

## **OVERVIEW**

*This Audit Report contains 37 Audit Paragraphs, 5 Audit Reviews and one long paragraph apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft paragraphs and draft audit reviews are sent to the concerned Secretary to the State Government by the Accountant General demi-officially with a request to furnish replies within 6 weeks. The Secretaries to Government are also reminded by the Accountant General for replies. Despite such efforts no response was received from the concerned Secretary to Government for 19 Audit paragraphs and 3 Reviews.*

### **I Finances of State Government**

*Revenue receipts of the State increased from Rs 7198 crore in 1998-99 to Rs 10634 crore in 2002-03 at an average trend rate of 8.30 per cent per annum. During 2002-03 the revenue receipts grew by 17.42 per cent compared to 3.72 per cent in the previous year. This was due to 23.28 per cent and 24.86 per cent increase in tax and non-tax revenue respectively.*

*Sales tax was the major source of State's own tax revenue having contributed 73 per cent of the tax revenue followed by State Excise (9 per cent), Taxes on Vehicles (7 per cent), Stamps and Registration (7 per cent), etc.*

*The huge 3600 per cent rise in Duties on Electricity was notional and primarily due to adjustment of Rs 185 crore from the subsidy of Rs 200 crore released to KSEB in March 2003*

*Non-tax revenue in nominal terms has increased marginally from Rs 659 crore in 2000-01 to Rs 678 crore in 2002-03. The current levels of cost recovery in supply of merit goods and services by Government are 3.65 per cent for secondary education, 2.60 per cent for university and higher education, 8.46 per cent for technical education, 3.72 per cent in health and family welfare, 1.37 per cent in water supply and sanitation, 5.36 per cent in major and medium irrigation and 1.87 per cent in minor irrigation.*

*On an average around 73 per cent of the revenue receipts came from State's own resources during 1998-2003.*

*Central tax transfers declined from 19.20 per cent in 1998-99 to 16.13 per cent in 2002-03. Grants-in-aid from GOI also declined from the peak of 10.77 per cent in 2001-02 to 8.82 per cent in 2002-03.*

*Total expenditure of the State increased from Rs 10277 crore in 1998-99 to Rs 15705 crore in 2002-03 at an average trend rate of 9.11 per cent per annum. Revenue expenditure, which had the predominant share in total expenditure, increased from Rs 9228 crore in 1998-99 to Rs 14756 crore in 2002-03 at an average trend rate of 10.96 per cent per annum with the growth of 26.53 per cent in 2002-03.*

*The proportion of development expenditure to total expenditure declined from 63.15 per cent in 1998-99 to 56.15 per cent in 2002-03.*

*The committed expenditure on salaries, interest payments and pensions alone consumed nearly 90 per cent of the revenue receipts crowding out the socio-economic developmental expenditure.*

*Large revenue and fiscal deficit year after year indicate continued macro imbalances in the State. In Kerala, both the revenue and fiscal deficits have increased significantly during 2002-03.*

*As a result of increase in revenue deficit by 58 per cent during 2002-03, Government could not adhere to the projections made in the Medium Term Fiscal Reforms Programme and hence became ineligible to receive its share of Rs 44.30 crore from the Incentive Fund set up by Government of India on the recommendations of Eleventh Finance Commission.*

*Persistently high ratio of revenue deficit to fiscal deficit indicated that 67 to 83 per cent of the net incremental borrowings were used for current consumption. Due to this, Government had to incur more liabilities to maintain the socio-economic developmental activities of the State.*

*The fiscal liabilities of the State increased from Rs 17367 crore in 1998-99 to Rs 33782 crore in 2002-03 at an average trend growth rate of 18.53 per cent. Consequently interest payments have doubled from Rs 1446 crore in 1998-99 to Rs 2947 crore in 2002-03.*

*At the end of 2002-03, the fiscal liabilities of the State excluding pensionary liabilities but including off-budget borrowings, power subsidy, etc., stood at the unsustainable level of 41 per cent of GSDP. These liabilities along with contingent liabilities in the form of guarantees, etc., which accounted for another 13.88 per cent of GSDP, are cause of concern for sustained growth and development on medium to long term basis.*

*Though the State Government swapped a part of its high cost debt exceeding 13 per cent (Rs 462.47 crore) by raising open market loans at 6.75-6.95 per cent during the year, its recourse to the off –budget borrowings (Rs 741.65 crore) @ 10.5-13 per cent negated the advantage.*

