

Chapter I

Introduction

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 the transactions. The findings of Audit are expected to enable the Executive to take corrective actions and to frame policies and directives that would 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 the implementation of selected schemes, the significant audit observations made during compliance audit and follow-up on the previous Audit Reports.

1.2 Profile of units under audit jurisdiction

The Accountant General (Economic & Revenue Sector Audit), Kerala conducts audit of 10 Departments and 16¹ 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 position of expenditure incurred by the Government during the year 2017-18 in comparison with preceding year is given in **Table 1.1**.

¹Including (i) 'Command Area Development Authority', wound up with effect from 31/03/2017 but the accounts of which for the years 2015-16 and 2016-17 are yet to be finalised and (ii) the Kerala State Sericulture Co-operative Federation Limited.

Table 1.1 Comparative position of expenditure incurred by the Government

(₹ in crore)

Disbursements	2016-17			2017-18			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
Revenue Expenditure							
General Services	181.39	41,013.94	41,195.33	418.30	45,105.47	45,523.77	(+)10.50
Social Services	9,773.34	23,991.38	33,764.72	12,425.84	23,450.43	35,876.27	(+)06.25
Economic Services	3,537.62	7,117.73	10,655.35	3,337.60	8,013.48	11,351.08	(+)06.53
Grants-in-aid and Contributions	---	5,480.91	5,480.91	---	7,197.23	7,197.23	(+)31.31
Total	13,492.35	77,603.96	91,096.31	16,181.74	83,766.61	99,948.35	(+)09.72
Capital Expenditure							
Capital outlay	8,945.65	1,180.30	10,125.95	7,993.68	755.19	8,748.87	(-)13.60
Loans and advances Disbursed	375.25	785.04	1,160.29	1,380.82	159.77	1,540.59	(+)32.78
Repayment of public debt	---	---	7,706.01			13,132.10	(+)70.41
Contingency Fund	--	--	---			---	---
Public Account disbursements	--	--	1,79,910.43			2,07,174.17	(+)15.15
Total	9,320.90	1,965.34	1,98,902.68	9,374.50	914.96	2,30,595.73	(+)15.93
Grand Total	22,813.25	79,569.30	2,89,998.99	25,556.24	84,681.57	3,30,544.08	(+)13.98

Source: Report of the Comptroller and Auditor General of India for the year ended 31 March 2018 (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 13² of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of one Autonomous Body³ in the Economic Sector, which is audited under Sections 19(3)⁴ and 20(1)⁵ of the C&AG's (DPC) Act. Besides, C&AG also conducts audit of 15 other Autonomous

² 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.

³ Command Area Development Authority.

⁴ Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.

⁵ 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.

Bodies in the Economic Sector under Section 14⁶ & 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 and 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 the year 2017-18, the Economic Sector Audit Wing utilised 2,812 party days to carry out audit of 231 units.

1.6 Significant audit observations

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

⁶ 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 rupees one crore.

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

1.6.1 Performance audit of programme/department

1.6.1.1 Quality control measures in maintenance of roads by Public Works Department

The Performance Audit was conducted to examine whether the system for implementing quality control measures was efficient during the execution of works and whether the quality control measures adopted in the maintenance of roads, including road and traffic safety, were adequate and effective. The Audit findings are grouped under (i) Quality Control, (ii) Quality Assurance and (iii) Maintenance, including road safety.

Audit noticed that the mandatory quality control tests envisaged in the PWD Manual were not included in the tender and contract documents. Divisional Offices/Quality Control Labs and the office of the Chief Engineer (Designs) which controlled the Quality Control wing did not have a panel of the approved labs. The Government of Kerala circumvented the Quality control tests stipulated by the Ministry of Road Transport and Highways (MoRTH) by restricting the cost of works. Works with large estimates were split up into smaller amounting works in order to avoid quality control tests.

