

## CHAPTER I INTRODUCTION

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

Compliance audit refers to examination of transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand, performance audit, besides compliance audit, also includes examination of whether the objectives of the programme/activity/department are achieved economically, efficiently and effectively.

The primary purpose of the Report is to bring to the notice of the State Legislature important results of audit. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during compliance audit and follow-up on previous Audit Reports.

### 1.2 Profile of units under audit jurisdiction

There were 41 departments in the State at Secretariat level during 2012-13. The Principal Accountant General (General & Social Sector Audit), Kerala conducts audit of 23 Secretariat departments, all Public Sector Undertakings/Autonomous bodies thereunder and Local Self-Government Institutions in the State. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them. The remaining 18<sup>1</sup> departments are audited by Accountant General (Economic & Revenue Sector Audit).

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

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

**Table 1.1: Comparative position of expenditure**

(₹ in crore)

Disbursements	2010-11			2011-12			2012-13		
	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non Plan	Total
<b>Revenue Expenditure</b>									
General Services	184.43	15233.96	15418.39	72.98	20227.04	20300.02	68.58	22718.03	22786.61
Social Services	2505.61	9605.19	12110.80	3401.92	12821.94	16223.86	4312.02	14565.47	18877.49
Economic Services	1505.70	2851.76	4357.46	1852.31	4279.35	6131.66	2468.73	5339.69	7808.42
Grants-in-aid and Contributions	---	2778.16	2778.16	---	3389.08	3389.08	---	4016.22	4016.22
<b>Total</b>	<b>4195.74</b>	<b>30469.07</b>	<b>34664.81</b>	<b>5327.21</b>	<b>40717.41</b>	<b>46044.62</b>	<b>6849.33</b>	<b>46639.41</b>	<b>53488.74</b>
<b>Capital Expenditure</b>									
Capital outlay	2765.66	598.03	3363.69	3398.10	454.82	3852.92	3465.66	1137.63	4603.29
Loans and advances disbursed	319.31	442.43	761.74	416.68	581.86	998.54	603.09	533.06	1136.15
Repayment of public debt	---	---	1975.03	---	---	2893.06	---	---	2804.08
Contingency Fund	---	---	33.92	---	---	20.80	---	---	---
Public Account disbursements	---	---	70558.27	---	---	91200.26	---	---	100455.82
<b>Total</b>			<b>76692.65</b>			<b>98965.58</b>	<b>4068.75</b>	<b>1670.69</b>	<b>108999.34</b>
<b>Grand Total</b>			<b>111357.46</b>			<b>145010.20</b>	<b>10918.08</b>	<b>48310.10</b>	<b>162488.08</b>

### 1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C&AG's (DPC) Act). C&AG conducts audit of expenditure of the departments of the Government of Kerala under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 21 autonomous bodies in the General and Social Sector which are audited under Sections 19(2), 19(3) and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 160 Autonomous Bodies which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 748 institutions<sup>2</sup>, 17 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1209 Local Self-Government Institutions<sup>3</sup> under the audit jurisdiction in the General and Social Sector. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

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

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

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

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

## **1.5 Planning and conduct of Audit**

The audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within four weeks from the date of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India.

During 2012-13, 10,618 party-days were used to carry out audit of 1,483 units (compliance audits and performance audits) of the various departments/organisations coming under Principal Accountant General (G&SSA). The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

## **1.6 Significant Audit Observations**

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

Chapter II includes district-centric audit of Wayanad District; another three performance audit on Healthcare services in Government hospitals, Activities/schemes for the promotion of sports and National Rural Drinking Water Programme. The highlights are given in the following paragraphs.

