

## 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 under the Economic Sector.

Compliance audit refers to the 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, in addition to 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, 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 Accountant General (Economic & Revenue Sector Audit), Kerala conducts audit of 11 Departments and 18 Autonomous Bodies under the Economic Sector in the State. 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 2016-17 with that of the preceding year is given in **Table 1.1**.

**Table 1.1. Comparative position of expenditure incurred by the Government**

(₹ in crore)

Disbursements	2015-16			2016-17			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
<b>Revenue Expenditure</b>							
General Services	116.98	35,967.70	36,084.68	181.39	41,013.94	41,195.33	(+)14.16
Social Services	7,591.56	20,011.73	27,603.29	9,773.34	23,991.38	33,764.72	(+)22.32
Economic Services	4,369.95	6,728.47	11,098.42	3,537.62	7,117.73	10,655.35	(-)3.99
Grants-in-aid and Contributions	---	3,903.08	3,903.08	---	5,480.91	5,480.91	(+)40.43
<b>Total</b>	<b>12,078.49</b>	<b>66,610.98</b>	<b>78,689.47</b>	<b>13,492.35</b>	<b>77,603.96</b>	<b>91,096.31</b>	<b>(+)15.77</b>
<b>Capital Expenditure</b>							
Capital outlay	6,518.48	981.56	7,500.04	8,945.65	1,180.30	10,125.95	(+)35.01
Loans and advances Disbursed	407.61	434.64	842.25	375.25	785.04	1,160.29	(+)37.76
Repayment of public debt	---	---	6,060.73	---	---	7,706.01	(+)27.15
Contingency Fund	--	--	---	--	--	---	---
Public Account disbursements	--	--	1,62,824.67	--	--	1,79,910.43	(+)10.49
<b>Total</b>	<b>6,926.09</b>	<b>1,416.20</b>	<b>1,77,227.69</b>	<b>9,320.9</b>	<b>1965.34</b>	<b>1,98,902.68</b>	<b>(+)12.23</b>
<b>Grand Total</b>	<b>19,004.58</b>	<b>68,027.18</b>	<b>2,55,917.16</b>	<b>22,813.25</b>	<b>79,569.3</b>	<b>2,89,998.99</b>	<b>(+)13.32</b>

Source: Report of the Comptroller and Auditor General of India for the year ended 31 March 2017 (State Finances).

### 1.3 Authority for Audit

C&AG's authority for audit 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 the audit of expenditure of the departments of the Government of Kerala under Section 13<sup>1</sup> of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of one autonomous body in the Economic Sector, which is audited under Sections

<sup>1</sup>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.

19(3)<sup>2</sup> and 20(1)<sup>3</sup> of the C&AG's (DPC) Act. Besides, C&AG also conducts audit of 17 other autonomous bodies in the Economic Sector under Section 14<sup>4</sup> & 15 of C&AG's (DPC) Act, 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 C&AG.

#### **1.4 Organisational structure of the Office of the Accountant General (Economic & Revenue Sector Audit), Kerala**

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

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

The audit process starts with the assessment of risks faced by various departments of the Government based on the 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 the State under Article 151 of the Constitution of India for being presented to the State Legislature.

During 2016-17, in the Economic Sector Audit Wing, 4155 party days were utilised to carry out audit of 42 units.

#### **1.6 Significant audit observations**

In the last few years, Audit reported on several significant deficiencies in the 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, deficiencies noticed during the compliance audit of government departments/organisations are also reported upon.

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<sup>2</sup>Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>3</sup>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 C&AG and the Government.

<sup>4</sup>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.

The present report contains findings of one performance audit and seven compliance audit paragraphs. The significant audit observations are discussed below:

### **1.6.1 Performance audit of programme/department**

#### **1.6.1.1 Implementation of the Wildlife (Protection) Act, 1972 in the State**

A performance audit was conducted to assess whether there was proper and adequate planning for the conservation and protection of wildlife in the State; and whether implementation and enforcement measures for wildlife protection were taken in accordance with the Act.

Though the Government constituted the State Wildlife Board as mandated under the Act, its meetings were not held as prescribed, which hampered timely advice to the Government. Advisory committees for managing sanctuaries as mandated in the Act were not constituted, which did not give the benefit of local participation in the management of sanctuaries.

