

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.

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 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 important results of audit. The audit findings 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 performance and compliance audit and follow-up on previous Audit Reports.

1.2 Profile of units under audit jurisdiction

There were 41 departments in the State at Secretariat level during 2014-15. The Principal Accountant General (General & Social Sector Audit), Kerala conducts audit of 23 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 remaining 18¹ departments are audited by Principal Accountant General (Economic & Revenue Sector Audit).

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

¹ Three departments included under PAG (E&RSA) namely Public Works, Revenue and Water Resources are audited by PAG (G&SSA) also

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2012-13			2013-14			2014-15		
	Plan	Non plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
Revenue Expenditure									
General Services	68.58	22718.03	22786.61	126.65	26478.44	26605.09	133.76	31298.99	31432.75
Social Services	4312.02	14565.47	18877.49	4645.93	16333.95	20979.88	5893.10	17825.01	23718.11
Economic Services	2468.73	5339.69	7808.42	2301.08	5627.98	7929.06	4255.73	5941.84	10197.57
Grants-in-aid and Contributions	-	4016.22	4016.22	-	4971.47	4971.47	-	6398.00	6398.00
Total	6849.33	46639.41	53488.74	7073.66	53411.84	60485.50	10282.59	61463.84	71746.43
Capital Expenditure									
Capital outlay	3465.66	1137.63	4603.29	3497.62	796.71	4294.33	3880.54	374.05	4254.59
Loans and advances disbursed	603.09	533.06	1136.15	537.53	926.64	1464.17	-	-	743.09
Repayment of public debt	-	-	2804.08	-	-	3244.81	-	-	5842.77
Contingency Fund	-	-	-	-	-	67.39	-	-	-
Public Account disbursements	-	-	100455.82	-	-	120992.20	-	-	136242.59
Total			108999.34			130062.90			147083.04
Grand Total			162488.08			190548.40			218829.47

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 under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 22 autonomous bodies in the General and Social Sector which are audited under Sections 19(2), 19(3) and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 177 Autonomous Bodies which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 748 institutions², 24 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1209 Local Self-Government Institutions³ under the audit jurisdiction in the General and Social Sector. Principles and methodologies for various audits have been prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

² Government-aided Colleges: 158
Government-aided Higher Secondary Schools: 464

Government-aided Vocational Higher Secondary Schools: 126

³ Grama Panchayaths: 978, Block Panchayaths: 152, District Panchayaths: 14, Municipal Corporation: 5 and Municipalities: 60

1.4 Organisational structure of the Office of the Principal Accountant General (G&SSA)

Under the directions of the C&AG, the Office of the Principal Accountant General (General & Social Sector Audit) Kerala conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under the General and Social Sector which are spread all over the State. The Principal Accountant General (General & Social Sector Audit) 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 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 for placing in the State Legislature.

During 2014-15, the Office of the PAG (GSSA) utilised 12,713 party days to carry out audit of 2,136 units (compliance audits and performance 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 on Implementation of educational development schemes for Scheduled Caste students and Chapter III includes Performance Audit of Rural Water Supply Schemes implemented by Kerala Rural Water Supply and Sanitation Agency. The highlights are given in the following paragraphs.

1.6.1.1 Implementation of educational development schemes for Scheduled Caste students

A Performance Audit was conducted to assess whether the implementation of Educational Development Schemes for SC students by the Scheduled Castes Development Department during the period 2010-15 was effective. It tried to determine whether the objective of bringing SC students on par with non-SC

students paid dividends and whether the funds earmarked were utilised effectively. The Performance Audit revealed deficiencies in payment of allowances, provision of facilities, infrastructure of hostels, commencement of Paramedical courses, etc. affecting the education of SC students.

