

# COMPLIANCE AUDIT PARAGRAPHS



## CHAPTER IV COMPLIANCE AUDIT PARAGRAPHS

### *Misappropriation*

#### FISHERIES DEPARTMENT

##### 4.1. Suspected misappropriation of ₹1.05 lakh of Government money

**Violation of codal provisions and laxity on the part of the Head of the Office resulted in suspected misappropriation of ₹1.05 lakh as short remittances at the Office of the Assistant Executive Engineer, Harbour Engineering Sub Division, Thalai, Kannur District.**

Kerala Treasury Code (KTC) stipulates that a Government servant who receives any money on behalf of the Government shall give the payer a receipt in Form TR-5 and all monetary transactions should be entered in the Cash Book as soon as they occur and attested by the Head of the Office in token of check. Further, when Government money in the custody of a Government officer is paid into the Treasury or Bank<sup>143</sup>, the Head of the Office should satisfy himself that the amounts have been actually credited into the Treasury or Bank before attesting entries in cashbook.

Audit test checked (February 2024) the records of Harbour Engineering Sub Division, Thalai<sup>144</sup> as part of the local audit of the Office of the Executive Engineer, Harbour Engineering Division, Kannur<sup>145</sup> for the period 01 April 2018 to 31 December 2023.

The Sub Division generated revenue from ground lease rent, room rent, sale of tender forms and collection of toll for entry of vehicles into the Harbour. The Senior Clerk/Clerk who was in charge of writing of cashbook was the custodian of TR-5 Receipt books.

Audit observed that TR-5 receipts<sup>146</sup> were issued for revenue received in cash directly at the Sub Division and the collected revenue was remitted at Sub Treasury, Thalassery. The corresponding GST portion was deposited in the Current Account maintained at SBI, Thalassery in the name of Assistant Executive Engineer and subsequently paid to the GST head of account.

Audit scrutinised the receipts and remittances of money at the Sub Division, Thalai and observed that there was short remittance to the tune of ₹1.05 lakh, to the Sub Treasury Thalassery/bank account. The details of short remittance were as given below:

<sup>143</sup> Kerala Financial Code requires that the daily collection of each officer should be remitted into the Treasury, the next working day or at least once in a week on the last working day.

<sup>144</sup> Under the Assistant Executive Engineer

<sup>145</sup> Kannur Division coming under the North Circle has three Sub Divisions, namely, Thalai, Mopla bay and Azheekkal.

<sup>146</sup> As the Government of Kerala introduced electronic TR-5 receipt system w.e.f. 01.07.2022 for collection of revenue, Sub Division started issuing electronic TR-5 receipts w.e.f. 12.07.2022. The GST portion was remitted directly to the GST head of account without routing through the bank account.

- The total receipts under TR-5 amounted to ₹36.06 lakh which was inclusive of ₹4.62 lakh as GST. Of this, only ₹31.29 lakh was seen remitted to the treasury and ₹4.05 lakh, to the bank account as GST. This accounted for short remittance of ₹0.72 lakh.
- An amount of ₹2550 received by the office for which TR-5 was issued, was shown as remitted to the treasury. However, scrutiny of treasury reconciliation statement revealed that only ₹550 was remitted to the treasury. Audit observed that the figure '2' was fraudulently prefixed to 550, thereby making it '2550', in the counterfoil of remittance challan. However the amount was retained as 'Rupees five hundred and fifty' in words. This was evidently a case of forgery of entries relating to remittance in the challan, to enable misappropriation of ₹2000.
- The Sub division issued toll coupons<sup>147</sup> worth ₹7.97 lakh, of which, toll coupons worth ₹1.78 lakh were used. However, only ₹1.45 lakh of the collected amount was remitted into the treasury. This resulted in short remittance of ₹0.33 lakh.

Audit observed the following systemic deficiencies in management and accounting of Government moneys.

