director, Kerala State Transport Project, 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.

[Paragraph 4.3.3]

3. Avoidable/excess/unfruitful expenditure

In District Hospital, Palakkad long delay in payment of electricity charges resulted in avoidable expenditure of Rs 1.79 crore towards surcharge.

[Paragraph 4.4.1]

Lapse on the part of Land Acquisition Officer in producing the vital piece of evidence in time and failure of the officials of Kerala State Housing Board to obtain and keep alive the security from land owners for withdrawing the amount deposited in court resulted in payment of excessive compensation of Rs 1.36 crore (including interest) which remained unrecovered as of May 2004.

[Paragraph 4.4.2]

Lack of planning on the part of Thrissur Urban Development Authority in the construction of six storeyed office-cum-commercial complex taken up in May 1993 resulted in its non-completion which led to unnecessary burden of Rs 1.67 crore, apart from loss of potential rental income.

[Paragraph 4.4.3]

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

[Paragraph 4.4.4]

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

[Paragraph 4.4.5]

In the work 'Improvements to Kanjar-Pullikkanam Road' post-contractual reclassification of soil and execution of excess quantity of work entailed extra liability of Rs 2.76 crore.

[Paragraph 4.4.7]

Though the circumstances demanded awarding the contract for the construction of building for Mini Civil Station at Irinjalakuda to the second lowest bidder, it was not done leading to avoidable expenditure of Rs 1.47 crore.

[Paragraph 4.4.8]

Defective preparation of estimate for the works relating to Thiruvananthapuram bypass led to cost overrun of Rs 10.91 crore and time overrun of four years. Despite the direction of Government of India to take action on the persons responsible no action was taken so far by the State Government.

[Paragraph 4.4.9]

4. Idle investment/idle establishment/blockage of funds

Failure of Government to assess the viability of the Guest House at Mumbai led to abandonment of work mid-way resulting in blocking of Rs 3.48 crore.

[Paragraph 4.5.3]

Rupees one crore released (January 2001) to the Centre for Development of Coir Technology for setting up a High Tech Coir Park in Kollam District was retained outside Government account without utilization.

[Paragraph 4.5.5]

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

[Paragraph 4.5.6]

Selection of a water source without ensuring its availability resulted in the non-commissioning of Rural Water Supply Scheme to Thekkumkara and three adjoining water problem villages in Thrissur District depriving the people of safe drinking water and rendering the expenditure of Rs 2.01 crore unfruitful.

[Paragraph 4.5.7]

Failure of Kerala Water Authority to monitor the execution of the works resulted in non-completion of Rural Water Supply Scheme to Thelliyoor, Valakkuzhi and Ezhumattoor in Alappuzha District sanctioned 20 years ago and the expenditure of Rs 1.25 crore remained unproductive.

[Paragraph 4.5.8]

Purchase of defective pipes for the Comprehensive Water Supply Scheme to Varkala Municipality and adjoining villages delayed the completion of the scheme and the expenditure of Rs 14.38 crore incurred on it during the period May 1996 - March 2004 remained unfruitful, thereby depriving the people of safe drinking water.

[Paragraph 4.5.9]

5. Delays in commissioning equipment

A scheme for providing Copra Dryers was sanctioned by Government without proper study necessitating revision of scheme on several occasions and delaying its implementation. Even though the outlay was reduced to Rs 1.65 crore the Director of Agriculture drew the entire amount of Rs 9.40 crore provided in the supplementary grant and deposited it in the Treasury Savings Bank account and utilized part of it (Rs 3 crore) for other purposes in gross violation of principle of budgetary control.

[Paragraph 4.6.1]

6. Regularity issues and other points

Diversion of Rs 2 crore paid to Kerala State Audio Visual and Reprographic Centre for implementation of modernization of Printing Technology Course in Vocational Higher Secondary Schools resulted in non-achieving the objective of imparting training to the students on modern printing technology.

[Paragraph 4.7.2]

In Medical College Hospital, Thiruvananthapuram Rs 1.27 crore received (including amounts received before 1996) from various Government and other agencies for partially meeting the cost of treatment of poor patients remained in bank account without disbursement.

[Paragraph 4.7.3]

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 during the period October 2002 - March 2004.

[Paragraph 4.7.4]

State Institute of Encyclopaedic Publications could publish only 12 volumes out of 20 volumes of Malayalam Encyclopaedia so far even after 3 decades of the publication of the first volume.

[Paragraph 4.7.6]

V Internal Control System in Industries Department

Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse, mismanagement, etc.

Budget proposals were not submitted in time and the estimates were not assessed correctly resulting in substantial provision remaining unutilised.

Procedures in Kerala Budget Manual for control of expenditure and directives of Finance Department on monitoring of monthly ceiling of expenditure were not adhered to.

Contingent advances from 1992-93 amounting to Rs 3.39 crore were awaiting adjustment.

Physical verification/surprise inspection of cash was not conducted by the officers.

Administration of various loans was very poor. Terms and conditions of 82 loans amounting to Rs 125.87 crore sanctioned to Corporations/Statutory Bodies during 1997-2003 had not been fixed and no recovery made from the loanees so far.

In the case of other loans also no concrete steps had been taken to recover the dues even in period-over cases involving Rs 3.40 crore in two districts, indicating poor monitoring and follow-up action.

Avoidable delay was noticed in processing and disposing of investment subsidy claims. No follow-up action has been taken to recover subsidy amount from 42 non-functioning units which had availed subsidy of Rs 54.08 lakh.

[Paragraph 5.1]