

CHAPTER IV

AUDIT OF TRANSACTIONS

Audit of transactions of the Government, their field formations as well as of the autonomous bodies brought out several instances of lapses in management of resources and failures in the adherence to the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

4.1 Overpayment/infructuous expenditure

AGRICULTURE DEPARTMENT

4.1.1 Infructuous expenditure due to abandonment of a project

Failure on the part of the Government/University to ensure availability of funds led to the abandonment of the project midway rendering the expenditure of Rs 86.41 lakh on civil works infructuous.

The State Government accorded sanction (November 1997) to the Kerala Agricultural University (University) for establishing a new College of Dairy Science and Technology at Vagamon in Idukki District. A sub-committee constituted by the University identified (July 1999) 87 hectares of land with infrastructure facilities available at the Base Farm (farm) of the Kerala Livestock Development Board (Board) at Kolahalamedu for the establishment of the College. Government ordered (March 2000) the transfer of the farm with labourers and 84 hectares of land to the University as the same was not required any more for the activities of the Board.

Accordingly a Memorandum of Understanding was signed (August 2000) between the University and the Board for the transfer of the farm with 42 farm labourers and the University paid Rs 1.50 crore towards the first instalment of total compensation of Rs 3.41 crore. Though construction of academic block, staff quarters, hostels, etc., was taken up immediately for establishment of the College, the works were at a standstill since March 2002. The expenditure incurred was Rs 86.41 lakh as of March 2002.

In a meeting (August 2002) taken by Minister for Agriculture, it was decided not to make any further investments on the project due to paucity of funds. It was further decided in a meeting convened (February 2003) by the Minister for Agriculture to return the land to the Board subject to the condition that Rs 1.50 crore paid to the Board as compensation would be returned and the cost of construction works would be reimbursed to the University. Though the Board repaid the amount of Rs 1.50 crore to the University in March 2003 based on the orders of the Government, no action had been taken to return the land. The Board stated (November 2004) that the partially constructed structures would not be of any use to them. The farm along with the labourers continued to be maintained by the University and the expenditure for running the farm (as of January 2005) amounted to Rs 2.13 crore.

Thus, lack of foresight on the part of the Government/University and their failure to ensure availability of funds led to the abandonment of the project mid-way rendering the expenditure of Rs 86.41 lakh incurred on civil works infructuous.

Government stated (August 2005) that the abandonment of the project was due to financial stringency. But the reply was silent as to how the unfinished structures on which Rs 86.41 lakh had been spent would be utilised.

FINANCE DEPARTMENT

4.1.2 Overpayment of pension and family pension

Improper maintenance of accounts and ineffective control mechanism in the Public Sector Banks led to overpayment of Rs 44.88 lakh.

The scheme for payment of pension to the Kerala State Pensioners through the Public Sector Banks (PSBs) was introduced from 1 December 1984. The PSBs were required to maintain pension payment accounts properly showing the relevant information such as Pension Payment Order number, amount commuted, residual pension payable, period up to which enhanced family pension was payable, updating of family pension while revising the pensionary claims, etc.

Scrutiny of records during November 2003 and April 2005 relating to payment of pension and family pension through 60 paying branches of six PSBs⁰ in eight* districts revealed improper maintenance of pension payment accounts, resulting in overpayment of pension and family pension aggregating Rs 44.88 lakh between 1999 and 2004 as detailed below.

- ◆ According to the Kerala Service Liberalised Family Pension Scheme, enhanced family pension equivalent to 50 *per cent* of the basic pay last drawn subject to a maximum of twice the family pension was admissible for a period of seven years from the date of death or till the date on which the employee would have reached the age of 62 years whichever period is shorter, and at ordinary rates thereafter. PSBs were required to maintain a register to watch the payment of enhanced family pension for the relevant period. It was, however, seen that the Register of Payment of Pension, Index register, Disburser's portion of the Pension Payment Orders and Payment scrolls were not maintained properly in the banks. Details of relevant entries such as basic pension, period up to which enhanced family pension was payable, reduced pension after commutation, etc., were not recorded in the Register of Payment of pension by the banks and this resulted in overpayment of Rs 41.10 lakh in 82 cases.

⁰ State Bank of Travancore : 43, State Bank of India : 2, Canara Bank : 1, Syndicate Bank : 9, Union Bank of India : 2, Indian Overseas Bank : 3

* Kannur, Kozhikode, Malappuram, Palakkad, Thrissur, Pathanamthitta, Kollam and Thiruvananthapuram

- ◆ Consequent on revision of pay scales of the Government employees with effect from 1 March 1997, pension and family pension was revised by consolidating the existing pension and family pension, dearness relief, interim relief and fitment benefit. It was noticed that the amounts of dearness relief, interim relief and fitment benefit were not reckoned correctly and revision of pension and family pension was made wrongly in 18 cases resulting in excess payment of Rs 2.75 lakh.
- ◆ According to the Kerala Service (Pension) Rules, if a pensioner commuted a part of his pension, the amount of pension should be reduced to that extent. Scrutiny revealed that the date of commutation of pension was not recorded in the Register of Payment of pension and in six cases commuted portion of pension was not reduced from the original pension, resulting in excess payment of pension of Rs 1.03 lakh.

Thus, failure of the system to maintain pension payment accounts properly in the PSBs led to overpayment of Rs 44.88 lakh; the PSB commenced recoveries on this being pointed out in audit.

Government stated (August 2005) that the matter was taken up with the PSBs concerned for necessary action.

4.2 Violation of contractual obligations/undue favour to contractors

PUBLIC WORKS DEPARTMENT

4.2.1 Kerala State Transport Project

Introduction

Government of Kerala launched (June 2002) the 'Kerala State Transport Project' (Project) as a policy for comprehensive development of State Highways and Waterways. The Project was financially aided by the World Bank, in the form of loan, to the extent of 76 *per cent* of the Project cost. The Project envisaged (a) upgradation of State Highways for a length of 600 km in two phases; (b) larger works of maintenance of Highways for a length of 1,000 km in three phases; and (c) improvement of navigable waterway for 100 km. Apart from this, road safety and institutional strengthening of State Public Works and Water Resources Departments were also included as components of the Project. Implementation of the Project, taken up in June 2002, was in progress under the supervision of a Project Management Team (PMT), headed by the Secretary to Government, Public Works Department. Two Circle Level Offices[#] and four Divisional Offices[@] also functioned to oversee the Project activities.

[#] Kottarakkara, Muvattupuzha

[@] Kanjirappally, Kuttipuram, Kannur, Kottayam

Mention was made in the Reports of the Comptroller and Auditor General of India (Civil) (Paragraph 4.1.6 (iii) for the year ended 31 March 2002 and in Paragraphs 4.3.3 and 4.4.6 for the year ended 31 March 2004) about irregularities in the implementation of the Project. A further test check conducted during August 2004 to December 2004 of the records pertaining to the period 1 April 2002 to 30 November 2004 relating to the implementation of the Project revealed the following.

Lapses/defects in the contracts

Provision for payment of cost escalation and consequent loss

In contravention of World Bank guidelines, the PMT made provision for payment of cost escalation, leading to avoidable expenditure of Rs 2.74 crore.

The guidelines formulated by the World Bank for procuring loans and credits by the Government agencies enjoined, among other matters, that price adjustment clause was not necessary in contracts having currency up to 18 months. Disregarding these guidelines, the PMT included provision for price adjustment in 13 contract packages finalised (between March and July 2002) for maintenance of roads under Phase-I, the contractual period of which were between 12 and 15 months. The extent of payment made to contract agencies towards cost escalation in respect of these contracts was Rs 2.74 crore. The PMT, while concurring with the audit point that price adjustment clause need not have been included in these contracts, held that only bitumen and petrol, oil and lubricant were brought within the purview of price adjustment with the intention of obtaining attractive and competitive offers. This argument is hypothetical and therefore, not maintainable. Inclusion of provision for price adjustment clause in contravention of the World Bank guidelines in these contracts led to avoidable expenditure of Rs 2.74 crore.

Engaging of consultants

Avoidable expenditure due to awarding contract at higher rate

The Project also provided engaging the services of a consultant with sufficient experience to assist implementation of the component Institutional Strengthening and Action Plan⁵. For this purpose, the PMT invited bids in May 2002. Out of the 29 firms which responded (May 2002), six firms were short listed (June 2002) applying the yardsticks prescribed by the World Bank. The Chief Executive, (PMT), the Chief Engineer (Roads and Bridges) and the Superintending Engineer (Project) conducted technical evaluation of bids individually. According to the guidelines laid down by the lending agency, the final ranking should be on the basis of the total of 75 per cent of score obtained on technical evaluation and 25 per cent of score awarded on financial evaluation. The final score position of the three front runner firms was as shown below and the PMT awarded the contract to the firm SMEC International (Australia).

⁵ Improving the capabilities of Public Works and Water Resources Department in infrastructure development, transport maintenance and management.

Name of firm	Financial price offered Rupees	Score awarded		Total score 75 per cent of (iv) plus 25 per cent of (iii) (points)	Rank
		Financial (points)	Technical (points)		
(i)	(ii)	(iii)	(iv)	(v)	(vi)
SMEC International, Australia (A)	8,67,86,644	59.33	94.17	85.46	I
SPAN-DRD JV, India (B)	5,14,91,530	100	77.99	83.49	II
Scott Wilson Kirk Patrick, UK (C)	9,27,63,064	55.51	75.60	70.58	III

A firm, which scored well in financial evaluation, was overlooked while finalising contract

Thus, despite having scored 100 points on financial evaluation, Firm 'B' could not come out successful in the final run, as it missed 1.97 points on final evaluation. Analysis of records relating to evaluation of bids confirmed that the evaluators were not objective in determining the acceptability of various parameters and that they did not pay due weightage to the actual requirements of local conditions for the institutional strengthening of the departments. While certifying the academic qualifications of the key personnel projected by Firm B as 'good', they were judged as possessing lesser international experience, which, in as much as the demands of State departments are concerned, may not necessarily be a fair criterion for technical evaluation. The selection of 'A' which enjoyed only a thin lead of 1.97 points in the final ranking, however, left a monetary burden of Rs 3.53 crore on the project cost. As Firm B was short listed only after ensuring that technical parameters contained in their offer were within the benchmark fixed, the noticeable mismatch between the financial offers of 'A' and 'B' ought to have been taken up with the lending agency before identifying the successful bidder. Commensurate benefit from increased outgo was not discernable as basis of award of points on technical parameter did not consider objective criterion relevant to conditions of work and were not devolved on granular level. As all the bidders were found to be technically acceptable, KSTP could not derive benefit commensurate to the extra liability of Rs 3.53 crore.