*It is not uncommon for the State to borrow for increasing its social and economic infrastructure base. However, increasing ratios of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit indicate that the State is gradually getting into a debt trap.*

**(Paragraphs 1.1 to 1.12)**

## **II Allocative Priorities and Appropriation**

*Overall excess of Rs 30.60 crore was the net result of excess of Rs 1404.90 crore in 11 Grants and Appropriations off set by saving of Rs 1374.30 crore in 86 Grants and Appropriations*

*As of September 2003 excess expenditure of Rs 2503.20 crore for the years 1983-84 to 1985-86 and 1988-89 to 2001-02 was yet to be regularised by the Legislature. During 2002-03, excess expenditure of Rs 1404.90 crore occurred in 8 Grants and 3 Appropriations, which also required regularisation.*

*Substantial saving of Rs 5 crore or more and also more than 10 per cent of the total provision occurred in 24 cases. During the last three years there was*

*persistent saving in excess of Rs 10 lakh in each case and also 20 per cent or more of provision in 18 cases.*

*In 13 cases saving of Rs 5 crore or more in each case aggregating to Rs 209.84 crore remained unsurrendered at the end of the year.*

*Out of the total surrender of Rs 1174.24 crore, Rs 1156.92 crore (98.5 per cent) was surrendered on the last working day of the financial year.*

*In 14 cases, amount in excess of actual saving was surrendered resulting in excess surrender of Rs 27.51 crore.*

*Out of funds released for World Bank assisted Kerala State Transport Project unspent balance of Rs 32.12 crore was retained in Public Account outside budgetary control of State Legislature.*

**(Paragraphs 2.1 to 2.7)**

### **III. Performance Reviews**

#### **1. Crop Husbandry services in the Agriculture Department**

*The Agriculture Department through krishibhavans at the grass root level supplies technical and scientific know-how, provides inputs, distributes subsidy and implements various schemes for improving production and productivity of various crops.*

*Budgeted funds provided for various schemes were drawn and kept in treasury deposits. There was accumulated balance of Rs 89.98 crore in deposit accounts as of March 2003.*

*Excess subsidy of Rs 38.99 lakh released in 4 districts under Rice Development scheme. Extra payment of subsidy of Rs 83.89 lakh in Alappuzha district for High Yielding Variety seeds. Doubtful payment of Rs 85.79 lakh towards purchase of soil ameliorant lime by two Assistant Directors of Agriculture.*

*Eighteen combined harvesters purchased at a cost of Rs 2.84 crore used only sparingly and there was a potential loss of revenue of Rs 2.85 crore.*

*Unintended benefit of Rs 86.98 lakh to paddy procuring agencies.*

*Rupees 2 crore was spent on research activities related to pepper with no tangible benefits.*

*A pension scheme for the benefit of youth engaged in agricultural activities launched in 1994 without assessing financial implication has resulted in a contingent liability of over Rs 100 crore to Government.*

*Expenditure of Rs 66.10 crore incurred in setting up of 6 Agricultural markets was unproductive as the markets had not become functional.*

*Despite release of Rs 4.39 crore a floriculture scheme failed due to inability of the department to supply necessary plantlets and failure of the Bank to release necessary loan.*

**(Paragraph 3.1)**

## **2. Implementation of Drugs and Cosmetics Act**

*Provisions of Drugs and Cosmetics Act, 1940 and Drugs and Cosmetics Rules, 1945 regulate the import, manufacture, distribution and sale of drugs and cosmetics in the country. Adulteration of drugs and production of spurious and substandard drugs causing serious threat to the health of the community are also sought to be prevented by application of provisions of the Act.*

*There were instances where the State Government improperly suggested withdrawal of pending court cases and advised the Department not to proceed with the cases.*

*There were instances where the accused (manufacturers/suppliers/sellers) escaped prosecution due to non-issue of clearance by the Drugs Controller before the limitation period of three years although such clearance was not required under the Act.*

*Samples of drugs collected were far below statutory requirements and targets fixed were not representative.*

*Due to heavy shortfall in inspection, several blood banks were functioning without licences.*

*In six districts forty banned drugs were marketed for periods ranging from 15 days to 15 months after they were banned.*

