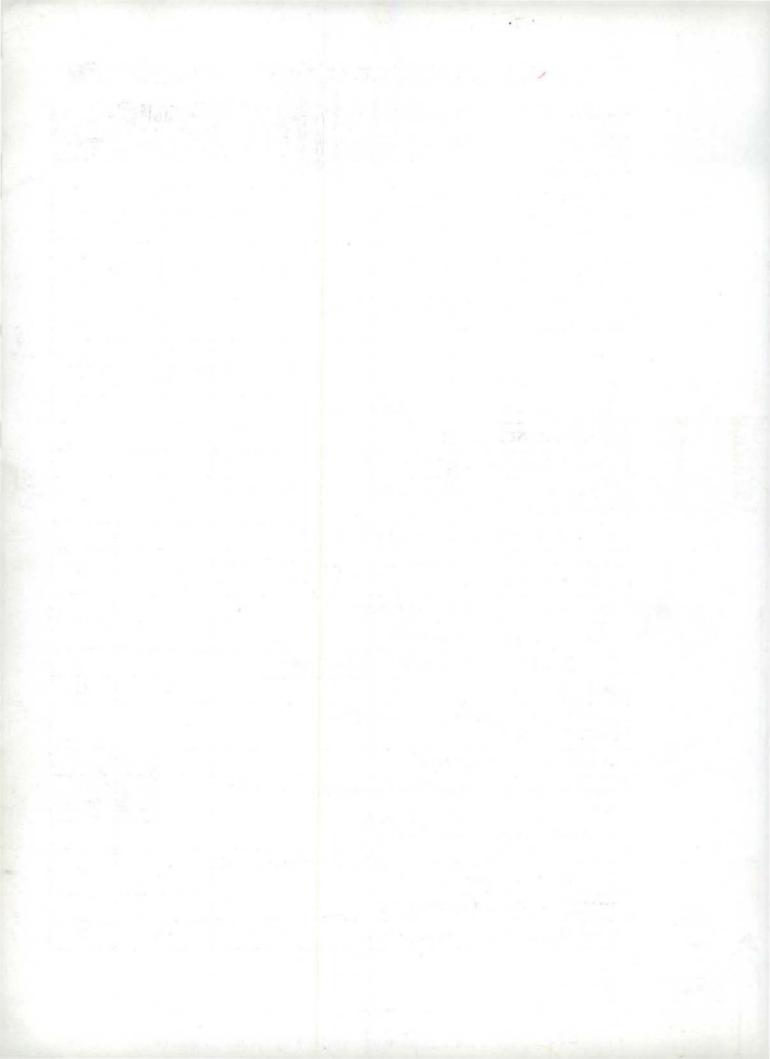


REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

on ECONOMIC SECTOR

for the year ended MARCH 2014

Government of Kerala Report No.4 of the year 2015



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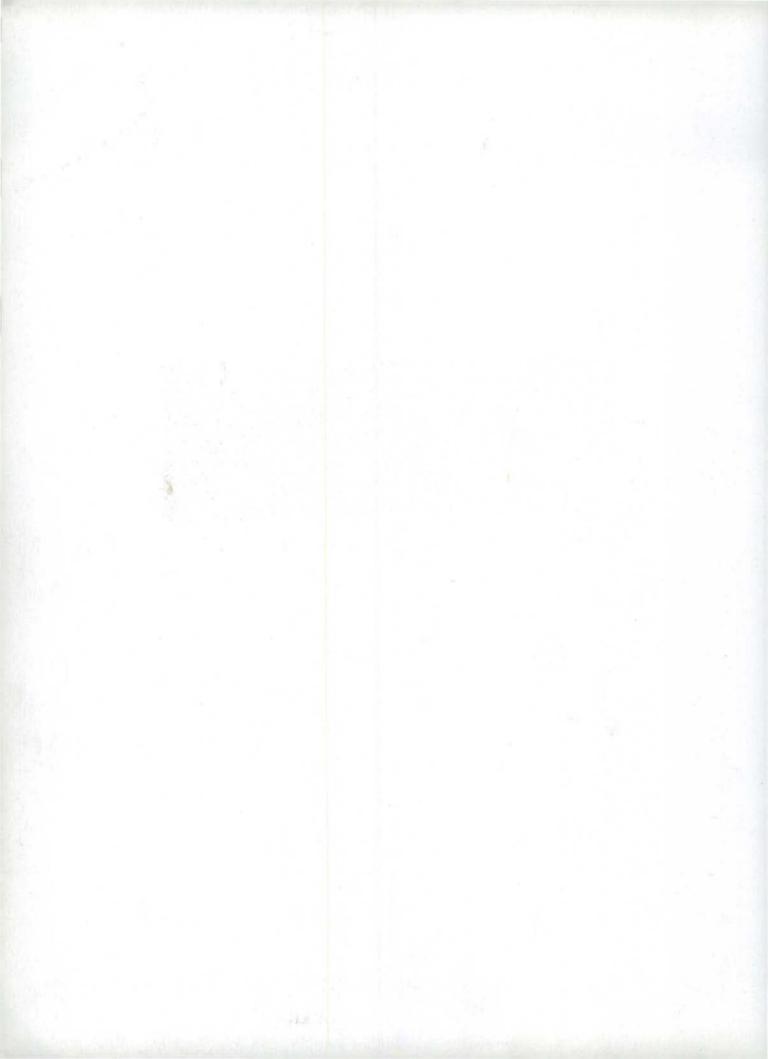
PREFACE

This Report for the year ended March 2014 has been prepared for submission to the Governor of Kerala under Article 151 of the Constitution of India.

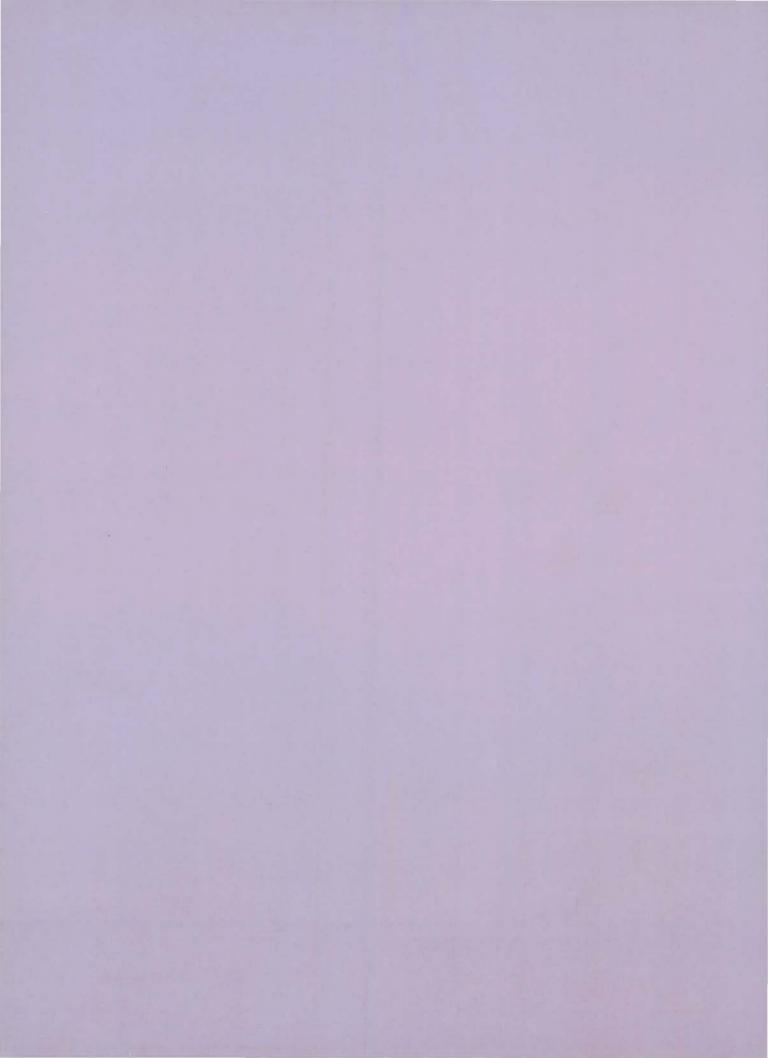
The Report contains significant results of the performance audit and/or compliance audit of the Departments of the Government of Kerala under the Economic Services including Departments of Co-operation, Harbour Engineering, Information Technology, Public Works and Tourism.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2013-14 as well as those which came to notice in earlier years but could not be reported in previous Audit Reports; instances relating to the period subsequent to 2013-14 are also been included, wherever necessary.

Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.







CHAPTER I INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies under Economic Sector.

The primary purpose of the Report is to bring to the notice of the State Legislature, the important results of audit. Auditing Standards require that the materiality level for reporting should commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during compliance audit and follow-up on previous Audit Reports.

1.2 Profile of units under audit jurisdiction

The Accountant General (Economic and Revenue Sector Audit) Kerala conducts audit of the expenditure under Economic Services incurred by 21 departments at the Secretariat level and also the field offices, two autonomous bodies, 36 other autonomous bodies/institutions, 109 public sector undertakings and two departmental commercial undertakings under the jurisdiction of these departments. The departments are headed by Additional Chief Secretaries/Principal Secretaries/ Secretaries, who are assisted by Directors/Commissioners/Chief Engineers and subordinate officers under them.

The comparative position of expenditure incurred by the Government during the year 2013-14 and in the preceding year is given in **Table 1.1**.

Table 1.1. Comparative position of expenditure incurred by the Government

(₹ in crore)

	0.73	2012-13			2013-1-	4	Percentage (+) Excess (-) Deficit	
Disbursements	Plan	Non- plan	Total	Plan	Non- plan	Total		
Revenue Expenditure			Test Ele	= 11/1			E HAVE	
General Services	68.58	22718.03	22786.61	126.65	26478.44	26605.09	(+)16.76	
Social Services	4312.02	14565.47	18877.49	4645.93	16333.95	20979.88	(+)11.14	
Economic Services	2468.73	5339.69	7808.42	2301.08	5627.98	7929.06	(+)1.54	
Grants-in-aid and Contributions		4016.22	4016.22		4971.47	4971.47	(+)23.78	
Total	6849.33	46639.41	53488.74	7073.66	53411.84	60485.50	(+)13.08	

		2012-13	-13 2013-14 Percen		Percentage			
Disbursements	Plan	Non- plan	Total	Plan	Non- plan	Total	(+) Excess (-) Deficit	
Capital Expenditure	100			1				
Capital outlay	3465.66	1137.63	4603.29	3497.62	796.71	4294.33	(-)6.71	
Loans and advances disbursed	603.09	533.06	1136.15	537.53	926.64	1464.17	(+)28.87	
Repayment of public debt		2 838	2804.08			3244.81	(+)15.72	
Contingency Fund						67.39		
Public Account disbursements			100455.82			120992.20	(+)20.44	
Total			108999.34			130062.90	(+)19.32	
Grand Total			162488.08			190548.40	(+)17.27	

(Source: Finance Accounts)

1.3 Authority for Audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971(CAG's DPC Act). The CAG conducts the audit of expenditure of the departments of the Government of Kerala under Section 13¹ of the CAG's (DPC) Act. The CAG is the sole auditor in respect of 23 autonomous bodies which are audited under Sections 19(2), 19(3)² and 20(1)³ of the CAG's (DPC) Act. Besides, CAG also conducts audit under Section 14⁴ & 15 of CAG's (DPC) Act in respect of 196 other autonomous bodies which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

1.4 Organisational structure of the Office of the Accountant General (E&RSA), Kerala

Under the directions of the CAG, the Accountant General (E&RSA), Kerala conducts the audit of Government Departments/Offices/Autonomous Bodies/Institutions under Economic and Revenue Sector, which are spread all over the State. The Accountant General (E&RSA) is assisted by three Group Officers.

Audit of (i) all transactions from the Consolidated Fund of the State (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts.

² Audit of the accounts of Corporations established by law made by the State Legislature on the request of the Governor.

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government.

⁴ Audit of all (i) receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore.

1.5 Planning and conduct of Audit

The audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the heads of the offices. The departments are requested to furnish replies to the audit findings within four weeks from the date of receipt of the IRs. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India for being presented to the State Legislature.

During 2013-14, 8,309 party-days were used to carry out audit of 716 units (Performance Audit and Compliance Audit) of the various departments/ organisations which fall in the audit jurisdiction of the Accountant General (E&RSA), Kerala. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

1.6 Significant Audit Observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations have also been reported upon.

The present report contains findings of two performance audits and seven compliance audit paragraphs. The significant audit observations are discussed below:

1.6.1 Performance audits of programme/department

1.6.1.1 Effectiveness of promotion of Tourism in Kerala

• Several Tourism infrastructure projects did not commence due to failure to acquire land, poor planning, design and execution. Failure to acquire land led to refund of Central Financial Assistance (CFA) of ₹5.24 crore. In cases where the projects were severely delayed due to poor planning, design and execution and also abandoned, CFA of ₹10.68 crore had to be refunded. Delay/non-completion in seven ongoing infrastructure projects within the prescribed time burdened the State exchequer by ₹7.73 crore as on date.

(Paragraphs 2.8.1 & 2.9.1)

• The flagship programme of Tourism Department (TD) 'Sea Plane Project' failed to take off after incurring ₹23.29 crore due to lapses in addressing the concerns of livelihood of fishermen community.

(Paragraph 2.8.1.6)

• Efforts to protect the ecology and observing pollution control norms in the tourist destination and providing necessary amenities for tourists were found to be inadequate. Failure to ensure co-operation with Local Self Governments for providing water and power facilities required for the maintenance resulted in non-functioning of e-toilets installed at a cost of ₹40 lakh in four destinations. Further, undue delay of project 'Installation of Bio-Gas Plant' resulted in denial of benefits to the people/beneficiaries besides accumulation of garbage in the tourist destination.

(Paragraph 2.8.3.2)

 Lack of coordination amongst TD and other implementing agencies also affected ensuring attention to the seven "S" viz, Sanrachana, Soochana, Safai, Swagat, Suvidha, Sahyog and Suraksha envisaged in the tourism policy of Government of India.