The Government failed to issue final notifications in respect of seven National Parks/Sanctuaries after settling all claims in or over the land. Though, the area under protected area network was claimed to be 8.27 *per cent* (3,213 sq km) of the State's landmass, 654.66 sq km of this was yet to be notified as sanctuaries, thereby reducing the area under protected area network to 6.58 *per cent* (2,558 sq km). The Government did not take effective measures to increase the protected area network though 11,309 sq km is under forest area, of which only 2,558 sq km is under protected area network.

There were deficiencies in the planning and implementation of conservation, protection and enforcement measures. This resulted in lack of continuity in approved working plans, lack of management prescription for management of wildlife in newly added area to tiger reserves, delayed detection of wildlife offences, ineffective measures to combat encroachments etc. The conviction rate of wildlife offences was low due to their ineffective handling. Tourism/construction activities were not regulated as prescribed in the Act. Mitigation measures as required under the master plan for Sabarimala to lessen the impact due to pilgrimage activities were not implemented.

Effective measures were not taken to restore the identified elephant/wildlife corridors in the State or to relocate settlements inside sanctuaries to lessen man-animal conflicts.

The Government permitted declaration of animal articles by a person against whom an offence under the Act was registered, in violation of the provisions of the Act. The Government failed to ensure compliance of Kerala Captive Elephants (Management and Maintenance) Rules, 2012, by the captive elephant owners.

*(Chapter 2)*

## **1.6.2 Compliance Audit**

### **1.6.2.1 Contract management in Public Works Department**

Public Works Department (PWD) plays a major role in the design, construction and maintenance of roads and bridges coming under its jurisdiction. The compliance Audit on 'Contract management in PWD' was conducted with a view to examine comprehensiveness of planning/estimation, transparency in tendering/awarding of the works, adherence to financial propriety and qualitative execution of works by the Department.

Instances of arrangement of work without ensuring land or fund allocation and carrying out of work during the defect liability period were revealed in audit. The estimate rates were seen inflated due to defective calculation of unit rates for items of work, arithmetical errors, excess provision of cement concrete, violation of MoRTH specification, excess provisions of overhead charges and adopting of uneconomical methods of work.

Irregularities such as waiving of tender call in violation of delegated powers, inadequate provision for time of completion and non-finalisation of tender within the firm period with consequent excess cost of ₹21.19 crore were noticed in audit.

Audit observed irregular provision for incidental items of work, entrustment of works valued ₹809.93 crore to M/s ULCCS without tenders in violation of the guidelines issued by the Finance Department and providing of undue benefit to the contractor by exempting him from keeping security deposit as required. Lapses were noticed in ensuring validity and invoking of Bank Guarantee amounting to ₹2.16 crore in respect of terminated works. Changes in items of work causing additional financial burden, insufficient provision of defect liability period, exempting payment of royalty and irregularities in revision of estimates resulting in undue benefit to contractor and consequent financial burden to the Government were also observed during audit.

*(Paragraph 3.1)*

### **1.6.2.2 Functioning of the Kerala Road Fund Board**

The Kerala Road Fund Board (KRFB) was established in the year 2002 pursuant to the Kerala Road Fund Act, 2001. The Fund was intended for investment in transport facility projects in the State. The compliance audit was taken up to ascertain whether the Fund was established and administered properly, the projects were implemented observing financial propriety and the supervision and monitoring of the projects by KRFB were in compliance with the Act.

The Act provides for funding from various receipts of the Government of Kerala (GoK). But, GoK released only ₹895.23 crore (upto June 2017). During the last 15 years, KRFB undertook only two City Road Improvement Projects for improving 64.318 km of road. KRFB advanced ₹53.69 crore to a PSU during 2007 and 2008, which is lying unrecovered. Lending of money was outside the purview of the functions of KRFB and not in conformity with the Act and Rules.

KRFB gave mobilisation advance amounting to ₹19.22 crore disregarding government directives, thereby rendering undue favour to contractors. The Chief Executive Officer exercised financial powers beyond delegation and continued in office without government approval.