Audit test checked 282 works. It was found that field laboratories mandatory for works costing more than rupees two crore were not set up by contractors at the site of 85 works. Further, 119 works costing ₹366.09 crore did not have mandatory first-tier quality control tests comprising of 37 tests and 106 works were subjected to four to nine tests only. Second tier tests were conducted only in 85 works costing ₹495.32 crore. Non-adoption of approved job mix formula affected the quality of road works. The departmental supervision of works was inadequate. In eight out of nine ongoing works verified by Audit, the contractors did not deploy qualified engineering personnel at the works sites. The Department lacked proper monitoring mechanism to ensure that quality control tests were conducted during execution of works.

The Department did not carry out road maintenance works as prescribed in the PWD Manual, Indian Road Congress (IRC)/MoRTH specifications and the QC Manual. The Roads Divisions did not maintain road chart of important roads. The maintenance and renewal works of roads were not being prioritised as envisaged in the PWD Manual. The PWD Roads wing did not have a mechanism for the timely detection and rectification of defects of roads. Audit observed that lapses in arranging periodic renewal works resulted in severe damage to the carriageway, causing distress to the road users. Unsuitable methods were used in maintenance works.

Road drainages and shoulder berm were not maintained properly which affected the quality of many roads. Lapses in the restoration of roads after carrying out trenching works damaged the road surface, creating discomfort to road users.

(Chapter 2)

1.6.2 Compliance Audit Paragraphs

1.6.2.1 Functioning of Agency for Development of Aquaculture Kerala

The Agency for Development of Aquaculture, Kerala (the Agency) is an autonomous body functioning under the Department of Fisheries with the objective to promote aquaculture and other related activities. The Compliance Audit was conducted to examine whether the programmes were implemented according to the existing regulations and guidelines; and whether the financial management of the Agency was effective.

Audit noticed that the hatchery and farms functioning under the Agency did not comply with the regulatory requirements stipulated in the Coastal Aquaculture Authority Act, 2005. The Agency failed to adhere to the guidelines issued by Coastal Aquaculture Authority (CAA) for culturing of Whiteleg shrimp (*Litopenaeus vannamei*). This contributed to the failure of two crops of Whiteleg shrimp cultivated in the farm at Poyya. The Agency implemented the project 'Promotion of Rice cum Shrimp Farming in Kaipad Lands' in the years 2013-14 and 2014-15 with the objectives of enhancing overall productivity of the wet land ecosystem, promotion of sustainable aquaculture practices, sustaining of paddy cultivation and increasing the per capita income of farmers. The project, however, failed due to non-adherence to the project guidelines, though a subsidy of ₹1.22 crore was paid to the beneficiary groups.

Audit noticed that the Agency did not stock feeds under the recommended storage conditions and that bulk purchase of feed resulted in retention and usage of time expired feed. The three Polymerase Chain Reaction (PCR) Laboratories run by the Agency for assisting the farmers in shrimp seed tests did not have CAA recognition, defeating the standardization initiatives of CAA. The Agency farmed genetically improved fishes without adhering to the safeguards recommended by the Kerala State Bio-diversity Board (KSBB) raising potential risk to bio-diversity.

The Agency retained unutilised government grants in its bank accounts violating government instructions to retain the same in Treasury Savings Bank Accounts. It was also noticed that the Agency submitted utilization certificates to the Government without actually utilising the grants given by the Government.

Audit observed that the finalization and audit of annual accounts of the Agency was in arrears from the year 2014-15 onwards. The Public Accounts Committee (PAC) (2014-16) in its 66th Report (July 2014) expressed displeasure at the slackness shown by the Agency in preparing the Annual Reports and Accounts and recommended for

disciplinary action against the officials concerned. The Agency did not maintain the basic accounting records.

(Paragraph 3.1)

1.6.2.2 Other Compliance Audit Paragraphs

- Department paid an amount of ₹88.80 lakh to a select group of 74 owners of illicit china nets disregarding the fact that they were already paid compensation of ₹92.5 lakh and were not eligible for the second payment.