(Paragraph 2.8.5)

 Inadequate supply of life saving equipments at beaches and backwater destinations exposed the life of tourists to risks. Poor safety and security arrangements for tourists and non-pursuance of offence and harassment cases reported by tourists was noticed.

(Paragraph 2.8.6.2)

1.6.1.2 Functioning of Harbour Engineering Department (HED)

 HED was ill-equipped to perform specialised role of carrying out execution and maintenance of various works of the Departments of Ports, Fisheries and Tourism. Department of Ports entrusted 22 works relating to investigation, planning, design and execution to external agencies due to HED's inability to execute and deliver projects satisfactorily and in time.

(Paragraph 3.6.1)

 Though HED was expected to have domain expertise, it sought consultancy services from external agencies in respect of 25 projects at a cost of ₹3.10 crore.

(Paragraph 3.6.3)

 Lack of expected domain expertise was evident in the construction of Fishing Harbour (FH) at Ponnani, FH Muthalappozhy, Wharf and auction hall at Thalai FH and landscaping work at Kappil beach.

(Paragraph 3.6.4.1)

 Nineteen projects of coastal road works costing ₹5.40 crore, construction of three bridges costing ₹12.53 crore and construction of Fish Landing Centres (FLC) at Kollam, Thikkody were abandoned due to non-availability of land.

(Paragraph 3.6.4.2)

 Poor planning, budgeting and accounting and co-ordination with Ports, Fisheries Departments lead to ad hoc execution of works, loss to Government and not paying attention to essential operations, maintenance and dredging works.

(Paragraph 3.6.5)

 Poor contract management led to financial loss to Government for reasons like avoidable payment of service tax, non-enforcement of bank guarantee and risk and cost clause conditions.

(Paragraph 3.6.6)

1.6.2 Compliance Audit

Audit of selected topics

1.6.2.1 Land issues in IT Parks

• Out of 1384.12 acres of land provided for IT development from 1990 to 2010, only 504.40 acres (36 per cent) had been utilised so far.

(Paragraph 4.2.1)

Kerala State Information Technology Infrastructure Limited (KSITIL) acquired 402.65 acres of land at seven different places in the State to set up 'Hub and Spoke' model for IT development which was not suitable for IT purpose due to remoteness of chosen locality. Built up space of 3.19 lakh out of 3.94 lakh sq ft remained unallotted in these locations so far.

(Paragraph 4.2.2)

• In Technopark Phase II, land to two major IT companies were allotted at subsidised rates without any basis resulting in short recovery of ₹22.53 crore. Similarly, neither the rule or criteria to govern fixation and collection of lease rent were prescribed nor the agreements prescribed a uniform rate of lease rent to be paid by co-developers. This had extended M/s Infosys undue benefit of ₹3.60 crore.

(Paragraph 4.2.5)

The lack of due diligence in issuing NOC to a person/entity who had
not paid for land at the time of issuing NOC enabled the allottee to
obtain loan at the expense of Technopark, risking the land at its
disposal.

(Paragraph 4.3.4)

Audit of Transactions

• KSITIL incurred an expenditure of ₹31.14 lakh for foundation stone laying ceremony of IIIT, Pala before acquisition of land; Cyber Park conducted inauguration ceremony spending ₹1.90 crore while five out of six components of the project including main IT building were not completed and Technopark irregularly spent an amount of ₹1.96 crore for the inauguration of an IT building at Phase III campus.

(Paragraph 5.1)

• Sanction of loan by the GoK to Agreenco Society, whose financial health was not sound and non-commencement of export oriented pineapple processing unit resulted in loss of ₹29.03 crore to the Government exchequer.

(Paragraph 5.2)

 The Departmental lapses in working out the eligible rate for the items of work of forming sand bund using sand bags resulted in extra financial liability of ₹1.27 crore.

(Paragraph 5.3)

 Erroneous calculation of rates on chiseling of rock and non application of agreed tender rebate for extra items resulted in overpayment of ₹66.00 lakh to a contractor for road work.

(Paragraph 5.4)

 Awarding works that did not qualify to be executed by Labour Contract Co-operative Society to one such society and extension of price preference led to avoidable loss of ₹1.12 crore.

(Paragraph 5.5)

• The delay in providing hindrance free land and the injudicious decision of the Department for revaluation of land offered by Plantation Corporation of Kerala (PCK) for road improvement work resulted in cost overrun of ₹0.85 crore.

(Paragraph 5.6)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Outstanding Inspection Reports

The Handbook of Instructions for Speedy Settlement of Audit Objections/Inspection Reports issued by the State Government in 2010 provides for prompt response by the Executive to the IRs issued by the Accountant General (AG) to ensure action for rectification in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses etc., noticed during the inspection. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions and promptly report their compliance to the AG within four weeks of receipt of the IRs. Half-yearly reports of pending IRs are being sent to the Secretaries of the Departments concerned to facilitate monitoring of the audit observations.

As of 30 June 2014, 348 IRs containing 1059 paragraphs were outstanding against Forest and Agriculture Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Annexure I.**

A review of the IRs pending due to non-receipt of replies, in respect of these two departments revealed that the Heads of offices had not sent even the initial replies in respect of two IRs containing five paragraphs.

1.7.2 Departmental Audit Committee Meetings

The Government set up department wise audit committees to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. During the year 2013-14, 28 Audit Committee Meetings were held wherein 1597 out of 2470 IR Paragraphs pertaining to the period between 2007-08 to 2012-13 relating to departments of Agriculture, Animal Husbandry, Civil Supplies, Forests, PWD and Water Resources were settled.

1.7.3 Response of departments to the draft paragraphs

Draft Paragraphs and Reviews were forwarded demi-officially to the Additional Chief Secretary/Principal Secretaries/Secretaries of the departments concerned between October 2014 and March 2015 with a request to send their responses within six weeks. The departmental replies were not received in respect of two reviews and one out of seven compliance audit draft paragraphs featured in this Report. The replies have been suitably incorporated in the Report.

1.7. 4 Follow-up action on Audit Reports

The Finance department issued (January 2001) instructions to all administrative departments of the Government that they should submit Statements of Action Taken Notes on audit paras included in the Audit Reports directly to the Legislature Secretariat with copies thereof to the Audit Office within two months of their being laid on the Table of the Legislature.

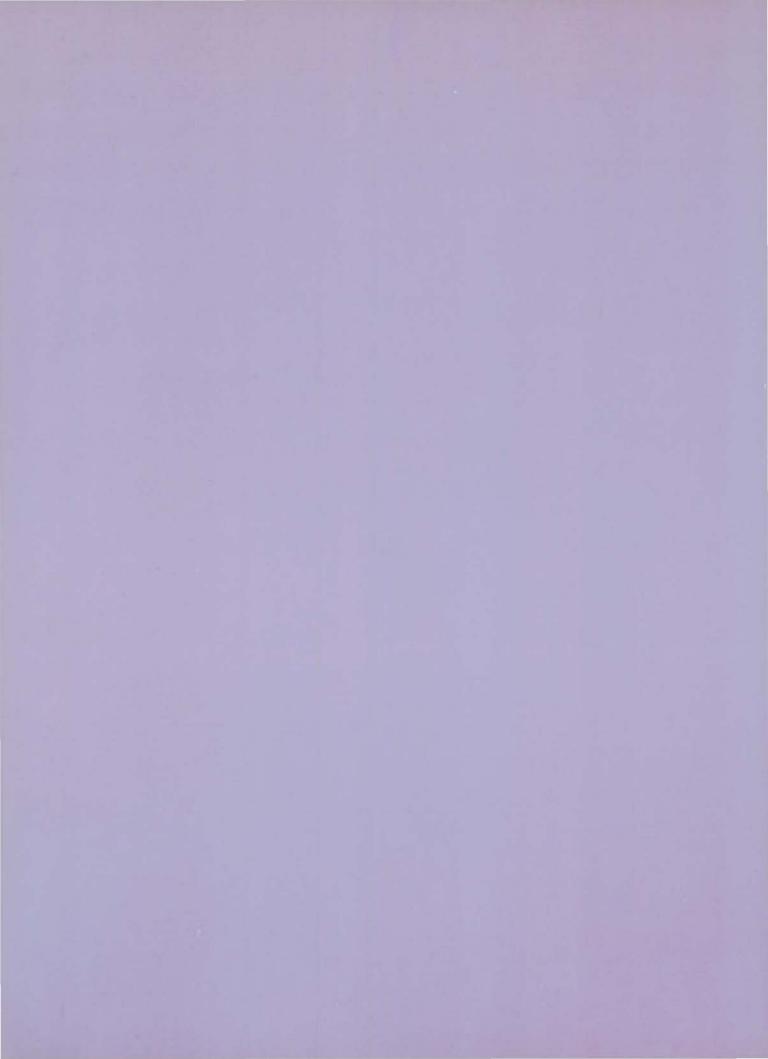
The administrative departments did not comply with the instructions, and seven departments had not submitted Statements of Action Taken for 12 paragraphs for the period 2011-12 and 2012-13 respectively even as of February 2015. One Action Taken Note (ATN) each against Tourism,

Revenue and Agriculture Departments and two ATNs each against Food Civil Supplies and Consumer Affairs, Irrigation and Water Resource Department and three ATNs from Public Works Department on Audit Paragraphs have not been received so far (March 2015).

1.7. 5 Paragraphs to be discussed by the Public Accounts Committee

There were 20 paragraphs relating to eight departments pertaining to the period 2011-12 and 2012-13 pending discussion by the Public Accounts Committee as of February 2015. One Audit Paragraph each from Tourism, Revenue and Fisheries and Ports Departments, two Paragraphs each from Agriculture, Food Civil Supplies and Consumer Affairs, Irrigation and Water Resources Department and nine paragraphs from PWD are pending discussion so far (March 2015).

PERFORMANCE AUDIT



CHAPTER - II

TOURISM DEPARTMENT

Performance Audit on Effectiveness of Promotion of Tourism in Kerala

2.1 Introduction

The main objective of the tourism policy of Government of India (GoI) (2002) was to position tourism as a major engine of economic growth and to harness its direct and multiplier effects for employment and poverty eradication in a sustainable manner by active participation of all segments of the society. The focus of tourism plan was redefined from that of a regulator to that of a catalyst. The Government policy identified the following seven key areas that would provide thrust to tourism development viz.-

- 1. Sanrachna Development of Infrastructure
- 2. Soochana Information dissemination and travel facilitation
- 3. Safai Cleanliness of tourist destinations/beaches
- 4. Swagat Hospitality and memorable experience
- 5. Suvidha Development of amenities
- 6. Sahyog Coordination between Departments/agencies
- 7. Suraksha Security and protection arrangements

Kerala has a unique coexistence of natural and cultural tourist attractions and has been in the forefront of pointing a thrust to Tourism Department (TD). The tourist attractions in the State could be broadly classified into cultural attractions (18 museums and monuments, seven forts and religious places) and natural attractions (33 beaches, 16 backwaters, 26 hill stations and 14 wildlife sanctuaries).

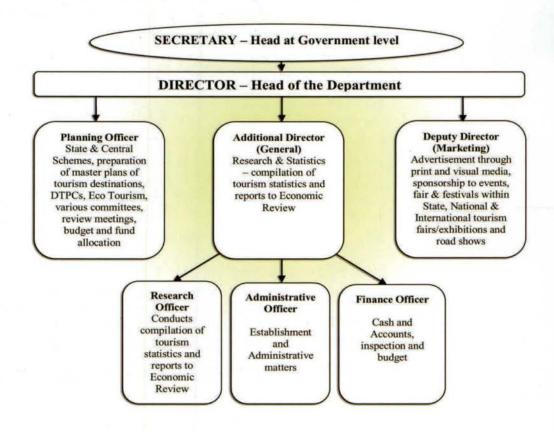
2.2 Functions of Tourism Department

The main functions of the Department with regard to tourism development are

- a. Planning and development of tourism.
- b. Marketing and Promotion of tourism.
- c. Support to other agencies.

2.2.1 Organisational set up

The function-wise organogram of TD with respect to tourism development is given below:



2.2.2 Agencies for implementation of tourism projects/schemes

Department of Tourism directly executes projects such as preparation of master plans of destinations, arranging cleaning activities at tourist locations etc. in addition to co-ordination of the projects entrusted to different agencies and taking up matters with Government for acquisition of land. The infrastructure development schemes were being implemented through line Departments such as Irrigation Department, PWD, CPWD etc. and through PSUs such as Kerala Tourism Development Corporation Ltd (KTDC), Kerala Industrial Technical Consultancy Organization (KITCO), Kerala Tourism Infrastructure Ltd (KTIL), Bekal Resorts Development Corporation Ltd (BRDC) etc. and other executing agencies like District Tourism Promotion Council (DTPC), Kerala Institute of Tourism and Travel Studies (KITTS) etc. as the Department does not have a specialised engineering wing of its own.

2.3 Achievements and recognition of tourism efforts of Kerala

The TD attended various national and international trade fairs and conducted road shows as part of its marketing strategies for tourism promotion and had received awards as recognition to its efforts. A few instances of such awards and recognitions are shown below:

 National Geographic channel (2004) selected the State as 'One of the fifty must see destination of a life time';

- Internationale Toursimsu Borche, Berlin Golden City Gate Gold Award for Print Campaign on Backwaters, 2014; Das Goldene Stattdor Award for Ayurveda Campaign, 2013;
- Pacific Asia Travel Association (PATA) Gold Award for E-Newsletter for the years 2013 and 2014; Gold Award 2010 for Best Website;
- World Travel Mart, London(WTM) Best Stand Award, 2011; and
- FITUR, Spain Best International Exhibition stand Kerala Tourism Pavilion, 2010

National award for Most innovative use of Information Technology / Best Website for the years 2011, 2012 and 2014; Best Civic Management 2012 -13 – Responsible Tourism Kumarakom; Most innovative Tourism Project 2012 -13 – Kochi – Muziris Biennale

2.4 Audit Objectives

In the light of the international recognition received by TD of Government of Kerala (GoK), a performance audit was conducted to see the actual extent to which the TD achieved success in respect of seven key thrust areas i.e, Sanrachana, Soochana, Safai, Swagat, Suvidha, Sahayog and Suraksha.

