

## OVERVIEW

This Report includes two Chapters containing observations on the Finance and Appropriation Accounts of the Government of Kerala for the year 2006-07 and three others comprising six reviews, one long paragraph and twenty seven paragraphs (including two general paragraphs) dealing with the result of performance audit of selected programmes and schemes as well as audit of the financial transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgement basis. The specific audit methodology adopted for programmes and schemes has been mentioned in the reviews. The audit conclusions have been drawn and the recommendations made taking into consideration the views of the Government. A summary of the financial position of the State and the audit findings is given below.

### Financial Position of the State Government

The revenue expenditure during the year grew by 13 *per cent* compared to 19 *per cent* growth in the revenue receipts which resulted in reduction of revenue deficit by Rs 491 crore over the previous year. Salary, Pension and Interest payments constituted 68 *per cent* of revenue expenditure. Plan expenditure was only 16 *per cent* of the total expenditure while the capital expenditure formed only four *per cent*. Fiscal liabilities of the State stood at 2.9 times of its revenue receipts and its ratio to Gross State Domestic Product stood at 38 *per cent*. Return on the Government's investment in Statutory Corporations, Government Companies, Other Joint Stock Companies, Co-operative Banks and Societies was negligible. Against the total budget provision of Rs 38,764.55 crore, the expenditure was only Rs 29,948.50 crore resulting in overall saving of Rs 8,816.05 crore. Major saving occurred in the Grants 'Education, Sports, Art and Culture', 'Public Works', 'Water Supply and Sanitation', 'Pensions and Miscellaneous', 'Debt charges' and 'Public Debt Repayment'.

### Integrated Child Development Services

The Integrated Child Development Services Scheme (ICDS) launched in 1975 aims at holistic development of children up to six years of age, adolescent girls and pregnant and lactating mothers by providing a package of services. Failure to set up 72 ICDS projects in urban areas on the basis of GOI norms and population figures of 2001 Census resulted in non-availing of annual Central assistance of Rs 22.14 crore.

Though 6,722 additional Anganwadi Centres (AWCs) were sanctioned by GOI in November 2005 and February 2007, only 2,745 AWCs were made operational as of March 2007. During 2002-07 State received Rs 103.17 crore in excess of

norms fixed by GOI towards Central assistance for General ICDS Projects. Nearly 63 per cent (Rs 78.45 crore) of funds released by GOI during 2002-07 for various ICDS programmes remained unutilised. More than half the number of AWCs functioning did not have basic minimum facilities like own buildings, toilets, drinking water and weighing scales. The food items chosen for Supplementary Nutrition did not have stipulated nutritive value and also did not take care of the micro nutrient needs of the beneficiaries. Internal Audit Wing was not constituted in the Directorate of Social Welfare as of April 2007.

### **Management of Prisons**

Prisons and Jails in the State are established under the Prisons Act, 1894 and the Travancore Cochin Prisons Act, 1950, and are governed by the Kerala Prison Rules, 1958 and the Kerala Sub Jail Rules 1959, framed there under. A unified legislation covering all aspects of prisons, prisoners and prison administration had not been enacted in the State. Shortfall in expenditure in the Department from 2002-03 onwards was attributed to non-issue/late issue of administrative sanction for plan proposals. Central assistance amounting to Rs 14.75 crore for 2004-05 and 2006-07 were not released as the amount released in 2002-03 was not fully utilised. Prisons/Jails in the State were ill-equipped to detect threats to security. There was no relation between the strength of warder establishment *vis-a-vis* the capacity of individual Prisons/Jails. Prison and Jails were over crowded despite the recommendations of Jail Reforms Committee and PAC, no enhancement in the capacity of Jails was made in the last two decades. Appointment of temporary warders was compromising Jail security. Medical facilities provided in the prisons/jails were inadequate. Internal Audit was conducted only to fix the liability of retiring staff.