Avoidable expenditure due to premature conclusion of contract

Non-synchronisation of contracts for civil works and consultancy services resulted in loss of Rs 2.32 crore

The Project Plan envisaged employment of the services of a consultant to supervise works relating to upgradation of State Highways. In December 2003, the PMT awarded the consultancy contract relating to upgradation works under Phase II to an international firm for a contract price of Rs 15.75 crore. The contractual period of the consultancy contract was 36 months. The contractual responsibilities of the consultant firm were (a) to achieve high quality in construction; (b) to ensure that works were carried out in full compliance with the engineering design/technical specification; and (c) to ensure timely completion of works. These contractual obligations would indicate that the activities of the consultant were to go hand-in-hand with the upgradation works. The contract for upgradation had not, however, been awarded as of December 2004. Even before finalising the contracts for upgradation works under Phase II, the consultancy contract was awarded and they were paid an aggregate amount of Rs 2.32 crore between May and November 2004 towards reimbursement of remuneration paid to key personnel and expenditure on other purposes. Thus, due to non-synchronisation of finalisation of contracts for upgradation works and for

consultancy services, payment of Rs 2.32 crore made to the consultant did not serve any intended purpose. The PMT clarified (September 2004) that services of the firm were utilised for certain critical pre-contract activities, such as, project preparations, review of project documentation and design, assisting in preparation of bid documents, etc. The Project, however, did not contemplate employment of consultant for these pre-contract programmes and the services stated to have been rendered by the consultant firm were outside the ambit of contractual responsibilities specified in the agreement. Due to advance positioning of the consultants even before awarding the contract of construction, the possibility of extension of time beyond the stipulated 36 months for the consultants exists, which would lead to extra payment to them.

Extra financial commitment on account of extension of contractual period

PMT extended the currency of the contracts for construction supervision consultancy leading to extra liability of Rs 26 lakh.

The PMT concluded two contracts (May 2002 and June 2002) for the 'construction supervision consultancy and technical audit' of works under the Road Maintenance Component of the Project. The aggregate contract outlay was Rs 1.80 crore and the construction supervision was for one year from the date of execution of agreement. The road maintenance works, arranged under different contract packages were scheduled for completion between April and July 2003. The civil contractors, did not, however, complete the works within the period specified in the agreements. The Steering Committee monitoring the project implementation, therefore, resolved (February 2004) to extend the period of contracts for construction supervision consultancy and technical audit till December 2003 in one case and till February 2004 in the other case. According to the Steering Committee, the civil contractors failed to complete the maintenance works for a variety of reasons, such as, heavy monsoon, substitution of items of work with new ones, lacklustre performance of contractors, etc. Audit scrutiny further showed that one of the contractor firms for construction supervision consultancy appointed its 'Team Leader' only after four months from the date of awarding the contract, whereas, in the second contract the 'Team Leader' appointed by the contractor firm was found to be not capable of delivering the goods.

The obligations of contractors for construction supervision consultancy envisaged in respective contracts were, among other things, (i) ensuring timely commencement of civil works; (ii) monitoring financial and physical progress of works; and (iii) ensuring timely completion of works without diluting quality standards. Failure of contract agencies to fulfill these requirements led to delay in completion of the work resulting in extra financial commitment of Rs 26 lakh to the Government.

Arrangement of works

Appropriation of borrowed funds for the improvement of National Highways

The State Government launched the Project with the overall objective of comprehensive improvement of the State Highways. In November 2002, the PMT entered into a contract with a firm for the upgradation of the State Highways for a total length of 127.192 km for a contracted price of Rs 215.50 crore. Scrutiny revealed that a portion of the road proposed to be upgraded

PMT made provision for appropriating Rs 75.28 crore for the improvement of a portion forming part of the National Highway

under the contract (length 44.43 km[▲]) had been notified as National Highway by the Government of India in October 2000 and that the State Government had transferred the ownership of road to the Government of India in December 2002. As the upkeep and maintenance of the National Highways are the responsibilities of the Government of India, the State Government should not have awarded the work to the contractor and the appropriation of Rs 75.28 crore (approximately) from borrowed funds constituted an injudicious charge on the Project.

Exorbitant rate for an item of work

Rate approved for a varied item was far in excess of that approved for identical items in other contracts.

The PMT arranged the upgradation of the State Highways for a length of 78.380 km[▲] in November 2002, through a firm for a contract price of Rs 140.50 crore. As there was no provision in the contract for filling pot holes and for patch works to the existing road surface, these works were arranged as supplementary/varied items. According to the 'variation order' the rate approved for filling pot holes and patching of existing surface (quantity 66,450 sq.metre) was Rs 301 per sq.metre. Scrutiny revealed that, in the case of three other road maintenance contracts, the rate admitted for doing these works was between Rs 180 and Rs 203 per sq.metre. Assuming the rate admissible as Rs 203 per sq.metre, the excess allowed on this varied item resulted in extra commitment of Rs 65 lakh.

Mobilisation advance

Undue advantage to contractors due to postponement of recovery of advance

Making the contract condition relating to recovery of mobilisation advance flexible subsequently, resulted in contractors deriving the benefit of interest on money retained

Conditions of contracts relating to upgradation of the State Highways guaranteed payment of interest free advance to contract agencies subject to a maximum amount equivalent to 15 *per cent* of contract price. Conditions also stipulated that recovery of mobilisation advance should commence after certification of 30 *per cent* of contract price or nine months after payment of first instalment of advance, whichever period concludes earlier. The contracts in question did not, however, provide for recovery of interest on belated adjustment of advances. Between December 2002 and May 2003, the PMT paid an aggregate amount of Rs 40.61 crore as mobilisation advance to three contractor firms to which contracts for upgradation of the State Highways for a length of 254.74 km had been awarded in November 2002. The PMT concluded the contract agreement before ensuring availability of encumbrance free land and removing the utilities from the alignment of the road. There was also delay in obtaining clearance from respective authorities for quarries and installation of equipment required for the work. As a consequence of these, the contract agencies failed to achieve prescribed milestones in execution, resulting in non-recovery of mobilisation advance at appropriate time. Therefore, on the basis of the recommendations of the PMT, the Steering Committee, monitoring the Project implementation resolved (February 2004) to amend the contract condition, making it obligatory to commence recovery of mobilisation advance only after completion of 30 *per cent* of the work.

[▲] Chainage km 72.400 to Chainage km 116.830 – Portion from Kottarakkara to Chengannur

^{*} Palakkad-Shoranur (km 0/000 to km 45+300) and Thrissur-Kuttipuram (km 19+600-km 52+680)

This decision, evidently, helped the contractors to retain the amount without paying interest for a very long duration. Thus, the recovery of mobilisation advance of Rs 40.61 crore, due to commence on various dates between September and December 2003, was pending as of August 2004. Assuming the interest rate as 10 *per cent* per annum, the contractors' derived unintended benefit to the tune of Rs 3.33 crore by way of interest on funds not repaid to the Government.

The PMT maintained (September 2004) that postponement of recovery of mobilisation advance was done in the best interests of the Project and that it will explore the possibilities of imposing interest, in future, on advances not recovered within the specified time frame.

Liquidated damages

Non-recovery of liquidated damages

Rs 4.76 crore was pending realisation towards liquidated damages.

Provisions made in 13 contract packages arranged for road maintenance demanded levy of liquidated damages at specified rates in case of failure of contract agencies to complete the works on dates specified in the agreements. On account of the delay in completing the works in time the liability fixed on eleven contractors towards liquidated damages was Rs 5.93 crore. The amount recovered from these contractors as of August 2005 was only Rs 1.17 crore leaving Rs 4.76 crore still to be recovered.

These points were referred to the Government in July 2005; reply had not been received (September 2005).

PUBLIC WORKS/WATER RESOURCES DEPARTMENT

4.2.2 Payment beyond the scope of agreement

Post-contractual changes contrary to the provisions in the agreements entailed extra financial burden of Rs 1.37 crore on the Government.

Conditions of the Notice Inviting Tenders (NIT) for works stipulate that contractors participating in bids should acquaint themselves with the facilities available at site against corresponding provisions in the estimates concerned before quoting their rates and that they are not entitled to any post-contractual provision or revision of rates on that account. Scrutiny of the records of the following two works awarded by the Public Works and the Water Resources Departments revealed non-observance of the conditions of the NIT which led to extra expenditure of Rs 1.37 crore, of which Rs 0.75 crore had been paid.

