

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 conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, 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 the audit of transactions and follow-up on previous Audit Reports.

1.2 Profile of units under audit jurisdiction

There are 40 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and 23 autonomous bodies which are audited by the Principal Accountant General (General and Social Sector Audit), Kerala and the Accountant General (Economic and Revenue Sector Audit), Kerala.

The comparative position of expenditure incurred by the Government during the year 2011-12 and in the preceding four years is given in **Table 1.1:**

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2007-08			2008-09			2009-10			2010-11			2011-12		
	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total
Revenue expenditure															
General Services	207.10	11976.99	12184.09	158.95	12508.42	12667.37	370.83	13564.69	13935.52	184.43	15233.96	15418.39	72.98	20227.04	20300.02
Social Services	1338.56	6451.32	7789.88	1910.30	7452.54	9362.84	2347.98	8119.17	10467.15	2505.61	9605.19	12110.80	3401.92	12821.94	16223.86
Economic Services	731.63	2086.77	2818.40	1142.61	2785.92	3928.53	1460.24	2780.48	4240.72	1505.70	2851.76	4357.46	1852.31	4279.35	6131.66
Grants-in-aid and Contributions		2099.27	2099.27		2265.12	2265.12	—	2488.98	2488.98	—	2778.16	2778.16	—	3389.08	3389.08
Total	2277.29	22614.35	24891.64	3211.86	25012.00	28223.86	4179.05	26953.32	31132.37	4195.74	30469.07	34664.81	5327.21	40717.41	46044.62
Capital Expenditure															
Capital outlay	1451.71	22.87	1474.58	1670.76	24.84	1695.60	1902.16	157.23	2059.39	2765.66	598.03	3363.69	3398.10	454.82	3852.92
Loans and advances disbursed	819.87	73.29	893.16	579.25	404.44	983.69	704.20	172.48	876.68	319.31	442.43	761.74	416.68	581.86	998.54
Repayment of public debt ¹			1432.79			1650.34	—	—	1765.06	—	—	1975.03	—	—	2893.06
Contingency Fund			80.00			5.84	—	—	26.27	—	—	33.92	—	—	20.80
Public Account disbursements			46413.11			53627.80	—	—	57271.53	—	—	70558.27	—	—	91200.26
Total			50293.64			57963.27			61998.93			76692.65			98965.58
Grand Total			75185.28			86187.13			93131.30			111357.46			145010.20

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 conducts 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 23 autonomous bodies which are audited under sections 19(2)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 887 other autonomous bodies/institutions⁵, under Section 14⁶ 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 Excluding net transactions under ways and means advances

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 & other subsidiary accounts.

³ Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations.

⁴ 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.

⁵ Includes Government aided Higher Secondary Schools, Colleges, etc.

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 ₹ one crore.

1.4 Organisational structure of the Offices of the Principal Accountant General (G&SSA) and Accountant General (E&RSA), Kerala

Under the directions of the C&AG, the offices of the Principal Accountant General (G&SSA) Kerala conduct audit of Government Departments/Offices/Autonomous Bodies/Institutions under Social and General Sector, and Accountant General (E&RSA), Kerala conduct audit of Government Departments/Offices/Autonomous Bodies/ Institutions under Economic and Revenue Sector, which are spread all over the State. There are 21⁷ Secretariat departments, 21 autonomous bodies, 847 other autonomous bodies/institutions, 17 public sector undertakings and Buildings Divisions of the Public Works Department under the jurisdiction of Principal Accountant General (G&SSA). The Principal Accountant General (G&SSA) is assisted by four Group Officers and 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 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 2011-12, 9,657 party-days were used to carry out audit of 1,212 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.

⁷ Apart from these, three departments viz., Revenue, Public Works and Water Resources coming under both sectors.

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.

