OVERVIEW

This Report includes five Chapters of which Chapter I and II contains observations on the Finance and the Appropriation Accounts of the Government of Kerala for the year 2007-08. Chapter III, IV and V comprises of four reviews, one long paragraph, twenty nine paragraphs, review on Internal Controls of one department dealing with the 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 increased by 19.5 *per cent* as compared to 16.1 *per cent* growth in the revenue receipts which resulted in increase of revenue deficit by Rs 1,146.91 crore. Within the non-plan revenue expenditure, four components - Salary, Pension, Interest payments and Subsidy - constitute 75 *per cent* of non-plan revenue expenditure during the year. Plan expenditure was only 16.7 *per cent* of the total expenditure while the capital expenditure formed only 5.4 *per cent*. Fiscal liabilities of the State stood at 2.8 times of its revenue receipts and its ratio to Gross State Domestic Product stood at 39.1 *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 42,089.71 crore, the expenditure was only Rs 36,134.76 crore resulting in overall saving of Rs 5,954.95 crore. Major saving occurred in the Grants 'Public Debt Repayment', 'Education, Sports, Art and Culture', 'Debt charges', 'Urban development', 'Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes', 'Agriculture', 'Medical and Public Health', 'Public Works', 'Water Supply and Sanitation' and 'Transport'.

The National Programme of Nutritional Support to Primary Education

The National Programme of Nutritional Support to Primary Education (mid-day meal scheme) was launched by Government of India (GOI) in August 1995 with the objective of boosting the universalisation of primary education by increasing enrolment, retention and attendance. The scheme provides for supply of cooked food to students in classes I to V for which GOI supplies rice free of cost through Food Corporation of India (FCI). GOI also provided assistance for ancillary expenses like cooking cost, transportation, management, monitoring and evaluation at prescribed rates. In Kerala the students of classes I to VII (VIII from January 2008) are covered under the scheme. Against 100 gram of rice supplied by GOI to each student of classes I to V State Government gave each student 60 gram of rice and 30 gram of pulses, the cost of pulses was being met from the State Budget. The review revealed the following important issues:-

The enrolment figures reported to GOI for getting assistance under the scheme was inflated which resulted in allotment of rice in excess of requirements. Substantial stock of mid-day meal rice remained with Kerala State Civil Supplies Corporation (KSCSC) at the end of each year from 2003-08. Out of this, 1453.18 MT of rice was converted as ordinary rice and sold by KSCSC through its outlets. This has not been replenished. The transportation charges paid to KSCSC by State Government was on the higher side compared to the charges paid by it to its transporting contractors. Similarly the cost of pulses supplied to mid-day meal scheme by KSCSC was also higher than the price at which these are sold to the public through their outlets. Out of Rs 11.20 crore released by GOI for constructing kitchen-cum-store, replacement of cooking devices and strengthening management, monitoring and evaluation, Rs 10.97 crore remained unutilised as of June 2008. There was delay ranging from two to twelve months in release of cooking charges to schools. Monitoring committees as prescribed in GOI guidelines were either not constituted or were not meeting as envisaged. Monthly and quarterly progress reports were not sent to GOI by DPI during 2003-08. No Management Information System was put in place to get feedback on the scheme.

Development of traditional industries – handloom

Handloom industry is one of the main traditional and labour-oriented industries in the State. Ninety six *per cent* of the total handloom production in the State is contributed by the co-operative sector. There were 758 registered Primary Handloom Weaver's Co-operative Societies (PHWCS) in the State of which about 300 are now defunct. There were two apex level organisations in the State - Kerala State Handloom Weavers Co-operative Society (Hantex) and Kerala State Handloom Development Corporation (Hanveev) - to provide raw material, sell the products of the PHWCS and the individual weavers. Central and State Governments give financial assistance for implementing various schemes for handloom development. Some of the important points noticed during the review of the implementation of the schemes in the sector are given below:-