2.5 Audit Criteria

Audit criteria includes -

- 1) National Tourism Policy, 2002, GoI
- 2) State Tourism Policy, 2012.
- 3) The Perspective Plan 2002-03 to 2021-22 Vision 2025
- 4) Statistical Reports published by the Department of Tourism during the period from 2009 to 2012
- 5) Administration Reports of the Department of Tourism (2009-10 to 2012-13)
- 6) Orders issued by GoK from time to time in relation to Tourism.
- 7) Orders, Circulars and Guidelines issued by the Ministry of Tourism, Gol.
- 8) Rules, Guidelines and mandates with respect to other Government Departments, PSUs and agencies related to Tourism.
- The Kerala Tourism (Conservation and Preservation of Areas) Act, 2005.
- 10) Report of the Working Group on Tourism 12th Five Year Plan.
- 11) Results-Framework Document (RFD) for Tourism 2012-13 Kerala
- 12) Kerala's approach to Tourism Development A Case Study (Ministry of Tourism & Culture, GoI).

2.6 Scope and Methodology of Audit

The period 2009-10 to 2013-14 was covered from June 2014 to January 2015 by test check of records in Directorate of Tourism, various tourism projects implemented by agencies like KITCO, DTPC, CPWD, KITTS etc. The sample size of 107 out of 438 projects was selected for detailed audit by adopting simple random sampling technique. As part of gathering evidence, physical inspection was conducted along with the departmental officers and photographic evidence was obtained wherever possible.

An entry conference was held with Secretary to Government, TD on 31 July 2014 to discuss the audit objectives; criteria and audit methodology.

An exit conference was held on 12 March 2015 with Additional Secretary to Government as well as with Director of Tourism to discuss audit findings in detail. Views/replies of the TD were taken into consideration while finalising the report.

2.7 Audit Findings

2.7.1 Deficiencies in Policy and Planning

2.7.1.1 Tourism Policy of the State

Kerala Tourism policy of 1995 was the first tourism policy in the State and basis for much of the State's progress in terms of infrastructure and product development or tourism performance. The second policy of 2012 focused on involvement of line Departments like LSGD, Health, Port, Agriculture and Animal Husbandry, Fisheries, Culture, Forest and Wildlife, Irrigation etc. for the development, management and promotion of tourism resources of the State.

It aimed at ensuring quality visitor experience of world class giving importance to providing basic amenities at destinations, constant improvements in services in hotels and visitor points, upgradation of visitor facilities at places of interest and overall improvement in upkeep and maintenance of local attractions at tourist destinations. The policy, also provides that infrastructure plans for major destinations would be prepared and key projects include augmentation of water supply system, providing easy access to destinations, street lighting and ensuring waste management.

An analysis of the framework designed for the development of tourism revealed the following:

- Though the Tourism policy 2012 spelt out the co-ordination between Local Self Government Department (LSGD), Forest and Wildlife, Ports, Kerala State Electricity Board, Irrigation, Fisheries, Agriculture and Animal Husbandry, there were no defined roles and responsibilities of each Department for attaining the objectives;
- The Department had not prepared a comprehensive Master Plan outlining the developmental activities to be carried out in various destinations on a long term basis.

In the entry conference, the Secretary, Department of Tourism, stated that the present Tourism policy of the State was far ahead of the National Tourism Policy 2002 and had taken into account the Seven 'S' mentioned therein. The

fact, however, remains that vital areas of tourism such as pilgrim tourism, adventure tourism, spice tourism etc. had not been explored properly as envisaged in the Kerala Tourism Policy 2012.

2.7.1.2 Non-formation of Tourism Committees/Councils in tourism promotion and development

Cabinet Committee and Task Force

The 2012 tourism policy envisaged the formation of the following committees in order to address issues related to land, funds, co-ordination between line departments as shown below:

- a. Cabinet Committee on Tourism to formulate infrastructure plans which are vital to tourism sector.
- b. Task Force on Infrastructure Development consultation with members of Tourism industry and representatives of line Departments to conceive infrastructure projects that are relevant and important.
- c. Task Force for effective Kerala Waste Free Destination (KWFD) coordination by TD with local-self Governments, assisting in managing waste and keeping destination and major tourist corridors clean.

These committees play a vital role in the effective implementation of tourism projects as per the Policy. However, these had not been constituted so far due to non-submission of proposals by the Director of Tourism to the Government.

2.7.1.3 Failure in preparation of master plans for major destinations

A Master Plan is required for each destination in order to ensure the promotional activities in a time bound manner. The Department had sanctioned the preparation of master plan for the following projects in nine major destinations engaging five consultants as shown below:

Table 2.1: Details of projects for preparation of Master Plan

SI. No.	Plan	Year of sanction
1	Preparation of 30 year advance vision and development plan for Fort Kochi in Ernakulam, Thekkady and its surroundings, Kumarakom in Kottayam, Kovalam-Poovar tourism corridor	2012-13
2	Preparation of Master Plan for Ashtamudi in Kollam District, Golden Valley in Thiruvananthapuram, Kalady-Malayattoor- Athirappally Tourism Circuit, Nilambur and Kakkayam - Peruvannamuzhy	2013-14

The consultants submitted their reports to the Director between March 2014 and March 2015. It was noticed that these reports were pending with the Director, for scrutiny and further submission to Government for approval. During this period, the destinations were managed by DTPC/Destination Management Councils (DMC). Due to the delay in framing the guidelines/approval of Master Plan for the management of the destinations, the tourism activities were handled on *ad-hoc* basis.

2.8 Deficiencies in implementation of projects

The Department had sanctioned 438 projects during the period 2009-10 to 2013-14 with an outlay of ₹818.23 crore.

The deficiencies in implementation of the projects keeping in view the seven 'S' are discussed below:

2.8.1 Sanrachana

2.8.1.1 Development of Infrastructure facilities

The development of tourism mainly revolves around the creation of basic infrastructure like roads, water supply, lighting systems, clean toilet facilities, communications etc. For the efficient creation of infrastructure, the Department should ensure that tourist locations are identified after involving discussions with stakeholders like DTPC, local bodies etc. The selection of projects should be made after thorough scrutiny of feasibility and viability, both financial as well as physical, of the proposals to avoid incidences of surrender of funds or abandonment of project. In identification of locations, the attractions of the place, accessibility and accommodation facilities available therein deserve due consideration.

The Department had sanctioned 230 projects for the development of infrastructure facilities with an outlay of ₹532.72 crore out of which 73 were completed with a cost of ₹139.34 crore, 98 involving ₹204.02 crore were in progress while 59 projects involving ₹189.36 crore were either not commenced or abandoned. The sanctioned projects mainly fall under three areas viz.

- Planning of tourism infrastructure projects 10 works
- Development of Roads Infrastructure 38 works
- Tourist destination development 30 works
- Development of Infrastructure, Culture and Heritage 152 works

Audit found that the development of tourism infrastructure facilities in the State was deficient as explained below.

2.8.1.2 Development of Roads Infrastructure

The Department had sanctioned 38 projects involving ₹112.35 crore under the category 'Development of Roads Infrastructure' which were mainly meant for improvements including riding quality of existing roads near tourist destinations. Out of the above, 24 projects involving ₹84.77 crore were completed, five projects involving ₹19.75 crore were in progress and nine projects involving ₹7.83 crore were either not commenced or abandoned.

Audit found that nine projects were not commenced due to the following reasons:

 Road Improvement/development work was not taken up due to defective planning by TD, delay in acquisition of land, revision of estimates and delay in handing over detailed designs. Department failed to co-ordinate effectively with Forest, Revenue, Agriculture and Irrigation resulting in delay in the implementation of nine projects.

Thus, TD had flouted the general instructions that unencumbered land should be made available prior to taking up of the projects which was the primary element before undertaking any project.

2.8.1.3 Tourist Destination Development

The destination development of the project includes providing of minimum facilities such as reception lobby, toilet, amphitheatre, parking and landscaping. The Department had sanctioned 30 projects involving ₹62.50 crore out of which three projects involving ₹8.80 crore were completed, 11 projects involving ₹18.98 crore were in progress and 16 projects involving ₹34.72 crore were either not commenced or abandoned.

Audit found that 50 per cent in respect of the projects undertaken by the Department under the category of 'Tourist destination development' was delayed due to lapses of the Department.

2.8.1.4 Development of Infrastructure for Culture and Heritage

The Department had sanctioned 152 projects for "Infrastructure development of culture and heritage" with an outlay of ₹353.44 crore for creation and development of infrastructure for culture and heritage in the State tourist destinations of which 46 projects involving ₹45.77 crore were completed, 72 projects involving ₹160.86 crore were in progress and 34 projects involving ₹146.81 crore were either not commenced or abandoned.

2.8.1.5 Failure to complete project due to structural design changes

Ministry of Tourism, GoI, accorded Administrative Sanction (AS) (December 2004) for ₹ five crore to set up an Art and Craft Village, Kovalam at Thiruvananthapuram with State share of ₹2.20 crore (total ₹7.20 crore) in the land owned by HED. But there was a delay of 14 months to transfer 3.68 ha of land for the project. Thereafter, the work was entrusted to M/s KITCO (2008) on deposit work basis and M/s Habitat Technology Group, was appointed as the architectural consultant. KITCO furnished completion certificate (March 2012) by incurring ₹6.96 crore. The project was nearing completion. The works relating to construction of front gate, compound wall, landscaping and such items were yet to be completed.

Later, in response to the proposals of the Director, TD, the State Government accorded AS (February 2013) for 'Revitalisation of Kovalam Craft Village' (Keral HATT) Entertainment Zone and Market Zone for ₹ seven crore including modification to the existing buildings for ₹67.10 lakh (under Entertainment Zone and Market Zone).

The executing agency of the Craft Village, Kovalam was M/s KITCO and M/s Habitat was the architectural consultant. However, in the revitalization project, M/s Habitat was the executing agency as well as the consultant. The work of revitalization of Kovalam Craft Village included modification of certain changes already effected over the project completed as per the AS issued in December 2004. These modifications became essential due to

subsequent changes in the design proposed by HABITAT. Therefore, the design change/structural changes in the second phase could have been avoided had the architectural consultant intervened at the right time at the time of the original construction. Omission on their part had resulted in avoidable expense of ₹67.10 lakh on two components.

2.8.1.6 Failure of Flagship sea plane Project

The State is endowed with a large potential of water bodies and their proximity to tourist destinations is a major potential area for development. With a view to ease the pressure on road and rail modes of transport to tourist destinations, the Government decided to initiate Sea plane service in the State based on a proposal by M/s Maritime Energy Heli Air Services Pvt. Ltd. (Mehair) for launch of an amphibian aircraft in five locations in the State. The Department conducted (June 2012) a preliminary Reconnaissance Study (field survey) at nine locations in the State for implementing the project.

State Government issued seven AS (May 2013 to January 2014) for ₹11.77 crore for different components of the project to be implemented through Kerala Tourism Infrastructure Ltd. (KTIL). Out of 25 locations considered for conducting the feasibility studies, infrastructure was developed in Ashtamudi in Kollam District and Punnamada in Alappuzha District. The project did not take off due to protest from fishermen community with regard to their concerns on fish breeding chances and consequent low yield of sea food etc. The expert committee which examined the concerns of the fishermen favoured the project as it was not harmful for fisheries eco system. The Department also introduced (2013-14) Cage Farming scheme to improve livelihood of fishermen in the affected region and released ₹1.44 crore (January 2014) to KTIL to settle the issue.

The Department, however could not implement the Sea Plane Project successfully even after sanctioning ₹11.77 crore and releasing ₹11.46 crore for the project. Besides, Government issued AS (December 2012) for ₹11.83 crore to the Industries Department for setting up of waterdromes which was related to Sea Plane Project to be implemented by KSIDC. During December 2012, the TD directed the Industries Department to transfer the funds for waterdromes from KSIDC to KTIL.

Though the committee favoured the project, the concerns of fishermen communities were not addressed by the department adequately. Department should have examined the feasibility of the project implementation by involving the stakeholders like the fishermen, whose livelihood was likely to be affected by the above project. The failure of the Department to identify and address the concerns of the local fishermen culminated into protest by the fishermen due to fear of loss of livelihood. The expert committee's report in favour of the project could not resolve the issue of unrest in the areas where the sea plane infrastructure was to be developed. Had proper initiatives been taken by the Department to tackle the concerns of the local fishermen community, the protest from fishermen and resultant delay in implementation of the flagship project could have been avoided. On inauguration of the project itself, the Department had to face protest from local fishermen community on the claims that sea plane operations would adversely affect their livelihood. Later, an expert committee was constituted (August 2013) by GoK for

studying the impact of sea plane operations on inland fisheries of Kerala and based on the final report (June 2014) of the expert committee, a new initiative 'Cage farming' was introduced by GoK to enhance the fish production in natural waters.

The above instances have consumed considerable time (12 months) for the implementation of the project. Thus, even after two years of release of ₹23.29 crore the flagship project of the Department had not been made operational (February 2015).

2.8.2 Soochna

2.8.2.1 Information dissemination and travel facilitation

The Department sanctioned 90 projects for information dissemination and travel facilitation with an outlay of ₹152.10 crore of which only 18 projects involving ₹13.18 crore were completed, 40 projects involving ₹101.33 crore were in progress and 32 projects involving ₹37.59 crore were either not commenced or abandoned. These projects were mainly in two areas viz. Signage and Information Centres and Marketing and Promotion.