#### **1.6.1.1 Healthcare Services in Government Hospitals**

Government hospitals in the State offer preventive, promotive and curative services<sup>4</sup>. While these services including clinical and surgical interventions of a simple nature are delivered through Taluk Hospitals, the District, General

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<sup>4</sup> Preventive healthcare consists of measures taken to prevent diseases. Promotive health care contributes to a population based health approach in primary care. Curative care seeks to cure an existent disease or medical condition

and Women and Children Hospitals additionally offer Tertiary care facilities like Cardiology, Neurology, Paediatric surgery, Plastic surgery and Urology. A performance audit on Healthcare Services in Taluk, District, General and Women and Children Hospitals disclosed the following:

A perspective plan prescribing a time frame for attaining the standardisation norms for infrastructure and manpower in the healthcare institutions was not prepared. Inadequacies in infrastructure facilities viz., power laundry, generators and deficiencies in number of beds were noticed in the hospitals test-checked. Failure of Kerala Medical Services Corporation Limited (KMSCL) in making suppliers to take back slow moving drugs resulted in loss of ₹ 2.91 crore to the exchequer. Delays in obtaining test results of drugs from the empanelled Drug Testing Laboratories resulted in administering sub-standard drugs to patients as some of these drugs were subsequently declared as 'Not of Standard Quality' by the laboratories. Stock-out of essential drugs such as Amoxicillin, Ampicillin, etc., was noticed in the district warehouses of KMSCL and in the hospitals test-checked. KMSCL nullified shortfall in stock worth ₹ 21.23 crore without identifying reasons for the shortfall. Trauma Care & Emergency Medical Services and Blood bank facilities were not available in many hospitals. Shortage of doctors was noticed in the hospitals test-checked.

*(Paragraph 2.1)*

#### ***1.6.1.2 District - centric Audit of Wayanad***

The district-centric audit of Wayanad involved a performance audit of the significant socio-economic developmental programmes implemented in the district during 2008-13. The district, with 31.24 *per cent* of the tribal population of the State, is lagging behind the State average in terms of literacy, per capita income and with higher infant mortality and maternal mortality, school dropout rate, etc.

Preparation of Integrated District Development Plan and consolidation of Local Development Plan were not done by the District Planning Committee. Vital data available with various agencies were not collected and utilised by the Local Self-Government Institutions while formulating plans. Adequate manpower and infrastructure as per the Indian Public Health Standards/norms of Government were not available in Community Health Centres and Primary Health Centres. Separate data on infant/maternal deaths, nutritional standards, immunisation, etc., of tribal population was not collected from 2009-10 onwards. In spite of high maternal death and low institutional deliveries of newly born babies among tribal population, there were only five Government hospitals in the district with delivery facility. Dropout rate among tribal students was higher than the district average indicating that Sarva Shiksha Abhiyan had not produced the desired results. The percentage of severely under-weight children among tribal community was more when compared to other communities in the district. Out of 292 drinking water samples tested, only 44 samples conformed to the desired level of chlorination, indicating the method of chlorination was unscientific. Test results in more than 50 *per cent* of samples in 2011-12 showed presence of coliform bacteria and turbidity indicating that KWA failed to supply safe drinking water to the public.

*(Paragraph 2.2)*

### **1.6.1.3 Activities/Schemes for the promotion of Sports**

The Government of Kerala passed the Kerala Sports Act, 2000 with the principle of 'Sports for All'. The State's sports objectives include development of sports activities at grassroot level, and thereby ensuring mass participation in national and international level sports events for sporting excellence. The Performance Audit revealed deficiencies in planning, utilisation of funds, completion of projects on time, implementation of programmes, etc.

Long-term plan was not prepared by the Department as comprehensive database on sports infrastructure in the State was not available. Instances of under-utilisation of grants for the development of sports, abnormal delay in execution of projects and under-utilisation of infrastructure were noticed. The Sports Development Fund envisaged for the creation and upgradation of sports facilities in the State, to arrange extra funds for training abroad and engagement of dedicated specialist coaches for meritorious sports persons was not created, despite a provision of ₹ 1.25 crore made in the State budget during 2010-12. The Panchayath Yuva Krida Aur Khel Abhiyan, a Centrally Sponsored Scheme did not achieve the desired results as the targeted number of Grama Panchayaths/Block Panchayaths were not covered. Health related physical fitness test conducted at school level revealed that only 19.61 *per cent* of the school going children in the State had the minimum recommended standards. But, no effective remedial measures were taken by the government for improving the physical fitness of school going children. The progress achieved in the development of infrastructure for staging 35<sup>th</sup> National Games in the State by the National Games Secretariat was poor.