Only five out of the 27 nursery schools in test checked districts recorded the minimum required strength of 25 while in the remaining nursery schools, the average student strength ranged between nine and 23. Deficiencies like lack of water, electric connections, etc., were noticed. Hostel Wardens were not staying in 10 test checked Pre-matric hostels during night. The Pre-matric girls hostels at Shoranur and Mundur were being used for various activities like conduct of meetings, etc., with outsiders as participants which impinged on the safety and security of girl children. Failure of Government to revamp the ITIs resulted in the ITIs continuing to offer outdated courses with negligible potential to attract offers of employment. An ill-conceived proposal to enhance the number of Vijnan Vadis from 140 to 1000 led to poor results as only 19 *per cent* of the targeted sites could be identified and only 11.4 *per cent* of targeted Vijnan Vadis could be set up two years after the target date of completion. Failure of Government to ensure creation of posts for running of Paramedical Institute resulted in denial of opportunity to SC students to pursue Paramedical courses as envisaged during 2013-15. The efforts made by Government to improve the standards of education of SC students up to Secondary level yielded good results, but the results for Higher Secondary and Vocational Higher Secondary were not encouraging.

(Chapter II)

1.6.1.2 Rural Water Supply Schemes implemented by Kerala Rural Water Supply and Sanitation Agency

The World Bank approved Kerala Rural Water Supply and Environmental Sanitation Project (Jalanidhi) aimed to assist Government of Kerala in improving the quality of rural water supply and delivery of environmental sanitation services to achieve sustainability of investments. The Performance Audit focused on the implementation of Water Supply Schemes (WSS) and Ground Water Recharge (GWR) by the Kerala Rural Water Supply and Sanitation Agency (KRWSA). It revealed deficiencies in planning, procedural irregularities, failure in completion of projects on time.

Though 3139 new drinking water schemes were implemented against the original target of 2500, only 1,61,427 Households (65 per cent) benefited from the schemes against the envisaged target of 2,50,000 Households. Thirty out of 88 small WSS (34 per cent) costing ₹2.48 crore became defunct, forcing the beneficiaries to depend on alternate sources of water like neighbouring/public/own wells, rivers/streams/ponds, purchase of water from tanker lorries, etc. In Vandana WSS in Vellarada, orders of the Ombudsman directing (November 2011) KRWSA to render necessary technical advice for installation of a 5 HP motor and repair of pipe lines to ensure supply of water before 28 February 2012 were not complied with. In Kairali Beneficiary Group (BG) in Vellarada Grama Panchayat (GP) and Vadakkekara BG in Thachanattukara GP, Implementation Phase Completion Reports (IPCR) were signed and Exit orders issued, though the schemes were not completed. In two

test-checked WSS, Exit orders were irregularly issued by KRWSA on the basis of IPCRs with forged signatures of elected members of BGs. An amount of ₹1.78 crore received in March 2014 by KRWSA from GOK for installation of Iron Removal Plant (IRP) in 10 schemes and Terrafil filters in 11 schemes remained unspent. Against ₹22.76 crore to be utilised for artificial ground water recharge and sustainability, expenditure was only ₹5.89 crore. Due to the inadequate attention paid to sustain and recharge water sources, sources had dried up in 85 schemes of Jalanidhi Phase I.

(Chapter III)

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 Scheme for Providing Quality Education in Madrasas

The GOI funded 'Scheme for Providing Quality Education in Madrasa' (SPQEM) introduced in 2009 was implemented in Kerala from 2009-10 onwards. The objective of the Scheme was to provide financial assistance to traditional institutions like Madrasas which generally give religious training, to provide education to Muslim children in modern subjects like Science, Mathematics, Social Studies, Hindi and English in their curriculum. It aimed at providing opportunities to students of Madrasas to acquire education comparable to the National Education System especially for secondary and senior secondary levels and prepare them for appearing in X and XII standard examination and also to provide vocational training to them to get employment. Madrasas which provided religious training to those children not attending regular schools were eligible for funding as per this scheme.

The SPQEM was being implemented by GOK in violation of scheme guidelines. Thirty nine of the 40 test checked Madrasas in the four districts, though not eligible to receive financial assistance from GOI under the Scheme had received the grants, as the State Level Grants-in-Aid Committee failed in its basic responsibility of ensuring observance of the guidelines while recommending Madrasas for Grants-in-Aid. The only Madrasa which was eligible to receive benefits under the Scheme was deprived of due financial assistance. Irregular payment of full time wages to teachers who discharged part time duty in all these Madrasas was noticed, which was against scheme guidelines. The State Madrasa Board which was expected to monitor the Madrasa Modernisation Programme and enhance awareness of the scheme, had not been constituted by GOK.