2.8.2.2 Failure to monitor financial ceiling for conduct of exhibition – Kerala Travel Mart (KTM) – ₹41.62 lakh

Kerala Travel Mart(KTM) was formed in 2000 as a society with all the stakeholders like tour operators, travel agents, airlines, hotels etc. as members. It is an international forum for buyers and sellers to meet in dynamic sessions where tourism destinations are discussed and packages finalised. KTM offered opportunity for resorts, tour operators, house boats, ayurvedic centres etc. to showcase their products and services.

KTM was provided with financial assistance of ₹ one crore each in January 2011 and September 2012 by the State Government for organising KTM 2010 and 2012 respectively. The Department had not evaluated the outcome of the event even after the conduct of KTM since the number of business deals which took place in the event was not available with the Department for scrutiny.

Audit observed from the records that the Department had spent irregularly ₹41.62 lakh over and above the allotted funds to KTM. The matter was brought to the notice of the Director (December 2014) and the response of the Department was awaited.

2.8.2.3 Unjustified expenditure out of grant for conduct of Kochi-Biennale

The Kochi Biennale Foundation (KBF) is a non-profit charitable trust engaged in promoting art and culture in India and their main initiative is the hosting of the Kochi-Muziris Biennale. TD released (December 2010) ₹ five crore as initial grant to KBF for conducting the Kochi Biennale, a biennial event that would be an international platform for contemporary art. Additional grant of ₹ four crore was sanctioned (September 2011) for conducting the event. The event was successful since the arrival of foreign tourists for the period October 2012 − February 2013 had showed an increasing trend and increase in the tourism revenue.

Audit scrutiny revealed that KBF utilised the grant for renovation and for maintenance of its Mumbai office at a cost of ₹38.03 lakh, which was unrelated to the hosting of Biennale. On being pointed out in Audit, the Department stated that the expenditure was incurred for renovation and maintenance of Mumbai Office of KBF for the convenience of artists participating in the event at Kochi.

The reply of Department was not tenable as the TD had released funds for conducting Kochi Biennale only. The action of KBF justifying the expenditure on renovation and maintenance of its branch office at Mumbai and payment of rent for its Mumbai office was unwarranted because incurring such expenditure from State budget was irregular. As such, the Department should take urgent steps to recover from KBF, the unauthorised expenditure (₹38.03 lakh) incurred out of Government grant.

Further, in terms of the provisions of Kerala Financial Code (KFC), prior sanction of the State Government is necessary for incurring expenditure out of Government funds on ceremonies connected with inaugurations and should be limited to the minimum absolutely necessary.

Audit observed that Kochi Biennale Foundation incurred an amount of ₹36.38 lakh for the inaugural function of the event for which prior permission from Government was not obtained.

Government issued directions that being a private trust, the codal formalities were not binding on KBF. The reply was not tenable as the extant provisions under KFC are applicable to expenses like laying of foundation stone and opening or inauguration of any scheme /project/works using State funds.

2.8.3 Safai

2.8.3.1 The Department sanctioned 22 projects for cleanliness of tourist destinations/beaches with an outlay of ₹17.23 crore out of which five projects involving ₹1.68 crore were completed, eight projects involving ₹6.97 crore were in progress and nine projects involving ₹8.58 crore were either not commenced or abandoned.

These projects were mainly related to clean destination campaign, solid waste management, installation of biogas plant and installation of e-toilets.

The Department had initiated certain projects to dispose off solid waste of house hold/hotel establishments generated at destinations, the fate of which are discussed below –

2.8.3.2 Implementation of sewage and solid Waste Management projects at specified tourist destinations

Community driven decentralised solid Waste Management Scheme at Kovalam

In order to cater to a large number of tourists visiting Kovalam, 500 establishments including hotels, restaurants and other commercial establishments were operating within the tourist area. Due to the concentration of tourist activities, this destination was generating approximately 5,000 kg of solid waste per day. TD initiated a project 'Community driven decentralised waste management scheme' at Kovalam.

The project envisaged installation of two treatment plants, each having 500 kg capacity at Kovalam at a cost of ₹36.80 lakh. The project did not take off due to public protest owing to the proximity of the residential area. Thus, TD failed to address the solid waste management issues which had consequences on environment as well as health of tourists and residents around the destination.

Though Clean Destination Schemes and Community Driven Decentralised Waste Management Scheme, Kovalam had been sanctioned, the progress was very slow. There were no schemes / projects for coverage of any of the major tourist destinations (52 numbers) except Kovalam and Kumbalanghi.

Installation of Biogas Plants

In order to address the severe menace of solid waste at the tourist destination at Kovalam, Department of Tourism had proposed a project 'Community Driven Decentralised Waste Management Scheme' at Kovalam based on a detailed study by KITTS. The components of the project were installing bio gas plants at households and tourism establishment, centralised waste treatment plants addressing plastic and non degradable waste and sensitizing stakeholders. Accordingly, TD accorded (August 2012) AS for ₹1.38 crore for the work stipulating the period of completion as 12 months. It was decided to implement the scheme in association with Kerala Suchitwa Mission coming under LSGD in the proportion of 50 per cent of the cost of biogas plant to be met by Suchitwa Mission, 40 per cent by Department of Tourism and 10 per It was also decided to constitute a monitoring cent by beneficiaries. committee with the Secretary, Tourism, Principal Secretary, LSGD and Executive Director, Suchitwa Mission as members. The Secretary, DTPC, Thiruvananthapuram was designated as the nodal officer of the project.

Audit scrutiny revealed that three agencies were selected for the installation of the project and only 90 biogas plants out of committed 1,200 plants were installed at Kovalam up to December 2014. However, it was observed that the Department had released (April 2013) ₹70 lakh, being its share to DTPC. Further, LSGD of the State accorded AS to release ₹63 lakh (January 2014). But the amount was not released by Suchitwa Mission (December 2014) on the plea that it required to assess the performance of the plants installed before release of funds.

Thus, lack of co-ordination between TD and LSGD (Suchitwa Mission) resulted in undue delay of the project and thereby denial of benefits to the people/beneficiaries. Besides, the accumulation of garbage would create discomfort and ill feeling to tourists.

· Lapses in Installation of e-toilet project at tourist destinations

Electronic toilet (e-toilet) is a concept developed in Europe, where many countries have such pay-and-use toilets with multiple facilities. Electronic toilets are fully automated, portable, pay-and-use toilets that work through a fusion of electrical and mechanical inputs and information technology. Each toilet has an automated payment collection, door opening, flushing, sterilising and cleaning system.

The Department sanctioned (July 2012) the project for implementation of eight e-toilets, two each at Varkala, Alappuzha, Fort Kochi and Kovalam, at

an estimated cost of ₹40 lakh. The work was to be executed through KELTRON and proposed to be completed within three months. The LSG Department was entrusted with the duty to provide power and water connections for the e-toilets and their maintenance. Warranty period for the e-toilet work given by KELTRON was six months after the installation and commissioning of the e-toilet.

Audit scrutiny revealed that out of four locations where e-toilets were to be installed, only three locations viz. Kovalam, Alappuzha and Fort Kochi were (March 2013) covered. However, due to the Department's failure to coordinate with the LSG Department for provision of mandatory water and electricity supplies, the completed e-toilets could not be put to use till date.

The installation of the e-toilet at Varkala was stopped due to protest by owner of the plot adjacent to the planned e-toilet and subsequently due to High Court's directions to keep the construction in abeyance.

The following lapses were noticed in the implementation of the e-toilet project:

- The TD failed to conduct a proper feasibility study of the locations where the e-toilets were proposed to be installed. Such study would have brought out the issue of resistance from residents of the locality.
- The Department failed to involve and get active co-operation / commitment of the LSG Department especially regarding the issues related to provision of water and power supplies prior to undertaking the e-toilet project/scheme.

During exit conference, the Department admitted that the e-toilets were a failure and moreover, it was stated to be a pilot project. The remarks of the Department referring it as a pilot project was not justifiable as similar projects by local bodies were operational.

2.8.4 Suvidha

Suvidha relates to development of amenities at tourist destinations. TD accorded (July 2013) AS for the project Silent Valley sun bath park at Kovalam at an estimated cost of ₹4.68 crore designating Kerala State Coastal Area Development Corporation (KSCADC) as the executing agency. The work involved construction of reception block, viewing deck, restoration of well and existing retaining walls, landscaping and site developments etc. An agreement was executed (October 2013) with KSCADC for completion of work within 12 months. Though the Department had transferred (2013) 50 percent of AS (₹2.34 crore) as advance, the project work could not be completed within the stipulated period (October 2014). The executing agency stated (January 2015) that the foundation excavation for reception block and excavation for viewing deck were completed, foundation work for reception block was being done and the restoration of well and existing retaining walls, landscaping and site developments were yet to be tendered.

Thus, the project could not be completed as per time schedules stipulated in the agreement. The Department was also not able to proceed against the executing agency in view of absence of specific clause in the agreement for any penal action. Due to the peculiar situation that the second phase of construction was dependent on the completion of the above civil works, any delay would further affect the completion of the project.

The remarks from the Department are awaited.

2.8.5 Sahayog

2.8.5.1 Co-ordination between Departments/agencies

DTPC is a concept unique to the State and involves planning for minor projects, implementation and operation of selective tourism projects. These projects of TD are implemented with the co-ordination of DTPC and hence, the activities of DTPC were assessed under 'Sahayog'. DTPCs are organised as societies at district level. In order to have control over DTPC by Government and co-ordination between different line Departments, District Collectors of the respective districts were appointed as Chairman. Their primary functions include (a) proposing tourism related infrastructure projects of relatively smaller magnitude, and (b) implementation of tourism projects operation like pay and park, public parks, pay and use toilets, children's park, etc.

It was observed that out of the 109 projects/schemes entrusted to DTPCs, only 24 were completed (22 per cent of the assigned work), 45 were still in progress and 40 were abandoned or not yet commenced. The slow pace of work indicated that TD did not exercise proper control over the implementation activities of DTPC although the funds were provided by TD.

Audit noticed the following lapses in the implementation of works by DTPC:

- Even though the District Collector was appointed as Chairman, there
 was no effective control by Government or coordination between the
 line Departments. There were no specific norms for manning the post
 of Secretary who had to be the immediate monitoring authority for
 tourism projects undertaken by DTPC.
- DTPC was not equipped with any technical arm as a result of which all
 the works entrusted to DTPC by TD had been sub contracted to
 agencies like KITCO, KSCADC, etc.
- The accounts and audit systems of DTPCs were not professionally managed even though the accounts had been audited by Local Fund Audit Department.

2.8.5.2 Lack of Monitoring mechanism

As the Department did not have an engineering wing to carry out its civil works, the execution of the projects/schemes are mainly done through other implementing agencies. In order to have a proper control right from the stage of sanctioning of the project till its implementation and settlement of dues, it is essential that the Department maintains and periodically monitors the status of the project/schemes. Audit scrutiny revealed that the Department had sanctioned projects to monitor the status of existing projects through an external agency. In terms of the agreement between the Department and executing agencies (KITCO, etc), the responsibilities of executing agencies include submission of periodical status reports on the progress of works

executed. The Department was required to pay consultation charges to the executing agencies.

- Planning Division of the Department is entrusted with the monitoring of progress of the projects and to send periodical progress reports. However, the Tourism Directorate proposed to transfer the work to district offices on the plea that it would affect the work of the Directorate. Government accorded sanction (August 2012) for the project for monitoring of projects through Lal Bahadur Sastri (LBS) Centre for Science and Technology at a cost of ₹76.80 lakh for a period of eight months (August 2012 to March 2013). The Government issued AS for ₹93.80 lakh for the year 2013-14 and ₹1.38 crore for 2014-15 for continuance of the services of LBS.
- Since the executing agencies were entrusted the projects on deposit basis by obtaining centage charges, the executing agencies were bound to supervise and monitor the projects on a day to day basis and to report the progress and status of the project on a monthly basis. It was to be ensured that such reports were received by the Department in time and such reports were to be evaluated at Headquarters so that the Department could obtain a first hand and latest report about the projects.

2.8.6 Suraksha

2.8.6.1 Security and protection arrangements

The Department sanctioned four projects for security and protection arrangements at an outlay of ₹2.55 crore of which two were completed.

Audit found that security and protection arrangements in the State were deficient as explained below.

- Department failed to provide safety equipments in time
- Failure of the Department to take adequate security measures for the protection of tourists at beaches and other tourist destinations

2.8.6.2 Inordinate delay in purchase of Life Saving Equipments

The Department had deployed trained life guards in major beaches. Timely supply of sufficient modern life saving equipments is a pre-requisite for mitigating the risks to visitors at tourist destinations.

It was observed that Chief Co-ordinator and Trainer (Life Guards Service) of the Department requested (May 2010) the Director of TD eleven items of life guard equipments to ensure security of tourists. However, only five items (45 per cent) were received (January 2011) after a delay of eight months.

In response to another purchase order for beach umbrella, signal board, rescue tube and board which was requested during September 2013, the supply was received from Kerala State Industrial Enterprises Limited during August 2014 (ie. after a delay of one year).

The undue delay and short supply of life saving equipments by the Department had exposed the tourist to risks of life at tourist destinations despite

availability of life guards. Life saving equipments were provided at beaches only and 16 back water destinations were excluded.

2.8.6.3 Cases of misbehaviour to tourists, casualties reported and action taken by Department

Tourism is a significantly sensitive sector to aspects concerning safety and security of tourists. Tourism policy of 2012 also envisaged constitution of Contingency Response Cell (CRC) to manage situations of crisis affecting tourists.

Audit scrutiny revealed that the TD had neither a proper way to act upon offences and harassment against tourists nor had any record of such instances. Seventy cases registered (foreign tourists 53 and domestic 17) by police were in respect of offences/harassments against tourists during the period 2009-10 to 2013-14. All the cases were registered by Police Department or reported directly by the tourists. TD had not initiated or pursued such cases, which was indicative of lack of responsibility on the part of the department towards the safety of tourists which needs be viewed seriously by the Department.