- The office did not maintain cashbook and other registers in proper form. Only establishment-related expenditures such as salary, loans and advances, etc., were entered in the cashbook. Other cash receipts for which TR-5 receipts were issued were not entered in the cashbook.
- TR-5 receipts were not issued for all moneys received. No TR-5 receipts were issued for an amount of ₹24,479 received through sale of tender form. Similarly, TR-5 receipts were not seen issued to Kudumbashree members who deposited the moneys collected through issue of toll coupons at the Sub Division office. Of the collected amount of ₹1.45 lakh, TR-5 receipts were issued for ₹15,800 only.
- Periodical reconciliation of the revenue realised and its remittance was not carried out by the Head of the Office to ensure proper collection, accounting and remittance of revenue. This allowed for falsification of remittance challan facilitating misappropriation of the amount as detailed above.
- There were 61 shops/locker rooms under the jurisdiction of the Sub Division, which were rented out. However, the Sub Division did not maintain proper records or any Demand Collection and Balance statements to keep track of revenue generated and revenue due, through room rent.
- The receipt head of GST could not be accessed by Harbour Engineering Department in the electronic treasury portal, due to which, the office could not generate receipts for the GST collected.

<sup>147</sup> Toll for entry of vehicles into the Harbour was collected using Kudumbashree members by issuing toll coupons.

The GST amount collected was recorded manually in the electronic TR-5 receipts. Non-issue of receipt for the GST amount carried the inherent risk of mishandling of collected amount by persons.

Thus, violation of codal provisions and laxity on the part of the Head of the Office as revealed from scrutiny of test checked records, resulted in short remittance of ₹1.05 lakh and suspected misappropriation of the amount at Sub Division Thalai. Considering the lack of proper maintenance of records and serious systemic deficiencies observed, a detailed inquiry into the financial transactions of the Sub Division needs to be carried out to bring out the total extent of loss, so as to fix responsibility for the financial indiscipline.

Government stated in reply (September 2025) that an enquiry was conducted by the Chief Engineer, Harbour Engineering Department on the matter and charge memos issued to Clerk and Senior Clerk. Disciplinary action against the then Assistant Executive Engineer was under process in Government. The irregularities were formally reported (July 2025) to Police for initiating criminal proceedings and recovery of financial loss sustained by Government was in progress.

#### *Loss of assistance/revenue*

### FISHERIES DEPARTMENT

#### 4.2. Loss due to failure in claiming eligible exemption from income tax

**Failure on the part of Kerala Fishermen's Welfare Fund Board in claiming eligible income tax exemption and consequent deduction of tax at source on the interest income resulted in avoidable revenue loss of ₹72.02 lakh.**

As per Section 10(46) of the Income Tax (IT) Act, 1961, any specified income arising to a body or authority or Board or Trust or Commission which has been established by or under a Central, State or Provincial Act, or constituted by the Central or State Government, with the object of regulating or administering any activity for the benefit of the general public, not engaged in any commercial activity and notified by the Central Government in the official gazette, is exempted from income tax.

The Kerala Fishermen's Welfare Fund Board (Board) is a non-profit autonomous body functioning under the Government of Kerala and carrying out welfare activities for the fishermen/ allied workers' community solely sourced from Government grants and contribution/ fees etc<sup>148</sup>. The Board earns interest on fixed deposits from Kerala Fishermen's Welfare Fund (KFWF) and Allied Workers Welfare Fund (AWWF) maintained in nationalised banks and carries out activities financed from these funds.

Audit observed that the Board was eligible to be notified under Section 10(46) of the IT Act, 1961, for exemption from Income Tax. The Chartered

<sup>148</sup> collected as per Section 3(2) of the Kerala Fishermen's Welfare Fund Act, 1985

Accountants, while auditing the accounts of the Board for the year 2018-19, had opined that the Board should get a tax exemption certificate from the Income Tax Authorities, as the Board was a non-profit organisation under Government category, functioning for the welfare of fishermen and allied workers. However, the Board was yet to initiate the process of getting itself notified by the Central Board of Direct Taxes (CBDT) for being exempt from Income Tax. The Board had also not obtained non-profit registration under Section 10(23C)(iv) of IT Act. Consequently, an amount of ₹72.02 lakh was deducted as tax at source<sup>149</sup> by the banks from the interest earned on the fixed deposits during the period 2018-19 to 2022-23. The Board had also not filed Income Tax returns during the entire period.

