

CHAPTER I INTRODUCTION

1.1 About this Report

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

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

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

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

1.2 Profile of units under audit jurisdiction

There were 43 Departments in the State at Secretariat level during 2016-17. The Accountant General (General and Social Sector Audit), Kerala (AG (G&SSA)), conducts audit of 30 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 Accountant General (Economic and Revenue Sector Audit), Kerala (AG (E&RSA)), conducts audit of 19 Departments¹.

The comparative position of expenditure incurred by the Government during the year 2016-17 and in the preceding two years is given in **Table 1.1**:

¹ Six departments included under AG (E&RSA) namely Finance, Food, Civil Supplies and Consumer Affairs, Planning and Economic Affairs, Public Works, Revenue and Water Resources are audited by AG (G&SSA) also.

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2014-15			2015-16			2016-17		
	Plan	Non-plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Expenditure									
General Services	133.76	31298.99	31432.75	116.98	35967.70	36084.68	181.39	41013.94	41195.33
Social Services	5893.10	17825.01	23718.11	7591.56	20011.73	27603.29	9773.34	23991.38	33764.72
Economic Services	4255.73	5941.84	10197.57	4369.95	6728.47	11098.42	3537.62	7117.73	10655.35
Grants-in-aid and Contributions		6398.00	6398.00		3903.08	3903.08		5480.91	5480.91
Total	10282.59	61463.84	71746.43	12078.49	66610.98	78689.47	13492.35	77603.96	91096.31
Capital Expenditure									
Capital outlay	3880.54	374.05	4254.59	6518.48	981.56	7500.04	8945.65	1180.30	10125.95
Loans and advances disbursed			743.09	407.61	434.64	842.25	375.25	785.04	1160.29
Repayment of public debt			5842.77			6060.73			7706.01
Contingency Fund			0.00			0.00			0.00
Public Account disbursements			136242.59			162824.67			179910.43
Total			147083.04			177227.69			198902.68
GRAND TOTAL			218829.47			255917.16			289998.99

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C&AG's (DPC) Act). C&AG conducts audit of expenditure of the Departments of the Government of Kerala (GOK) under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 24 Autonomous Bodies in the General and Social Sector, which are audited under Sections 19 and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 258 Autonomous Bodies, which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 1,216 educational institutions², 24 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1,200 Local Self-Government Institutions³ 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.

² Government-aided Colleges: 243;
Government-aided Higher Secondary Schools: 845; and
Government-aided Vocational Higher Secondary Schools: 128.

³ Grama Panchayats: 941, Block Panchayats: 152, District Panchayats: 14, Municipal Corporations: 6 and Municipalities: 87.

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

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

1.5 Planning and conduct of Audit

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

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

During 2016-17, the Office of the AG (G&SSA) utilised 12,866 party days to carry out audit of 1,915 units (compliance, performance and financial audits) of various departments/organisations under its jurisdiction. The audit plan covered those units/entities, which were vulnerable to significant risks as per risk assessment.

1.6 Significant Audit Observations

1.6.1 Performance audits of programmes/activities/departments

Chapter II includes Performance Audit of 'National Health Mission – Reproductive and Child Health (RCH) and Immunisation', Chapter III includes Performance Audit of 'Role of Kudumbashree in the socio-economic empowerment of women', Chapter IV includes Performance Audit of 'Functioning of Kerala Social Security Mission' and Chapter V includes Information System Audit on 'Enhanced Advanced Billing, Accounting and Collection Utility System (eABACUS) in Kerala Water Authority'. The significant audit observations are given in the following paragraphs.

1.6.1.1 National Health Mission – Reproductive and Child Health (RCH) and Immunisation

The Performance Audit was conducted to assess whether the interventions of the National Health Mission in the areas of maternal health, child health, family

planning and immunisation during 2012-17 were effective in improving the health standards of women and children in the State. The Performance Audit attempted to assess whether the physical and human resources were adequate, the procurement of drugs and equipment were efficient and economical and whether the overall financial management was efficient and effective. The Performance Audit revealed deficiencies in providing delivery services to women, setting up facilities for newborn at delivery points, shortfall in infrastructure, etc., as detailed below.