**(Paragraph 3.2)**

## **3. Computerisation in Professional and Executive Employment Exchange, Thiruvananthapuram**

*Professional and Executive Employment Exchange, Thiruvananthapuram is one of the 84 employment exchanges under the control of Director of Employment and Training set up for registration of job seekers, renewal of registration, selection and submission of list of candidates to the employers etc. A review of the computerisation of the Exchange revealed undue delay in completion and installation of software and absence of documentation.*

**(Paragraph 3.3)**

## **4. Welfare of Handicapped**

*Welfare activities for the Handicapped are governed by the provisions of Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 which came into force in Kerala from February 1997.*

*No survey was conducted to identify the disabled in the State.*

*The State Commissioner did not have the details of funds released by GOI/State Government to Departments/Non-Governmental Organisations (NGOs) and its utilisation.*

*Though Rs 10.12 crore was spent during 1998-02 for the Central scheme 'Integrated Education of the Disabled Children', it had not achieved its objectives.*

*Improper sanction to organise 'Sponsored walk' in the service of the blind and subsequent cancellation following public complaints resulted in retention of Rs 1.27 crore by Kerala Federation of the Blind without any direction for*

utilisation. Besides, Rs 2.73 crore on 2,72,251 cards issued by the Federation to educational institutions was yet to be realised.

Out of 1666 posts reserved for persons with disabilities only 366 posts were filled up as of December 2001. 514 posts identified as reserved posts for disabled were lapsed as these were not filled up within 3 years of its identification. Number of posts reserved for 2002 and 2003 were not identified.

In Mental Health Centres, Thiruvananthapuram and Thrissur, shortage of clinical and paramedical staff ranged between 66 and 94 per cent.

Rupees 2.57 crore released to Kerala State Handicapped Persons Welfare Corporation Limited during 1999-02 by GOI for a Central Scheme was kept unutilised in Public Sector Bank Deposits as the Corporation was advised by State Government not to implement the scheme.

**(Paragraph 3.4)**

### **5. Accelerated Irrigation Benefit Programme**

GOI launched the Accelerated Irrigation Benefit Programme with the objective of assisting the State Governments with Central assistance to complete ongoing projects to yield bulk benefits. State Government included two projects viz, Kallada Irrigation and Tree Crop Development Project (KIP) and Muvattupuzha Valley Irrigation Project (MVIP) in 1996-97 and 1998-99 respectively under the programme.

GOI did not release any assistance to KIP during 1998-99, 1999-2000 and 2001-02 due to backlog in expenditure in the respective years. GOI also did not release the Central assistance of Rs 20 crore sanctioned during 1998-99 under MVIP due to shortfall in expenditure in KIP.

Non-completion of four works in KIP resulted in under-utilisation of Cultivable Command Area and blocking of Rs 32.06 crore.

In spite of specific guidelines from GOI, no separate budget provision was provided for MVIP under the programme.

**(Paragraph 3.5)**

### **6. Prevention and Control of Fire**

Kerala Fire and Rescue Services did not maintain data base of high rise buildings and conduct periodical inspections of these buildings to check fire safety measures. There was shortage of fire fighting equipment. Only one snorkel was available in the Department to combat fire accidents in high rise buildings.

State Government did not frame rules to enforce the penal provisions under the Kerala Fire Force Act.

Fire incident reports did not disclose significant information on lapses in prevention of fire. No evaluation of reports was done to prevent fire incidents in future.

*Loans received from General Insurance Corporation of India and assistance from the GOI remained substantially unutilised.*

**(Paragraph 3.6)**

#### **IV Audit of Transactions**

##### **1. Misappropriations/losses**

*Lapse of Divisional Officers/Store Verification units to ensure periodical physical verification of stores as provided in the Manual resulted in shortage/misappropriation of stores valued Rs 1.17 crore in Kerala Water Authority.*

**(Paragraph 4.1.2)**

##### **2. Wasteful/Infructuous expenditure**

*Imprudent Government decision to reject a tender for dredging harbour basin of Vizhinjam Harbour at tenderer's own expense and removal of earth after paying the cost of earth to department entailed loss of Rs 72.12 lakh.*

**(Paragraph 4.2.3)**

*Decision of Mahatma Gandhi University to purchase houses at exorbitant rates from Kerala State Housing Board for providing accommodation to its staff and its failure to ensure that the houses were in habitable condition resulted in unfruitful expenditure of Rs 2.25 crore.*

