

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 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 Principal Accountant General (Economic and Revenue Sector Audit), Kerala conducts audit of the expenditure under Economic Services incurred by 18 departments at the Secretariat level and also the field offices. The audit jurisdiction also extends to 41 autonomous bodies, 98 public sector undertakings, four statutory corporations, two departmental commercial undertakings and one regulatory commission. 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 2015-16, 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	2014-15			2015-16			Percentage (+) Excess (-) Deficit
	Plan	Non-plan	Total	Plan	Non-plan	Total	
Revenue Expenditure							
General Services	133.76	31,298.99	31,432.75	116.98	35,967.70	36,084.68	(+) 14.80
Social Services	5,893.10	17,825.01	23,718.11	7,591.56	20,011.73	27,603.29	(+) 16.38
Economic Services	4,255.73	5,941.84	10,197.57	4,369.95	6,728.47	11,098.42	(+) 08.83
Grants-in-aid and Contributions	---	6,398.00	6,398.00	---	3,903.08	3,903.08	(-) 40.00
Total	10,282.59	61,463.84	71,746.43	12,078.49	66,610.98	78,689.47	(+) 9.68
Capital Expenditure							
Capital outlay	3,880.54	374.05	4,254.59	6,518.48	981.56	7,500.04	(+) 76.28
Loans and advances disbursed	---	---	743.09	407.61	434.64	842.25	(+) 13.34
Repayment of public debt	---	---	5,842.77	---	---	6,060.73	(+) 03.73
Contingency Fund	--	--	--	--	--	---	---
Public Account disbursements	--	--	1,36,242.59	--	--	1,62,824.67	(+) 19.51
Total	3,880.54	374.05	1,47,083.04	6,926.09	1,416.20	1,77,227.69	(+) 20.49
Grand Total	14,163.13	61,837.89	2,18,829.47	19,004.58	68,027.18	2,55,917.16	(+) 16.95

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 13¹ of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of two autonomous bodies in the Economic Sector which are audited under Sections 19(3)² and 20(1)³ of the C&AG's (DPC) Act. Besides, C&AG also conducts audit of 41 autonomous bodies in the Economic Sector under Section

¹ 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.

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

³ 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.

14⁴ & 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 Principal Accountant General (E&RSA), Kerala

Under the directions of the C&AG, the Principal Accountant General (E&RSA), Kerala conducts the audit of Government Departments/Offices/Autonomous Bodies/Institutions under Economic and Revenue Sector, which are spread all over the State. The Principal 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 (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 State under Article 151 of the Constitution of India for being presented to the State Legislature.

During 2015-16, 11,162 party-days were utilised to carry out audit of 929 units (Performance Audit and Compliance Audit) of the various departments/organisations which fall in the audit jurisdiction of the Principal Accountant General (E&RSA), Kerala. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

⁴ 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.

1.6 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.

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 Licensing and monitoring of quarrying of minor minerals

The performance audit was conducted to assess the regularity in issuance of licenses for quarrying of minor minerals and effectiveness of monitoring by departments/agencies concerned after issue of licenses.

Issuance of unlimited passes for quarrying area of between 40 to 50 Are in accordance with Consolidated Royalty Payment System under the Kerala Minor Minerals Concession Rules, 2015 and introduction of the system of Registered Metal Crusher Unit paved the way for indiscriminate quarrying. Though Government of Kerala (GoK) ordered (December 2010) that the right to quarrying on government land be auctioned so as to have transparency in the allotment, the same was not put into practice. Similarly, the directions of Government of India (GoI) (May 2011) and the Honourable Supreme Court (February 2012) regarding preparation of mining plan and environment management plan were not implemented in respect of Granite Building Stone (GBS) permit holders till the period covered in Audit. Further, no government agency was entrusted with the monitoring and enforcement of the Kerala Environment Policy, 2009 approved (December 2009) by Government. Lack of awareness by Department of Mining and Geology (DMG) of the boundary/area of forests and assigned forest land led to issuance of quarrying permits in prohibited areas like forest and assigned forest land. The Kerala State Pollution Control Board and State Environment Impact Assessment Authority did not have a system for periodical monitoring to ensure compliance with the conditions specified in their consents. The monitoring of compliance of Kerala Mineral Concession Rules by DMG was not effective as evidenced by the violations noticed by Audit in 21 out of the 27 quarries verified in joint inspection. The poor performance by Regional Mineral squads of DMG made the effort to curb illegal quarrying ineffective.