2.9 Financial Management of Infrastructure projects

2.9.1 Failure to plan and execute Infrastructure projects in time despite availability of central funds

GoI allots funds under the CFA for development of Infrastructure projects of the Department. CFA stipulations require commencement of work within six months of the receipt of grant and completion within 24-30 months failing which the State had to refund the unspent balance unless otherwise permitted by GoI for extension/diversion to other CFA projects.

Audit found that while implementing projects/schemes undertaken for the development of tourist destinations in the State utilising Central funds, TD could not deliver the expected outcome broadly due to delay in acquisition of land, revision of estimates necessitated due to delay in completion, change in executive agency after award of work as tabulated below:

SI. No.	Project	Date of receipt of sanction/ grant from GoI	Date of sanction by GoK	Amount sanction ed (₹ in takh)	Gol Grant received (₹ in lakh)	Amount refunded (₹ in lakh)	Date of surrender/ refund of grant	Amount met from Cent-ral Funds (₹ in lakh)	Additiona I liability to State Govt. (₹ in lakh)
Lanc	lissues								
1	Destination Development	3.9.2007	10.11.08	201.72	161.38	159.04	10.12.12	2.34	nil
	of Wayanad	Eight acres in acquisition incurred on	on of requis	site land (CFA of ₹	159.04 lakl			
2	Development	26.3.2010	3.8.10	339.08	271.26	126.42	16.6.13	79.43	nil

	of Muzhippilan gad Beach, Kannur	Project was KTDC in A The stipulat not started v	ugust 2012 ed time for	by payme completion	ent of ₹ 7 on was ho	9.43 lakh wever 24	after a la months.	pse of 28 As the pre	months . oject was	
3	Development	29.6.2011	1.3.2012	309.62	247.70	238.7	10.12.13	9.00	230.00	
	of Neriamangal am into a tourist destination	As the project could not be completed within 24 months due to non-availability of land, the Department refunded ₹ 238.7 lakh against the refundable balance of ₹ 53 lakh due to improper accounting. Audit observed that TD did not keep project wise database which resulted in excess refund of ₹185.7 lakh. Later the work was taken up under State scheme.								
Und	ue delay in execu	tion								
4	Development of	27.12.2010	24.02.11	184.71	147.77	83.23	24.9.13	64.54	56.00	
	Aruvikkara dam site in to a major tourist destination	Kerala Water Authority (KWA), the executing agency, could work within the stipulated time (24 months) under the Centra and the amount had to be refunded. Later, the project was taker thereby burdening State exchequer by ₹56.00 lakh which was puthrough supplementary grant.							e scheme e scheme	
5	Development of Munnar	29.6.2011	9.3.2012	488.51	390.81	390.81	10.12.13	0.00	5.41	
	into a Tourist	1								
	Destination	Architectura drawing and non compl Consequent preparation State funds	I DPR to the etion of ly, the enter of DPR and	e executing the projective grant disconsultation in the consultation in the consultati	g agency ect within received	(M/s Hab n stipula was suri	itat) in time ted period rendered ar	of 24 of expend	esulted in months. diture on	
6	Destination Development	drawing and non compl Consequent preparation	I DPR to the etion of ly, the enter of DPR and	e executing the projective grant disconsultation in the consultation in the consultati	g agency ect within received	(M/s Hab n stipula was suri	itat) in time ted period rendered ar	of 24 of expend	esulted in months. diture on met from	
6	Destination	drawing and non compl Consequent preparation State funds	B DPR to the etion of ly, the ent of DPR and became infines and the etion of ly and long the etion of ly and ly an	e executing the projective grant donsultate to the projective grant donsultate to the project (M/s C-Inths. Fail refund of refund the project (M/s C-Inths. Fail refund of refund the projective fund the projective fundament fun	g agency ext within received ancy char 400.00 y due to EARTH) ure to conthe grant. e entire a was provi	(M/s Hab n stipula was surr ges made 400.00 delayed it to the im mmence u Since th ssistance ded (Dec	itat) in time ted period rendered are to M/s C- 01.3.14 urnishing of plementing tilization of e project we of ₹400 lakember 2014	of 24 and expende EARTH 0.00 of drawin agency (f GoI func as not con the which) in State	esulted in months. diture on met from 190.00 g by the Irrigation ds within menced, remained	
	Development of Peruvannamu zhi and Kakkayam	drawing and non compl Consequent preparation State funds 8.12.2011 The project architectura Department six months the Department unutilized. 'supplements'	B DPR to the etion of ly, the ent of DPR and became infines and the etion of ly and long the etion of ly and ly an	e executing the projective grant donsultate to the projective grant donsultate to the project (M/s C-Inths. Fail refund of refund the project (M/s C-Inths. Fail refund of refund the projective fund the projective fundament fun	g agency ext within received ancy char 400.00 y due to EARTH) ure to conthe grant. e entire a was provi	(M/s Hab n stipula was surr ges made 400.00 delayed it to the im mmence u Since th ssistance ded (Dec	itat) in time ted period rendered are to M/s C- 01.3.14 urnishing of plementing tilization of e project we of ₹400 lakember 2014	of 24 and expende EARTH 0.00 of drawin agency (f GoI func as not con the which) in State	esulted in months. diture on met from 190.00 g by the Irrigation ds within menced, remained	
	Development of Peruvannamu zhi and Kakkayam dam sites	drawing and non compl Consequent preparation State funds 8.12.2011 The project architectura Department six months the Department unutilized. 'supplements'	B DPR to the etion of ly, the ent of DPR and became infines and the etion of ly and long the etion of ly and ly an	e executing the projective grant donsultate to the projective grant donsultate to the project (M/s C-Inths. Fail refund of refund the project (M/s C-Inths. Fail refund of refund the projective fund the projective fundament fun	g agency ext within received ancy char 400.00 y due to EARTH) ure to conthe grant. e entire a was provi	(M/s Hab n stipula was surr ges made 400.00 delayed it to the im mmence u Since th ssistance ded (Dec	itat) in time ted period rendered are to M/s C- 01.3.14 urnishing of plementing tilization of e project we of ₹400 lakember 2014	of 24 and expende EARTH 0.00 of drawin agency (f GoI func as not con the which) in State	esulted in months. diture on met from 190.00 g by the Irrigation ds within menced, remained funds as	
Cha	Development of Peruvannamu zhi and Kakkayam dam sites	drawing and non compl Consequent preparation State funds 8.12.2011 The project architectura Department six months the Department unutilized. Supplementa	d DPR to the etion of ly, the ent of DPR and became infine and the etion of ly, the ent of DPR and became infine and the etion of DPR and became infine and the etion of least the ent had to the etion of large etion	e executing the projective grant documents of the projective grant documents. 500.00 red mainly to (M/s C-1) of the projective grant documents of the projective grant documents. Fail refund of the projective grant documents of the projective grant documents docume	g agency ect within received ancy char 400.00 y due to EARTH) ure to cor the grant. e entire a was provientation of 393.62 implement gation In a gency, the diso had to	(M/s Hab n stipula was surr ges made 400.00 delayed it to the im nmence u . Since th ssistance ded (Dec f a downs	itat) in time ted period rendered are to M/s C- 01.3.14 Turnishing of plementing tilization of ₹400 lakember 2014 ized project was also be project to the tilized project to the til	on Departion of Josephaliting Co.	g by the Irrigation ds within menced, remained funds as 292.00 ment was proporation delay in t central from the	

As may be seen from the above table, funds received in respect of seven projects assistance amounting to ₹15.92 crore were refunded due to delay in completion of the infrastructure projects within the stipulated time. Besides, State had to incur ₹7.73 crore in case of projects where the CFA had to be surrendered.

The expenditure of ₹3.55 crore above only could be incurred on these projects from Central Assistance due to lapses on the part of the consultant and the inadequate follow up by the Department to get the drawings completed not only led to refund of the central assistance, but also burdened the State exchequer. Further, on rearranging the works after two years the project was down sized for ₹1.90 crore to suite to the AS issued by the Department which was a serious lapse devoid of proper planning. The agreement conditions did not prescribe any penal action against non-adherence of time schedule for completion of the work. As such, action against architect/executing agency could not be enforced.

The Department stated during exit conference that the refunds occurred mainly due to delay in identifying land and the audit point would be taken note of from the next financial year.

2.9.2 Utilisation of funds

Funds are allotted to various projects of TD through State budget and financial assistance sanctioned from GoI to various implementing agencies. The department's expenditure under plan and non-plan increased from ₹120.80 crore (plan) and ₹27.84 crore (non-plan) in 2009-10 ₹212.67 crore (plan) and ₹71.71 crore (non-plan) in 2013-14. Audit noticed that State Government had submitted incorrect Utilisation Certificates (UCs), refunded central assistance due to delay in completion of projects which was indicative of defective financial management as detailed in the succeeding paragraphs.

2.9.3 Submission of incorrect UCs - Nila Heritage Tourism Circuit - ₹6.02 crore

UCs should provide complete details of physical and financial progress achieved. There were no prescribed returns to ensure that data for compiling UCs was flowing from the actual physical and financial progress of the works.

Audit scrutiny revealed that the Department had issued UCs related to CFA without actual utilisation of funds for the project and reflecting the actual status of the projects.

The project, 'Development of Nila Heritage Tourism Circuit, Bharathapuzha river in Malappuram and Thrissur Districts in Kerala', was sanctioned in 2007-08 by GoI for renovation and construction of boat jetties as well as heritage sites at a cost of ₹6.06 crore. GoI released (March 2008) 80 per cent of the project cost ie. ₹4.85 crore. The project had 15 components of work which were to be completed within 24 months from the date of sanction.

In view of difficult site conditions, in place of the already approved projects, the Director, TD, proposed during April 2010 a new project, comprising of six components retaining three components of original project. The State Government approved (May 2010) the project with the stipulation that total amount on the new project should not exceed the amount sanctioned for the earlier project approved by GoI. A sum of ₹3.32 crore was released (September 2009 and January 2011) by the Department to KITCO, the implementing agency.

Audit scrutiny further revealed that, 'Tirur Jetty renovation, Malappuram', which was one of the three components retained from the original project sanctioned by GoI and also included in the new project, was not taken up. However, UC was issued (November 2012) for ₹6.02 crore stating that all the 15 components sanctioned in March 2008 were completed though there was substitution/non-inclusion of some of the components as per the project proposal approved by GoI. The Department stated that the change in the project occurred due to site conditions.

Thus, furnishing of a false UC by the Department for components not actually completed is a clear violation of condition of sanction of grant by GoI wherein it was clearly stated that funds should be utilised only for the purpose for which the grant was sanctioned.

2.10 Conclusion

Several Tourism infrastructure projects did not commence due to failure to acquire land leading to refund of CFA. The projects were severely delayed due to poor planning, design and execution and also abandoned in some cases. Efforts to protect the ecology and observing pollution control norms in the tourist destination and providing necessary amenities for tourists were found to be inadequate. Lack of coordination amongst TD and other implementing agencies also affected ensuring attention to the seven "S" envisaged in the tourism policy of GoI.

2.11 Recommendation

- Government must ensure availability of land before proposing tourism projects and obtaining sanctions;
- Co-ordination with the various line Departments/ agencies and local bodies needs be ensured for the successful implementation of projects and their operation and maintenance of activities; and
- Government should institute a mechanism to ensure protection of the ecology and observing pollution control norms in the tourist destination and also providing necessary amenities for tourists.

CHAPTER - III

HARBOUR ENGINEERING DEPARTMENT

Performance Audit on Functioning of Harbour Engineering Department

3.1 Introduction

Harbour Engineering Department (HED) is responsible for execution of the works of the Departments of Ports, Fisheries and Tourism. Works related to Fisheries and Ports were being attended by the Harbour Engineering Wing of the Port Department till April 1982. In April 1982, an independent Department (HED) under a Chief Engineer (CE) was formed for its efficient and effective functioning. This wing was renamed as HED and placed directly under the administrative control of Fisheries and Ports Department, Government of Kerala (GoK). It was formed as a specialised Department with the mandate to carry out investigation, planning, design, evaluation, execution, operation, maintenance and management of related marine engineering and technical works for the development schemes of the Fisheries and Ports Departments.

At present, HED functions as a service department for execution and maintenance of various works of the Departments of Ports, Fisheries and Tourism. HED is also empanelled as consultant in Coastal Engineering field by Government of India (GoI).

3.2 Organisational set-up

HED is headed by the CE and assisted by three Harbour Engineering circles headed by Superintending Engineers (SEs) and eight divisions headed by Executive Engineers (EEs). HED has staff strength of one CE, one Deputy CE, three SEs and nine EEs who are assisted by 524 staff as on 31 March 2014.

3.3 Scope of Audit and Methodology

The Performance Audit commenced with an entry conference held on 21 November 2014 with the Principal Secretary, Fisheries and Ports Department and Director of Ports wherein the audit approach was outlined and discussed. Audit scrutiny of records relating to works executed by HED was conducted in all three circles and eight divisions besides the office of CE during the period between 2009-10 and 2013-14. Planning, selection, estimation, award, progress of work etc. involved in construction and maintenance activities carried out by HED have been covered in audit. Records/files relating to projects/works, financial transactions of HED, Departments of the Ports and Fisheries, Directorates of Ports and Fisheries, field offices under HED were examined and analysed. The sample size of 138 out of 1006 Projects/works executed by HED were selected through Probability Proportionate to Size without Replacement sampling method for detailed examination.

Audit findings were discussed with HED in an exit conference conducted on 11 March 2015 and their replies have been appropriately incorporated in the Audit Report.

3.4 Audit Objectives

The Performance Audit of functioning of HED was taken up with the objective of assessing whether;

- HED had undertaken the specialised activities like offering consultancy services, construction and maintenance of Fishing Harbours (FHs), Fish Landing Centres (FLCs) and coastal roads after ensuring necessary investigation, planning, design and evaluation; and
- HED was able to execute various works in an efficient manner to avoid time and cost overrun.

3.5 Audit criteria

- Kerala PWD manual;
- Government orders, various Acts and Rules, circulars, technical circulars, technical parameters for construction activities;
- · Minutes of meetings at various levels;
- Administrative report of HED;
- Agreements and work files, vouchers and other initial records kept in field offices of HED; and
- · Progress report of works.