(Paragraph 4.1)

1.6.2.2 Modernisation of Government Presses

The modernisation of Government presses in the State was contemplated by Government of Kerala (GOK) since 1998 with a view to make available the latest printing equipment and adequate infrastructure facilities to meet the requirements for high quality printing besides introduction of modern

management practices to derive optimum results in the utilisation of human resources and machinery. For improvement of infrastructure facilities, the renovation of old buildings, construction of store buildings for raw materials and godowns for stacking of printed and waste materials, disposal of obsolete machines for adequate space, introduction of Total Quality Management (TQM) in the operations of the presses were envisaged.

The modernisation of Government printing presses in the State, though envisaged as early as in 1998, still remains to be completed. The objective of entrusting printing work only to Government presses has not been realised. Instead of printing text books in Government Presses during 2010-15, GOK got them printed by Kerala Books and Publications Society and Centre for Advanced Printing and Training for ₹36.91 crore. Despite spending ₹18 crore on Modernisation during 2010-15, productivity declined in the three Government Presses at Thiruvananthapuram, Vazhoor and Shoranur.

The inherent contradiction in the GOK modernising its presses and at the same time not providing them with adequate print orders is a matter of concern and needs to be urgently addressed.

(Paragraph 4.2)

1.6.2.3 Receipts and Utilisation of River Management Fund

Government of Kerala (GOK) enacted 'The Kerala Protection of River Banks and Regulation of Removal of Sand Act, 2001' (Sand Act) and 'The Kerala Protection of River Banks and Regulation of Removal of Sand Rules, 2002' (Sand Rules), to protect river banks and river beds from large scale indiscriminate dredging of river sand, protect their bio-physical environment system and regulate the removal of river sand.

It was envisaged that 50 per cent of the sale proceeds of river sand would be the share of local bodies and the River Management Fund (RMF) would comprise of the remaining 50 per cent of the amount. In addition to this, the RMF would include the grants given by the Government to implement the River Development Plan (RDP) framed under the provisions of the Sand Act, money obtained by donations or contributions from public or from non-governmental agencies, all penalties imposed under the provisions of the Sand Act or Sand Rules, etc. The RMF was to be maintained in Treasury Savings Bank accounts.

The sale of scarce natural mineral like Sand at very low rates, without resorting to auction as stipulated in the Act has resulted in the Fund and the local bodies of four test checked districts suffering a loss of revenue of at least ₹115.02 crore. Confiscated sand was also sold at lesser than stipulated PWD prices resulting in loss to the Fund (₹0.67 crore). GOK also failed to initiate sand auditing in 24 of the 44 rivers of the State despite availability of adequate funds in RMF indicating failure to protect river banks and river beds in a timely manner from large scale indiscriminate dredging of river sand, protect their bio-physical environment system and regulate the removal of river sand. There was also laxity on the part of the Land Revenue Commissioner to enforce the provisions of the Sand Act.

(Paragraph 4.3)

1.6.2.4 Working of Children's Homes, Observation Homes and Special Homes

The Juvenile Justice (Care and Protection of Children) Act, 2000 was enacted by Government of India (GOI) in December 2000 empowering the State Government either by itself or in collaboration with voluntary organizations to set up (i) Children's Homes (CH), (ii) Observation Homes (OH) and (iii) Special Homes (SH). The corresponding rules were notified in June 2001. The Act was amended in August 2006 (Act 2006) and Model Rules (JJ Rules) were amended in October 2007. Government of Kerala notified The Kerala Juvenile Justice (Care and Protection of Children) Rules in 2003 (State Rules) which were later revised in 2014.