The collection of royalty on minor minerals extracted is linked to mineral transit passes. We detected misuse of transit passes, movement of minerals without transit passes or by using forged transit passes. The prevailing system to regulate

illegal extraction and transportation of minor minerals was not effective. The staff of DMG lacked expertise in taking measurements of quarried area. So they were unable to assess the quantity excavated illegally/in excess. Quarries operating close to residential areas posed threat to properties and residential buildings.

(Chapter II)

1.6.2 Compliance Audit Paragraphs

Audit of selected topics

1.6.2.1 Regulation of Houseboats

The operation of Houseboats (HBs) is regulated under the Kerala Inland Vessels Rules, 2010, (amended in 2015) which were framed under the Inland Vessels Act, 1917. The procedure mandated for safe operation of HBs in backwaters consisted of survey, registration and dry dock inspection. More than 90 per cent of the HBs in Kerala are registered under Port Registry, Alappuzha of which about 53 per cent did not conduct the mandatory annual survey. Similarly, about 44.41 per cent of the registered HBs had not renewed their Registration Certificates on due dates. Further, about 64.85 per cent of the registered HBs did not conduct the mandatory dry dock inspections once in three years. All these pointed to the ineffective monitoring by the surveyor, causing threat to the safety and security of passengers on board. The Survey and Registration Certificates were issued to HBs conditionally, but the Surveyor did not ensure compliance of those conditions. The Directorate of Ports has not constituted an enforcement wing. Consequently, illegal and unauthorised operations of HBs were on the increase. Further, a large number of HBs were operated by unqualified crew, without lifesaving appliances and firefighting equipment. These violations were not monitored by the surveyor and action taken against the defaulters. About 53.88 per cent of HBs in the Vembanad lake operated without valid Integrated Consent to Operate from Kerala State Pollution Control Board (KSPCB), polluting the environment. KSPCB did not have adequate monitoring mechanism for identifying the defaulters. Moreover, most of the HBs did not utilise the Common Sewage Treatment Plant and instead, discharged their sewage into the lake.

(Paragraph 3.1)

1.6.2.2 Allotment and utilisation of industrial plots

The Department of Industries (Department) acts as a facilitator for industrial promotion and sustainability of Micro, Small and Medium Enterprises and traditional industries. The Department, under its land allotment scheme provided Development Areas (DAs) and Development Plots (DPs) for industrial use to prospective entrepreneurs either on hire purchase or on lease basis.

Even though since 10 June 2013, industrial land in DA/DP is to be allotted to prospective entrepreneurs on lease basis only, several violations of the rules were

noticed. The Department has not fixed fair value of industrial land allotted on lease, due to which revenue due to Government could not be collected. The land allotment rules prohibited transfer or alienation of such land without the prior written consent of the Government/Director of Industries. But the allottees of industrial land had transferred the same to others without the consent, by adopting methods like change in the constitution of ownership by bringing in new director(s), sub-leasing or by proposing transfer of ownership on the grounds of loan default, etc. Even though the Kerala Land Conservancy Act, 1957 states that, land which is the property of Government is not to be occupied by anyone without permission, instances of encroachment of industrial land were noticed in DP Koppam, in Palakkad district, DA Edayar in Ernakulam district, etc. Due to inordinate delay in completion of development works of multi-storied industrial parks (Gala) in Ernakulam, Palakkad and Thrissur districts, intended to tide over land scarcity in the State, the envisaged objective remained unachieved despite spending ₹ 28.43 crore. Test-check of records and joint verification of DA/DP by Audit with Departmental officials found 11 instances of idling industrial land. It was noticed that even though the allottees deviated from their envisaged purposes, the General Managers (GM) of the DICs concerned did not resume the land. The GMs with the permission of the Director of Industries allowed the allottees to mortgage industrial land, though the allotment rules did not authorise it. There were also issues such as idling, misuse and transfer of allotted land. We noticed that periodical checks to detect violation of allotment conditions were not conducted by the GMs.

(Paragraph 3.2)

Audit of other topics

- Internet touch screen kiosks installed at a cost of ₹ 88.92 lakh in 76 Krishi Bhavans/offices of Assistant Directors of Agriculture for dissemination of information to farmers became unfruitful as the requisite software was not installed and most of the farmers were not aware of their installation or purpose.