*(Paragraph 2.3)*

### **1.6.1.4 National Rural Drinking Water Programme**

To provide every rural person with water for drinking, cooking and other domestic basic needs, a national water supply and sanitation programme was introduced (1954) in the country. Accelerated Rural Water Supply Programme (ARWSP), introduced (1972-73) to accelerate the pace of coverage, was subsequently renamed as National Rural Drinking Water Programme (NRDWP). A performance audit of the implementation of the NRDWP in the State was conducted and following are the major observations of Audit.

Five year rolling plan as envisaged in the framework for implementation of NRDWP (2010) was not prepared and only Annual Action Plan was prepared. Consequently, adequate priority was not given for schemes started years back. Lack of definite work execution plan led to non-achievement of yearly targets fixed for coverage of habitations. Out of 187 schemes taken up during 2008-13, only 34 were completed. Seven schemes sanctioned for coverage of water quality affected habitations were not taken up. Though 20 schemes were sanctioned for sustainability of water sources during 2008-13 by the State Level Scheme Sanctioning Committee (SLSSC), only four schemes were taken up and completed. Out of the 16 sub-divisional laboratories formed in the State, 15 of them were functioning without separate infrastructure and technical facilities. Effective monitoring and evaluation by SLSSC or evaluation study by Central/State Government was absent during the period

covered under audit. Though a State Water and Sanitation Mission was formed, activities as envisaged in the guidelines were not performed.

*(Paragraph 2.4)*

## **1.6.2 Compliance Audit Paragraphs**

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

### ***Audit of Selected Topics***

#### ***1.6.2.1 Scheme for Incentive to Girls for Secondary Education***

Incentive to Girls for Secondary Education is a 100 per cent Centrally Sponsored Scheme being implemented in the State from 2008-09 onwards. The objective of the scheme was to establish an enabling environment to reduce school dropouts and to promote the enrolment of girl child belonging to SC/ ST communities in secondary schools and ensure their retention up to 18 years of age. The Scheme covers all SC/ ST girls who pass class VIII and enroll for class IX in Government, Government aided or local body schools.

To be eligible for the benefit under the scheme, the girl should be unmarried and below 16 years of age as on 31 March on joining class IX. According to the scheme, a Fixed Deposit Warrant (FDW) of ₹ 3,000 with interest is to be issued to each beneficiary, which can be en-cashed on attaining the age of 18 years and on satisfying the precondition of passing X standard.

The scheme could be implemented only during 2008-09 and 2009-10. Delay on the part of Headmasters, District Educational Officers and Directorate of Public Instruction in forwarding proposals resulted in failure to implement the scheme during 2010-13 thus denying the benefit to SC/ST students.

*(Paragraph 3.1)*

#### ***1.6.2.2 Scheme for improvement of quality of school education implemented under Twelfth Finance Commission award***

The Twelfth Finance Commission (TFC) awarded ₹ 100 crore as grant under state specific needs for improvement of quality of school education by constructing laboratories, libraries and for providing computers. The award period was 2005-10. Out of the TFC award of ₹ 100 crore, the Government received only ₹ 90 crore during the award period, resulting in shortfall of ₹ 10 crore. Construction activities were not taken up in the initial years of the award period, leading to some of the buildings remaining incomplete, even three years after completion of the award period. Instances of excess supply of computers, chairs, UPSs, etc., were noticed in some of the schools in violation of Government instructions. The unutilised balance of ₹ 4.58 crore was drawn in March 2010 for utilisation in another scheme to prevent lapse of budget provision and to depict utilisation before expiry of the award period.

*(Paragraph 3.2)*

### 1.6.2.3 *Bhoomikeralam Project*

Government formed (October 2008) Kerala Land Information Mission (KLIM) to implement Bhoomikeralam Project with the objectives, *inter alia*, to (i) finalise resurvey in the state within a period of three years, (ii) prepare survey records of the 27000 Hectares of land to be distributed to ‘adivasis’ of the State in nearly 1000 locations, (iii) complete resurvey of 31 villages of Thiruvananthapuram taluk under the centrally sponsored National Land Records Modernisation Programme (NLRMP), and (iv) complete the resurvey of lands in possession of Harrison Malayalam Plantations Ltd. and to identify excess land, if any, held by the company un-authorisedly.