1.6.1 Performance audits of programmes/activities/departments

The present Report contains the findings organised in chapters. Chapter II includes a review on district-centric audit of Thiruvananthapuram District; another review on Integrated Child Development Services; two thematic reviews on 'Tsunami Rehabilitation Project – Housing' and 'Functioning of three Welfare Fund Boards'. The Chapter III contains five thematic draft paragraphs. In Chapter IV, a review on Chief Controlling Officer-based audit of the Directorate of Public Instruction is included. The highlights are given in the following paragraphs.

1.6.1.1 District-centric audit of Thiruvananthapuram District

A district-centric audit of Thiruvananthapuram District was conducted to assess the status and impact of implementation of various socio-economic development programmes/schemes in view of substantial investments made by the Government of India and the State Government in social and economic sector programmes relating to health, education, water supply, housing scheme to Scheduled Castes/Scheduled Tribes, etc.

As the preparation of the Integrated District Development Plan (IDDP) for the district and consolidation of Local Development Plans (LDPs) for all Local Self Government Institutions (LSGIs) were not done by the District Planning Committee (DPC), the disparities between various regions within the district in respect of the developmental issues and scope of the district remained unidentified. Adequate manpower and infrastructure as per the Indian Public Health Standards were not available in the test checked Community Health Centres/Primary Health Centres. Despite the intervention of the Sarva Shiksha Abhiyan, there was migration of students from Government/Aided schools to Unaided English Medium schools. Ten water supply schemes taken up under Accelerated Rural Water Supply Programme during 2002-09 at a cost of ₹ 54.55 crore (March 2012) to benefit a population of 6.50 lakh in the district remained incomplete. Quality tests of water samples taken from Water Supply Schemes in the district showed presence of bacteria and other impurities.

Inordinate delays were noticed in completion of houses under the Housing Schemes to SCs and STs. There was inordinate delay in sanctioning and completion of works taken up under Member of Parliament Local Area Development Scheme. Akshaya Project of e-literacy was conceived without a proper study and requirement analysis. This resulted in blocking up of funds of ₹ 4.84 crore out of the total available funds of ₹ 4.90 crore.

(Paragraph 2.1)

1.6.1.2 Integrated Child Development Services

The Integrated Child Development Services launched in 1975 aims at holistic development of children up to six years of age, adolescent girls, pregnant and lactating mothers by providing a package of services like supplementary nutrition, immunisation, health check up, nutrition and health education, etc. The review revealed deficiencies in the implementation of the scheme such as delay in release of funds for scheme implementation, failure to cover the entire targeted population, etc., thereby defeating the basic objectives of the scheme. Contrary to Government of India guidelines, Take Home Food delivered to children between six months and three years in the State was not fortified with micro-nutrients.

The department was not having any long term perspective plan. In the absence of the plan, there were deficiencies in creation of new AWCs and insufficiencies in the delivery of services to beneficiaries in various components in ICDS. There was a shortage of 8,619 Anganwadi Centres (21 *per cent*) in the State. Fourteen additional Anganwadi Centres (AWCs), sanctioned in 2005 by GOI, were yet to be operationalized. Many functional AWCs in the test-checked ICDS projects were functioning in rented premises and lacked basic infrastructure facilities like safe drinking water, toilets, etc. The percentage of child population, who were not immunized against polio and DPT in Palakkad and Malappuram districts were respectively 36 and 31. The objective of universalization of Supplementary Nutrition Programme was not achieved as 56 to 66 *per cent* of the identified beneficiaries were not covered under the scheme.

The percentage of malnourished children below the age of six years in the State ranged between 27 and 39. Test check of records in Idukki, Malappuram, Palakkad and Thiruvananthapuram districts indicated that 110 out of 1,180 children who reportedly died during 2011-12, were severely malnourished. GOI guidelines stipulating periodical weighing of child beneficiaries under Supplementary Nutrition Programme to assess their nutritional status was not adhered to during 2007-12. Take Home Ration (THR) valued at ₹ 257.38 crore was purchased from Kudumbasree which did not possess the mandatory BIS certification. It was also noticed that an amount of ₹ 22.44 crore was overcharged by the supplier. In a number of cases, test results of the samples of the product were not satisfactory.