3.6 Audit observations

As pointed out earlier, HED was formed to function as a specialised service department for carrying out execution and maintenance of various works of the Departments of Ports, Fisheries and Tourism. HED was also expected to offer consultancy services as an empanelled consultant in coastal engineering field by GoI. However, described below are several instances observed by Audit that clearly bring out the fact that HED was ill-equipped to perform the specialised role that was envisaged for it and the works undertaken by it suffered from several deficiencies.

3.6.1 Works entrusted by Ports to external agencies instead of HED

Although the Ports department was required to get their works executed by the HED, during the period under review, only six works were assigned to HED due to inordinate delay in completion of the works and 22 works relating to investigation, planning, design and execution were entrusted by it to external agencies for the very same reason. As a result of execution of works through external agencies, Port Department had to bear agency charges in respect of 12 works that eventually enhanced the cost of work.

3.6.2 Poor record of Consultancy works undertaken

Though GoI had appointed HED as consultant for undertaking investigation, research, designing, preparation of project reports for construction of harbours, Audit observed that during the period 2009-14, HED provided only one consultancy service (December 2011) to Cochin Shipyard for an amount of ₹16.24 lakh for 'Data collection for conducting siltation studies'. The work

involved only collection of data regarding siltation and furnishing it to Shipyard and did not involve much expertise as required in other activities.

3.6.3 Engaging external consultants

Far from undertaking and providing consultancy services for which it was expected to have domain expertise, HED sought consultancy services of external agencies in respect of 25 projects at a cost of ₹3.10 crore. Out of the 25 projects (Annexure II), 24 consultancy services were related to construction of FH in which HED is supposed to have domain expertise.

Described below are two other works relating to construction of bridges, where also HED was not up to the task and had to resort to taking help of external agencies. Lack of separate design and research wing for approval of design and structural drawings and little/no experience led to defective estimation, engaging of external agencies, subsequent revision of estimate and delay in completion/non completion along with variation in cost in construction of major bridges by HED.

- Construction of Nampiapuram-Kattiparambu sluice cum bridge in Chellanam Grama Panchayat was arranged in December 2012. After executing agreement, an external agency conducted studies to finalise the design as HED was not equipped for the design work and the original design was not suitable for construction. Final design, drawing and revised estimate were not approved so far (August 2014). Meanwhile, the period of contract had expired (November 2013) and work was held up with no tangible outcome.
- Construction of Kumbalam –Nettoor bridge was technically sanctioned in December 2012 and awarded in September 2013. When the work was awarded, the structural design was not available which was entrusted to Cochin University of Science and Technology (CUSAT) and received in March 2014. CE was doubtful on the new design, as the design furnished by CUSAT was likely to result in cost overrun. Revised estimate based on the new design was 23.67 per cent more than sanctioned amount. Meanwhile, the contractor submitted alternative design with a savings of ₹ six crore. As it required sanction of Government, the same was forwarded to Government (November 2014). The contract period expired in September 2014 and work was held up.

3.6.4 Works undertaken by HED

Physical status of various types of activities undertaken by HED during 2009-14 is shown below:

						(in numbers)
Category of projects	Sanctioned	Compl eted	On going	Not arranged	Standstill /abandoned	Percentage of completion (31.3.2014)
Construction of Fishing Harbour	6	0	5	1	0	0
Construction of Fish Landing Centre	3	0	1	1	1	0
Port	5	3	1	0	1	60

Total	1712	1086	284	264	78	63.38
Dredging projects	91	3	5	0	1	33.33
NABARD	48	7	14	24	3	14.58
RKVY	10	3	7	0	0	20
Coastal roads	1592	1058	233	234	67	66.46
TRP	3	3	0	0	0	100
NFDB	13	1	10	2	0	7.69
Tourism-plan	23	8	8	2	5	34.78

A test check of 138 cases, the status of which are as under:

Sl. No	Category	No. of works	Remarks / Reason
1.	Completed in time	26	
2.	Completed in extended time	79	Scarcity of material, delay in getting land, revision of estimates
3.	Works terminated/closed	5	Poor performance of the contractor, non-availability of land
4.	Work stand still (December 2014)	2	Disputes on boundary, measurements
5.	Works not taken up	4	Non-availability of hindrance free land
6.	Works going on in extended time.	18	Scarcity of material, delay in getting land, revision of estimates, public protests, poor performance by contractors.
7.	Works going on in original period of completion.	4	

While there were issues relating to non- availability of land and material, poor execution of work by contractors, impediment to works due to protests, delays and consequent increase in costs which will be discussed briefly in the latter part of the report, the paras below describe the shortcomings and failures of the HED in performing their expected specialised role in understanding, appreciating and applying engineering skills required for dealing with the unique features of the ocean, coastline, marine life, tidal waves and meteorological and geological conditions.

3.6.4.1 Survey and Investigation

Before planning any activity, investigation is imperative for collection of data and information which is necessary for proper planning. All relevant data and information need to be collected and correlated before finalising the plan, design and estimate for any work. Wrong choice of site or design can result in considerable avoidable expenditure and delays etc. Since the major mandate of HED as a specialised service department in the construction and maintenance of FHs and FLCs, detailed investigations are required along the coastal line or estuary and impact of tidal waves and siltation are to be studied.

¹ One project consist of maintenance dredging of seven fishery harbours taken as seven projects along with other two fishery harbours totaling nine fishery harbours.

Described below are instances of works undertaken by HED that reflect insufficient investigation and studies before undertaking of the works and also lack of expected domain expertise.

i) FH, Ponnani

The Fisheries and Ports Department sanctioned (March 2000) the construction of FH, Ponnani at a cost of ₹27.59 crore. The harbour was commissioned in February 2011. However, the wharf could not be put to use as the wooden boats which were mostly used at Ponnani hit against the wharf during docking due to tidal waves. The failure of HED to consider the aspects of tidal conditions during the planning stage rendered the wharf unfit for fishery operations.

ii) FH, Muthalapozhy, Thiruvanathapuram

GoI sanctioned (March 2000) construction of Muthalapozhy FH at a cost of ₹13.66 crore utilising 50 per cent central assistance. HED engaged external agencies to conduct feasibility study, fixation of alignment etc. As the work was progressing, there was excessive siltation which made further advancement of work impossible. Later, in March 2013, HED commenced the rectification operations based on the report of the external agency and realigned the breakwater after demolishing a portion of breakwater already constructed. Due to defective fixation of alignment in breakwater, the wharf and the auction hall were not put to use. Thus, due to poor understanding of the site conditions which led to wrong fixation of alignment, the Department had to demolish a portion of breakwater and reconstruct the breakwater at extra cost by utilising funds from RKVY, a scheme meant for a different purpose.

(iii) Wharf and auction hall at Thalai FH

Another instance of not surveying and investigating the work area resulted in overlooking at the time of awarding the work, the fact that the area was a low-lying land. This led to avoidable cost overrun and the work remaining incomplete.

The construction of wharf along with an auction hall at Thalai FH was awarded by SE, HED North Circle, Kozhikode (September 2010) to a contractor² at an agreed PAC of ₹4.32 crore (SoR 2009) accepting tender excess of 40 per cent increase in the estimate rate of ₹3.14 crore. After commencement of the work, HED realised that the land was to be reclaimed for the construction of auction hall though the technical sanction (October 2009) excluded the reclamation activities behind the wharf. As the reclamation was not provided in the estimates, the work was held up.

In order to complete the construction, SE awarded (January 2011) another work of reclaiming the area after dredging sand from the basin within a radial distance of 500 m to the same contractor at a cost of ₹60.77 lakh stipulating the period of completion as three months. Due to non availability of sand within 500 m in the basin, the contractor brought sand from other sources which required further revision of estimates. As a result, the delay in

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² Shri K. Mohammed Haji, MPK Manzil, Therur, Edayannur P.O., Kannur District.

reclamation and construction works still persisted. Against the original estimate of ₹3.14 crore, the revised estimate of ₹5.27 crore led to a cost overrun of ₹1.48 crore (September 2014). Other instances of undue benefit to contractor due to incorrect revision of rate is also discussed in para 3.6.6.6.

(iv) Landscaping work at Kappil beach

GoK sanctioned (May 2010) landscaping work at Kappil beach in HE Division, Thiruvananthapuram at a cost of ₹54.56 lakh. The work commenced in November 2011. Only 32 per cent work was completed. The ground level fixed by the architect of TD was lower than the Highest Flood Level (HFL) of the kayal (lake) which was accepted without questioning by HED which should have been aware of such matters. Hence, there was revision of estimate and resultant delay. Hence, the contractor demanded higher rate and, therefore, the work was stopped in August 2012. The fact that HFL was above the ground level, which should have been identified through survey and investigation by HED, resulted in expenditure of ₹17.68 lakh and the work remained incomplete (March 2015).

Common deficiencies in execution of works

3.6.4.2 Non- availability of land

(i) Coastal road works

During the period 2009-14, Fisheries and Ports Department sanctioned 1,592 coastal road projects at a cost of ₹405.34 crore. But the Department abandoned 19 projects costing ₹5.40 crore due to non availability of land.

ii) NABARD assisted works

In 2010-11, NABARD approved assistance for construction of three bridges for an amount of ₹12.53 crore under the Rural Infrastructure Development Fund (RIDF) scheme and GoK sanctioned the works accordingly.

GoK sanctioned two works viz., construction of Kunjithai-Chettikadu bridge (November 2010) and construction of Kottuvallikkadu vavakkadu bridge (February 2011) in Ernakulam district at a cost of ₹3.10 crore and ₹1.93 crore respectively. Audit noticed that these works were abandoned due to non availability of land.

(iii) FH, FLC and Wharf works

Audit scrutiny revealed that lack of proper investigation regarding availability of hindrance free land led to stoppage or delay of works as detailed in the following cases:

• GoK sanctioned (July 1999) construction of Kadapra FLC in HE Division, Kollam, at a cost of ₹18.52 lakh. Though the construction of Fish stall, locker room and approach road to the landing centre were completed, work of deepening of channel to the FLC was stopped due to objection from revenue authorities as the work was carried out in puramboke land which was not handed over to the HED. An expenditure of ₹ seven lakh was incurred till date. Estimate for balance work was prepared (September 2011) for an amount of ₹22 lakh.

- GoK sanctioned (July 1999) construction of Thikkody FLC in HE Division, Kozhikode at a cost of ₹49.25 lakh. One of the components of the work viz., construction of groyne³ which was to be executed in the seashore was completed at a cost of ₹38.09 lakh. For the remaining work, hindrance free land was not available. Later, in June 2004, land was obtained for construction of approach road, internal road, parking area and compound wall which were partially completed at a cost of ₹5.01 lakh due to tender excess and revision of SoR. Estimate for balance work including construction of auction hall was prepared and submitted to Government (September 2012) for an amount of ₹40.65 lakh.
- GoK sanctioned (September 2007) construction of wharf, auction hall and protection bund at Azhikode side of Munambam FH at a cost of ₹ two crore. The work was awarded in December 2008. A portion of the construction was on the land already assigned to M/s Sourashtra Cements by GoK. When the construction work was progressing, the company got stay order for executing the work on the land assigned to the company. Audit observed that hindrance free land was not available at the time of commencement of work. The work was standstill (January 2015). Expenditure incurred so far comes to ₹1.24 crore.

3.6.4.3 Ineffective planning and execution of works

Site and weather conditions, availability of materials near the work site are some of the aspects that should be borne in mind while commencing works.

Audit observed that in respect of the following works, avoidable items were included in the estimate and sanctioned by the Department leading to cost overrun of ₹44.44 lakh due to ignoring the tide cycles, monsoon conditions:

- Construction of Chathanadu Cherai Farm outer bund was sanctioned (July 2010) at a cost of ₹10 crore. In order to construct the structure, an incidental item of 'providing ring bund with a top width of one metre was also included in the agreement schedule for a length of 8,500 m at the rate of ₹1,056.64 per metre. This item was not necessary as the work of dumping rubble in riverbed and construction of DR masonry for rubble packing over the dumped rubble were undertaken when the level of water was very low. Therefore, the incidental item of providing ring bund was not at all essential. This resulted in avoidable expenditure of ₹35.34 lakh.
- Construction of bridge between Ottumpuram in Thannur and Kettungalkadavu in Parappanangadi in Malappuram district was sanctioned (January 2012) at a cost of ₹26.70 crore. Audit noticed that two piers adjacent to the land were also constructed using pontoons. As the estuary (pozhi) closes during non-monsoon season and piling area is close to river bank, construction of earth bund was sufficient for

A low wall or sturdy barrier built out into the sea from a beach to check erosion and drifting.

boring vertical holes in the case. Avoidable expenditure in this case worked out to ₹9.10 lakh.

3.6.4.4 Inefficient execution of allied works for fishing community

Timely implementation of every component of a project is required for achieving desired results. Audit observed that in the following cases, the intended objectives of allied works were not attained due to lack of proper action in time:

- GoK accorded a project (October 2002) for providing drinking water supply at Paravoor municipality in Kollam district, coming under HE Division, Kollam at a cost of ₹19.49 lakh. Audit observed that after expending an amount of ₹4.30 lakh and a lapse of 12 years, the project was not completed since suitable land for constructing overhead tank was not available.
- HED awarded (August 2007) work for construction of 10 bed ward for Thottappilly Fisheries Dispensary to M/s Nirmithi Kendra at a cost of ₹24.23 lakh. Due to non-availability of sand and labour problem, the work was stopped in August 2010 after completing 49 per cent part incurring ₹10.79 lakh. Audit observed that the work was terminated only in December 2012. Balance work was awarded in November 2013 and was in progress (December 2014).
- HED executed the work of construction of Pathiankara FLC at a cost of ₹60 lakh. As part of the project, supply and installation of cold storage having 10 tonne per day capacity was to be done. Audit noticed that though mechanical installation of the cold storage was completed in May 2013, at a cost of ₹ seven lakh with a guarantee period of one year, electrification works were not completed till date (December 2014) resulting in non achievement of intended objective.