### **Management and Handling of Bio-Medical Waste**

The Bio-Medical Waste (Management and Handling) Rules 1998 (BMW Rules) framed by the Government of India under the provisions of the Environment (Protection) Act 1986, came into effect on 20 July 1998. There was delay of two years for commencement of the administration of Bio-medical Waste Rules in the State. Kerala State Pollution Control Board (KSPCB) had not prepared a comprehensive list of bio-medical waste generating establishments, though the BMW Rules were notified in 1998. There was no system of State level registration of Health Care Establishments (HCEs) and State level listing of HCEs. 83 per cent of the identified institutions were functioning without authorization. Out of 1,278 HCEs in Government sector, only 179 (14 per cent) had obtained authorization as of March 2007. There was a delay of one to 45 months in the disposal of application for authorization in 63 per cent of the institutions test checked. In most institutions test checked, bio-medical waste was not being disposed off properly, and the common waste disposal facility was working under sub optimal conditions.

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**Educational Development of Scheduled Castes/Scheduled Tribes**

Union/State Governments had been implementing various schemes for enabling the scheduled castes/scheduled tribes to upgrade their educational standards and skills to generate self confidence and self reliance. These include schemes for giving financial assistance to SC/ST students, additional financial support to selected talented SC/ST students, coaching for appearing in competitive examinations, establishing Residential Schools, construction of hostels etc.

There was a shortfall of Rs 78.20 crore in utilisation of budget provision during 2002-03 to 2006-07 in respect of seven schemes. Assistance aggregating Rs 76.77 lakh was released to the beneficiary students in the year succeeding the academic year in which the assistance had been sanctioned. Assistance of Rs 13.22 crore for improving hostel facilities for SC/ST students, implementing Guaranteeing Quality Education Scheme and for starting para medical courses remained unutilised. Central assistance of Rs 28.41 crore for Post Matric Scholarship Scheme was yet to be reimbursed by GOI and Rs 5.54 crore was pending payment to students as of March 2007. Implementation of upgradation of merit, Sree Ayyankali Memorial Talent Search and Development Scheme was not according to the guidelines. Central assistance of Rs 3.10 crore for construction of hostels was not availed, Rs 1.45 crore received had not been fully utilised and four hostels completed at a cost of Rs 1.05 crore had not been put to use even when 79 hostels were accommodated in rented buildings and the hostels were over crowded.

**Review on the Integrated Payroll & Personnel Management System**

Under the Integrated Payroll and Personnel Management System (IPPMS) a centralized database of over 5.25 lakh employees working in the Kerala State Government Service in more than 100 Government departments was to be created by computerizing the entire payroll and personnel information related activities. As per Implementation Plan, IPPMS was to be rolled out in all departments by April 2007. However, as of May 2007 only 5,997 out of 5.25 lakh employees were brought into the payroll system. IT department had not yet drawn up a specific action plan for digitization of service records of 5.25 lakh employees. Kerala State Wide Area Network essential for linking of offices to access the system had not yet been set up. There is no documentation regarding testing and acceptance of the system adopting a standard methodology before replicating the same to other departments. Data analysis revealed several discrepancies in employee data due to inadequate validation check to ensure completeness and accuracy of data capture, affecting the reliability of the database and usefulness as MIS.

**5.1 Internal control in Co-operation Department**

Internal Control is an integral component of an organization's management processes which are established in order to provide reasonable assurance that the

operations are carried out effectively and efficiently, financial reports and operational data are reliable and the applicable laws and regulations are complied with so as to achieve organizational objectives. Budget estimates of the department were not realistic resulting in persistent savings leading to surrender of savings on the last day of the financial year. Lack of regular monitoring of expenditure resulted in rush of expenditure in the last month of the financial year. Funds totalling Rs 1.59 crore were retained without utilization in three out of five districts test-checked. Utilisation certificates from 416 institutions involving Rs 57.91 crore were not obtained. Administration of recovery of loans was poor. Due to inadequate monitoring mechanism dues and interest as furnished by the loanees were accepted as correct. Against Rs 39.23 crore paid by Government to National Co-operative Development Corporation (NCDC), the amount recovered from societies was only Rs 2.29 crore. Failure to identify eligible beneficiary Societies under Agricultural Debt Relief scheme led to payment of excess interest subsidy of Rs 6.91 crore in seven out of 14 districts. Out of Rs 3.21 crore released to co-operatives in four districts for computerization under NCDC scheme Rs 2.61 crore remained unutilised causing unnecessary interest liability to Government due to lack of monitoring by the Department. No Internal Audit Wing was functioning in the Department