Audit observed that Section 27 of the Kerala Fishermen's Welfare Fund Act required submission of annual accounts of the Board audited by a Chartered Accountant, to Government before the end of July every year. The Board, in order to claim tax exemption, had to submit annual audited report to CBDT every year. However, it was observed that during the period 2018-19 to 2024-25, audit of accounts was conducted only upto 2021-22, that too with a delay ranging from 803 to 1063 days. Consequently, the Board was not in a position to submit audited reports and thereby turn eligible for tax exemption.

On pointing this out, Government acknowledged (August 2025) that the primary reason for non-filing of IT returns was the delay in completing statutory audits. Although audit for 2021-22 was completed and a draft report submitted by the Chartered Accountant, the report was not approved due to several discrepancies arising from errors in tally entries. Unless the tally accounts from 2012 to 2025 are rectified and furnished to the auditors, the audit proceedings from 2021 cannot be completed satisfactorily. It was further stated that, the Board had been advised to first obtain non-profit registration under Section 10(23C) of IT Act before applying for waiver of delay in filing returns and that action in this regard was underway.

Thus, delay in rectifying errors in tally accounts and registration as non-profit organisation resulted in avoidable deduction of tax amounting ₹72.02 lakh to the Board, for the assessment years 2018-19 to 2022-23.

## HEALTH AND FAMILY WELFARE DEPARTMENT

### 4.3. Loss of Government of India assistance of ₹6.85 crore

**Government of Kerala's lack of timely action in releasing the Government of India (GoI) assistance to Government Medical College, Kozhikode led to a loss of ₹6.85 crore of GoI funds, thereby increasing the burden on the State exchequer. This also led to blocking up of ₹1.37 crore of GoI funds on incomplete works of setting up of College of Paramedical Education at Government Medical College, Kozhikode.**

Government of India (GoI) formulated<sup>150</sup> a Centrally Sponsored Scheme (CSS) namely 'Setting up of State Institutions of Paramedical Sciences in States and setting up of College of Paramedical Education' with a view to provide one time

<sup>149</sup> at the rate of 10 per cent

<sup>150</sup> As part of Twelfth Five year plan (2012-17)

institutional grant for supporting State Government Medical Colleges for conducting allied health (paramedical) courses. The one time grant was capped at ₹13.70 crore for each State and the centre and state share was to be in the ratio of 60:40<sup>151</sup>.

Government of Kerala (GoK) submitted (November 2017) a proposal for setting up of College of Allied Health and Paramedical Institute at the Government Medical College, Kozhikode (GMCK) under the CSS. GoI approved the proposal of GoK and released (February 2018) an amount of ₹4.11 crore as first instalment.

Comprehensive Administrative Sanction for the project was accorded (August 2019) by GoK and an amount of ₹6.85 crore (₹4.11 crore as Central Share and ₹2.74 crore as State share) was sanctioned (August 2019), with permission to deposit the amount in a bank account opened exclusively for the scheme.

Audit observed that the Principal, GMCK submitted (October 2019) a bill for transfer of the amount to the bank account opened for the purpose. However, the same was rejected for lack of Ways and Means clearance<sup>152</sup>. It was seen that based on requests of the Director of Medical Education (DME) (January 2020) and the Principal, GMCK (February 2020), the Ways and Means clearance was granted (October 2020) and the fund was transfer credited to the dedicated bank account only in March 2021.

Meanwhile, GoI had informed (June 2019 and October 2019) that the scheme would end on 31 March 2020 and called for submission of pending Utilisation Certificates (UC), along with physical status report and the proposal for next instalment immediately, for further release of funds. It was further informed that no funds will be released after 31 March 2020 and liabilities, if any, will have to be borne by the State.

Audit observed that an amount of ₹1.37 crore was transferred to the Public Works Department (PWD) for starting the works in August 2021 and PWD requested (September 2021) that the balance amount available with the GMCK (₹5.48 crore) be transferred to PWD before inviting tenders for the work. As the GoI had already discontinued the scheme, it was decided (June 2022) to implement the project in a phased manner. The first phase was to be undertaken with the available funds and was to be initiated by November 2022. Further, Audit noticed that PWD had incurred an expenditure of ₹0.60 crore on the work, as of November 2024.

Though the Principal, GMCK made repeated requests<sup>153</sup> for grant of permission for transfer of the remaining ₹5.48 crore to PWD to initiate the construction work, the same was not granted. Audit observed that as of April 2025, only pile capping works were done with regard to the setting up of College of Allied Health and Paramedical Institute at GMCK, under the CSS.