The Thiruvananthapuram City Road Improvement Project was implemented under BOT-Annuity mode with half yearly annuity of ₹17.749 crore. The Operation and Maintenance period was 15 years. Project facilities were not maintained as per agreement conditions and the KRFB did not invoke penal provisions thereon. KRFB did not engage the Independent Engineer/Project Engineer according to the procedure prescribed under Article 4.1 of the Concession agreement. Consequently, the Concessionaire refused to accept the observations of the Independent Engineer. KRFB allowed exorbitant rates as differential cost for substituting material for pavement of foot path resulting in undue benefit of ₹10.74 crore to the Concessionaire. KRFB incurred an amount of ₹79.50 lakh for providing traffic wardens to regulate traffic during construction, which was to be borne by the Concessionaire. Consequent on the phasing of the project, payment of proportionate annuity was regulated rendering undue financial gain worth ₹3.98 crore to the Concessionaire. Exorbitant rates were fixed for restoration works, which entailed financial burden to the utility agencies/public and undue benefit to the Concessionaire.

*(Paragraph 3.2)*

### **1.6.3 Compliance Audit Paragraphs**

- Lapses in adhering to the tender and agreement conditions, selection of incompetent suppliers, non-observance of the provisions of the Stores Purchase Manual and poor contract management resulted in non-delivery of two boats intended for tourism activities despite paying ₹68.34 lakh.

*(Paragraph 4.1)*

- Non exercise of propriety by departmental authorities in arranging road work resulted in execution of three unwarranted works costing ₹74.99 lakh. Besides, fictitious measurements and admission of irregular claims by departmental authorities resulted in payment of ₹15.78 lakh.

*(Paragraph 4.2)*

- Post contractual changes made to compensate a contractor for the price of bitumen resulted in extra liability of ₹70 lakh to the Government.

*(Paragraph 4.3)*

- Executive Engineer enabled the contractor to execute works of more than ₹4.56 crore without remitting security deposit and performance security deposit of ₹72.50 lakh, thus failing to indemnify the Government against future liabilities.

*(Paragraph 4.4)*

- Failure of the departmental technical committee in ensuring that the dredgers supplied by the contractor matched the required specifications and configuration resulted in supply of sub-standard dredgers unfit for the intended purpose, making ₹7.58 crore spent on their purchase unfruitful.

*(Paragraph 4.5)*

## **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 audit observations.

As on 30 June 2017, 496 IRs containing 2,044 paragraphs were outstanding against PWD (Roads and Bridges), Irrigation, Agriculture & Farmers' Welfare and Forests & Wildlife 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 four departments revealed that the Heads of offices did not send even the initial replies in respect of 73 IRs containing 428 paragraphs.

### **1.7.2 Departmental Audit Committee Meetings**

During the year 2016-17, nine Audit Committee Meetings were held wherein 143 out of 455 IR paragraphs pertaining to the period between 2010-11 and 2015-16 relating to departments of Public Works (Roads and Bridges), Irrigation, National Savings, Agriculture & Farmers' Welfare, Forests & Wildlife, Civil Supplies and Kerala Road Fund Board were settled.

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

Draft Paragraphs and Reviews were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the departments concerned between December 2017 and February 2018 with a request to send their responses within six weeks. The Government reply for the performance audit was received and suitably incorporated in this Report. The Government replies were not received for any of the compliance audit paragraphs featured in this 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 paragraphs 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.

Five out of 11 departments did not submit Statements of Action Taken Notes for 11 paragraphs for the periods 2012-13 and 2015-16 even as of January 2018. Action Taken Notes on audit paragraphs were due from the Departments of Water Resources (four numbers), Public Works, Fisheries & Ports, Agriculture & Farmers' Welfare (two each) and Forests & Wildlife (one).

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

There were 35 paragraphs relating to 11 Departments pertaining to the period 2012-13 and 2015-16 pending discussion by the Public Accounts Committee as of January 2018. Pending audit paragraphs include one each from Harbour Engineering, Co-operation, Forests & Wildlife and Transport, Coastal Shipping & Inland navigation; two paragraphs each from Information Technology, Tourism, Irrigation, Industries and Fisheries & Ports; three paragraphs from Water Resources, nine paragraphs each from Agriculture & Farmers' Welfare and Public Works departments.