Government observed that KLIM which was set up for completing re-survey in the State within three years failed in achieving the objective. The objective of completion of resurvey of the State by KLIM under Bhoomikeralam Project was not fulfilled and the status remained the same as of October 2008 when KLIM was set up. Moreover, all the works ordered to be executed by KLIM under NLRMP were also not completed and therefore the intended benefits<sup>5</sup> to the public under NLRMP could not be provided. Government’s admission that the resurvey work by KLIM was a failure indicates that Bhoomikeralam Project was sanctioned without proper analysis/study of the situations, and the intended purposes were not served despite spending ₹ 10.99<sup>6</sup> crore in addition to pay and allowances of Survey staff deployed to KLIM.

(Paragraph 3.3)

### 1.6.2.4 *Confiscation of illegally mined river sand and its disposal*

Indiscriminate and uncontrolled removal of sand from the rivers to meet increase in demand causes large scale land sliding and loss of property and also disturbs the bio-physical environment system of river beds in different degrees.

To protect river banks and river beds from large scale dredging of river sand, to protect their bio-physical environment system and to regulate the removal of river sand, the State Government enacted “The Kerala Protection of River Banks and Regulation of Removal of Sand Act, 2001” (Principal Act). “The Kerala Protection of River Banks and Regulation of Removal of Sand Rules (Sand Rules 2002)” were also formulated under this Act in 2002. The Land Revenue Commissioner (LRC) has been given the responsibility of keeping a check on illegal sand mining in the State and the Collectors at the District level are responsible for implementation of the provisions of the Act.

Timely action were not taken by the District Collectors in accordance with the Kerala Protection of River Banks and Regulation of Removal of Sand Act, 2001 in confiscation of vehicles involving illegal transportation of river sand and delays ranged from six weeks to five years. Non-compliance of the Act by the Revenue Department resulted in non-filing of written complaints in courts

<sup>5</sup> Providing a single window to handle land records, the cadastral records mirror the ground reality, the records of title is a true depiction of the ownership status, mutation is automated, title insurance which guarantees the title for its correctness and indemnifying the title holder against loss arising on account of any defect therein

<sup>6</sup> ₹ 5.58 crore towards resurvey charges and ₹ 5.41 crore towards NLRMP

against the offenders involving illegal transportation of river sand. This allowed the offenders to escape from court proceedings. Selling of confiscated sand at a rate less than Public Works Department rate resulted in a revenue loss of ₹ 1.63 crore to Government. The effectiveness of the squads' functioning was not monitored.

*(Paragraph 3.4)*

#### **1.6.2.5 Financial Management of KWA**

The Kerala Water Authority (KWA) was established under Kerala Water and Wastewater Ordinance, 1984 to provide for the development and regulation of water supply and wastewater collection and disposal. The Ordinance was replaced by the Kerala Water Supply and Sewerage Act (Act), 1986. KWA is the major institution/Statutory authority in the State, implementing the drinking water policy/programmes of the State and Central Government. The State and Central Governments provide substantial financial assistance to KWA for taking up activities related to water supply and wastewater.

The objective of audit was to ascertain whether the overall management of finances in KWA was economic and efficient. Audit was conducted during April 2013 to July 2013, covering the period 2008-09 to 2012-13.

The revenue collection was not sufficient to meet even 50 *per cent* of revenue expenditure, and KWA depended heavily on Government. Urgent management intervention is called for to initiate measures for revenue maximisation as well as for controlling non-plan revenue expenditure. The accumulated arrears of electricity charges to be paid as on March 2013 was ₹ 377.34 crore. Several projects taken up as early as 1998 had not been completed as of March 2013. Utilisation of funds under energy conservation activities was not adequate. There was an outstanding arrear of ₹ 532.83 crore towards water charges and major defaulters included Government departments and Autonomous Bodies. KWA started water audit of non-revenue water only recently and in Thiruvananthapuram division alone there was an annual revenue loss of ₹ 26.76 crore, on account of water lost from leakage, theft, etc.