<sup>151</sup> ₹8.22 crore will be released by Central Government in two equal instalments of ₹4.11 crore each. Second instalment will be released, only after receipt of UC and progress report of first instalment.

<sup>152</sup> As a measure to manage liquidity of the State, payments from treasury have been regulated by the Government fixing Ways and Means limit from time to time. Any payment above the Ways and Means limit fixed by the Government requires Ways and Means clearance from Finance Department.

<sup>153</sup> Vide letters dated September 2021, April 2022, December 2023 and May 2024

Meanwhile, GoI issued multiple letters<sup>154</sup> to GoK calling for the physical/financial progress report and UC for the scheme and directed that the unspent balance be remitted back. Accordingly, GoK refunded (April 2025) ₹2.74 crore<sup>155</sup> to GoI.

GoK stated (September 2025) in reply that the delay in project implementation was due to procedural constraints. The GoK's lack of timely action in releasing the GoI assistance to GMCK led to a loss of ₹6.85 crore<sup>156</sup> in GoI funds thereby increasing the burden on the State exchequer and also blocking up of ₹1.37 crore of funds received from GoI. Additionally, approximately 500<sup>157</sup> paramedical students at GMCK were deprived of the benefits that would have accrued from the setting up of the college of Allied Health and Paramedical Institute.

### *Wasteful expenditure*

## SCHEDULED CASTES DEVELOPMENT DEPARTMENT

### 4.4. Construction of building without ensuring transfer of ownership of land resulted in wasteful expenditure of ₹84.32 lakh

**An expenditure of ₹84.32 lakh incurred by the Scheduled Castes Development Department on the construction of a community hall at Pattuparambu Scheduled Caste Colony, Thykkattusserry Block, Alappuzha proved wasteful, as the construction was undertaken on a private land without ensuring the transfer of ownership of land to the Department.**

The Kerala Land Relinquishment Act, 1958 and Rules made thereunder make provision for the relinquishment of lands in the State of Kerala in favour of the Government. As per the Kerala Land Relinquishment Rules, 1958, every application for relinquishment of registered land should be given in writing and should specify the details of the land<sup>158</sup> and purposes for which the land is relinquished. Applications for relinquishment may be presented to the Revenue Divisional Officer (RDO) of the Division in which the land is situated. The RDO shall forward the application to the Tahsildar and the Tahsildar shall direct the Village Officer (VO) to inspect the land. If the relinquishment of land is found valid after due process<sup>159</sup>, the RDO shall pass an order of acceptance of the relinquishment. The Kerala Land Relinquishment Act, 1958 states that the RDO may, at any stage of the proceedings reject an application, if it is found that the title of the registered holder is defective.

During the local audit (August 2023) of the Office of the District Scheduled Castes Development Officer (DSCDO), Alappuzha covering the period December 2021 to July 2023, it was observed that failure to abide by statutory

<sup>154</sup> Letters dated 14 August 2023, 19 September 2023, 09 November 2023, 28 December 2023, 26 April 2024, 06 September 2024 and 28 February 2025

<sup>155</sup> ₹4.11 crore - ₹1.37 crore = ₹2.74 crore

<sup>156</sup> ₹8.22 crore - ₹1.37 crore = ₹6.85 crore

<sup>157</sup> As stated in the letter dated 21 December 2024 by the Principal, GMCK to the DME

<sup>158</sup> The name of the registered holder, the name of the village, survey number, the total extent of land, the area to be relinquished and the tax on such area.

<sup>159</sup> The VO shall report whether the land is free from encumbrances and submit the records. On receipt of the report from VO, the RDO shall issue a notice calling for objections to the relinquishment of the land and dispose of the same after having the objections duly enquired.

requirements led to irregular acceptance of the land, resulting in legal ambiguity regarding the Government's title over the property. This resulted in idling of a building constructed in the above land, and consequent unfruitful expenditure of ₹84.32 lakh, as detailed below.

