

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.

Performance audit includes examination of whether the objectives of the programme/activity/department are achieved economically, efficiently and effectively. Compliance audit, on the other hand, 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.

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 action 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 audits and follow-up on previous Audit Reports.

1.2. Profile of units under audit jurisdiction

There were 44 Departments in the State at Secretariat level during 2017-18. The Accountant General (General and Social Sector Audit), Kerala (AG (G&SSA)), conducts audit of 31 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 Accountant General (Economic and Revenue Sector Audit), Kerala (AG (E&RSA)), conducts audit of 19 Departments¹.

The comparative position of expenditure incurred by the Government during the year 2017-18 and in the preceding two years is given in **Table 1.1**:

¹ Six departments included under AG (E&RSA) namely Finance, Food, Civil Supplies and Consumer Affairs, Planning and Economic Affairs, Public Works, Revenue and Water Resources are audited by AG (G&SSA) also.

Table 1.1: Comparative position of expenditure

(₹ in crore)

| Disbursements | 2015-16 | | | 2016-17 | | | 2017-18 | | |
|---------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|------------------|-----------------|-----------------|------------------|
| | Plan | Non-plan | Total | Plan | Non-Plan | Total | Plan | Non-Plan | Total |
| Revenue Expenditure | | | | | | | | | |
| General Services | 116.98 | 35967.70 | 36084.68 | 181.39 | 41013.94 | 41195.33 | 418.30 | 45105.47 | 45523.77 |
| Social Services | 7591.56 | 20011.73 | 27603.29 | 9773.34 | 23991.38 | 33764.72 | 12425.84 | 23450.43 | 35876.27 |
| Economic Services | 4369.95 | 6728.47 | 11098.42 | 3537.62 | 7117.73 | 10655.35 | 3337.60 | 8013.48 | 11351.08 |
| Grants-in-aid and Contributions | -- | 3903.08 | 3903.08 | -- | 5480.91 | 5480.91 | -- | 7197.23 | 7197.23 |
| Total | 12078.49 | 66610.98 | 78689.47 | 13492.35 | 77603.96 | 91096.31 | 16181.74 | 83766.61 | 99948.35 |
| Capital Expenditure | | | | | | | | | |
| Capital outlay | 6518.48 | 981.56 | 7500.04 | 8945.65 | 1180.30 | 10125.95 | 7993.68 | 755.19 | 8748.87 |
| Loans and advances disbursed | 407.61 | 434.64 | 842.25 | 375.25 | 785.04 | 1160.29 | 1380.82 | 159.77 | 1540.59 |
| Repayment of public debt | -- | -- | 6060.73 | -- | -- | 7706.01 | -- | -- | 13132.10 |
| Contingency Fund | -- | -- | 0.00 | -- | -- | 0.00 | -- | -- | 0.00 |
| Public Account disbursements | -- | -- | 162824.67 | -- | -- | 179910.43 | -- | -- | 207174.17 |
| Total | | | 177227.69 | | | 198902.68 | | | 230595.73 |
| GRAND TOTAL | | | 255917.16 | | | 289998.99 | | | 330544.08 |

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 (GOK) under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 24 Autonomous Bodies in the General and Social Sector, which are audited under Sections 19 and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 241 Autonomous Bodies, which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 1,158 educational institutions², 29 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1,200 Local Self-Government Institutions³ under the audit jurisdiction in the General and Social Sector. 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.

² Government-aided Colleges: 184; Government-aided Higher Secondary Schools: 846; and Government-aided Vocational Higher Secondary Schools: 128.

³ Grama Panchayats: 941, Block Panchayats: 152, District Panchayats: 14, Municipal Corporations: 6 and Municipalities: 87.

1.4. Organisational structure of the Office of the Accountant General (General and Social Sector Audit)

Under the directions of the C&AG, the Office of the Accountant General (General and Social Sector Audit), Kerala conducts audit of Government Departments, Offices, Autonomous Bodies and Institutions under the General and Social Sector, which are spread all over the State. The AG (G&SSA) 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, Inspection Reports containing audit observations are issued to the heads of the Offices and Departments. The Departments are requested to furnish replies to the audit observations within four weeks from the date of receipt of the Inspection Reports. Whenever replies are received, audit observations 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 Reports of the C&AG of India, which are submitted to the Governor of the State under Article 151 of the Constitution of India for placing in the State Legislature.