Government of Kerala did not release proportionate share of assistance of ₹323.22 crore during 2012-17. Over 12 *per cent* of 24.95 lakh pregnant women who registered for Ante Natal Care did not receive Iron and Folic Acid tablets. There was also shortfall in the percentage of women who received Tetanus Toxoid shots. Thirty seven *per cent* of 24.95 lakh pregnant women were not tested for HIV. Delivery facility was available only in 15 out of test-checked 65 institutions in selected districts, *viz.* Wayanad, Malappuram, Thrissur and Alappuzha. There were deficiencies in providing free diet and other facilities to pregnant women under Janani Shishu Suraksha Karyakram. Facilities like Newborn Care Corners and Newborn Stabilisation Units were not set up at all delivery points. The objectives of District Early Intervention Centres for early detection, free treatment and management of children with health conditions were not attained as almost 83 *per cent* of 9,588 children identified in Alappuzha, Malappuram, Wayanad and Thrissur districts during 2016-17 did not report for further treatment. Progress of immunisation in Malappuram and Wayanad districts was poor. There were deficiencies in infrastructure in healthcare institutions. Contrary to GOI guidelines, High Priority Districts of Kasaragod, Malappuram and Palakkad were denied additional funds to the extent of ₹86.40 crore during 2013-17.

(Chapter II)

1.6.1.2 Role of Kudumbashree in the socio-economic empowerment of women

‘Kudumbashree’ – a registered society under the Travancore-Cochin Literary, Scientific and Charitable Societies Registration Act, 1955, was set up as a Poverty Eradication Mission in Kerala on 17 May 1998. Kudumbashree has evolved into a mass women participation programme, encompassing 43 lakh members. Over the years, Kudumbashree received many national and international awards for excellence and best practice and is a globally acclaimed model of women empowerment and entrepreneurship. A Performance Audit to assess the role of Kudumbashree in the socio-economic empowerment of women was conducted covering the period 2012-17. The Performance Audit brought out the following audit findings.

At least 35 *per cent* of Micro Enterprises (MEs) under Kudumbashree were inactive. MEs were registered without assessing financial viability of projects being undertaken by them. Training to members of Neighbourhood Groups (NHGs) was not conducted as envisaged. ‘Punarjani’ a skilling and placement project to train 5,000 Kudumbashree workers benefitted only 1,794 members. The activities of Programme Implementation Agencies (PIAs) were not monitored by Kudumbashree resulting in deficiencies in the scheme. The target

of bringing a minimum of 24,000 Ha of land under cultivation with the participation of 1,50,000 women forming 30,000 farming groups under Mahila Kisan Sashakthikaran Pariyojana was not achieved. Project to train women in video making under 'Mediasree' did not deliver the intended results. A Community College programme implemented by Kudumbashree in collaboration with Tata Institute of Social Sciences offered a one-year postgraduate diploma course in Development Praxis to only one batch of 43 students. Financial Management under Kudumbashree was deficient. The financial statements contained material mis-statements and did not give a correct picture about the financial transactions of Kudumbashree during 2012-16.

(Chapter III)

1.6.1.3 Functioning of Kerala Social Security Mission

The Kerala Social Security Mission (KSSM), a registered society under the Travancore-Cochin Literary, Scientific and Charitable Societies Registration Act, 1955, was set up to formulate and implement social security schemes in the State. A Performance Audit was conducted on the functioning of KSSM covering the period 2012-17. The Performance Audit focused on assessing the effectiveness of various programmes/schemes implemented by KSSM, the efficiency of financial management and the status of internal control mechanism and brought out the following audit findings.