#### **Irregularities in execution of Government works**

The main departments carrying out civil works of Government are Public Works, Water Resources and Harbour Engineering. The works are undertaken based on the rules and procedures prescribed in the departmental codes and manuals and also based on the orders issued by Government from time to time. As on 31 March 2007 the amount of arrears of bills pending payment to contractors was Rs 1,190.64 crore. During 2003-04 to 2006-07, 120 works estimated to cost Rs 187.44 crore were taken up without any budget provision and 32 works estimated to cost Rs 38.90 crore were taken up with meagre budget provision. There was underutilisation of Letter of Credit for a total amount of Rs 133.49 crore during 2003-04 to 2006-07. Seventy eight plan works costing Rs 211.99 crore and 6,345 non-plan works costing Rs 101.31 crore were arranged by waiving open tender calls. Tender excess beyond the delegated powers of tender committee was sanctioned for works amounting to Rs 40 crore. Extra liability on account of change of design in respect of 10 works without the approval of competent authority and post contractual changes in respect of five works amounted to Rs 20.92 crore. Time over run of five projects each of Water Resources Department and Harbour Engineering Department varied from 25 to 45 years and five to 15 years respectively and the corresponding cost increased from Rs 63.24 crore to Rs 2,292 crore and from Rs 50.91 crore to Rs 125.16 crore. Risk and cost liability in respect of 41 terminated works amounting to Rs 7.67 crore is pending recovery from contractors.

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**Audit of Transactions**

Besides the above, audit of financial transactions subjected to test check in various Departments of Government and their field functionaries revealed instances of defalcation/avoidable/wasteful expenditure and other irregularities involving Rs 82.96 crore as mentioned below:

The Headmistress of a Lower Primary School defalcated Rs 2.10 lakh by repeatedly presenting the bills relating to claims of teachers/retired teachers.

In Water Resources Department manipulation of tender documents in eleven cases resulted in extra liability of Rs 1.22 crore to Government.

In Public Works/Water Resources Department, Government sustained loss of Rs 2.42 crore on account of participants in tenders colluding among themselves and quoting non-competitive rates.

In Water Resources Department, Government suffered a loss of Rs 41.38 lakh by agreeing to issue cement and steel departmentally at lower rates.

Infructuous/avoidable/excess expenditures of Rs 16.57 crore were noticed in Water Resources (Rs 2.27 crore), Public Works (Rs 5.64 crore), Health and Family Welfare (Rs 0.88 crore) and Local Self Government (Rs 5.67 crore), Higher Education (Rs 0.68 crore), Revenue/Taxes (Rs 0.68 crore), Cultural Affairs (Rs 0.41 crore) and Fisheries and Ports (Rs 0.34 crore) Departments. The above cases of avoidable/excess expenditure included a case of payment of Rs 4.37 crore to outside consultants for preparation of project reports for improvement of roads while the Roads Division of Public Works Department has the facility exclusively for investigation and preparation of project reports.

Idle investment/blockage of funds amounting to Rs 44.35 crore were noticed in Water Resources (Rs 16.91 crore), General Education (Rs 5.45 crore) and Taxes (Rs 19.57 crore) and Industries/Agriculture (Rs 2.42 crore) Departments. These cases of idle investment included Rs 16.91 crore incurred on implementation of six water supply schemes sanctioned between 1993 and 2000 which are yet to be completed.

Apart from these, there were regularity issues and other points in Tourism, Industries and Forest and Wildlife Department involving Rs 17.97 crore (Tourism: Rs 8.89 crore, Industries: Rs 7.93 crore, Forest and Wildlife Department: Rs 1.15 crore).