Most of delays in construction works could be avoided, had the progress of the projects been closely monitored by HED.

3.6.5 Financial Planning- Budgeting and Accounting

HED did not plan and seek budget for works to be undertaken by them that was in line with the perspective plan of the departments it is meant to service. HED prepares annual plans for the implementation of various projects on an *ad hoc* basis for budget purpose with the result that on the one hand unplanned works were executed by HED and on the other hand planned works were held up for want of funds. Further, the annual plans did not provide for maintenance and improvement of existing FHs and FLCs.

HED does not have separate heads of account (HoA) to operate on lines similar to the PWD which has separate HoA for booking the revenue and capital expenditure – 3054 and 5054 for booking the expenditure. HED operates the HoA of Fisheries (2405) and Ports (3051). Common HoA prevent identifying and monitoring specific activities. For example, periodical dredging is required for the maintenance and smooth functioning of FH. But a separate provision in the HoA is not available and hence exclusive budget for periodical maintenance dredging is not made leading to delay in sanctioning the estimates and consequent non-execution of work in time. Further, own

expenditure of HED like cost of establishment, construction of own building etc. are booked under the HoA Ports without maintaining a distinct identity which hinders exercise of proper budgetary control. Few instances of poor planning, budgeting and accounting are given below:

i) Budget

- The Department had a weak system in the preparation of budget estimates and HED lacked proper control over expenditure. During 2010-11, under the plan scheme, under 'Ports', HED surrendered ₹7.79 crore against savings of ₹7.54 crore. Likewise, during 2012-13 and 2013-14, the surrender under the head 'Fisheries' were ₹28.13 crore and ₹14.81 crore against the savings of ₹28.12 crore and ₹14.55 crore respectively.
- Fund was not provided in 2011-12 for construction of Murinjapuzha FLC which led to premature closure of work.

ii) Accounting

- During the period 2009-14, accounts of individual works were not being closed on completion of works. In the absence of the finalised accounts, the Department was not able to furnish the actual expenditure, the amount by which the actual expenditure exceeded the sanctioned estimate etc. Further, contractor's ledger was not maintained in Divisions except Harbour Engineering Division, Kannur. So actual liability on contractors could not be ascertained.
- In respect of two⁴ fishery harbour projects, works completed by HED, the actual expenditure far exceeded the sanctioned estimate and the implementation of these projects were delayed by four to six years. Timely and proper accounting would have helped in proper monitoring of the budget and provision of funds.

3.6.6 Poor contract management

Contract management is the process of efficiently managing contract and execution of work in an effective and economic manner. It involves monitoring and enforcement of terms and conditions of the contract. It was however observed that the contracts were not efficiently managed by HED resulting in additional expenditure and breach of tax laws as discussed below:

3.6.6.1 Avoidable penalty towards Service Tax - ₹77 lakh

According to Service Tax Rules 1994, where the service providing foreign company do not have an office or a contact person in India, the liability of payment of service tax falls on the service recipient. The service tax payable was at the rate of 10.30 *per cent* of contract value and the tax payable at compounded rate was 4.12 *per cent* of contract value.

SE, HED South Circle, Thiruvananthapuram awarded (March 2008) the work of Construction of Multipurpose Surfing Reef at Kovalam to a foreign

⁴Thotappally and Ponnani

company⁵at a cost of US\$ 11,64,500 stipulating the period of completion as 10 months. The terms of agreement included extra payment towards statutory taxes and levies as applicable such as service tax, VAT, contribution to KWWF⁶ etc. which was admitted. HED had neither taken registration under Service Tax Rules facilitating payment of service tax at compounded rate nor paid service tax at the prevailing rate. An amount of ₹7.43⁷ crore paid (seven contractor's bills during March 2009 to May 2010) to the company.

On the basis of notice issued (July 2010) by Central Excise Department, HED paid (August 2011) an amount of ₹28.57⁸ lakh being service tax at compounding rate of 4.12 per cent on the value. As the HED had not opted for compounding, tax had to be paid as per the rate prevailing at the time of payment. Accordingly, an amount of ₹76.57 lakh was payable towards service tax along with interest due. Commissioner of Central Excise imposed (February 2014) penalty equal to an amount of tax due of ₹76.57 lakh for wilful suppression of service tax. Further, penalty would be reduced to 25 per cent of service tax determined, provided the payment was made within 30 days of the date of the communication (7 May 2014), failing which HED was liable to pay penalty of ₹76.57 lakh. The failure of HED to meet the requirements of Service Tax Regulations had resulted in the following lapses:

- Due to failure to obtain legal opinion while executing an agreement with a foreign firm, HED was liable to pay tax to the extent of ₹76.57 lakh at the rate of 10.30 per cent instead of ₹28.57 lakh at compounded rate of 4.12 per cent.
- As the balance service tax amounting to ₹48 lakh was not paid with interest, the benefit of waiver of penalty to the extent of ₹57.43 lakh was lost.
- HED was also liable to pay penalty for non-payment of service tax to the extent of ₹76.57 lakh.

3.6.6.2 Failure to claim bank guarantee (BG) properly led to non realisation of ₹51 lakh in respect of a terminated work

Construction of bridge at northern side of Andhakaranazhy was awarded (December 2009) for ₹5.13crore to be completed by August 2010. As the contractor failed to carry out the work, the contract was terminated (October 2011) at the risk and cost of the contractor. An amount of ₹58.93 lakh on this account was recoverable from the contractor.

As per contract conditions, the contractor had submitted a performance bank guarantee of ₹51.31 lakh, valid upto 31 March 2011. SE, Central Circle instead of invoking the BG, instructed (March 2011) the bank not to release BG citing poor performance of the contractor.

M/s ASR Limited, Marine Consultants and Research, 1 Wainui Road, P.O. Box No.67,Raglan, New Zealand.

⁶Kerala Construction Workers Welfare Fund

⁷Bill amount – ₹7,43,41,009; Service tax – ₹74,34,102; Education cess- ₹1,48,681; Higher Education cess- ₹74,340. Total Service tax – ₹76,57,124.

⁸ Bill amount -US \$ 15,52,670 x 4.12 per cent = US \$ 63,970 which is ₹ 28,57,060 (at conversion rate of 1 US \$ = ₹44.6625)

On termination of the contract (October 2011), SE requested (November 2011) the bank to encash the BG. Bank however cited that BG cannot be encashed as it had expired on 31 March 2011. Thus, due to the failure of the SE to timely encash or extend the validity of BG, resulted in loss of ₹51 lakh.

3.6.6.3 Signing of agreement without complying tender conditions led to loss of ₹1.61 crore

HED auctioned (December 2011) for dredging and removal of 30000 cum of sand at Muthalapozhy FH at Thiruvananthapuram for ₹2.20 crore at the rate of ₹700 per cum within a period of four months. As per tender conditions, the contractor shall remit 50 per cent of the contract value in cash at the time of sanctioning bid and balance 50 per cent as BG at the time of executing the agreement. Fisheries and Ports Department sanctioned the bid in June 2012. The EE however, entered into agreement (August 2012) with the bidder without adhering to these conditions. The contractor sought (November 2012) relaxation of payment of cash which was declined (April 2013). The contractor remitted 50 per cent in cash (September 2013) and site was handed over in November 2013.

As a result there was no dredging operation for 16 months. When the dredging operation was taken up (December 2013), the quantity was reduced from 30000 cum to 13622.89 cum due to flooding and breaking of estuary⁹. Out of 13622.89 cum of sand available as per level calculation by the Department (December 2013) the contractor was able to remove only 8068.79 cum costing ₹59.17 lakh due to public protest against the removal of sand.

Evidently, non-compliance of tender conditions in the agreement for realisation of contract value and BG resulted in loss of 21,931.21 cum of sand costing $\ge 1.61 \text{ crore}^{10}$.

3.6.6.4 Delay in finalisation of tenders and its impact

According to the provisions of Kerala PWD Manual, consideration of tenders and decision thereon should be completed well before the date of expiry of firm period¹¹ of four months so that the selection notices are sent on or before the expiry of the firm period.

Audit scrutiny of three works awarded in Thiruvananthapuram and Kozhikode circles revealed that the delay of two to four years in the finalisation of tenders resulted in extra expenditure of ₹1.86 crore as shown below:

• SE (SC, Thiruvananthapuram) tendered (October 2008) the work of construction of a bridge connecting Puthenthuruth to Cheekamthuruth in Sakthikulangara village costing ₹68.05 lakh (SoR 2008). F&P Department sanctioned (May 2009) the work after the expiry of firm period. The work was retendered and awarded (December 2012) resulting in additional expenditure of ₹0.28 crore.

⁹ An estuary is a partly enclosed coastal body with one or more rivers or streams flowing into it, and with a free connection to the open sea.

¹⁰21931 cum at the rate of ₹700 per cum plus five per cent tax

¹¹ Firm period is the period up to which the tender will be firm and contractor will not be free to withdraw the tender during the period.

- SE (NC, Kozhikode) tendered (June 2010) the work of Construction of FLC at Kizhunnappara at Ezharakadapuram in Edakkad Grama Panchayat at a cost of ₹0.46 crore. F&P Department sanctioned the work in June 2011 after the expiry of firm period resulting in rearranging the work in April 2013 with an additional expenditure of ₹0.15 crore.
- SE (NC, Kozhikode) tendered the work of FH, Kasargod construction of wharf, auction hall, protection bund and reclamation at an estimated cost of ₹4.28 crore. The tender was however, not approved within the firm period resulting in rearranging the work in April 2013, with an additional expenditure of ₹1.42 crore.

Thus, failure to finalise the tender process within the firm period not only resulted in non-achievement of intended objective but also entailed additional expenditure of ₹1.86 crore.

3.6.6.5 Non-assessment of risk and cost liability

When a contractor failed to execute the work as per the agreement conditions within the prescribed time, the Department was empowered to cancel the contract, initiate action to re-award the contract and recover the additional costs from the defaulting contractor. The SE has to determine the risk and cost and recover it from the contractor within a period of not more than one year. However, in respect of the following cases, the Department failed to determine and recover the risk and cost liability.

- SE, South circle, Thiruvananthapuram awarded (November 2009) the work of 'Construction of a bridge connecting Neeleswaram Thoppu to Kumbolachira' in Neeleswaram Grama Panchayat in Kollam district to a contractor¹² at an estimated cost of ₹0.94 crore. Due to slow progress of work, the contract was terminated (April 2010). The work was re-arranged in September 2012 for a contract value of ₹1.19 crore. The liability on re-arrangement (worked out to ₹0.25 crore by Audit) had not been assessed by the SE and communicated to the contractor even after a lapse of four years.
- SE, South circle, Thiruvananthapuram awarded (December 2007) the work of 'Rectification of northern breakwater, shore protection works and repair of roads at Neendakara' to a contractor¹³ at an estimated cost of ₹1.47 crore with a completion period of eight months from the date of letter of acceptance (7 November 2007). Due to poor progress of the work, the contract was terminated (April 2008). Audit observed that, neither the estimate for the balance work was prepared by SE nor re-arranged even after a lapse of six years.

¹²Shri.R.C.Satheesh Babu, Government contractor, Surabhi, 2/2045, Kowdiar, Thiruvananthapuram.

¹³ M/s.Kaikara Construction Company, Kaithavaram Bunglow, Kankathumukku, Kollam -12.

3.6.6.6 Undue benefit to the contractor due to revision of rate

Further, to the deficiencies pointed out in the para 3.6.4.1 in Survey and investigation in case of 'Construction of Wharf and Auction Hall' at Thalai it was observed that after completion of construction of 20 m of protection bund, the contractor abstained from further execution stating that 5,500 cum of dredged material was insufficient to reclaim the site in order to carry out piling work. An alternative nearby site suggested for collecting the filling material was not considered appropriate due to increased percentage of clay in the soil. The contractor's proposal to shift the alignment of wharf 50 m closer to the bank and change of methodology from working over reclaimed land to working over floating platform was considered and accepted by the Department for the reason that the construction of wharf was possible without filling. As the mode of execution of piling was not included in the original estimates, these additional works were treated as six extra items in the revised estimates. Consequently, a revised estimate of ₹3.93 crore based on SoR 2009 was approved; of which the estimate for six extra items amounted to ₹2.73 crore. The SE executed a supplementary agreement with the contractor in respect of extra item. The work was in progress (October 2014).

Audit scrutiny revealed that:

- Of the six extra items, item no.2 was provided for so as to substitute the item no.5 'boring vertical holes to cast 700 mm diameter through all strata etc.' in the original estimate at a cost of ₹871.40 per metre for a quantity of 2,700 m. In the supplementary agreement, the rate and quantity against the extra item no.2 were changed to ₹4547.50 per metre and 2,072 metre respectively. Audit observed that the item no.5 of the original estimate and the extra item no.2 of the revised estimate were exactly the same and there had been no change in the item of work. Hence, this item of work included in the revised estimate cannot be treated as 'extra item' as it was the same in the original estimate.
- The rate of 'extra item' contained provision for floating platform for operating the equipment for boring work. The use of floating platform was only incidental to boring work which was of temporary nature and hence it should form part of workable rate quoted by the contractor and need not be paid separately.
- The estimate rate for the above item of work had also included hire charges of tool and plant, operational charges, mobilisation charges etc. Daily hire charges for any equipment are to be estimated at 33 per cent of original equipment cost divided by the factor of 200¹⁴ from which the hourly rate is arrived at as 1/8th of the same on the assumption of eight working hours in a day. In the revised estimate, hire charges for floating platform were incorrectly arrived at by dividing the cost of equipment by a factor of 250 to get the rate per day (i.e. without the overall ceiling of 33 per cent).

Assuming 200 working days per annum at the rate of 20 working days per month and for 10 months in a year; two months being ear marked for necessary overhaul and repairs –vide Art. 316 of KPWD Code.

Consequently, the rate for extra item no. 2 of supplementary agreement was inflated by ₹2,083 per metre and for the total estimated quantity of 2,072 metres, an amount of ₹0.60 crore was correspondingly inflated.