PUBLIC WORKS DEPARTMENT

Construction of Panampuzhakadavu bridge across Kadalundy river in Malappuram District

The Superintending Engineer, Roads and Bridges, North Circle, Kozhikode awarded (September 2000) the construction of Panampuzhakadavu bridge across Kadalundy river in Malappuram District to a contractor for a contract

price of Rs 3.84 crore (involving a tender rebate of 13.88 *per cent*). The contractor completed the construction in November 2004. Scrutiny of the accounts of work revealed (May 2003) that the contract contemplated 'cast-in-situ' piles for the foundation of bridge (2,370 metre). In order to protect the boreholes made for pile casting and to facilitate proper concreting, provision for an outer casing (680 metre) with circular lining using MS sheets was provided in the contract (Rs 4,718 per metre). The Executive Engineer, Roads Division, Manjeri proposed (May 2001) execution of additional 984.97 metre (145 *per cent* increase over the original proposal) on the ground that due to the peculiar nature of soil, sides of the boreholes showed a tendency to crumble demanding extension of the circular lining to more depth, which was sanctioned by the Chief Engineer (May 2001). The extra expenditure due to this change worked out to Rs 40.02 lakh. Providing casing pipe to the borehole was an added facility for casting piles at site and the contractor offered tender rebate for the work as he was convinced, among other things, that the provision of 680 metre for casing in the estimate was adequate. As such, there was no justification for providing for casing for additional depth entailing extra liability to the Government.

WATER RESOURCES DEPARTMENT

Construction of Moolathara Right Bank Canal forming part of the Kuriyarkutty-Karappara Irrigation Project

The Superintending Engineer (SE), Siruvani Project Circle, Palakkad concluded (April 2002) seven contracts for the Construction of 'Moolathara Right Bank Canal' forming part of the 'Kuriyarkutty-Karappara Irrigation Project' at a contract outlay of Rs 4.88 crore. In January 2003, the contractors pointed out that the quantities of excavation and of filling required re-examination as the contract did not envisage construction of 'berms' to provide working space. Based on the recommendation of the Executive Engineer, Kuriyarkutty-Karappara Irrigation Project, the SE approved (January and February 2003) extra quantities for excavation and filling, which entailed estimated extra liability of Rs 96.50 lakh, of which Rs 75 lakh had already been paid (June 2005). Since the contractors had quoted their rates taking into account the limitation of working space, there was no necessity to provide the same at Government expense.

In both the works, the contractors had offered tender rebate for the work as they were convinced, among other things, that the provisions made in the estimates were adequate. As such there was no justification for allowing the post-contractual changes.

These cases were referred to the Government in May 2005; reply had not been received (September 2005).

4.3 Avoidable/Extra/Unfruitful expenditure

HEALTH AND FAMILY WELFARE DEPARTMENT

4.3.1 Avoidable expenditure towards surcharge due to belated payment of water charges

Delay in payment of water charges in Medical College, Kozhikode led to avoidable payment of Rs 14.75 crore towards surcharge and liability of Rs 5.79 crore on this account.

According to the provisions in the schedule of revised tariff effective from 1 March 1999, the bills for consumption of water charges are required to be paid in full within the due date and in case of failure two *per cent* surcharge is leviable per month for the period of default.

Scrutiny of records of the Medical College, Kozhikode revealed (July 2004) that the arrears of water charges to be paid to the Kerala Water Authority (KWA) as on 31 March 1999 were Rs 2.32 crore[♦].

After examining a similar instance of payment of penal interest on electricity charges included as Paragraph 3.6 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1995 (Civil), the Public Accounts Committee in its Ninety-first Report (December 2000) recommended that sufficient funds should be provided to the hospitals for making payments in respect of energy and water charges in time. However, it was noticed in audit that the Government had not provided adequate funds for payment of these charges resulting in accumulation of arrears payable. As of January 2005, the total outstanding amount was Rs 29.07 crore which included Rs 18.33 crore as surcharge on account of non-timely payment of water charges. Out of this, Rs 14.75 crore were paid (Rs 35 lakh in February 2005, Rs 14 crore in March 2005 and Rs 40 lakh in May 2005) towards partial settlement of the bills. Resultantly Rs 17.31 crore was outstanding as of July 2005 which included a sum of Rs 5.79 crore towards surcharge on account of non-timely payment since the partial payment were adjusted against outstanding surcharge.

Though request for funds were made by the Principal, Medical College, Kozhikode, the Government did not provide adequate funds for clearing the arrears and consequently the monthly penalty varying between Rs 4.60 lakh and Rs 56.70 lakh, had to be borne by the Medical College.

It was also noticed in Audit that the charges for water consumed by other institutions functioning in the Medical College campus such as the Police Station, Post Office, Regional Chemical Laboratory, Kerala State Electricity Board, Public Works Department, etc., were paid by the Medical College as

♦ Arrear water charges from April 1996 to February 1999	Rs 234.45 lakh
Add: Water charges for March 1999	Rs 9.03 lakh
Add: Interest for March 1999	Rs 4.87 lakh
Less: Amount remitted in March 1999	<u>Rs 16.35 lakh</u>
Balance	Rs 232.00 lakh

no separate water meters were provided to these institutions. The Principal took no action to install separate meters for these institutions.

Had the water charges been settled in time, the funds required for the payment of surcharge (Rs 20.54 crore)[¶] could have been used for other developmental activities. Since KWA is a statutory body entrusted with supply of drinking water, delays in payment of water charges by the Government departments would affect the financial health of the Authority.

The matter was referred to the Government in May 2005; reply had not been received (September 2005).

4.3.2 Extra expenditure on purchase of medicines

Failure of the Central Purchase Committee in not including the price variation clause for purchase of medicines for 2002-03 and delay in finalisation of rate contract for 2003-04 resulted in extra expenditure of Rs 85 lakh.

According to Government instructions (July 1984 and October 1994) all formalities for purchase of medicines and allied items for use in the hospitals under the Director of Health Services (DHS) and the Director of Medical Education should be finalised by the Central Purchase Committee (CPC) through running rate contract system by the end of the preceding financial year. It has also been stipulated that a clause should be included in the conditions of supply that the benefit of reduction in the rates of any medicines by an Act of the Central or the State Government or on account of any other factors should be passed on to the Government by the firms.

Scrutiny by audit revealed (July 2004) that the CPC finalised the running rate contract for purchase of medicines and allied items for 2003-04 only on 15 September 2003. As the rate contract for 2003-04 was not finalised within the prescribed time, the Government issued orders (June 2003) for purchase of emergency and essential drugs up to July 2003 from the firms at the rate fixed for 2002-03. Accordingly, the DHS made purchases during June- July 2003 amounting to Rs 7.97 crore at the rates fixed for 2002-03. However, the CPC failed to include the price variation clause in the general conditions of supply finalised for the year 2002-03.

It was noticed (July 2004) in audit that the rates concluded by the CPC for purchase of medicines on 15 September 2003 for 2003-04 were lower than the rates finalised for 2002-03 by virtue of reduction in Customs and Central Excise duties by the Central Government on Pharmaceutical products effective from 1 March 2003. Thus the failure of the CPC in not including the price variation clause for 2002-03 and the delay in finalising the rate contract for 2003-04 in time resulted in extra expenditure of Rs 85 lakh.

The matter was referred to the Government in May 2005; reply had not been received (September 2005).

[¶] Inclusive of payment of Rs 14.75 crore and liability towards the same amounting to Rs 5.79 crore.

HIGHER EDUCATION DEPARTMENT

4.3.3 Avoidable expenditure on payment of House Rent Allowance at higher rates

Sree Sankaracharya University of Sanskrit paid House Rent Allowance at higher rates to its employees resulting in avoidable expenditure of Rs 43.23 lakh.

According to the pay revision orders issued by the Government in November 1998, House Rent Allowance (HRA) payable to employees working in offices located in unclassified places was Rs 100 per month irrespective of the pay range; the revised rates were payable only from 1 November 1998.

It was, however, observed (April 2005) in Audit that Sree Sankaracharya University of Sanskrit located at Kalady, an unclassified place had been paying HRA to its employees at higher rates ranging from Rs 120 to Rs 660 per month applicable to 'C' class cities. The irregular excess payment made from March 1997 to March 2005 worked out to Rs 43.23 lakh.

The action of the University in extending unintended benefit to its employees in violation of the orders of the Government led to an avoidable expenditure of Rs 43.23 lakh.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

PUBLIC WORKS DEPARTMENT

4.3.4 Extra expenditure in the formation of a village road

Post contractual change of gradient of a village road resulted in extra expenditure of Rs 86.04 lakh.

Government sanctioned (March 1998) formation and improvements of Mundengara Pullipadam Odayikkal road (a village road) in Malappuram District for Rs 1.95 crore. The Chief Engineer, Roads and Bridges sanctioned (April 2001) the work technically for Rs 2.80 crore. The Executive Engineer, Roads Division, Manjeri, whose records were test checked during April-May 2004, awarded (May 2001) formation, side protection, cross-drainage and metalling and black topping components (excluding supply of cement and steel) for execution on piece rate basis^Ω at 30 per cent above estimated rate for an agreed cost of Rs 3.06 crore. Execution of these components was completed by June 2003. Payment of Rs 3.48 crore was made as of January 2004.

Formation component of the estimate provided for 28,665 cubic metre (cum)

^Ω In piece rate system of contract, the contractors give in writing an undertaking to carry out an item of work at specified rates without reference to quantities or time and are usually confined to small works.

of earth filling with contractor's own material. Against this, the quantity actually executed and paid for was 1,00,528 cum. Out of this excess quantity of 71,863 cum, 41,607 cum filling was necessitated due to reduction in cutting quantity (21,840 cum) and extra filling for a 5.370 km portion of road lying at a lower level (19,767 cum). There was, however, no reasonable justification for the remaining quantity of 30,256 cum. Further, as a consequence of this extra filling, the side protection component involving random rubble masonry in cement mortar for retaining wall was executed for an extra quantity of 5,775 cum. Department's contention was that the increase in filling quantity was to ease the gradient to the 'major district road standard'. However, this does not hold good as it was contrary to the Government sanction for forming and improving the village road to trafficable gradient. The fact that a portion of the road to be formed passed through low lying land and required additional filling to ease the gradient was very well known to the Department and as such it ought not to have escaped notice at the time of preparing the original estimate. Thus the post contractual changes made in the scope of work, against the intention of the Government, led to extra filling (30,256 cum) and masonry work (5,775 cum), resulting in extra expenditure of Rs 86.04 lakh.