(Paragraph 2.2)

1.6.1.3 Functioning of three Welfare Fund Boards

The three Welfare Fund Boards viz., Kerala Handloom Workers Welfare Fund Board (HW Board), Kerala Cashew Workers Relief and Welfare Fund Board (CW Board) and the Kerala Agricultural Workers Welfare Fund Board (AW Board) were constituted to administer scheme funds for the welfare of workers respectively in handloom, cashew and agricultural sectors. A scrutiny of the functioning of the three Boards for the period 2008-12 revealed that the three schemes, as currently designed, were not financially viable leading to contribution from Government far in excess of the statutorily payable contributions. There was failure to effectively invoke penal provisions prescribed in the Acts against the defaulters of contribution in HW Scheme

and CW Scheme. There are deficiencies in the pension scheme of HW Board. The contributions to be made by employers in CW Scheme are prone to litigation, resulting in delay in remittance of contribution. Given the attractiveness of AW Scheme, there is a high risk of non-bonafide persons being registered. The present arrangements to verify the bonafides of persons registered under AW Scheme are far from satisfactory.

(Paragraph 2.3)

1.6.1.4 Tsunami Rehabilitation Programme - Housing

The implementation of the housing component under TRP by the State Government was not in accordance with the GOI guidelines. Though Tsunami caused damages to life and life supporting structures in five districts, the scheme was implemented in all nine coastal districts in the State, thereby diverting the funds earmarked for 'Environment and Coastal Protection', to un-affected districts. The component relating to relocation was implemented with financial assistance by way of grant instead of loan by violating guidelines of GOI. Selection of beneficiaries was not in accordance with the guidelines. Coastal Housing and Rehabilitation Project intended relocation, but construction of in-situ houses within 10 metres of High Tide Level, was allowed, thereby defeating the purpose of relocation. As against the target of 11,000 houses, construction of 9,123 houses were taken up and achievement of completion was only 8,549 houses as of July 2012. In some cases, houses constructed were far away from their work places, resulting in non-allotment of completed houses.

(Paragraph 2.4)

1.6.1.5 Chief Controlling Officer based audit of Directorate of Public Instruction

Imparting quality education to children at the primary and secondary level plays an important role in refining and redefining their personality and transforms them to ideal citizens of our country. Directorate of Public Instruction (DPI) along with primary/upper primary/secondary schools and various other institutions under its control are responsible for providing quality education upto secondary level. The objective of imparting quality education was to be achieved through the effective implementation of the various programmes like infrastructure development, quality improvement training programmes for teachers, curriculum modification, printing and distribution of text books, Mid-Day Meals programme, etc. A Chief Controlling Officer based audit of the Directorate of Public Instruction revealed that there were persistent variations in the budget allocation and expenditure during 2007-12, which indicate that no corrective measures were taken by the DPI to avoid the estimated figures being either inflated or under-pitched. Also, basic facilities like drinking water, teaching equipments, library, furniture, etc., were deficient in many schools. DPI did not take any action for utilizing excess claim of GOI assistance of ₹ 36.63 crore on account of purchase of rice for Mid-Day Meal scheme for providing micronutrients, de-worming medicines, etc., or get the excess claim adjusted from subsequent year's allotment from GOI. Shortfall in inspections of schools by District Educational Officers/Assistant Educational Officers was noticed in the test checked

districts, which resulted in the non-assessment and rectification of deficiencies in implementation of various educational programmes in schools. The departmental officers did not initiate any action against 114 unrecognized schools functioning in the test checked districts.

(Paragraph 4.1)

1.6.2 Thematic Audit Paragraphs

A new approach was taken by Audit to identify certain themes based on the inspection reports on audit of transactions and other risk factors involved in the functioning of various departments. Significant deficiencies noticed in audit are detailed in the following paragraphs:

1.6.2.1 Functioning of Drugs Control Department

There was no fool proof surveillance mechanism in the department to watch the status of every licensee and timely renewal of licences. Four selling units in the Ernakulam District operated without valid licence for eight to 34 months. Kerala State Drugs and Pharmaceuticals Ltd., a major supplier of various drugs to the Government hospitals, was functioning without renewal of licence since January 2007, and defects relating to premises, quality control measures, etc., pointed out by Drugs Controller during inspection were not rectified as of June 2012. Licences of six blood banks in the Government hospitals were not renewed due to deficiencies in basic facilities. No efforts were being made by the department to ensure immediate withdrawal of banned drugs from the market. Certain drugs were only partially analysed and reported as ‘Standard’. Shortfall ranging from 57 to 75 *per cent* was noticed in the inspection of Ayurvedic drug manufacturing units.

