

CHAPTER I INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies under Economic Sector.

The primary purpose of the Report is to bring to the notice of the State Legislature, the important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. 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

The Principal Accountant General (Economic and Revenue Sector Audit) Kerala conducts audit of the expenditure under Economic Services incurred by 22 departments at the Secretariat level and also the field offices, two autonomous bodies, 41 other autonomous bodies/institutions, 100 public sector undertakings and two departmental commercial undertakings under the jurisdiction of these departments. The departments are headed by Additional Chief Secretaries/Principal Secretaries/ Secretaries, who are assisted by Directors/Commissioners/Chief Engineers and subordinate officers under them.

The comparative position of expenditure incurred by the Government during the year 2014-15 and in the preceding year is given in **Table 1.1**.

Table 1.1. Comparative position of expenditure incurred by the Government

Disbursements	2013-14			2014-15			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
Revenue Expenditure							
General Services	126.65	26478.44	26605.09	133.76	31298.99	31432.75	(+)18.15
Social Services	4645.93	16333.95	20979.88	5893.10	17825.01	23718.11	(+)13.05
Economic Services	2301.08	5627.98	7929.06	4255.73	5941.84	10197.57	(+)28.61
Grants-in-aid and Contributions		4971.47	4971.47	---	6398.00	6398.00	(+)28.69
Total	7073.66	53411.84	60485.50	10282.59	61463.84	71746.43	(+)18.62

(₹ in crore)

Disbursements	2013-14			2014-15			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
Capital Expenditure							
Capital outlay	3497.62	796.71	4294.33	3880.54	374.05	4254.59	(-)0.93
Loans and advances Disbursed	537.53	926.64	1464.17	--	--	743.09	(-)49.25
Repayment of public debt			3244.81			5842.77	(+)80.07
Contingency Fund			67.39	--	--	-	-
Public Account disbursements			120992.20			136242.59	(+)12.60
Total			130062.90			147083.04	(+)13.09
Grand Total			190548.40			218829.47	(+)14.84

(Source: Finance Accounts)

1.3 Authority for Audit

The authority for audit by the CAG 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(CAG's DPC Act). The CAG conducts the audit of expenditure of the departments of the Government of Kerala under Section 13¹ of the CAG's (DPC) Act. The CAG is the sole auditor in respect of 24 autonomous bodies which are audited under Sections 19(2), 19(3)² and 20(1)³ of the CAG's (DPC) Act. Besides, CAG also conducts audit under Section 14⁴ & 15 of CAG's (DPC) Act in respect of 218 other autonomous bodies which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

1.4 Organisational structure of the Office of the Principal Accountant General (E&RSA), Kerala

Under the directions of the CAG, the Principal Accountant General (E&RSA), Kerala conducts the audit of Government Departments/Offices/Autonomous Bodies/ Institutions under Economic and Revenue Sector, which are spread all over the State. The Principal Accountant General (E&RSA) is assisted by three Group Officers.

- ¹ Audit of (i) all transactions from the Consolidated Fund of the State (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts.
- ² Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.
- ³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government.
- ⁴ Audit of all (i) receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore.

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

During 2014-15, 9,383 party-days were used to carry out audit of 1,173 units (Performance Audit and Compliance Audit) of the various departments/organisations which fall in the audit jurisdiction of the Principal Accountant General (E&RSA), Kerala. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

1.6 Significant Audit Observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations have also been reported upon.

The present report contains findings of three performance audits and 12 compliance audit paragraphs. The significant audit observations are discussed below:

1.6.1 Performance audits of programme/department

1.6.1.1 *Inland Water Transport in Kerala-Development of Waterways and Operation of Transport Services*