Government was requested (October 2004) to take remedial steps to arrest the unhealthy tendency of resorting to unjustifiable post-contractual change in estimates.

The matter was again referred to the Government in July 2005; reply had not been received (September 2005).

4.3.5 Extra liability due to change in design

Failure of the Department in ensuring suitability of design to the site conditions and frequent changes in the design led to delay in completion of the work and consequential extra liability of Rs 39.68 lakh.

The Superintending Engineer (SE), Roads and Bridges, South Circle, Thiruvananthapuram awarded (March 1999) the work of construction of a bridge at Bunglowkadavu across Pamba River in Ozhuvampara-Vadasserikara road in Pathanamthitta district to a contractor at a contract price of Rs 2.55 crore. The site was handed over in April 1999, and the date of completion was March 2001, which was extended up to March 2004. The construction was completed in September 2004. Payment made to the contractor was Rs 2.33 crore as of December 2004.

Estimate for the work was prepared on the basis of drawing approved (May 1994) by the Design Research Investigation and Quality Control (DRIQ) Board according to which the piers and one abutment of the bridge were to have open foundation, whereas the second abutment was to have well foundation. It was noticed (December 2003) in audit that the change in design effected (June 1994) by the DRIQ Board altering the well foundation of the second abutment to open foundation was not considered while tendering and arranging the work. After commencement of the work, the design was changed to open foundation for the second abutment also due to necessity at

site. Again, as it was found to be difficult to adopt open foundation for the four piers in the river portion it was also changed to twin well of 4.00 M dia and the Chief Engineer, Roads and Bridges, Thiruvananthapuram approved the change in May 2000. The design changes were communicated to the contractor in July 2000.

Meanwhile, alleging loss due to the delay in finalisation of design and specifications for the foundation of the bridge, the contractor demanded (September 2000) payment at 1999 schedule of rates with his quoted rate of 44.5 *per cent* above estimate for work done from July 2000. The arbitration committee, which examined the matter, observed (April 2001) that there was time overrun of 13 months due to departmental lapses and recommended payment at 30 *per cent* above estimate as per 1999 schedule of rates for works executed after 23 March 2001, being the date originally fixed for completion of the work. Government accepted the recommendation in October 2001 which resulted in extra liability of Rs 39.68 lakh.

Thus, due to the failure of the department in ensuring that the design adopted for preparation of estimate was suitable to the site conditions, the department had to change the design frequently and it took 13 months to finalise the design thus delaying the completion of the work entailing extra liability of Rs 39.68 lakh.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

WATER RESOURCES DEPARTMENT

4.3.6 Inordinate delay in completion of Water Supply Schemes

Implementation of Rural Water Supply Schemes dragged on resulting in unproductive expenditure of Rs 2.31 crore and depriving the rural population of the facility of safe drinking water.

Kerala Water Authority (KWA) had been implementing the Centrally Sponsored Accelerated Rural Water Supply Project (Project) intended to provide safe drinking water to the rural population. The schemes taken up under the Project were to be completed within a period of three years utilising the Central assistance. It was noticed that implementation of schemes under the Project dragged on for years primarily due to laxity on the part of the KWA resulting in lapse of Central assistance and denying safe drinking water to the rural population in two cases detailed below:

(1) Government sanctioned (March 1993) a comprehensive Accelerated Rural Water Supply Scheme (Scheme) to Kilimanoor and adjoining villages at an estimated cost of Rs 3.22 crore* to provide drinking water to 67,750 people as the existing facility could cater to the needs of 7,950 people only. KWA purchased pipes costing Rs 1.28 crore during

* Source and Pumping arrangements: Rs 0.69 crore; Pumping Main: Rs 0.60 crore; Treatment Plant: Rs 0.22 crore; Reservoirs: Rs 0.16 crore and Distribution System: Rs 1.55 crore

November 1996 and March 1997 even before the approval of the final design of the Scheme and before getting the land required for the construction of the components of the Scheme. Though consent for relinquishment of land was received from the Panchayat/landowners during 1999-2000, no follow up action was taken to finalise the site for construction of water treatment plant and also for approval of final design. The final design and site were approved in January 2002. The estimated cost of the Scheme had to be revised further (February 2003) to Rs 7.48 crore, owing to cost escalation and deviations. The Managing Director (MD), KWA while blaming the Chief Engineer for not taking up the work even after a decade of its sanctioning and lapse of the Central assistance, directed (May 2003) him to give suggestions as to how the Scheme could be implemented in the absence of the Central assistance. As the KWA had not identified alternative source of funds, the possibility of implementing the Scheme was remote. Meanwhile, pipes costing Rs 27.65 lakh were transferred to another division and the remaining pipes costing Rs 1.01 crore were piled up (July 2005) in the Division. Thus, even after 12 years of its sanctioning, the scheme remained in the design stage.

(2) Another Accelerated Rural Water Supply Scheme sanctioned (January 1999) at an estimated cost of Rs 19.60[#] crore intended to provide drinking water to 1.16 lakh population of Elappara and adjoining four villages in Idukki district was to be completed by January 2002. The Scheme comprised construction of a water treatment plant (WTP) of 7.5 mld capacity, raw water and clear water pumping main, 20 ground level service reservoirs (GLSR), sumps, boosting stations and 115 km of distribution lines besides utilising the six metres diameter well, 10 GLSRs and distribution system of the existing small water supply schemes in the area. Construction of 14 GLSRs and improvements to the existing well were completed at a cost of Rs 1.30 crore between March 2001 and July 2005. Tenders for construction of WTP at an estimated cost of Rs 1.22 crore invited (May 2001) were not finalised, though the lowest offer received was for Rs 1.09 crore. The MD, KWA, however, directed (November 2003) to cancel the tenders and invite fresh tenders for construction of a WTP of 9.5 mld capacity taking into account the additional requirement of water for another scheme suggested by Tourism Department which was under investigation of the KWA. Tenders for construction of 9.5 mld WTP had not been finalised even as of March 2005. Construction of four reservoirs at booster stations and master reservoir was also not taken up pending redesigning of pumping main consequent on the enhancement of capacity of WTP. The remaining works were not taken up as of July 2005.

Thus, the schemes taken up under Centrally Sponsored Accelerated Rural Water Supply Projects had been languishing for years despite availability of funds mainly due to lapses on the part of the KWA, rendering the expenditure of Rs 2.31 crore incurred on them unproductive.

These points were referred to the Government in July 2005; reply had not been received (September 2005).

[#] Weir: Rs 0.30 crore; Water Treatment Plant: Rs 0.92 crore; Service Reservoirs and Sumps: Rs 0.94 crore; Pumping Main: Rs 0.13 crore; Distribution System: Rs 5.79 crore; Gravity Main: Rs 9.70 crore; Power and Pump sets: Rs 1.30 crore; Contingencies: Rs 0.52 crore

4.4 Nugatory expenditure/Idle investment//Blockage of funds

FINANCE DEPARTMENT

4.4.1 Nugatory expenditure due to delay in issuing orders of posting

Period of compulsory waiting varying between 31 and 166 days for posting orders treated as duty in the case of 75 Gazetted Officers resulted in nugatory expenditure of Rs 29.31 lakh.

Rules provide that when a Government servant on return from leave, training, foreign service or on termination of previous appointment, has compulsorily to wait for orders of posting, the interval between the date of report and the date on which he/she takes charge of his/her duties shall be treated as 'duty' provided that the interval between the date of receipt of orders and his/her assumption of duties does not exceed the admissible joining time. The rules also lay down that avoidable delay in giving posting orders in such cases shall render the authorities concerned liable for the excess expenditure, if any, caused thereby.

Mention was made in Paragraph 3.9 of the Report of the Comptroller and Auditor General of India for the year 1983-84 about nugatory expenditure in a number of cases where Gazetted Officers had compulsorily to wait for posting orders. Recurrence of such instances was brought to the notice of the Government by audit in September 2003 and the Chief Secretary issued a circular (November 2003) directing all departments to ensure that the period of compulsory waiting for posting was minimised and if avoidable delay was noticed, the excess expenditure should be recovered from the persons responsible. Scrutiny of the Government Orders in audit relating to Gazetted Establishment during the period 2000-05 revealed that the period of compulsory waiting treated as duty varied between 31 days and 166 days in 75 cases under 12 departments and salaries and allowances were paid in a routine manner. The nugatory expenditure incurred on such idle manpower amounted to Rs 29.31 lakh. In the sanctions issued for treating the waiting period as duty, either no reasons were given for the delay in issuing posting orders or the delay was merely stated to be due to administrative reasons. No responsibility for delay in issuing posting orders had been fixed so far. Consequently, recovery as directed by the Chief Secretary from the officials responsible also could not be made.

The facts were confirmed (July/August 2005) by the departments. Meanwhile, the Finance Department stated that the delay in issuing posting orders occurred due to reasons beyond the control of the officers concerned and due care would be taken to guard against such lapses in future.

**GENERAL EDUCATION (SPORTS AND YOUTH AFFAIRS)
DEPARTMENT**

4.4.2 Inordinate delay in completion of an international swimming pool complex

Failure of Kerala Sports Council to ensure completion of an ambitious project even after four years of its targeted date of completion despite spending an amount of Rs 1.80 crore deprived the athletes of the facility of an international swimming pool.

Kerala Sports Council (Council) decided (September 1998) to construct an International swimming pool complex at Pirappancode in Thiruvananthapuram District. Government sanctioned (February 1999) the transfer of 93 cents of Panchayat land with the existing swimming pool to the Council for the purpose. The Council also purchased (April 2000) 115.4 cents of adjacent land at a cost of Rs 11.54 lakh. Scrutiny (August 2004) of the records of the Council revealed the following.