CHs in the State were not registered with the State Government as required by the Juvenile Justice (Care and Protection of Children) Act 2006. In the absence of separate CHs for Girls, 188 girls in Thiruvananthapuram district and 55 girls in Alappuzha district were sent to various orphanages during 2012-15. Forty seven children who went missing from CHs and eight children who escaped from three OHs/SHs run by Government during 2010-15 had not been traced as of March 2015. State was operating Observation cum Children's Homes exposing children in need of care and protection to children having criminal or quasi criminal background. Shortage of manpower hampered the functioning of the Homes. Individual Care Plan for Children was not prepared due to failure to sanction of posts of Counsellors. Mentally ill children were sent by various CWCs to the Home for Mentally Disabled Children, Kozhikode which did not possess facilities to treat them. State Government failed to constitute State, District or city level inspection committees to oversee functioning of such Homes. The persons handling these institutions were not appropriately trained to discharge their responsibilities. The implementation of provisions of the JJ Act relating to the functioning of these Homes left much to be desired.

(Paragraph 4.4)

1.6.2.5 Incomplete water supply schemes of Kerala Water Authority

The Kerala Water Authority (KWA), established by the Government of Kerala in April 1984, was entrusted with the responsibility of providing drinking water to the entire State of Kerala. The major sources of funds for KWA were in the form of grants from Government of Kerala (GOK) and Government of India (GOI), loans from GOK and financial institutions and revenue collected from the supply of water and sewerage charges.

Scrutiny of records of KWA revealed that as of 31st March 2015, the work was progressing on 269 Water Supply Schemes (WSS) on which ₹3651.75 crore had been spent and were awaiting completion.

The KWA failed in obtaining hindrance free land, permissions for road cutting/rail crossing. Besides, there were delays in finalization of tenders which led to non-completion/partial commissioning of various WSS. The delay in completing the schemes resulted in blocking of funds to the tune of

₹97.50 crore besides denying potable water to the targeted population of 8.21 lakh in respect of eight schemes which were still incomplete (January 2016).

(Paragraph 4.5)

1.6.2.6 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 supervision resulted in misappropriation of ₹2.50 lakh at Government Ayurveda Dispensary, Cherpulassery.

(Paragraph 4.6)

- During 2010-14, three universities in the State made inadmissible payment of ₹5.28 crore to teachers towards valuation charges of answer scripts in violation of Government orders.

(Paragraph 4.7)

- Due to laxity in implementation of a GOI approved poverty alleviation scheme, 11,214 BPL women beneficiaries could not be benefitted despite availability of ₹2.80 crore which was parked irregularly in fixed deposits.

(Paragraph 4.8)

- Unfruitful expenditure of ₹87.52 lakh was incurred on construction of a Regulator-cum-bridge.

(Paragraph 4.9)

- Failure of GOK to accord revised sanction for the work resulted in the scheme remaining incomplete despite incurring ₹2.80 crore.

(Paragraph 4.10)

- Kerala Water Authority incurred an avoidable expenditure of ₹1.42 crore due to failure to migrate to free e-tendering/e-procurement service offered by Government of Kerala.

(Paragraph 4.11)

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 (AG) for rectification in compliance with the prescribed rules and procedures for accountability for the deficiencies, lapses etc., noticed during audit inspection. The Head 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 Inspection Reports. 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 of 30 June 2015, 2304 Inspection Reports (10,969 paragraphs) were outstanding against General Education, Health and Medical Education Departments. Even initial replies in respect of 314 Inspection Reports containing 2295 paragraphs issued up to 2014-15 were pending against the General Education, Health and Medical Education Department.

Year-wise details of Inspection Reports and paragraphs outstanding are given in **Appendix 1.1**.

1.7.2 Response of departments to the draft paragraphs

Draft Paragraphs and Performance Audits were forwarded to the Principal Secretaries/Secretaries of departments concerned between July and November 2015 to send their replies within six weeks. Replies from Government for both PAs and 10 out of 11 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

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 Audit Reports directly to the Legislature Secretariat, with copies to the AG within two months of their being laid on the Table of the Legislature. It was observed that the administrative departments did not comply with the instructions and nine departments, as detailed in **Appendix 1.2**, had not submitted statements of Action Taken for 21 paragraphs for the period 2011-12 to 2013-14, even as of September 2015.

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 30 September 2015 are given in **Appendix 1.3**.