(Paragraph 3.1)

1.6.2.2 Prevention of Food Adulteration

The implementation of the Prevention of Food Adulteration Act, 1954 was deficient and inadequate. Inspections were conducted by the Food Inspectors in an ad-hoc manner. Shortfalls in collection of samples ranging from 34 to 65 *per cent* were noticed in the districts test checked. Microbiological analysis was not conducted in the Analytical Laboratories. Many of the modern testing equipments were either not provided or not in working condition. Though the FSS Act came into force in August 2011, the provisions of the Act could not be implemented, due to non-creation of facilities statutorily required in the Act.

(Paragraph 3.2)

1.6.2.3 Implementation of Coastal Security Scheme

The implementation of Coastal Security Scheme suffered due to lack of synchronization of activities like taking possession of land in advance, arrangement of works, etc., which led to enormous delays in the operationalization of the scheme, such as delay in construction of Coastal Police Stations, non-construction of Coastal Police Stations near the sea coast, non-deployment of trained police personnel/boat crews, non-supply of boats suitable for patrolling, frequent break down of boats and failure to carry out

timely maintenance and repair leading to idling of boats for long periods, etc. Consequently, the main objective of strengthening coastal security against infiltration, intrusion and other illegal activities, remained unachieved.

(Paragraph 3.3)

1.6.2.4 Kerala Building and Other Construction Workers Welfare Board – Collection of building cess, contribution and disbursement of benefits

There was no proper mechanism to ensure registration of employers. The recovery of building cess from defaulters was poor. Deficiencies were noticed in registration of workers and collection of contributions. The intention of the Act has been diluted by accepting employment certificate given by the Trade Unions without exercising proper verification and adequate documentation in support of the genuineness of employment. There was no database of workers.

(Paragraph 3.4)

1.6.2.5 Resettlement of Landless Tribals

Failure to identify suitable land for distribution led to distribution of land only to 6,777 families, while 10,517 families identified are yet to receive land. Houses were constructed only for 1,276 out of 6,777 families who had received land. Selection of beneficiaries under the Animal Husbandry project was done without conducting survey as prescribed in the guidelines. Though a time schedule was fixed for creating the required infrastructure, absence of an approved Master Plan resulted in delay/non creation of infrastructure facilities like water supply, site electrification, etc.

(Paragraph 3.5)

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 Inspection Reports (IRs) issued by the Accountant General (now Principal Accountant General) 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 Principal Accountant General within four weeks of receipt of the Inspection Report. Half-yearly reports of pending IRs are being sent to the Secretary of the Department to facilitate monitoring of the audit observations.

As of 31 August 2012, 174 IRs (1,164 paragraphs) were outstanding against Medical Education, Prisons, Housing and Scheduled Castes/Scheduled Tribes Development 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 had not sent even the initial replies in respect of 80 IRs containing 652 paragraphs.

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 2012 with a request to send their responses within six weeks. The departmental replies for two out of the five reviews/thematic reviews and three out of five thematic draft paragraphs featured in this Report were received. These replies have been suitably incorporated in the Report.

1.7.3 Follow-up on Audit Reports

The Finance Department issued (April 1997) 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 three months of their being laid on the Table of the Legislature.

The administrative departments did not comply with the instructions, and six departments, as detailed in **Appendix 1.2**, had not submitted Statements of Action Taken for 10 paragraphs for the period 2008-09 to 2010-11, even as of October 2012.

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 October 2012 are given in **Appendix 1.3**.