*(Paragraph 3.5)*

#### **Audit of transactions**

##### **1.6.2.6 Failure of Oversight/Governance**

The Government has an obligation to improve the quality of life of the people for which it works towards fulfillment of certain goals in the area of health, education, development and upgradation of infrastructure and public service, etc. However, Audit noticed instances where funds released by the Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Two cases of misappropriation amounting to ₹ 27.75 lakh occurred due to absence of proper supervisory controls were noticed. The details are given below.

- Failure of the Superintendent to exercise the prescribed checks laid down in the financial rules/instructions led to fraudulent drawal of ₹ 9.05 lakh by the Lower Division Clerk from the funds received under

Rashtriya Swasthya Bima Yojana in the Government General Hospital, Kasaragod.

*(Paragraph 3.6)*

- Lack of proper supervisory checks led to misappropriation and manipulation of vouchers amounting to ₹ 18.70 lakh by the Lower Division Clerk from the Hospital Development Committee funds.

*(Paragraph 3.7)*

- Video Conferencing facilities created at a cost of ₹ 1.69 crore in Kottayam, Ernakulam and Thrissur districts for enabling the courts to extend remand/grant bails without physically producing the prisoners, were remaining unutilised due to non-maintenance of Video Conferencing system and defects in connectivity.

*(Paragraph 3.8)*

- Equipment procured at a cost of ₹ 2.34 crore for Very High Frequency radio-based communication for enforcing effective Early Warning System installed at Village Offices, Taluk Offices and District Collectorates were lying idle mainly due to improper installation and non-execution of repair works within the guarantee period by the supplier.

*(Paragraph 3.9)*

- Despite availability of funds, Jalamani programme, specifically intended for improving the quality of potable water being supplied to the students of rural schools, could not be implemented even after four years due to lack of coordination between various agencies.

*(Paragraph 3.10)*

- Formulation of a Water Supply Scheme by Kerala Water Authority without consulting Panchayath authorities resulted in unfruitful expenditure of ₹ 37.83 crore.

*(Paragraph 3.11)*

## **1.7 Lack of responsiveness of Government to Audit**

### **1.7.1 Outstanding Inspection Reports**

The Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports/timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, issued by the State Government in 2010 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Principal Accountant General/Accountant General for rectification in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspection. The Head of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions and promptly report their compliance to the Principal Accountant General/Accountant General within four weeks of

receipt of the IR. Half-yearly reports of pending IRs are being sent to the Secretary of the Department to facilitate monitoring of the audit observations.

As of 30 June 2013, 191 IRs (769 paragraphs) were outstanding against Social Justice, Labour and Rehabilitation and Cultural Affairs Departments. A review of the Inspection Reports pending due to non-receipt of replies showed that the initial replies in respect of 48 IRs containing 203 paragraphs issued upto 2012-13 were not received from the Social Justice Department.

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

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

Draft Paragraphs and Reviews were forwarded demi-officially to the Principal Secretaries/Secretaries of the departments concerned between April and July 2013 with a request to send their responses within six weeks. The replies from Government for two out of the four reviews and four out of 11 draft paragraphs featured in this Report were received. These replies have been suitably incorporated in the Report. In addition, in the remaining reviews and compliance paragraphs, the views of the Government as expressed in the exit conferences, were duly considered and included.

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

According to the Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports/timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, issued by the State Government in 2010, the administrative departments should submit statements of Action Taken Notes on audit paragraphs included in the Audit Reports directly to the Legislature Secretariat, with copies to the Accountant General within two months of their being laid on the table of the Legislature. The administrative departments did not comply with the instructions, and seven departments, as detailed in **Appendix 1.2**, had not submitted statements of Action Taken for 12 paragraphs for the period 2008-09 to 2011-12, even as of September 2013.

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

The details of paragraphs pending discussion by the Public Accounts Committee as of 30 September 2013 are given in **Appendix 1.3**.