The pile foundation work entrusted (February 2000) to a contractor was completed (September 2000) at a cost of Rs 43.97 lakh. The second phase of construction of 'diving pool, racing pool, dormitory, galleries', etc., was awarded (April 2000) to a Central Public Sector Undertaking* (Undertaking), for an agreed contract amount of Rs 3.61 crore to be completed within nine months which was extended upto May 2002. After completing 60 *per cent* of the work, the Undertaking stopped the work in April 2001 on the ground of delayed payments of their part bills.

Though adequate budgetary support was available, the Council failed to make timely payment of the claims reportedly due to treasury restrictions. As the Undertaking did not resume the work, the Council terminated the contract in May 2003. The total amount paid to the Undertaking was Rs 1.19 crore. The Council had also incurred an expenditure of Rs 5.78 lakh towards consultancy charges. The remaining works were rearranged only in February 2005 for an agreed contract amount of Rs 2.97 crore to be completed within six months. But these had not been completed as of August 2005 even after the expiry of the date of completion.

The following points were noticed in audit that:

- ◆ the Council failed to convince the Government of the need for relaxation of treasury restrictions to make payments on the project, the work on which was progressing well;
- ◆ though the work was at a standstill since April 2001, the contract was terminated only in May 2003;
- ◆ after termination of the contract in May 2003, the work was rearranged only in February 2005, after a lapse of about two years;

* M/s Hindustan Steelworks Construction Limited

- ◆ the delay in arranging the work as well as time overrun in completion of the work resulted in an extra financial commitment of Rs 55 lakh; and
- ◆ as the work was at a standstill from April 2001 the unfinished structures were exposed to the vagaries of weather without any protection for the last four years thus causing damage to the structures.

Thus, the failure of the Council to ensure timely payment of the claims led to the abandonment of work by the contractor. Further, the delay in terminating the contract and rearranging the work resulted in non-completion of the project even after four years of its targeted date of completion after incurring an expenditure of Rs 1.80 crore, depriving the swimmers of the facility of an International swimming pool.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

HEALTH AND FAMILY WELFARE DEPARTMENT

4.4.3 Non-utilisation of vehicles allotted for Family Welfare Programme

Seven carcass removal vehicles costing Rs 94 lakh, allotted by the Central Government had not been put to use since October 2001.

Ministry of Health and Family Welfare (Government of India) allotted (September 2001) eight Carcass Removal Vehicles (Eicher make) costing Rs 1.07 crore to the State Health Services Department for the Family Welfare Programme. The vehicles were received at the service centre of a Dealer[#] at Thiruvananthapuram in October 2001. The Director of Health Services (DHS), despite repeated requests from the dealer, did not take delivery of the vehicles on the ground that the Regional Transport Authority refused to register the vehicles in the absence of necessary certificates from the manufacturing firm as required by Automotive Research Association of India (ARAI). Government stated (February 2005) that though the company and the dealer were asked to handover the ARAI certificate, they did not take any action. However, on enquiry, Eicher Motors Limited intimated (January 2005) audit that the vehicles supplied were having ARAI approval and stated that this fact was communicated to the Department also.

The vehicles, thus, remained idle in the service centre near the sea shore area and were exposed to the vagaries of nature. The DHS had not made any efforts to take delivery of these vehicles to register them. After it was pointed out (June 2004) by audit, delivery of one out of eight vehicles was taken and allotted to the Superintendent, Taluk Headquarters Hospital, Cherthala in Alappuzha District after obtaining fitness certificate from the Regional Transport Officer (RTO), Thiruvananthapuram in December 2004. The delivery of the remaining seven vehicles was taken in January 2005 (four) and in February 2005 (three) and kept in the State Health Transport Stores pending

[#] M/s Grant Motors Sales Corporation

registration. Thus, seven out of eight vehicles costing Rs 94 lakh had not been put to use since October 2001 and the objective of its procurement for removal of waste and dead bodies of animals remained unachieved.

Government admitted (February 2005) the facts and stated that the State Health Transport Officer had not made any effort to take delivery and get the registration of the vehicles from April 2002 to April 2004. Though the Department had taken delivery of the vehicles by February 2005, the registration of seven vehicles had not been completed as of July 2005. Government had not fixed any responsibility against any Officer as of July 2005.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

HOME DEPARTMENT

4.4.4 Delay in starting an open prison

An open prison could not be started for over four years due to shortage of staff and non-provision of electricity connection.

Government accorded sanction (March 1999) for transferring 308.75 acres of land at Cheemeni village in Kasaragod District to the Home Department for constructing an open prison. Government, however, did not issue administrative sanction for starting the prison. This was pointed out by the Accountant General (Accounts and Entitlements) in January 2001 and accordingly Government issued *ex-post facto* sanction (June 2001) for the establishment of an open prison with effect from November 2000. In April 2000, Government sanctioned 14 posts[∞] for the commencement of the prison against which the Department posted only 3 staff[⊕] personnel in November 2000. The remaining 11 posts had not been filled up as of June 2005.

Test check (January 2005) of records of the open prison revealed that construction of barracks, office buildings, etc., completed at a cost of Rs 50.35 lakh by the Public Works Department, were handed over to the Home Department in July 2001. But electrification works were completed only in January 2003 after a delay of 17 months. The application for the estimate for electricity connection was sent to the Kerala State Electricity Board (KSEB) in March 2003 and the estimate was received from the KSEB only in September 2003 after six months. The Department remitted the amount in March 2004 after a delay of six months but the connection had not been sanctioned or obtained as of June 2005.

As of June 2005, Rs 36.68 lakh had been spent towards pay and allowances (Rs 19.33 lakh) of staff, electrification works (Rs 12.71 lakh) and other expenses (Rs 4.64 lakh). The Deputy Superintendent stated (June 2005) that facilities such as hospital, approach road to open prison, electricity connection,

[∞] Superintendent: 1, Deputy Superintendent : 1, Head Warder : 2 and Warder : 10

[⊕] Deputy Superintendent: 1, Head Warder : 2

and necessary staff were essential for starting the open prison. Despite having spent Rs 87.03 lakh as of June 2005 the prison had not started functioning (August 2005) due to failure of the departmental officers to appoint the staff against the sanctioned posts and make available other infrastructure facilities.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

HOUSING DEPARTMENT

4.4.5 Unproductive expenditure on a housing scheme

Lack of planning and administrative inefficiency delayed the completion and commissioning of a Housing Scheme resulting in unproductive expenditure of Rs 17.38 crore.

The Kerala State Housing Board (KSHB) formulated (November 1995) the Balaramapuram Housing Scheme (Scheme) which envisaged construction of a seven storied commercial complex and 184 residential flats and allied works in 5.10 acres of land purchased (July 1995) at a cost of Rs 1.20 crore from Trivandrum Spinning Mills Limited. The estimated cost of the Scheme was Rs 23.07 crore. Scrutiny (June 2004) of the records of KSHB revealed the following.

The works were arranged through two contractors in May 1997, to be completed by November 1998. The work of construction of the commercial complex and 64 flats entrusted to the first contractor was completed in October 2001 at a cost of Rs 9.48 crore. The construction of 120 flats and allied works awarded to the second contractor was not completed, though expenditure of Rs 5.87 crore had been incurred as of February 2005. The delay in completion of the work was attributed by KSHB to the slackness of the contractor. The total investment made on the Scheme amounted to Rs 17.38* crore as of March 2005, of which Rs 8.84 crore was borrowed (March-October 1998) from the Housing and Urban Development Corporation.

Though the commercial complex and 64 flats were completed in October 2001, it could not be allotted to the beneficiaries even as of March 2005 as water supply could not be provided. At the time of launching the Scheme the Board proposed to provide water supply from the Aralumoodu Augmentation Scheme of Kerala Water Authority which did not materialise. Action initiated in February 1999 to identify an alternative source for providing water supply was finalised only in February 2004. The work was in progress and an expenditure of Rs 9.01 lakh had been incurred as of March 2005. Consequently, the Scheme, scheduled to be completed in November 1998, remained to be completed and commissioned in July 2005 and the investment of Rs 17.38 crore did not fetch any return. This also resulted in a potential

* Information furnished by KSHB

loss of Rs 2.04 crore[#] towards rental income on the commercial and office complex since its completion in October 2001 (upto July 2005)

Government stated (August 2005) that construction of 120 flats had since been completed, work on water supply system would be completed within one month and immediate action would be taken for allotment/sale of flats and shops and the office area.

INDUSTRIES DEPARTMENT

4.4.6 Idle investment on a powerloom project

Despite spending Rs 8.77 crore on a powerloom project, intended to provide employment to the jobless handloom weavers and rehabilitation of illicit arrack traders, it could not be commissioned even after seven years.

The Neyyattinkara Taluk Integrated Powerloom Village Industrial Co-operative Society (Society) in Thiruvananthapuram District was established in December 1996 with the objective of rehabilitation of illicit arrack traders and jobless traditional handloom weavers belonging to Scheduled Caste/ Scheduled Tribe communities and Other Backward Classes. The Society envisaged setting up of a powerloom village with 250 sheds to accommodate 1,000 looms. The National Co-operative Development Corporation (NCDC) approved the scheme in October 1997 to establish powerloom workshed project in 15 acres of land at a cost of Rs 10.70 crore.

The original scheme sanctioned by the Government in May 1995 was modified (October 2000), as the scheme was not viable, by reducing the number of looms from 1,000 to 300 in five acres of land and NCDC approved (March 2001) the revised project for Rs 9.60 crore^s which included State Government grant of Rs 2.72 crore, NCDC term loan of Rs 6.78 crore and Society members' contribution of Rs 10 lakh. Test check of records (January 2005) in the Directorate of Handlooms and Textiles revealed the following.