Based on a proposal submitted (May 2018) by the Director, Scheduled Castes Development Department (SCDD), Government of Kerala (GoK) accorded (July 2018) administrative sanction for construction of a community hall at Pattuparambu Scheduled Caste (SC) Colony, Thykkattusserry Block, Alappuzha for a total cost of ₹97 lakh. The Assistant Executive Engineer, Local Self Government Department Sub Division, Thykkattusserry Block was designated as the implementing officer of the project. The construction of the building was completed in May 2022 and an amount of ₹84.32 lakh was transferred to the implementing officer for the work. Audit observed that the building has been idling since and not used for any purpose.



*Figure 4.1: Photo of the community hall building constructed at Pattuparambu SC Colony, Thykkattusserry Block, Alappuzha. Photo taken by Audit party on 05 June 2025*

Scrutiny of records revealed that the land selected by the DSCDO for construction of the building belonged to a private party<sup>160</sup> and the land was yet to be acquired by the SCDD.

Audit observed that the said land was selected and construction work commenced (February 2019), based on a consent letter (February 2019) from the private party. It was seen that the DSCDO did not follow the due process as per the Kerala Land Relinquishment Rules, 1958 for

getting the land relinquished by the private party in favour of Government and eventual transfer of ownership of land to the Department before commencement of construction work. Instead, the DSCDO forwarded the consent letter and property documents<sup>161</sup> to the VO, Arookkutty for transfer of ownership in September 2021.

The VO informed (November 2021) that as a written complaint was received from the private party with regard to the transfer of the above land, follow-up action on the request of the DSCDO could be pursued only after the complaint was settled. Further, it was seen that the private party put forth (March 2022) conditional claims to agree to the transfer of land to SCDD, such as 50 per cent revenue sharing, transfer of land along with the building back to them after 20 years, space for functioning of their office, complete managerial control of the community hall, etc. Disregarding the fact that the ownership of the land was vested with the private party and the same was not transferred to the

<sup>160</sup> The President, Treasurer and Secretary of Harijan Marana Fund, a fund started in 1978 with contributions from SC families in the locality of Pattuparambu SC colony for the benefit of its members.

<sup>161</sup> Possession certificate, Land tax receipt and location sketch

Department, the construction of the structure of the building including tiling and electrical works were completed (December 2021).

Audit observed that though several rounds of discussions were held in the presence of MP/MLA/Head of the Department, the issue of transfer of land could not be resolved. The status report on the project submitted (December 2024) by the DSCDO to SCDD mentioned that even if the conditional clauses of the private party were accepted, there were legal hurdles<sup>162</sup> to the transfer of the land, as unless the question of rightful ownership of the land was settled, the possibility of utilising the building for the intended purpose continued to be remote.

Thus, failure to apply the provisions of the Kerala Land Relinquishment Act, 1958 and the associated Rules, along with the premature initiation of construction on private land by the DSCDO, led to a wasteful expenditure of ₹84.32 lakh.

GoK replied (September 2025) that directions have been issued to the Director, SCDD and the Block SCDO concerned to seek leave of the court to allow temporary use of the premises solely for the purposes of safeguarding the asset from damage and disuse, and for non-exclusive, public benefit use under custodial management, without granting title or rights to any group until the final adjudication of the suit.

Given that the land has not been formally transferred to the Department and there is ambiguity regarding its ownership, the likelihood of the Department eventually acquiring ownership of the constructed asset appears remote.

#### *Providing undue benefit*

## WATER RESOURCES DEPARTMENT

### 4.5. Undue benefit to contractors

**Incorrect deduction of amount for work not executed in the case of two works by Water Resources Department resulted in bestowal of undue benefit tantamount to ₹53.78 lakh to the contractors.**

The project ‘Comprehensive Water Supply Scheme to Perumatty, Pattancherry, Elappully, Nallepilly – Phase II’ executed as augmentation to Phase I of the project was formulated to provide drinking water to all wards in Pattancherry and Perumatty Grama Panchayats in Palakkad district. The project was funded by Kerala Infrastructure Investment Fund Board (KIIFB) and implemented by Kerala Water Authority (KWA) which acted as Special Purpose Vehicle<sup>163</sup>.

Government of Kerala (GoK) accorded (June 2018) administrative sanction for the project for ₹25 crore and KIIFB accorded (November 2018) financial sanction to the tune of ₹25.99 crore. Technical sanction was issued (February 2019) by Chief Engineer (Northern Region), KWA for ₹25.97 crore.