The accounts of KSSM were audited only upto the financial year 2014-15 and accounts for the years 2015-17 were yet to be finalised. The systemic deficiencies pointed out by the auditors during the years 2012-13 to 2014-15 were persisting. Order of Government of Kerala to transfer ₹20 crore from the Corpus fund of KSSM to Kudumbashree Mission led to premature closure of a Fixed Deposit and resultant loss of interest income of ₹0.59 crore to KSSM. Under the scheme 'Sruthitharangam', 134 children in the Government Medical College, Kozhikode were awaiting (August 2017) mandatory testing and evaluation of hearing threshold, for assessing suitability for cochlear implantation. Around 10,000 applications received by KSSM for obtaining assistance under Aswasakiranam, a scheme for rendering financial assistance to Caregivers of bed-ridden patients were found bundled and stacked at the office of the Mission, without registration and processing. Failure of KSSM to follow-up and ensure receipt of duly signed and stamped computer generated lists of online applications from the Heads of Institutions resulted in denial of assistance to 57,831 beneficiaries under Snehapoorvam, a scheme for providing financial assistance to children who lost either or both of their parents. Failure of Coordinators/Child Development Project Officers (CDPOs) to identify tribal unweaned mothers resulted in inability to render financial assistance to all potential beneficiaries, as envisaged under Snehasparsham scheme.

(Chapter IV)

1.6.1.4 Information System Audit on ‘Enhanced Advanced Billing, Accounting and Collection Utility System’ (eABACUS) in Kerala Water Authority

Kerala Water Authority is entrusted with the task of providing quality drinking water and sewerage services in an eco-friendly and sustainable manner to the people of the State. Enhanced Advanced Billing, Accounting and Collection Utility System (eABACUS), is a billing, accounting and collection system developed by National Informatics Centre and put to use in Kerala Water Authority. The deficiencies observed in planning, system design, IT controls and security of eABACUS are given below.

Deficiencies in system design led to inaccurate mapping of business rules that resulted in non-collection of fees and fine amounting to ₹76.50 lakh. Improper designing of database deprived the system from exercising online monitoring controls, which resulted in cash embezzlement of ₹6.42 lakh. Bypassing segregation of duties exposed the system to the risk of irregularity and adversely affected accountability of transactions. Failures in access controls exposed the system to the risk of exclusion of consumers from billing cycle. Inadequate monitoring of service contract led to non-reversal of the amount of failed transactions and non-refunding of the service charges levied from consumers involving ₹8.50 lakh. Inaccuracies and delay in mapping of business rules exposed the system to wrong processing of transactions involving short collection of sewerage and water charges of ₹450.66 lakh and excess collection of water charges of ₹1.35 lakh. Weak process controls and mistakes in software led to generation of inaccurate water bills resulting in loss of ₹17.38 lakh. Failure in subjecting to standardisation testing exposed the system to major information security flaws.

(Chapter V)

1.6.2 Compliance Audit Paragraphs

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

1.6.2.1 Role of Factories and Boilers Department in the safety of factory workers

The Department of Factories and Boilers was formed in 1961 by bifurcating the Labour Department so as to focus more on the health, safety and welfare of factory workers in the State and to facilitate the pace of industrialisation. The audit was conducted from April 2017 to August 2017 covering the period 2012-13 to 2016-17 to assess the enforcement of the provisions relating to the safety of factory workers by the Department as stipulated in the Factories Act, 1948 and other relevant enactments.

The Department of Factories and Boilers, which was responsible for enforcing the provisions of Factories Act did not have effective mechanism to ensure compliance of factories to the safety standards stipulated under the Act. The number of factories registered with the Department under the Act was very low. The data on number of factories with the Department was hugely understated.

The inspection of factories was inadequate. Audit noticed shortfall in posts of Inspectors, which adversely affected enforcement measures of various provisions under the Act. Training on safety at work was imparted only to 0.40 *per cent* of the total workers. The implementation of the provisions of the Factories Act with reference to the safety of workers was, thus, not satisfactory.

(Paragraph 6.1)

1.6.2.2 Implementation of Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979

Government of India (GOI) enacted the Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979, in June 1979 to regulate the employment of Inter-State Migrant Workmen (ISMW) and to provide for their conditions of service and other matters connected therewith. Audit was conducted from April 2017 to July 2017 covering the period 2012-13 to 2016-17 to assess the compliance of the Department to the provisions relating to the ISMW as stipulated in the Act and the Rules. Audit assessed whether all establishments and contractors to whom the Act applies in the selected districts of Thiruvananthapuram, Kollam, Ernakulam, Kottayam, Kozhikode and Kannur were registered and issued with licences respectively and whether the amenities mandated by the Act to ISMW were provided to the workers. Audit also examined whether records maintained by the principal employer/contractor in selected cases were in compliance with the provisions of the Act and whether penal provisions were enforced in the event of contravention of any of the provisions in the Act.