Government grant of Rs 2.72 crore was drawn by the Director of Handloom and Textiles (Director) in March 1997. Against the release of Rs 4.91 crore by the NCDC to the State Government between February 1998 and March 2003, the State Government released Rs 6 crore in March 1998. The amount of Rs 8.72 crore was deposited by the Director in Treasury Public Account and released to the Society between April 1997 and January 2003. Government while releasing the grant (March 1997) ordered that the Director of Handloom

	(Rs in lakh)
# Expected Annual Rental income as per project report	68.69
Less: annual maintenance expenditure	15.50
Net annual income	53.19
Potential loss of rental income for 46 months from 1 October 2001 to 31 July 2005	Rs 53.19 lakh x 46/12 = Rs 2.04 crore

^s Land and Development: Rs 107.41 lakh, Building and Civil works : Rs 277 lakh, Plant and Machinery : Rs 388.50, Miscellaneous Fixed Assets : Rs 38.67, Pre-operative Expenses : Rs 91.14 lakh, Margin Money : Rs 57.28 lakh

and Textiles would take special care in organising the Society and monitoring the progress of the project. In November 1998, the Government gave administrative powers to the Kerala State Co-operative Textiles Federation (TEXFED) to act as an apex body for all powerloom projects.

The Society purchased (October 1997) 14.69 acres of land at a cost of Rs 65.39 lakh. As the land was not suitable for construction of factory buildings due to level difference of about 23 metres between the lowest and the highest level of the land, the Society had to spent Rs 2.51 crore more for development of land. Thus the Society spent Rs 3.16 crore for land and its development whereas the amount provided for this in the revised project was only Rs 1.07 crore. Though the revised project was for 300 looms, the Society installed only 200 looms at a cost of Rs 2.19 crore. The total expenditure on the project as of August 2005 was Rs 8.77 crore^ϕ. The project, however, could not be commissioned as of May 2005 mainly due to shortage of working capital.

The following points were also noticed.

- (i) Instead of developing the minimum required land for implementation of the project the Society developed the entire land in its possession resulting in excess over estimate and eventual shortage of working capital.
- (ii) The inadequate monitoring by the Director, Handloom and Textiles was the main reason for non-commissioning of the scheme.
- (iii) The powerlooms purchased and installed in the two sheds are rusted due to prolonged idling and need a thorough overhauling before these can be put to use.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

SCHEDULED CASTES AND SCHEDULED TRIBES DEVELOPMENT DEPARTMENT

4.4.7 Inadequate health care facilities to the tribal population

A hospital building constructed at a cost of Rs 82.43 lakh could not be used for in-patient treatment as infrastructure facilities were not provided.

Under a Centrally sponsored scheme, the Government sanctioned (July 1986) a Health Project for detection, prevention and control of diseases among the tribal population in Wayanad District. The Project started functioning by providing out-patient treatment to the tribals. In order to provide In-Patient (IP) treatment, the Government sanctioned (July 1986) setting up of a

ϕ Land and development	: Rs 315.58 lakh,	Building and Civil Works	: Rs 197.13 lakh,
Plant and Machinery	: Rs 212.19 lakh,	Miscellaneous fixed assets	: Rs 18.38 lakh,
Pre-operative expenses	: Rs 88.29 lakh,	Margin money	: Rs 45.14 lakh

50-bedded hospital with X-ray plant and staff quarters at an estimated cost of Rs 78.87 lakh. This included funds for organising health education camps and mass scale immunisation programmes. The construction of hospital building and other facilities entrusted (1990) to Kerala State Construction Corporation Limited (KSSC) dragged on for more than 10 years and was completed only in January 2002 at a cost of Rs 82.43 lakh. The Tribal Development Officer (TDO) took over the buildings in May 2002. In the meantime, the Wayanad Tribal Health Care Society (Society) was established (July 1995) under the Societies Regulation Act, 1860 with the District Collector, Wayanad as Chairman and TDO, Mananthavady as Secretary for efficient functioning of the Project.

Audit scrutiny (January 2004) of the records of the District Collectorate, Wayanad revealed the following.

(i) The IP wing started functioning in July 2002 for the limited purpose of observing the patients during day time with the assistance of Medical Officers/ staff employed on contract basis. It was discontinued in January 2003 as the Medical Officers left the service. Thus, the IP ward, operation theatre, X-ray machine, etc., were idling since January 2003 and were not put to use (August 2005).

(ii) Meanwhile, the State Government released the Central assistance of Rs 1.20 crore (Rs 75 lakh in March 2003 and Rs 45 lakh in January 2004) to the Society for setting up infrastructure facilities such as laboratory equipment, purchase of ambulance, furniture, etc., to the hospital. The Society did not take any action to provide the required facilities for the functioning of the hospital. The Society diverted Rs 73.81 lakh during 2003-04 for payment of salary to staff (Rs 10.44 lakh), reimbursement of cost of medicine (Rs 59.58 lakh) and other routine expenses (Rs 3.79 lakh).



Inspite of spending Rs 86.26 lakh for the construction of building (Rs 82.43 lakh) and purchase of X-ray machine, etc., (Rs 3.83 lakh), the facilities could not be used for providing IP treatment to the tribals.

The Society also diverted Rs 73.81 lakh, which was meant for creating infrastructure facilities. The IP ward, operation theatre, X-ray machine, etc., were not put to use as of August 2005. Thus, the health project, approved by the Government of India about 20 years ago, aimed at setting up of a 50-bedded hospital with X-ray plant, organisation of health education camps and mass immunisation programme had not benefited the tribal population despite availability of funds.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

4.5 Delay in commissioning of equipment

HEALTH AND FAMILY WELFARE DEPARTMENT

4.5.1 Delay in commissioning of a Cobalt Therapy Unit

Failure of KHRWS/Department of Radiotherapy to decommission old isotope machines resulted in non-commissioning of a new unit purchased at a cost of Rs 2.10 crore, depriving the cancer patients of radiotherapy facility.

Kerala Health Research and Welfare Society (KHRWS)* decided (January 2000) to purchase a tele-cobalt therapy unit, based on the request (June 1999) of the Department of Radiotherapy, Medical College, Kozhikode as the only one existing unit functioning in the Department could treat about 1,500 patients as against 5,000 patients who reported for treatment annually. Government accorded (October 2000) sanction to KHRWS for the purchase and installation of the equipment. KHRWS placed (October 2000) orders with the Indian agent of a Canadian firm for the supply, installation and commissioning of the equipment at a cost of 610604 Canadian dollars. KHRWS availed of (November 2002) a term loan of Rs 1.83 crore from the State Bank of Travancore for the purpose. The equipment was supplied (April 2003) at a cost of Rs 2.10 crore and the installation completed in November 2003. The unit could not, however, be commissioned as of July 2005, as the Atomic Energy Regulatory Board did not give permission to use the new machine for treatment of patients due to non-decommissioning of the old isotope machines in the Department as it would cause radiation hazards. The warranty period of the equipment expired in August 2004. Though, KHRWS/Department of Radiotherapy was aware of the fact that the old machines have to be decommissioned before the use of the new Cobalt Therapy unit for treatment of patients, no effective steps were taken to get the old machines decommissioned.

Thus, the investment of Rs 2.10 crore by KHRWS did not serve any purpose

* A State Government autonomous institution engaged in providing pay ward facilities and clinical and diagnostic services in Government hospitals/Medical Colleges.

for the last two years and the cancer patients were deprived of adequate radiotherapy facility. Apart from this, the revenue loss by way of charges paid by patients as estimated by the Department was Rs 40 lakh per annum.

The matter was referred to the Government in June 2005; reply had not been received (September 2005).

4.6 Regularity issues and other points

GENERAL EDUCATION DEPARTMENT

4.6.1 Irregularities in cash management

Advances amounting to Rs 3.65 crore disbursed during 1998-2005 remained unsettled as of March 2005 due to the failure of SCERT to adhere to financial rules and enforce financial discipline.

The State Council of Educational Research and Training (SCERT) is an autonomous body set up by the State Government to provide academic research, extension and training support in the field of school education in the State. The funds of SCERT consist mainly of grants from the State Government. Scrutiny of the records of the Council for the period 2000-2005 revealed non-adherence to the financial rules and procedures, mismanagement of cash, non-adjustment of advances even after years of sanction, etc., as detailed below.

SCERT had been implementing various programmes by disbursing the amounts in lump to the Project Coordinators and Implementing Officials as temporary advances. Financial rules and orders issued by the Government stipulate that advances paid should be settled within a reasonable time and in cases where unutilised amounts had not been surrendered or adjustment bills not submitted in time, the entire amount of advance with interest was recoverable from the recipients of such advances.

As of 31 March 2005, temporary advances totalling Rs 3.65 crore paid in 291 cases between April 1998 and March 2005 were outstanding for settlement. This included Rs 53.88 lakh in 108 cases advanced to 13 officials, who had either been relieved on completion of the term of deputation or retired from service and Rs 1.92 crore in 96 cases pending for more than three years. It was noticed that advances were paid to the same officials repeatedly without settling the earlier advances. Advances retained by the relieved and retired officials included Rs 28.93 lakh disbursed to two clerks on 59 occasions between October 2002 and October 2004. SCERT did not take any effective action to settle the advances resulting in the retention of huge unspent balances with the officials for years together leaving scope for misappropriation.

Financial rules also provide that no money is to be drawn unless it is required for immediate disbursement. The limit of daily cash balance that could be held in the cash chest was not fixed by SCERT. The balance of cash held in hand during 2003-04 ranged from Rs 4.43 lakh to Rs 26.88 lakh. The physical

verification of cash was not done by any responsible officer at any time. Retention of huge cash balance in the cash chest and failure to conduct physical verification of cash by officers were indicative of gross financial indiscipline and were fraught with the risk of embezzlement and/or misappropriation of cash.