**(Paragraph 4.2.4)**

*Executive Engineers of five National Highway Divisions issued certificates/declarations prescribed under Kerala General Sales Tax /Central Sales Tax Acts unauthorisedly to contractors to claim concessional rate of tax resulting in loss of revenue of Rs 1.57 crore.*

**(Paragraph 4.2.5)**

*In Kallada Irrigation and Tree Crop Development Project, failure of minor conveyance system costing Rs 73.80 crore resulted in reduction of Cultivable Command Area. Royalty receivable from the Kerala State Electricity Board for water released for power generation amounted to Rs 15.39 crore.*

**(Paragraph 4.2.7)**

##### **3. Avoidable/Excess expenditure**

*Failure of Government to deploy the protected teachers against arising vacancies, instead of resorting to fresh recruitment resulted in avoidable expenditure of Rs 54.05 crore (approximately) during 1998-2002.*

**(Paragraph 4.4.1)**

*Delay of over a decade in the construction of a bridge between Aroor and Arookutty in Alappuzha District led to upward revision of rates of contract resulting in extra liability of Rs 2.90 crore.*

**(Paragraph 4.4.4)**

*In Muvattupuzha Valley Irrigation Project, failure in handing over site, adoption of design unsuitable to soil, lapse in ensuring the reasonableness of quantities estimated and post contractual redesign of distributary resulted in extra liability of Rs 2.73 crore.*

**(Paragraph 4.4.5)**

#### **4. Idle investment**

*Non-utilisation of Rs 5.54 crore provided for improving diagnostic facilities, purchase of equipment, etc., and idling of equipment worth Rs 1.58 crore in various hospitals deprived the patients of modern health care facilities.*

**(Paragraph 4.5.1)**

*Seventy two quarters constructed for police personnel at a cost of Rs 2.45 crore remained unoccupied for over two years due to non-provision of basic amenities such as water connection and approach roads.*

**(Paragraph 4.5.2)**

*Acquisition of land for establishing a new Airport at Moorkhanparambu in Kannur District, without basic approvals from GOI, resulted in idle investment of Rs 5.77 crore.*

**(Paragraph 4.5.5)**

*Failure of Kerala Water Authority to identify a dependable source for a Rural Water Supply Scheme in Pathanamthitta District delayed the commissioning of the scheme and expenditure of Rs 1.18 crore incurred remained unfruitful.*

**(Paragraph 4.5.7)**

#### **5. Other points**

*Director of Public Instructions did not take adequate action to claim from three Universities reimbursement of leave encashment benefits of Rs 5.72 crore paid to school teachers who were deputed as invigilators in University Examinations during 1986-99.*

**(Paragraph 4.6.2)**

*Failure to observe the procedures prescribed by GOI resulted in loss of Central assistance of Rs 11.30 crore for two schemes.*

**(Paragraph 4.6.3)**

*Agreement of Technopark with Software Technology Parks of India (STPI) for establishing a Satellite Earth Station and vesting the ownership and control of the Station with the STPI without adequate contractual clauses for enforcing repayment of loan of Rs 2.10 crore availed by Technopark for the construction resulted in unnecessary burden of Rs 5.99 crore on Technopark.*

**(Paragraph 4.6.4)**

*Lack of planning and failure to exercise financial prudence in the construction of a commercial complex by Neyyattinkara Municipality caused extra liability of Rs 1.24 crore and heavy debt burden of Rs 7.26 crore.*

**(Paragraph 4.6.5)**

*Grants aggregating Rs 14.26 crore released to 28 Urban Local Self Governments for implementing Plan schemes during 1997-2002 were diverted for repayment of loan dues to Kerala Urban Development Finance Corporation.*

**(Paragraph 4.6.6)**

*During 2000-02, Government diverted Rs 3.98 crore from Calamity Relief Fund towards expenditure on construction of new buildings, compound walls, etc., and other works not related to calamity relief.*

**(Paragraph 4.6.7)**

## **V Internal Control System**

*A review of the adequacy of internal audit system in vogue in Finance and Health and Family Welfare departments revealed the following:-*

*The control of Finance Department over the internal audit units of Government departments was grossly inadequate.*

*In the Health and Family Welfare Department, there were no co-ordination among the three tiers of the internal audit wing. In the Directorate of Health Services there were delays in issue of Internal Audit Reports by 3 to 6 months.*

*As of March 2003 replies to 56499 paragraphs in 15753 Inspection Reports of Accountant General were pending in various departments of Government.*

**(Paragraph 5.1)**