(Paragraph 4.1)

- Failure to rectify the defects noticed during field trials, before accepting the supply of the *Pokkali* Paddy Harvester by the Kerala Agricultural University, resulted in idling of the harvester procured at a cost of ₹ 51.48 lakh.

(Paragraph 4.2)

- The Fisheries and Ports Department entrusted the Kerala Police Housing and Construction Corporation Limited with the construction of an office building for the Directorate of Ports in the departmental land at Valiyathura at a cost of ₹ 1.05 crore. An additional amount of ₹ 0.84 crore was also sanctioned (March 2012) for additional civil and electrical works. As the office

building for the Directorate of Ports was constructed without obtaining mandatory building permit, the Department became liable (November 2015) to pay an annual tax of ₹ 2.4 lakh which was three times the normal rate. The building was located within 30 meters of the High Tide Line on the sea shore subjected to heavy winds and saline atmosphere. Consequently, the roof constructed using powder coated sheets over truss work became severely corroded and parts of roof blown away. The salinity damaged the computers, accessories and other office equipment resulting in unfruitful expenditure of ₹ 1.46 crore. The landscaping and gardening done in front of the new building at a cost of ₹ 6.73 lakh perished for want of nurturing. The building constructed for the Directorate along with allied works at a cost of ₹ 2.00 crore was doubtful of its continued use, as the Director requested the Government to shift the Directorate away from Valiyathura due to the unsuitability of its location and the health problems faced by the staff.

The Director diverted ₹ 57.97 lakh sanctioned for renovation of the Signal Station at Kodungallur for constructing a Conference Hall and misled the Government through misrepresentation of facts. Two Solar Power Systems installed at the Directorate through SIDCO at a cost of ₹ 47 lakh without sanction became unfruitful as the same were defunct. Similarly, nine out of the 11 solar power systems costing ₹ 82 lakh installed by KELTRON at 11 port offices without tendering were not functional, defeating the very purpose of their installation. The Director of Ports failed to levy liquidated damages of ₹ 47 lakh from the supplier of the Container Handling Crane for delay in commissioning the equipment.

(Paragraph 4.3)

- Inadmissible inclusion of cost index on the cost of bitumen in the estimate of nine works and failure of the Executive Engineers of PWD in recovering the same from the work bills resulted in excess payment of ₹ 3.67 crore to contractors.

(Paragraph 4.4)

- Unnecessary inclusion of five *per cent* overhead charges in addition to the ten *per cent* overhead charges allowed in the estimate prepared as per MORTH data resulted in extra expenditure of ₹ 86.26 lakh.

(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 of 30 June 2016, 626 IRs containing 2,470 paragraphs were outstanding against Public Works (Roads and Bridges), Water Resources (Irrigation), Agriculture Development and Farmers' Welfare and Forest & 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 had not sent even the initial replies in respect of 48 IRs containing 290 paragraphs.

1.7.2 Departmental Audit Committee Meetings

During the year 2015-16, five Audit Committee Meetings were held wherein 132 out of 1,423 IR paragraphs pertaining to the period between 2008-09 to 2014-15 relating to departments of Fisheries, Irrigation (Projects), Ports and Public Works (Roads and Bridges) 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 November 2016 and March 2017 with a request to send their responses within two weeks. The departmental replies were not received in respect of four out of the seven compliance audit draft paragraphs featured in this Report. The replies received have been suitably incorporated in the 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 (ATN) on audit paras 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.

The administrative departments did not comply with the instructions and eight departments had not submitted Statements of Action Taken for 22 paragraphs for the period 2012-13 and 2014-15 respectively even as of February 2017. ATNs on Audit Paragraphs were due from the departments of Public Works (nine numbers), Agriculture Development and Farmers' Welfare (five numbers), Water Resources (four numbers), Tourism, Co-operation, Forest & Wildlife, Transport and Coastal Shipping & Inland Navigation (one each).

1.7.5 Paragraphs to be discussed by the Public Accounts Committee

There were 31 paragraphs relating to 10 departments pertaining to the period 2012-13 and 2014-15 pending discussion by the Public Accounts Committee as of February 2017. Pending audit paragraphs include one each from Co-operation, Fisheries & Ports (Harbour Engineering), Forest & Wildlife, Transport and Coastal Shipping & Inland Navigation; two paragraphs each from Information Technology and Tourism; five paragraphs from Water Resources, seven paragraphs from Agriculture Development and Farmers' Welfare and eleven from Public Works Departments.