During 2017-18, the Office of the AG (G&SSA) utilised 13,573 party days to carry out audit of 1,281 units (compliance, performance and financial 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 of ‘Modernisation and strengthening of Police Force’ and Chapter III includes Performance Audit of ‘Functioning of Kerala State Housing Board’. The significant audit observations are given in the following paragraphs.

1.6.1.1. Modernisation and strengthening of Police force

The ‘Modernisation of Police Forces’ is a Government of India scheme, aimed at enhancing efficiency and striking capability of State Police forces so as to be equipped to meet the challenges of internal security environment, extremist activities and law and order situation in the State. The main components of the

scheme were mobility, weaponry, construction and procurement of equipment for communications and surveillance, forensic science laboratories, training, etc. The Performance Audit was conducted to assess the status of modernisation of Police Forces in the State which revealed the following.

Shortage of physical stock of weapons and live cartridges was noticed in the Special Armed Police Battalion, Thiruvananthapuram. Anti-Maoists operations in the dense forests of Palakkad, Malappuram, Idukki and Wayanad suffered due to dependence of Police forces on analog communication equipment. GOK failed to make timely payment of spectrum charges and obtain licence from GOI for procuring Digital Mobile Radios. In the Forensic Science Laboratories, Audit noticed delay in disposal of cases. During 2013-18, the pendency of cases increased to 9,265 including 1,755 (19 *per cent*) grave crimes cases. The Police Department violated MOPF scheme guidelines during 2013-18 which prohibited procurement of cars. Instead of making good the shortfall of vehicles in Police Stations, 15 *per cent* of the 269 Light Motor Vehicles (LMVs) procured by the Police Department were luxury cars which were deployed for use of high-level officers and non-operational units like CBCID. The Police Department violated Stores Purchase Manual and CVC guidelines in the procurement of equipment. State Police Chief (SPC) diverted ₹2.81 crore meant for construction of Upper Subordinate Staff Quarters, for construction of Villas for SPC/ADGPs.

(Chapter II)

1.6.1.2. Functioning of Kerala State Housing Board

The Kerala State Housing Board (KSHB) was established in 1971 under the provisions of the Kerala State Housing Board Act, 1971. The Act envisaged for KSHB to play a nodal role in planning and coordinating all housing activities in the State. A Performance Audit to assess the various activities discharged by the KSHB and its functioning was conducted covering the period 2013-18. The Performance Audit brought out the following findings.

KSHB sought approval from Government of Kerala for schemes without ensuring availability of land, financial viability of the projects, obtaining assurance on project financing, etc., resulting in failure to implement the schemes. Of the 18 Working Women's Hostels sanctioned in the State during 1998-99 to 2016-17, 11 works sanctioned up to 2013-14 were completed. Six works sanctioned since 2014-15 are yet to commence while one work is under progress. Under Saphalyam scheme to provide flats to houseless Economically Weaker Sections, against the target of 1,032 housing units, KSHB could complete only 72 Housing Units (seven *per cent*) during the period 2012-18. All the 24 housing units taken up by the KSHB under Phase II during 2014-15 remain incomplete. KSHB also compromised with the quality of work in order to limit the cost of construction to stipulated rates. Flats under the Innovative Rental Housing Scheme aimed to provide residential flats on rent to poor urban workers were allotted to ineligible beneficiaries. Financial Management under the KSHB was deficient. The financial statements contained material

mis-statements and thus rendered the accounts unfit for use by stakeholders including Government.