Rules of SCERT provide that annual accounts should be prepared by them. However, the accounts were got prepared by the Chartered Accountants and that too up to 2002-03; audit of the accounts was completed only up to 2001-02. As per the report of the auditors, there was a shortage of cash of Rs 11.97 lakh between the treasury pass book figures and the balance in the bank accounts as on 31 March 2002. No action was taken by the Council to reconcile the shortage even as of March 2005.

Government also failed to exercise proper control over the finances of the Council. While releasing grants to the Council, the Government did not make any realistic assessment of the requirement *vis-à-vis* the unutilised portion of grant available with the Council. During 2003-04, the Government released grants aggregating Rs 2.85 crore when there was an unutilised balance of Rs 5.62 crore with the Council. This led to the retention of large balance with the Council giving scope for financial indiscipline.

Thus, failure of SCERT to adhere to the financial rules and procedures resulted in non-adjustment of advances of Rs 3.65 crore disbursed during 1998-2005 and mismanagement of cash. Therefore, it is suggested that the Government and the Council may evolve suitable internal control mechanism to ensure adherence to financial rules and procedures and take urgent action to settle the outstanding advances without any delay.

The matter was referred to the Government in July 2005; reply had not been received (September 2005)

INDUSTRIES DEPARTMENT

4.6.2 Inadmissible payment of State Investment Subsidy

Four District Industries Centres made inadmissible payment of investment subsidy of Rs 29.59 lakh to seven industrial units.

Test check of records in four District Industries Centres (DICs)[∞] revealed (December-March 2005) inadmissible payment of Rs 29.59 lakh as detailed below:

(i) According to the provisions in the revised Manual for State Investment Subsidy effective from July 2000, an Investment Subsidy (Subsidy) of 10 *per cent* limited to Rs 5 lakh will be payable on the fixed capital investment of all industrial units which were not included in the negative list, notified from time to time.

[∞] Thiruvananthapuram, Pathanamthitta, Emakulam and Kasaragod

Photo studios and colour processing centres were included in the negative list and thus, were not eligible for subsidy. In July 2001, it was also clarified by the Government that the units engaged in digital imaging activity could be considered only in the category of colour processing units and hence were not eligible for subsidy. However, in DIC, Thiruvananthapuram and Ernakulam subsidy of Rs 15.16 lakh was paid to four units^v engaged in digital imaging activity.

(ii) The State investment subsidy already in force from 4 January 1994 till its revision from 11 July 2000 provided for an investment subsidy of 15 *per cent* limited to Rs 15 lakh on the fixed capital investment like land, building, plant and machinery of all industrial units. According to the revised scheme effective from July 2000, the subsidy would be 10 *per cent* limited to Rs 5 lakh on the fixed capital investment.

Under the revised scheme, building in the name of the Proprietor/Partner/Director, if capitalised in the books of accounts of the unit shall also be made eligible for subsidy unlike in the old scheme in which building in the name of unit only was eligible. The beneficiaries who had applied for subsidy prior to the issue of revised orders (11 July 2000) were given the option to opt for either of the two schemes.

Subsidy of Rs 16.04 lakh was given to two firms in January 2002 based on 1994 scheme. Subsequently the Government made (January 2004) the land and building owned in the name of Proprietor/Partner/Director, etc., also eligible for subsidy with retrospective effect from 4 January 1994. Based on this these two firms were released additional subsidy of Rs 10.06 lakh in October-November 2004 reckoning the cost of land and building also.

As the subsidy had been kept at a reduced level of Rs 5 lakh per unit in the revised scheme, inclusion of the value of land and building in the name of Proprietor/Partner/Director, etc., in the revised scheme for calculation of subsidy as per 1994 scheme after 10 years gave undue advantage of Rs 10.06 lakh to the two firms which was not justifiable.

(iii) The Small Industries Division, Ministry of Industries, Government of India clarified (March 1989) that if the fixed investment in plant and machinery of one or more units (clubbed together) set up by common Proprietor/Partner/Director within the country for the manufacture of similar or different products exceeds the fixed investment ceiling prescribed in the definition of small scale or ancillary industrial undertaking, such units would be liable for de-registration. The ceiling fixed (January 2002) by the State Government for small scale industry was Rs 3 crore. The total investment (clubbed) of M/s. Midland Rubber Produce & Company Limited at Maniyar engaged in the production of centrifuged latex in DIC, Pathanamthitta was Rs 3.39 crore which exceeded the ceiling fixed for small scale industries. Though the unit was not eligible for subsidy, the DIC disbursed a subsidy of Rs 4.37 lakh.

^v Chithra Sala Movie, Sasthamangalam – Rs 1.34 lakh, Real Images, Sasthamangalam - Rs 2.78 lakh, Raju Associates - Rs 5.00 lakh (Thiruvananthapuram); Color Tone Processors Pvt. Ltd. - Rs 6.04 lakh (Ernakulam)

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

LOCAL SELF GOVERNMENT DEPARTMENT

4.6.3 Revenue loss to Development Authorities due to non-receipt of centage contribution from local bodies

Failure of the Government to ensure the implementation of the provisions of the Act/Rules deprived the Development Authorities of their revenue from centage contribution.

According to the Development Authority Rules and orders issued by the Government, finances of Development Authorities included contribution from local bodies under the provisions of the Travancore Cochin Town Planning Act, 1108 (Malayalam Era). The local bodies were to pay centage contribution to Development Authorities at the rate of one to two *per cent* of their annual income depending on the locality of their jurisdiction and the benefits of developmental activities derived by them. In cases where payment for a particular year is not made before 30 April of the succeeding year, the defaulted amount was to be adjusted from the grants due to the local body from the Government.

Scrutiny of the accounts of six Development Authorities revealed that huge arrears of centage contribution were pending collection from these local bodies.

(Rupees in crore)

Name of Development Authority	No. of local bodies		Amount due
	Corporation/ Municipalities	Panchayats	
Greater Cochin	7	11	14.80 [*]
Calicut	1	12	2.34 [*]
Kollam	1	7	2.24 [*]
Trivandrum	1	15	4.97 [£]
Thrissur Urban	1	6	3.62 [£]
Idukki	-	1	0.04 ^{&}
Total	11	52	28.01

As the annual budget of the Development Authorities were prepared taking into account the anticipated revenue from centage contribution also, non-receipt of the same adversely affected the implementation of developmental activities and the repayment of loan raised from financial institutions. Though it was decided in a high level meeting (May 2004) to clear the arrears by March 2005 by effecting payments in instalments, the local bodies failed to abide by the decision. Government had also not taken any action to adjust the arrears from the grants due to the local bodies for payment to the Development Authorities.

^{*} Arrears up to 2004-05

[£] Arrears up to 2003-04

[&] Arrears up to 2002-03

The failure of the Government to ensure the implementation of the provisions of the Act and the Rules deprived the Development Authorities of their revenue of centage contribution from the local bodies, thus adversely affecting the developmental activities taken up for implementation by the Authorities.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

WATER RESOURCES DEPARTMENT

4.6.4 Irregular payments to contractors

Action of Circle and Divisional Officers in allowing contractors to execute extra items or quantities of work resulted in irregular payment of Rs 9.46 crore in 26 works.

According to the provisions of the Public Works Manual, detailed estimates of a work are to be prepared as faithfully as possible, on the basis of detailed drawings and specifications, study of site conditions, source of supply and cost of different materials, cost of labour, etc., so that the estimates would reflect cost of the work which could be foreseen at that time. During the course of execution of work, if alterations causing change in the scope of work are anticipated or the sanctioned estimates are likely to be revised by more than five *per cent*, the estimates are to be revised and sanctioned by competent authority. Despite the manual provisions, the Circle/Division level officers of the Kerala Water Authority (KWA) allowed contractors to execute extra items or quantities of work not envisaged in the original schedule of works without obtaining sanction for revised estimates from competent authorities, even though payment to contractors exceeded their accepted contract value substantially.

A test check of the records of 13 works awarded during 1988-1989 to 1993-1994 revealed that the amounts paid to the contractors in excess of the agreed contract amounts totalled Rs 4.34 crore and the percentage of excess ranged from 59 to 775 as shown in **Appendix XXVII**. The KWA did not sanction or recommend to the Government, for sanction of the revised estimates of these works for which proposals were received from the divisional officers through Superintending Engineers and Chief Engineers between July 1998 and April 2003. It was also noticed that total payments made to the contractors in seven[#] of these works exceeded the revised estimates submitted for approval by Rs 36.00 lakh. One of the reasons for the major increase in the cost of works was the post-contractual changes made in the original design of the work. For instance, in two[∞] works for constructing well-cum-pump house, the diameter of wells was increased after awarding the contract, without obtaining sanction of competent authority. The executing officers allowed increase in the diameter of intake wells resulting in execution of extra items and thereby revision of estimates to Rs 1.41 crore against the aggregate agreed contract

[#] Sl. Nos. 2,5,7,8,10,11 and 12 of Appendix - XXVII

[∞] Sl. Nos. 2 and 3 of Appendix - XXVII

amount of Rs 16 lakh. The revised estimates had not been sanctioned by the competent authorities (June 2005). According to the delegation of powers, officers up to the level of the Managing Director, KWA are empowered to sanction excess over the estimated value of works only upto 50 per cent. As the revised estimates exceeded 50 per cent in all the cases mentioned in the Appendix, the payments made to contractors in excess of the agreed contract value without obtaining sanction for revised estimates from higher authorities viz., High level Committee/KWA/ Government* were, therefore, irregular and amounted to an override of contract procedures.

Incidentally, it was also noticed that in 13 other works awarded at the agreed contract amount of Rs 1.97 crore the payments made to contractors exceeded the contract amounts by Rs 5.12 crore and the revised estimates for Rs 9.35 crore submitted during July 1990-June 1997 had not been sanctioned as of August 2005. This indicates that the system of making payments to contractors in excess of the agreed contract value without obtaining sanction of revised estimates was a general practice in the KWA.