The Department did not have a reliable and accurate database for planning and implementation of various schemes. During 2005-08 Rs 34.23 crore of budgeted funds remained unspent due to non-availing of Central assistance in full. Rupees 1.01 crore released to 58 PHWCS in three test checked districts for Deen Dayal Hatkargha Prothsahan Yojana (DDHPY) were diverted for working capital. Rupees 1.68 crore was collected from 224 PHWCS to constitute a common fund for utilisation towards publicity, of which Rs 97.25 lakh was diverted and

Rs 70.75 lakh retained in bank without utilisation. Training imparted at a cost of Rs 1.70 crore under DDHPY was unfruitful as the weavers were not trained to use Jacquard and Dobby which were essential for weaving design patterns. Out of Rs 2.95 crore given for design input, Rs 1.19 crore had become unfruitful as the societies did not adopt the design supplied by the agencies and Rs 1.76 crore released to the societies did not serve the intended purpose. Apex organisations in the State – Hantex and Hanveev - could not avail assistance of Rs 36.40 crore due to their inability to submit project reports based on GOI guidelines. Though marketing incentive of Rs 54.80 crore was released to PHWCS and apex organisations to increase production and sales during 2001-07, the production and sales decreased during the period. The apex organisations Hantex and Hanveev established for the development of handloom in co-operative and unorganised sectors were making losses year after year and the accumulated loss of both organisations together at the end of March 2007 was Rs 133.52 crore. There was no effective monitoring by the officials responsible and false utilisation certificates were sent to GOI.

Non-conventional sources of energy

Kerala has an estimated potential of 1715 MW from non-conventional or renewable energy sources comprising of Wind, Biomass, Solar, Small Hydel Projects up to 25 MW, etc. Ministry of New and Renewable Energy (MNRE), Government of India (GOI) has been providing various fiscal and other incentives for production of power from renewable energy sources. For promotion of non-conventional sources of energy the State Government had established an Agency for Non-conventional Energy and Rural Technology (ANERT) as early as in January 1986 and formulated Renewable Energy Policy (REP) in 2002. However the efforts made by State Government in this field suffered from various problems as detailed below:-

Though Government have formulated Renewable Energy Policy in 2002, no follow-up measures were taken either by Government or the Nodal Agency, ANERT. Due to abnormal delay in issuing guidelines for development of wind farms in private lands, no wind energy project could be cleared by ANERT for over five years. Under National Biogas and Manure Management Programme implemented by Agriculture Department, subsidy of Rs 1.60 crore was not paid to the beneficiaries due to insufficient provision in the budget. ANERT spent only Rs 7.72 crore (54 *per cent*) for implementation of programmes against Rs 14.26 crore received during 2003-08. As no follow-up action was taken by ANERT, Rs 4.18 crore incurred for installation of Solar Home Lighting System and Solar Street Lighting System under Solar Village Electrification Programme was not reimbursed from Government of India. Failure to submit timely proposals in accordance with MNRE guidelines resulted in loss of Central assistance of Rs 8.31 crore for implementation of Remote Village Electrification Programme in 115 colonies.

IT Audit of Computerisation of Survey and Land Records in Land Revenue Department

The computerisation of Basic Tax Records commenced in Kerala from 1991 as a cent *per cent* Centrally Sponsored Scheme (CSS) which ended in 1997. In 2003, after a gap of six years another cent *per cent* CSS to digitize *Thandaper* (Title holder number) came into being in continuation of the earlier scheme. The important points noticed during an audit of the above scheme were as shown below:-

The Project started in 1991 is in data entry stage even after 17 years. Issue of computerised Record of Rights, the primary objective of computerisation of land records, could not be achieved for want of amendments to Acts and Rules and Computerised certificates were being issued with unvalidated data. Hardware obtained exclusively for Taluk offices at Rs 3.58 crore were lying idle for more than three years for want of commencement of online operations. Digitisation of Field Measurement Book has been completed only in 66 out of 1,453 villages even after 10 years. Failure to take adequate care while assessing the technical requirements of interfacing software resulted in wasteful expenditure of Rs 1.55 crore. Breach of IT security by way of unauthorized access to the backend data and sharing of user name and password. Lack of input controls leading to duplicate *Thandaper* (title holder) numbers and multiple numbers for the same person resulted in generation of wrong reports.