(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. Modernisation and upgradation of Government Industrial Training Institutes

The Government of India (GOI) introduced the Craftsmen Training Scheme (CTS) in 1950 by establishing Industrial Training Institutes (ITIs) in the States for imparting skills in various vocational trades to ensure a steady flow of skilled workers in different trades for the domestic industry and meet skilled manpower requirement for industrial growth of the country. While the day-to-day administration of ITIs in the States was transferred to the State Governments in 1956, the financial control of ITIs was transferred to the State Governments in April 1969. Government of Kerala provided yearly assistance including providing budgetary allocation for construction of new buildings, renovation of existing buildings, providing hostel facilities, procurement of tools and equipment etc., to Directorate of Training for modernisation of ITIs for enabling ITIs to attain National Council for Vocational Training (NCVT) norms. Government of India also selected 38 ITIs for upgradation into Centres of Excellence (COE). As on 31 March 2018, there were 137 Government ITIs and 486 private ITIs in the State. Of the 137 Government ITIs, 91 ITIs including 14 ITIs for women, were administered by the Industrial Training Department (ITD), 44 ITIs by the Scheduled Castes Development Department (SCDD) and two ITIs by the Scheduled Tribes Development Department (STDD).

None of the 32 ITIs test-checked complied with all the stipulated NCVT requirements. Even such ITIs which were affiliated to NCVT did not possess the requisite facilities. The services delivered by the ITIs under STDD needs to be strengthened to generate better outcomes. Deficiency in tools and equipment was noticed in the ITIs including six ITIs identified for being upgraded into Centres of Excellence. The upgradation of ITIs was hampered due to inefficiencies in execution of civil works and idling of assets. Despite demand for the ITI courses and the enhanced likelihood of obtaining jobs, the modernisation and upgradation of ITIs as envisaged by GOI was yet to be achieved. The identified deficiencies need to be addressed so that ITIs in the State are modernised and upgraded to ensure that the trainees are better equipped to avail of employment opportunities.

(Paragraph 4.1)

1.6.2.2. 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 facilitated misappropriation of ₹28,202 by the Inspector, Legal Metrology, Circle II, Neyyattinkara.

(Paragraph 4.2)

- Failure of the Co-operative Academy of Professional Education to correctly assess the funding pattern for construction of an engineering college resulted in avoidable, infructuous expenditure of at least ₹8.91 crore.

(Paragraph 4.3)

- The violation of CVC guidelines by Matsyafed, and the resultant failure to exercise due diligence in the procurement of marine diesel engines and finding a viable alternative to the existing kerosene engines resulted in infructuous expenditure of ₹1.29 crore.

(Paragraph 4.4)

- The injudicious decision of the Director of Public Instructions to construct a temporary additional floor on the six-storeyed building of Pareeksha Bhavan, and failure of the Public Works Department to rightly assess the structural soundness of the work led to partial collapse of the structure and resultant infructuous expenditure of ₹2.35 crore.

(Paragraph 4.5)

- The Kerala Water Authority commenced the work of laying pipelines for a Water Supply Scheme without complying with conditions stipulated by the Government of Kerala. The work was subsequently stopped resulting in infructuous expenditure of ₹8.50 crore, besides inability to provide additional water source to Kollam Water Supply Scheme.

(Paragraph 4.6)

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 2017 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General for rectification, in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses etc., noticed during audit inspection. The Heads 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 IRs. 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 on 30 June 2018, 1,982 IRs (7,809 paragraphs) were outstanding in respect of Cultural Affairs, General Education, Revenue and Social Justice Departments. Even initial replies in respect of 117 IRs containing 779 paragraphs issued up to 2017-18 were pending from these Departments. Year-wise details of IRs and paragraphs outstanding are given in **Appendix 1.1**.

1.7.2. Response of Departments to the paragraphs included in this Report

Performance and Compliance Audit paragraphs were forwarded to the Additional Chief Secretaries/Principal Secretaries/Secretaries of Departments concerned during August 2018 to January 2019 for furnishing replies within six weeks. Response of Government was received on all the Performance Audit and Compliance Audit paragraphs featured in this Report. These replies were 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 2017, the Administrative Departments should submit Statements of Action Taken Notes on audit paragraphs included in the Reports of the C&AG directly to the Legislature Secretariat, with copies to the AG within two months of their being laid on the Table of the Legislature. As of September 2018, 11 Administrative Departments failed to comply with the instructions and did not submit Statements of Action Taken Notes of 22 paragraphs for the period 2013-14 to 2016-17, as detailed in **Appendix 1.2**.

1.7.4. Paragraphs pending discussion by the Public Accounts Committee

Forty one paragraphs pertaining to 17 Departments for the period 2012-13 to 2016-17 were pending discussion by the Public Accounts Committee as on 30 September 2018 (**Appendix 1.3**).