(Paragraph 3.2)

- Departmental lapse in enforcing the provisions of the Kerala Co-operative Societies Act, 1969 regarding audit fees resulted in non-collection/short collection of audit fee of ₹16.69 crore.

(Paragraph 3.3)

- Ineffective internal control system of the Co-operation Department led to non-remittance/short remittance of dividend of ₹95.44 lakh by Co-operative Societies to the Government.

(Paragraph 3.4)

- Lack of prudence and total disregard of rules on Survey and Registration of boats made ₹1.82 crore spent on the purchase of nine ferro cement hulled boats by the Kerala State Co-operative Consumers' Federation Ltd., infructuous.

(Paragraph 3.5)

- Failure to recover the cost of bitumen from the work bills at the rates included in the revised estimate resulted in excess payment of ₹99.72 lakh to the contractor.

(Paragraph 3.6)

- Incorrect calculation of volume of work by the Department based on fictitious level measurement quantities resulted in inadmissible payment of ₹1.54 crore to the contractor.

(Paragraph 3.7)

- Failure of the Department in the management of securities from contractors resulted in extension of undue favour amounting to ₹15.73 crore to contractors, besides placing of avoidable financial burden of ₹1.34 crore on the Government.

(Paragraph 3.8)

- Non-finalisation of tender by the Department within the prescribed firm period resulted in avoidable expenditure of ₹3.17 crore.

(Paragraph 3.9)

- Construction of three bridges without approach/access roads resulted in their idling, making ₹20.38 crore spent on their construction unfruitful.
(Paragraph 3.10)
- Reimbursement of the cost of bitumen at market rates violating the provisions of the PWD Manual and agreement conditions resulted in inadmissible payment of ₹12.89 crore to the contractors on 65 road works.
(Paragraph 3.11)
- Due to the non-adherence to the CRZ notification in implementation of projects by the Department of Tourism, the project proponent, there was loss of Government of India assistance to the tune of ₹9.55 crore in respect of two projects and irregular expenditure of ₹8.97 crore in respect of three projects out of six projects examined.
(Paragraph 3.12)

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 (IRs) 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 2018, 472 IRs containing 1,932 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 furnish even the initial replies in respect of 47 IRs containing 276 paragraphs.

1.7.2 Departmental Audit Committee Meetings

During the year 2017-18, six Audit Committee Meetings were held wherein 124 out of 824 IR paragraphs pertaining to the period between 2009-10 and 2015-16 relating to departments of Public Works (Roads and Bridges), Water Resources (Irrigation), Agriculture & Farmers' Welfare, Food, Civil Supplies & Consumer affairs were settled.

1.7.3 Response of departments to the draft paragraphs

Twelve Draft Paragraphs and a Performance Audit paragraph were forwarded semi-officially to the Additional Chief Secretaries/Principal Secretaries/ Secretaries of the departments concerned between December 2018 and February 2019 with a request to furnish their responses within the time limit. The Government replies in respect of Performance Audit and two compliance Audit paragraphs are awaited. The replies received are suitably incorporated 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 the 10 departments did not submit Statements of Action Taken Notes for 10 paragraphs for the periods from 2012-13 to 2015-16, even as of January 2019. Action Taken Notes on audit paragraphs were due from the Departments of Water Resources (four), Public Works, Fisheries & Ports (two each), Agriculture & Farmers' Welfare and Forests & Wildlife (one each).

1.7.5 Paragraphs to be discussed by the Public Accounts Committee

There were 15 paragraphs relating to 10 Departments pertaining to the period from 2012-13 to 2015-16 pending discussion by the Public Accounts Committee as of January 2019. Pending audit paragraphs include one from Transport, Coastal Shipping & Inland navigation; two each from Public Works, Fisheries & Ports, Forests & Wildlife; three paragraphs from Agriculture & Farmers' Welfare and five from Water Resources departments.