Though the Inland Waterways Authority of India had spent ₹228.60 crore from 1994-95 to 2014-15 for the development and maintenance of National Waterway-3 (NW-3), merely 37 km of NW-3 is utilised for cargo transportation leaving 168 km not being utilised at all. This was due to lack of State Government initiative in ensuring cargo movement between Kollam and Kottapuram and inability to remove fishing nets affecting navigability. Execution of development and improvement works in State waterways was poor as only 114.76 km of 421.33 km was completed due to non-availability of hindrance free land, encroachment of waterways etc. Non-removal of large scale siltation in artificial canals impedes the continuous navigability through the waterways. In 17 test checked feeder canal works, none of them qualified the standards prescribed by the Irrigation Department. Besides, improvement works carried out in seven feeder canals incurring ₹6.95 crore did not serve

the intended purpose due to lack of subsequent maintenance. Multiplicity of agencies and departments and lack of co-ordination amongst them was a major contributing factor for poor development and operation in the waterways. Deficiencies in executing transportation contracts of cargo such as excessive time taken for completion of trips, non-utilisation of full capacity of barges, non-operation of trips targeted, delay in repair of barges contributed to business loss of ₹3.69 crore to Kerala State Inland Navigation Corporation, the sole PSU in the field. The loss of State Water Transport Department (SWTD) had been increasing year after year due to uneconomic operation of services, reducing number of passengers etc. Repair works of boats were delayed abnormally and one-third of the fleet were in dock. Purchase of 18 steel boats costing ₹7.93 crore could have been avoided had the repair of boats been carried out in time. There was no system in place to assess the safety of navigation channels by any authority. More than 50 *per cent* of the waterways used by SWTD for boat operation remained unsafe due to lack of dredging by the Irrigation Department.

(Chapter II)

1.6.1.2 Implementation of Kerala Forests (Vesting and Management of Ecologically Fragile Lands) Act, 2003

The Department did not have a definite action plan to identify the complete extent of land which qualifies as Ecologically Fragile Land (EFL) either under Section 3 or 4 of the EFL Act, 2003 even after 15 years of its implementation. Vesting of private plantations inside a National Park was delayed unjustifiably especially when the use of chemicals and fertilisers by the cultivators harm the ecology and wild life. There was no action plan to identify and conserve all the mangrove ecosystem. Forest Department could not take steps to maintain the EFL after including it in the Working Plan for protection and conservation. The survey and demarcation of boundaries of notified EFL was delayed indefinitely due to lack of co-ordination between Forest Department and Revenue Department.

(Chapter III)

1.6.1.3 Soil Survey and Soil Conservation activities in Agriculture Department

Watershed atlas prepared between 2005 and 2011 intended for prioritising the soil conservation activities was not reliable as it had deficiencies such as inclusion of forest areas, discrepancies in geographical area, lack of periodical updation etc. Adoption of rates as per old Schedule of Rates for execution of various Rural Infrastructure Development Fund schemes resulted in short receipt of assistance and consequent non-achievement of targets. Failure to forward proposals for additional funds within the prescribed time to meet extra expenditure on account of cost escalation resulted in shortfall ranging from 25 to 90 *per cent* in completing the activities in treatable areas. Soil Health Cards to help farmers to judiciously plan fertilizer application which would in turn reduce the cost of cultivation did not achieve the objectives. There was no evaluation of activities related to conservation by the Directorate of Soil Survey and Soil Conservation (DSSSC) in respect of creation and maintenance of assets utilising the Corpus fund. DSSSC prioritised carrying out renovation

of private ponds utilising the assistance under 13 FCA. Out of 480 public ponds available in the Kuttanad region, DSSSC carried out renovation works in 134 ponds of which 92 were private ponds.

(Chapter IV)

1.6.2 Compliance Audit Paragraphs

Audit of Transactions

- Watershed to treat an area of 228 Ha at project cost of ₹0.46 crore was stopped as the legal status of the land in possession of private people was a forest.

(Paragraph 5.1)

- Failure to recover risk and cost from the contractor and to re-award the work resulted in non-completion of soil conservation works to benefit 940 Ha of land and consequent loss of assistance of ₹1.37 crore from NABARD.

(Paragraph 5.2)

- Failure of DSSSC in submitting project proposals as per the RKVY guidelines in respect of 134 watersheds resulted in expenditure of ₹27.97 crore becoming unfruitful.

(Paragraph 5.3)

- PSU not directly executing works have been paid mobilisation advance of ₹0.81 crore in violation of instructions. Further, DSSSC had withdrawn ₹1.13 crore from the treasury in March 2015 before incurring the actual expenditure and held it till December 2015 as against the codal provisions.