Internal Control in Agriculture 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 organisational objectives. A review of internal control on limited areas of the Agriculture Department has revealed the following:

Persistent savings ranging from 10 *per cent* to 56 *per cent* were noticed under Plan Revenue expenditure during 2003-08. This shows that the budget estimates were not prepared on the basis of actual requirement of funds as stipulated in Kerala Budget Manual. Monitoring of expenditure was weak as evidenced by the unnecessary supplementary grants, belated reappropriation/ surrender of funds and rush of expenditure during March. Failure to follow the instructions issued by Government regarding power tariff subsidy to farmers resulted in adoption of different procedures in different offices and extra burden on penalty for belated payment. Owing to weak controls, advances of Rs 17.75 crore disbursed to departmental officers as early as from 1990-91 were yet to be adjusted. The Internal Audit of 13 offices under the Directorate was in arrears for three to five years and more than five years in 150 offices under the three Principal Agricultural Officers. There were 589 vigilance cases pending finalisation as of

October 2008 with Government, Vigilance and Anti-corruption Bureau, Department, etc.

Veterinary Services and Livestock Development

Livestock rearing is one of the important activities in the rural areas of the State providing supplemental income for most of the families dependant on agriculture and is the chief support for many landless families. Eighty *per cent* of live stock farmers are small and marginal farmers and agricultural labourers.

Eighty *per cent* of budgeted funds under capital section during 2003-08 remained unutilised. No norms were fixed with regard to the minimum facilities to be provided to each of the Veterinary Health Care Institutions such as dispensaries, hospitals, District Veterinary Centres, etc. Budget provision made for purchase of medicine during 2005-08 ranged from 42 to 53 *per cent* of the annual requirement and even this could not be utilised due to procedural delay in placing supply orders. The implementation of Central scheme 'Assistance to State for Control of Animal Diseases' was poor and Rs 3.39 crore of unspent Central funds was credited to State's revenue instead of refunding it to GOI. Rupees 4.07 crore of grant released by GOI during 2006-08 towards Cattle Insurance Scheme remained unutilised with the Kerala Livestock Development Board.

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 fraudulent drawal/avoidable/wasteful expenditure and other irregularities involving Rs 246.17 crore as mentioned below:

In Public Works Department, failure of Executive Engineer to follow the prescribed system for purchase of bitumen by contractors resulted in payment of Rs 2.32 crore on production of 160 fake invoices.

Infructuous/avoidable/excess expenditures of Rs 37.88 crore were noticed in Water Resources (Rs 12.93 crore), Public Works (Rs 13.07 crore), Health and Family Welfare (Rs 0.43 crore), Higher Education (Rs 10.63 crore)and Transport (Rs 0.82 crore) Departments. The above cases of avoidable/excess expenditure included a case of excess expenditure of Rs 8.50 crore in the work of flood bank and bank connection to Regulator-cum-Bridge at Thrithala due to deviation from the design approved by the Irrigation Design and Research Board.

Idle investment/blockage of funds amounting to Rs 16.57 crore were noticed in Industries (Rs 2.24 crore), Forest and Wild Life (Rs 1.47 crore), Industries/Planning and Economic Affairs/Forest and Wild Life (Rs 8.81 crore) and Health and Family Welfare/Transport (Rs 4.05 crore) Departments. The above cases included Rs 8.81 crore of State Government funds remaining blocked with the implementing agencies for the last two to four years due to failure to conduct proper feasibility study and lack of planning in implementation of three schemes.

Apart from these, there were regularity issues and other points involving Rs 189.40 crore in Finance (Rs 72.57 crore), Social Welfare (Rs 65 crore), Agriculture (Rs 43.61 crore), Information Technology (Rs 1.86 crore) and General Education (Rs 6.36 crore) Departments.