Thus, action of Circle/Divisional Officers of KWA in allowing contractors to execute extra items or quantities of work without obtaining sanction for revised estimates from competent authorities resulted in irregular payment of Rs 9.46 crore to the contractors in 26 works.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

4.6.5 Loss due to vitiation of tender procedure

Manipulation of tender documents entailed extra liability of Rs 78.80 lakh on the State exchequer

Scrutiny (February 2005) of the records of the Superintending Engineer (SE), Project Circle, Muvattupuzha relating to the work of Maruthoor distributory of Muvattupuzha Valley Irrigation Project (MVIP) revealed that the SE issued (August 2003) the Notice Inviting Tender (NIT) for pre-qualification and execution of the construction of Maruthoor distributory from chainage 1100 m to 2540 m including cut & cover and cross drainage works. Based on the evaluation of the pre-qualification bids (June 2004) and price bids (July 2004), the work was awarded to a contractor in August 2004 for a contract price of Rs 2.09 crore (35 per cent above estimated cost) after negotiation.

The quotation sheets of nine out of ten bidders showed alterations to enhance the quoted percentages both in figures and words. Though the provisions in the Kerala PWD Manual permit alterations in the quotation sheets, the officer opening the tender has to date and initial the corrections and over-writings in each tender in red ink. A scrutiny of the quotation sheets showed that the officer, who opened the tenders, had not dated and initialled any of the

* Revised estimates exceeding 70 per cent over the estimated value of works is to be sanctioned by a High Level Committee constituted by KWA, revised estimate upto Rs 1 crore is to be sanctioned by the KWA and revised estimate over Rs 1 crore is to be sanctioned by the Government.

corrections and over-writings. On this being pointed out in audit, the SE held (April 2005) that the contractors themselves made these alterations. The original rate quoted by the successful bidder was 0.98 *per cent* above estimates, which was altered as 35.98 *per cent* inserting 'thirty five' in words and '35' in figures. The quoted rates in other eight cases also were revised upwards by insertions (five cases) and corrections (three cases) to make them much higher than the original rates as indicated below:

Contractors	Percentage quoted	
	Before modification	After modification
Contractor 1	(+) 3.90	(+) 83.90
Contractor 2	(+) 3.00	(+) 43.00
Contractor 3 (Co-operative society)	(+) 70.00	(+) 70.00
Contractor 4	(+) 27.00	(+) 127.00
Contractor 5	(+) 9.30	(+) 79.30
Contractor 6	(-) 16.00	(+) 60.00
Contractor 7	(+) 12.00	(+) 112.00
Contractor 8	(+) 30.00	(+) 50.00
Contractor 9	(+) 0.98	(+) 35.98
Contractor 10	(+) 14.40	(+) 36.00

This shows that the alterations were not the result of any rectification of error or due to a more realistic assessment of the cost and quantum of work but the outcome of a design to raise the contract price of the work and to manipulate the entire process of tendering.

In the NIT, there was a specific condition restricting the award of the work only to financially sound and well experienced 'A' class contractors or firms of Kerala Water Resources/Public Works departments, who had satisfactorily completed at least 'one single similar work' costing 50 *per cent* of the estimated probable amount of contract. At the time of scrutiny of the pre-qualification bids, the committee of Chief Engineers did not insist on this condition, holding that it was contrary to the spirit of the Government order on pre-qualification. Moreover, the High Court had also decreed (November 2003) against imposition of this condition. Accordingly, the committee approved all the ten pre-qualification bids included in the evaluation statement of the SE. The right course of action in this case was to retender the work with the modified conditions to get more competitive offers. This was not done, though the dates for receipt of tenders had been extended twice.

The pre-qualification bids received as early as January 2004 were forwarded to the pre-qualification committee only in June 2004 after a lapse of about five months, reasons for which were not on record.

Thus, the departmental officers failed to take steps to safeguard the financial interests of the Government and it is recommended that the Government may conduct a detailed probe in this matter. Reckoning the original lowest rate offered (16 *per cent* below estimates) by contractor No.6, the award of the work at 35 *per cent* above estimates entailed extra liability of Rs 78.80 lakh.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

4.6.6 Purchase of inferior quality pipes led to non-completion of an urban water supply scheme

Failure of the Kerala Water Authority to ensure the quality of pipes resulted in procurement of inferior quality pipes leading to stalling of the progress of a scheme for three years on which Rs 11.87 crore had been spent.

Government sanctioned (March 1994) a scheme for supplying drinking water to Perinthalmanna Municipality area in Malappuram District at an estimated cost of Rs 13.78 crore with loan assistance from the Life Insurance Corporation of India (LIC). The scheme, designed to supply drinking water to 0.77 lakh people of the Municipality commenced in May 1996 to be commissioned in 2003. The components of the scheme except construction of a weir to enrich the source, gravity main, distribution system and power line extension were completed during September 1999 - December 2004. The expenditure incurred on the scheme was Rs 11.87 crore as of July 2005 including interest of Rs 3.29 crore paid to the LIC on the loan of Rs 4.80 crore.

Chief Engineer (CE), Kerala Water Authority (KWA) arranged (July 2000) purchase of 5,353 metres of 300 mm Asbestos Cement (AC) class 10 pipes from a firm in Mumbai. The pipes valuing Rs 25.29 lakh were supplied between November 2000 and February 2001. Fitness of the AC pipes for water supply schemes was to be determined by conducting test on six quality parameters, which included tests on hydraulic pressure and bursting. The CE, however, accepted the pipes even before receiving the final report from the Inspecting Agency authorised by the KWA for inspection of pipes at the factory premises. The report also did not reveal results of tests conducted on those quality parameters. After laying 493 metres, when the pipes were tested, these could not withstand the test pressure of 2 kg/cm² (gauge) to 4.5 kg/cm² (gauge), even though these pipes were required to withstand a field test pressure of 7.5 kg/cm² (gauge). Hence the work was stopped in October 2002. Though, the firm agreed (November 2004) to replace 4,860 metres of pipes with good quality pipes it had not replaced the pipes as of June 2005. Although, the work on the gravity main of the scheme was held up since October 2002, due to supply of defective pipes, the CE did not make any alternative purchase of pipes for completion of the works and fix risk and cost liability against the original supplier. The bank guarantee of Rs 15.87 lakh deposited with the KWA by the supplier firm in July 2000 had also not been invoked.

Thus, the scheme sanctioned in 1994 could not be commissioned even as of June 2005 mainly due to stoppage of work of its gravity main and the expenditure of Rs 11.87 crore incurred on it remained unproductive.

The matter was referred to the Government in July 2005; reply had not been received (September 2005).

GENERAL**4.6.7 Lack of responsiveness of Government to Audit**

The Principal Accountant General (Audit) arranges to conduct periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs) to the Heads of offices inspected with a copy to the next higher authorities. Article 63 (c) of Kerala Financial Code and instructions* issued by the Government provide for prompt response by the Executive to the IRs to ensure rectificatory action and accountability for the deficiencies, lapses, etc. The Heads of offices and the next higher authorities are required to report their compliance to the Principal Accountant General within four weeks of receipt of the IRs. A half-yearly report of pending IRs is sent to the Secretary of the concerned department to facilitate monitoring of the pending IRs.

At the end of June 2005, 7,968 IRs and 24,472 paragraphs issued upto December 2004 were outstanding for settlement. The year-wise break-up of these IRs is given below.

Year	Number of IRs	Number of Paragraphs
Upto 2000-01	2,034	4,965
2001-02	1,213	3,919
2002-03	1,680	4,817
2003-04	1,663	5,216
2004-05	1,378	5,555
Total	7,968	24,472

The department-wise break-up of these IRs and paragraphs is indicated in **Appendix XXVIII**.

A review of the outstanding IRs pertaining to the Planning and Economic Affairs Department and the Food and Civil Supplies Department revealed that 266 paragraphs contained in 109 IRs having money value of Rs 55.56 crore remained unsettled at the end of June 2005. The year-wise position of the outstanding IRs and paragraphs and the nature of irregularities are indicated in **Appendix XXIX**.

* 'Hand book of Instructions for the speedy settlement of audit objections/inspection reports etc' issued by Finance Department

4.6.8 Follow up action on Audit Reports

Government is to finalise remedial action on all audit paragraphs within a period of two months of the presentation of the Reports of the Comptroller and Auditor General of India to the Legislature. The Administrative departments concerned were required to furnish notes explaining the remedial action taken (ATNs) on the audit paragraphs to the Public Accounts Committee (PAC) or the Committee on Public Undertakings (CoPU)[#] as well as to the Principal Accountant General within the prescribed time limit.

The position of pendency as of July 2005 in furnishing ATNs on paragraphs included in the Reports of the Comptroller and Auditor General of India - Civil- Government of Kerala pertaining to the years 1993-94 and 1996-97 to 2003-04 was as follows:

Reference to Report (year and number)	Number of Paragraphs included	Number of Paragraphs for which ATNs have been furnished by the Government	Number of paragraphs for which ATNs were due from the Government
1993-94 (No.2)	83	81	2
1996-97 (No.3)	53	50	3
1997-98 (No.3)	64	62	2
1998-99 (No.3)	62	55	7
1999-2000	58	34	24
2000-01	51	32	19
2001-02	24	12	12
2002-03	63	34	29
2003-04	43	Due only in October 2005	
Total	501	360	98

In respect of the years 1994-95 and 1995-96, no ATN was outstanding. The department-wise details of the ATNs pending are furnished in **Appendix XXX**.

[#] Paragraphs relating to Kerala Water Authority and Kerala Khadi and Village Industries Board are examined by the CoPU