(Paragraph 5.4)

- Irregular revision of rate of items mentioned in the agreement schedule by treating them as extra items and non-availing of agreed tender rebate while making payments thereon to the contractor resulted in undue benefit of ₹1.09 crore to the contractor.

(Paragraph 5.5)

- Execution of original works without prior approval of MoRTH by treating them as ordinary repair works resulted in rejection of reimbursement claim of ₹68.10 crore besides foregoing agency charges of ₹6.13 crore.

(Paragraph 5.6)

- The execution of work without tender process and unwarranted revision of agreed rates by PWD extended undue benefit of ₹92.32 lakh to the contractor.

(Paragraph 5.7)

- The PWD constructed “fender piles” for protecting a bridge from the impact of collision with barges even though bridge did not have scope for navigation of heavy vessels resulting in wasteful expenditure of ₹3.12 crore.

(Paragraph 5.8)

- Separate payment amounting to ₹2.28 crore was made to contractors by PWD outside the agreed rate for removing obstacles encountered during sinking of wells for foundation of four bridges.

(Paragraph 5.9)

- Lapse of the department in adhering to PWD Manual instructions and Government orders regarding finalisation of tender within firm period resulted in avoidable financial implication of ₹1.56 crore.

(Paragraph 5.10)

- Failure to exercise required verification by PWD resulted in double payment for executing an item of work in the construction of Mythrakadavu bridge across river Chaliyar in Malappuram District.

(Paragraph 5.11)

- Description of work in agreement schedule was at variance with provisions in data sheet and treating side protection work as extra item by Water Resources Department had resulted in extra expenditure to the tune of ₹7.05 crore.

(Paragraph 5.12)

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 issued by the State Government in 2010 provides for prompt response by the Executive to the IRs issued by the Accountant General (AG) to ensure action for rectification in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses etc., noticed during the inspection. The Heads 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 AG within four weeks of receipt of the IRs. Half-yearly reports of pending IRs are being sent to the Secretaries of the Departments concerned to facilitate monitoring of the audit observations.

As of 30 June 2015, 266 IRs containing 1,017 paragraphs were outstanding against the Forest and Agriculture Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

A review of the IRs pending due to non-receipt of replies, in respect of these two departments revealed that the Heads of offices had not sent even the initial replies in respect of 85 IRs containing 423 paragraphs.

1.7.2 Departmental Audit Committee Meetings

The Government set up department-wise audit committee to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. During the year 2014-15, five Audit Committee Meetings were held wherein 245 out of 2605 IR Paragraphs pertaining to the period between 2008-09 to 2014-15 relating to departments of Finance, Agriculture, Water Resources, Ports and Public Works were settled.

1.7.3 Response of departments to the draft paragraphs

Draft Paragraphs and Reviews were forwarded demi-officially to the Additional Chief Secretary/Principal Secretaries/Secretaries of the departments concerned between October 2015 and March 2016 with a request to send their responses within six weeks. The departmental replies were not received in respect of one review and seven out of 12 compliance audit draft paragraphs featured in this Report. The replies have been suitably incorporated in the Report.

1.7.4 Follow-up action on Audit Reports

The Finance department issued (January 2001) instructions to all administrative departments of the Government that they should submit Statements of Action Taken Notes on audit paras included in the Audit Reports directly to the Legislature Secretariat with copies thereof to the Audit Office within two months of their being laid on the Table of the Legislature.

The administrative departments did not comply with the instructions and five departments had not submitted Statements of Action Taken for 10 paragraphs for the period 2012-13 and 2013-14 respectively even as of February 2016. One Action Taken Note (ATN) each against Tourism and Co-operation Department and two ATNs against Information Technology and three ATNs from the Public Works and Water Resource Departments on Audit Paragraphs have not been received so far (March 2016).

1.7.5 Paragraphs to be discussed by the Public Accounts Committee

There were 16 paragraphs relating to seven departments pertaining to the period 2012-13 and 2013-14 pending discussion by the Public Accounts Committee as of February 2016. One Audit Paragraph each from Co-operation and Ports (Harbour Engineering), two Paragraphs each from Agriculture, Information Technology, Tourism Departments and four paragraphs each from Public Works and Water Resources Departments are pending discussion so far (March 2016).