Audit observed that the Department was lax in identifying ISMW and ensuring that the benefits under the Act were derived by these workers. The District Labour Officer (Enforcement) who was the registering officer appointed under Section 3 of the Act failed to evolve a mechanism to ensure that all establishments engaging ISMW were registered under the Act. The Department issued licences to the contractors without ensuring whether the contractors possessed valid licences issued by a competent authority of the home State, to recruit from that State for employment in Kerala. Audit observed laxity on the part of Inspectors in diligently pursuing cases and ensuring prosecution of offenders under the Act. The implementation of the Inter-State Migrant Workmen Act in the State was, thus, not effective.

(Paragraph 6.2)

1.6.2.3 Failure of Oversight/Administrative Controls

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

- Non-adherence to codal provisions and laxity in discharge of mandated responsibilities resulted in misappropriation of ₹4.86 lakh in Vilappilsala Police Station, Thiruvananthapuram.

(Paragraph 6.3)

- Government of Kerala irregularly assigned land falling under 'residential zone' for construction of a pharmaceutical factory resulting in denial of mandatory clearances from local body and consequent idle investment and locking up of funds to the tune of ₹3.76 crore.

(Paragraph 6.4)

- Director of Technical Education violated AICTE norms/GOK orders while making placement to posts of Associate Professors resulting in inadmissible payment of at least ₹1.46 crore in 24 cases test-checked.

(Paragraph 6.5)

- The Principal, Central Polytechnic College, Thiruvananthapuram failed to follow-up and ensure successful submission of application for Extension of Approval to AICTE for 2015-16, resulting in irregularly granting admission to 360 students to its courses in 2015-16 without obtaining approval from the AICTE. Further, admission could not be conducted to any of its six courses in 2016-17 since AICTE did not permit restoration of intake of students due to deficiencies noticed during inspection.

(Paragraph 6.6)

- Non-finalisation of tender for construction of two buildings within the firm period led to avoidable excess expenditure of ₹1.53 crore to Government of Kerala.

(Paragraph 6.7)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Outstanding Inspection Reports

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

It was noticed that as on 30 June 2017, 770 IRs (3,580 paragraphs) were outstanding in respect of Higher Education, Indian System of Medicine (ISM)

Ayurveda, Local Self Government and Public Works (Buildings) Departments. Even initial replies in respect of 109 IRs containing 841 paragraphs issued upto 2016-17 were pending from the Higher Education, Indian System of Medicine (ISM) Ayurveda, Local Self Government and Public Works (Buildings) Departments. Year-wise details of IRs and paragraphs outstanding are given in **Appendix 1.1**.

1.7.2 Response of Departments to the paragraphs included in this Report

Performance and Compliance Audit paragraphs were forwarded to the Additional Chief Secretaries/Principal Secretaries/Secretaries of Departments concerned during August to November 2017 to send their replies within six weeks. Replies from Government for all the four Performance Audits and six out of the seven compliance audit paragraphs featured in this Report were received. These replies were suitably incorporated in the Report.

1.7.3 Follow-up on Audit Reports

According to the Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports/timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, issued by the State Government in 2010, the Administrative Departments should submit Statements of Action Taken Notes on audit paragraphs included in the Reports of the C&AG directly to the Legislature Secretariat, with copies to the AG within two months of their being laid on the Table of the Legislature. The Administrative Departments did not comply with the instructions and seven Departments, as detailed in **Appendix 1.2**, did not submit Statements of Action Taken Notes of 21 paragraphs for the period 2012-13 to 2015-16, as of September 2017.

1.7.4 Paragraphs pending discussion by the Public Accounts Committee

Thirty seven paragraphs pertaining to 15 Departments for the period 2012-13 to 2015-16 were pending discussion by the Public Accounts Committee as on 30 September 2017 (**Appendix 1.3**).