<sup>162</sup> Though the land was purchased in 1978 in the name of Harijan Marana Fund, the Fund was not legally registered as a Trust at that time. Though the current office bearers of the Harijan Marana Fund registered the Trust in September 2023, there were no legal records to prove that the organisation registered now had any rights on the assets created by the erstwhile unregistered entity.

<sup>163</sup> vide G.O (Ms) No.444/2018/Fin. dated 26 November 2018

The KWA invited tenders for two works relating to Phase II of the above project, Package I<sup>164</sup> and Package II<sup>165</sup>, as lumpsum contracts in February 2019 and August 2019 respectively. These works were inclusive of road restoration, which were to be executed in compliance with the guidelines issued (November 2018) by Government for KIIFB funded works, wherein the responsibility of execution of the work relating to road restoration shall be on the SPV concerned.

The Superintending Engineer, Public Health Circle, KWA Palakkad (SE) awarded the works, to two different contractors in July 2019 and February 2020, for ₹1409 lakh and ₹889 lakh respectively. Separate agreements were executed with the contractors for the above works which included road restoration charges as part of break up of payments.

During the course of audit (May 2024) of the Office of the Executive Engineer (EE), Project Division, Chittur, Palakkad for the period 2019-24, it was observed from records that the dates of completion of the works relating to Package I and Package II were 30 September 2021 and 31 May 2021 respectively. As per the break up of payments of the works, the road restoration works constituted 1.97 *per cent* of agreed Probable Amount of Contract (PAC) in the case of Package I and 24 *per cent*, for Package II. However, on scrutiny of final bills related to both the works, Audit noticed that the percentage of completion of the items related to road restoration for Package I and Package II was only zero and 17.647 respectively.

Condition No 4.6 of Package I and Condition No 3 of the Package II in the General Conditions of Notice Inviting Tenders (NIT) for the works stipulated that the quantity of work mentioned in NIT should be carried out fully. For incomplete or omitted work, a proportional amount for the quantity not carried out in each item shall be deducted from the contractor's bill at either the rate approved in break up of payments or the estimate rate, whichever is higher.

In violation of the above, the EE, while passing the final bills of both the works (February 2023), resorted to make deductions for incomplete works at the rates approved in break up of payments, despite the estimate rates being higher, as detailed in the **Appendix 4.1**. The aforementioned deviations from contract stipulations resulted in bestowal of undue benefit tantamount to ₹53.78 lakh to the contractors.

Based on the audit observation, the EE, Project Division, Chittur issued notices (September 2024) to both the contractors for the recovery of amount for non-executed works. Subsequently, the contractors appealed to the Hon'ble High Court (September 2024) against the action of the Department in belatedly issuing recovery notice, over three years after the completion of work. The Court issued interim order staying the recovery in October 2024 and in August 2025.

The Additional Chief Secretary, Water Resources Department, Government of Kerala informed Audit (December 2025) that counter affidavits in the respective

<sup>164</sup> KIIFB – 2017-18- Comprehensive WSS to Perumatty, Pattancherry, Elappully and Nallepilly Gram panchayaths - Phase II - Package I

<sup>165</sup> KIIFB – 2017-18- Comprehensive Drinking Water Scheme to Perumatty, Pattancherry, Elappully and Nallepilly Panchayaths in Palakkad District – Phase II –Package II

cases have been forwarded to the Standing counsel and are expected to be filed before the Honourable High Court.

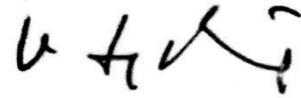
Thus, KWA, by not complying with the General conditions of NIT while deducting amount for work not executed, extended undue benefit amounting ₹53.78 lakh to the contractors. Notice of recovery was issued belatedly, only after Audit pointed out the irregularity, which led to the contractors filing petitions, thereby staying the process of recovery. Timely deduction of amount from the final bills of contractors at higher estimate rates could have avoided litigations and consequent delay in recovery of excess amount.



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**Thiruvananthapuram,  
The 21 January 2026**

**Countersigned**



**New Delhi,  
The 27 January 2026**

**(K. SANJAY MURTHY)**  
Comptroller and Auditor General of India