Thus, the improper revision of rate for boring work of piling resulted in providing undue benefit to the contractor to the tune of ₹1.07 crore; of which ₹0.60 crore was extended by miscalculating the rate of hire charges for floating platform which calls for investigation and fixing of responsibility.

3.6.7 Operation and Maintenance of FHs and FLCs

3.6.7.1 FH, Moplay Bay, Kannur

HED constructed a FH at Kannur at a cost of ₹10.71 crore. The harbour was commissioned in May 1999. Audit noticed that the wharf could not be put to use for the last five years due to excessive siltation in the harbour basins. Siltation is a typical phenomenon in coastal area that needs to be addressed through dredging operations on a regular basis. Non-provision for such regular work lead to excessive accumulation of silt and wharf becoming non-operational. HED is yet to work out a strategy to clear the excessive siltation and make the wharf operative.

3.6.7.2 Non-realisation of revenue due to non-disposal of dredged sand

Most of the FH require periodical maintenance dredging for maintaining the required draft in the harbour basin and in the approach channel for the smooth and effective operation of harbour by providing safe navigation of vessels. Further, sand obtained through dredging can be sold or used for reclamation. The delay in dredging would result in loss/delay in realisation of revenue and difficulties in operation of FH as pointed out below:

- Due to non-finalisation of tender for dredging and consequent nonremoval, 37,000 cum of sand was lost at FH, Chethi at Alappuzha. This resulted in loss of ₹2.40 crore¹⁵.
- There was delay of three years for the disposal of 12,300 cum sand at FH, Kayamkulam which resulted in non-realisation of ₹63.65 lakh at the rate of ₹517.50 per cum (SoR 2010 revised).
- Lapse on the part of Department for non arrangement of periodic dredging and removal of sand to sea at basin of Munambam FH led to loss of revenue of ₹8.44 crore.

Audit observed that there were no guidelines for periodical dredging and disposal of sand. The lack of guidelines led to delay in dredging and non-realisation of revenue to the tune of ₹11.48 crore.

3.6.8 Miscellaneous

3.6.8.1 Absence of standardised norms for governing the works

The Department was formed in 1982. Even after 32 years of separate existence, HED failed to bring out a separate manual for governing the construction and development activities relating to FHs, FLCs, coastal roads, wharfs and allied works necessary for fishing activities.

¹⁵⁶⁴⁸ X 37000

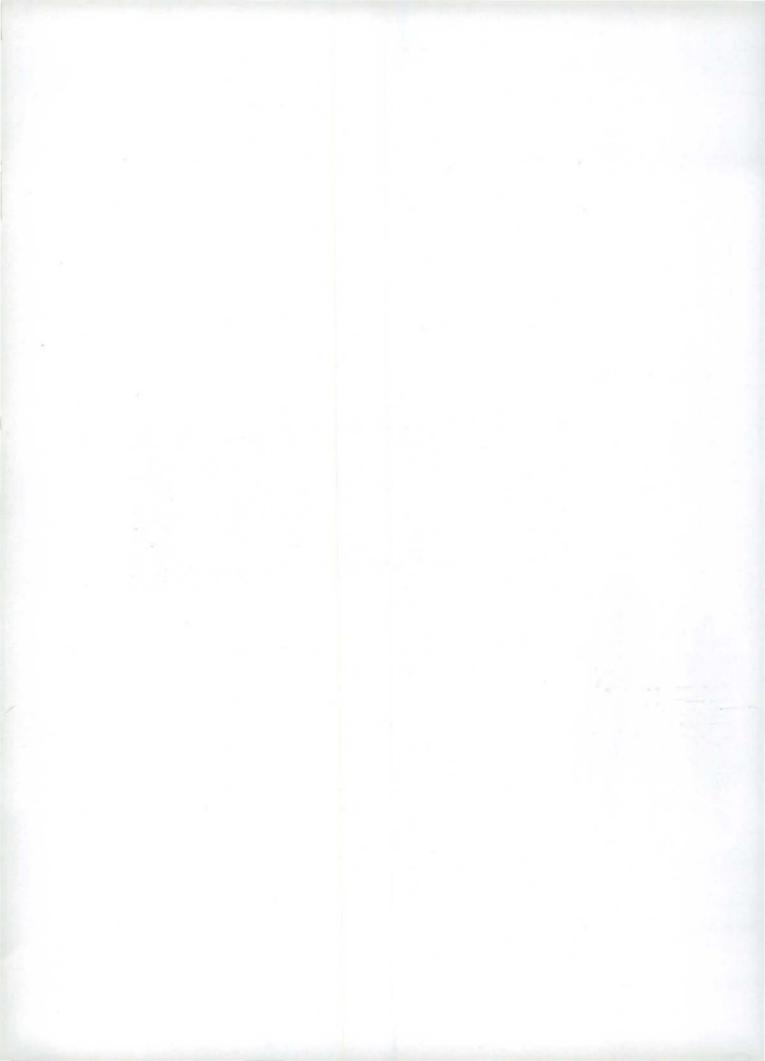
No separate norms were fixed for standardisation of works executed by HED. In the absence of such norms, HED followed Kerala PWD manuals on selective basis which were not entirely appropriate. Further, the manual has no governing provisions for the dredging operations which was one of the major mandates of HED.

3.7 Conclusion

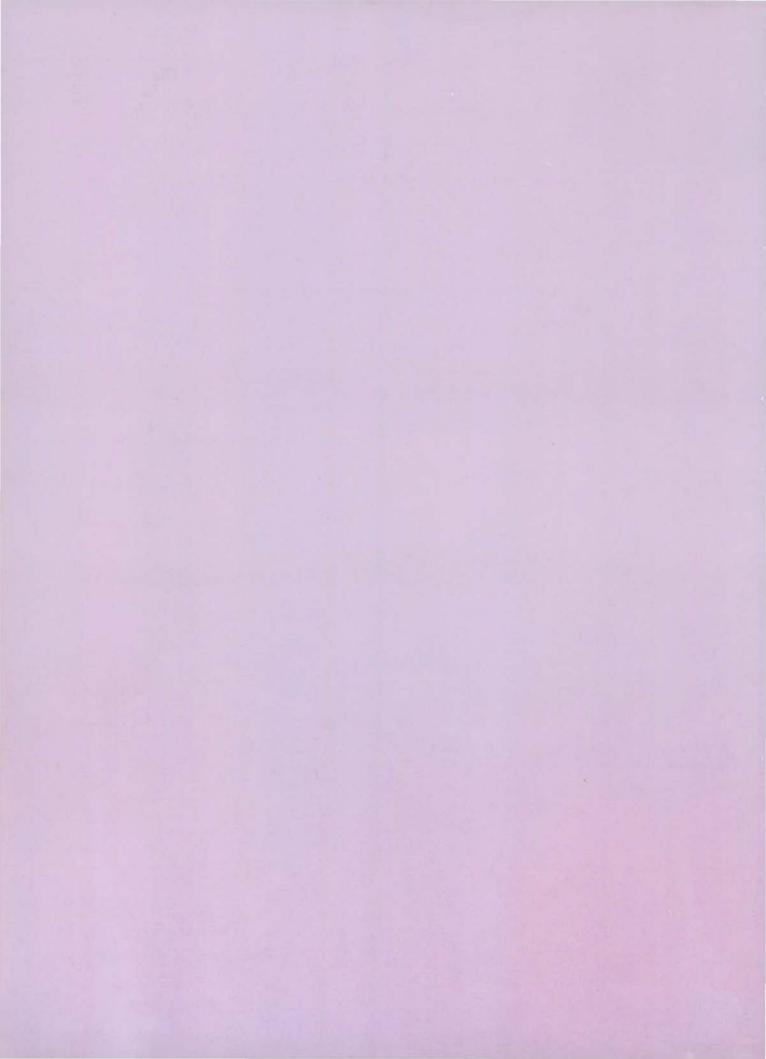
HED displayed no expertise in undertaking Fisheries and Ports related works though it was formed as a specialised department to service the Fisheries and Ports department. Though the Ports department was to get its works executed through HED, they entrusted several works to external agencies because of HED's inability to deliver. HED which was expected to have the necessary specialisation to undertake harbour related works had engaged outside agencies for consultancy works which is serious commentary on the competency of the HED. Various works were undertaken by HED without conducting necessary investigations, surveys and without designs due to which there were delays in the completion of the projects and avoidable excess expenditure. HED also displayed poor contract management abilities leading to time and cost overruns and avoidable losses to Government. HED did not have a comprehensive manual or guidelines for governing the specific fisheries and ports related activities even after its formation in 1982.

3.8 Recommendations

- HED should develop expertise for undertaking specialised work of Fisheries and Ports department.
- HED may work in close coordination with the Fisheries, Ports and TD
 in prioritizing works and seeking sufficient budget to avoid
 abandonment of works or undertaking of unplanned works.
- HED should undertake various works only after conducting necessary investigations and surveys regarding the nature of coastline, estuaries, tidal waves, siltation so as to ensure the viability and feasibility of the projects.
- HED may prepare manuals and guidelines that are specific to the works relating to construction and maintenance of FHs, FLCs, Wharfs, coastal roads and other allied works for the fishing community.
- HED should plan for regular operation and maintenance activities including dredging so that facilities/infrastructure created remain functional.



COMPLIANCE AUDIT



CHAPTER - IV

COMPLIANCE AUDIT OF SELECTED TOPICS

INFORMATION TECHNOLOGY DEPARTMENT

Land issues in IT Parks

4.1 Introduction

Information Technology (IT) Department, GoK established three IT parks - Techno-park, Thiruvananthapuram (1990),Info-park, Kochi (2004) and Cyber Park, Kozhikode (2009) - for enhancing IT industry base and creating IT specific infrastructure in Kerala. Further, GoK formed (2008) an apex body viz. Kerala State Information Technology Infrastructure Limited (KSITIL) for the development of IT cities in Public Private Partnership (PPP) mode.

GoK had allotted 1,384.12 acres of land and had provided ₹654.88 crore as grant during the period 2009-14 to these bodies for the creation of IT infrastructure. In addition to Government grant, Techno-park and Info-park had availed interest bearing loan from commercial banks for the acquisition of land and for creating infrastructure. As on 31 March 2014, the loan outstanding against Techno-park and Info-park were ₹382.88 crore and ₹45.59 crore and the interest paid was ₹23.41crore and ₹2.90 crore respectively.

The audit was conducted covering the period April 2009 to March 2014 to examine the allotment and utilisation of land in the IT parks.

4.2 Audit Findings

Audit found that a major part (64 per cent) of the acquired land remained unutilised since 1990. Due to absence of guidelines, the IT parks extended undue benefits amounting to ₹156.90 crore to 11 major co-developers. The audit findings are discussed below:

4.2.1 Land remaining idle and unallotted or unutilised

The development of IT parks was done in two ways viz. direct development and indirect development.

- Direct development the Government organisations create the infrastructure and give the built up space to IT companies on lease basis.
- Indirect development land is allotted to major IT companies/ infrastructure developers (co-developers) by the Government for the development of their own IT parks with their own fund for their own use.

Out of the 1384.12 acres of land provided for IT development from 1990 to 2010, only 504.40 acres (36 per cent) had been utilised so far (November 2014) and the balance 879.72 acres (64 per cent) was still remaining

unutilised. The major part of unutilised land was with Techno-park (Phase IV), Info-park and KSITIL as shown below:

Table 4.1: Total land taken for IT parks and its present status

(Area in acres)

Sl. No.	Name of the park / organisation	Location, Year of acquisition/ purchase/ assignment	Total area of land acquired	Area allotted ¹	Un allotted area	Unused land in allotted area ²	Total unused area
1.	Techno-park	Phase I/1990	153.54	153.54	0	2.97	2.97
		Phase II/2004	86.00	86.00	0	0	0
		Phase III/2011	92.00	43.12	48.88	18.30	67.18
		Technocity (Phase IV)/2010	423.51	175.17	248.34	146.84	395.18
2.	Info-park	Phase I/2004 ³	100.86	99.25	1.61	6.82	8.43
		Phase II/2010	125.56 ⁴	66.81	58.75	22.55	81.30
3.	KSITIL	Hub and Spoke model	402.65	81.99	320.66	4.00	324.66
	Total		1,384.12	705.88	678.24	201.48	879.72

4.2.2 Land in remote areas developed under 'Hub and Spoke model' by KSITIL

KSITIL acquired 402.65 acres of land at seven different places in the State to set up "Hub and Spoke⁵ model" for IT development. The land acquired was mainly in remote localities and was not suitable for IT purpose. As a result, 320.66 acres of land remained unallotted till date (November 2014). The IT parks constructed 3,94,390 sq ft built up area in this land out of which 3,18,515 sq ft area (80.76 per cent) remained unallotted. The total expenditure for acquisition of land and for developing infrastructure facilities in seven locations was ₹229.88 crore as shown below:

Table 4.2: The cost of development, total area, utilisation of land for Hub and Spoke model

Sl. No.	Name of Park (Hub)	Location (Spoke)/Year	Land area in acres	Land remain un allotted in acres	Area of building in sq. ft.	Area of building un allotted in sq. ft.	Cost incurred for land and development of infrastructure (₹ in crore)	Percentage of idling of land	Percentage of idling of building & infrastructure
1	Techno-park	Kundara/2009	44.47	18.45	100000	94229	43.86	41.48	94.23
2	2 Info-park	Ambalappuzha/ 2008	92.58	92.58	0	0	0.20	100.00	Nil
		Cherthala/2008	66.20	51.20	240000	224286	68.46	77.34	93.45
		Koratty/2009	30.00	12.00	42609	0	21.47	40.00	Nil
3	Cyber Park	Kozhikode/2008	44.40	21.43	11781	0	93.47	48.26	Nil
	1.5	Kannur/2011	25.00	25.00	0	0	1.15	100.00	Nil
		Kasargod/2010	100.00	100.00	0	0	1.27	100.00	Nil
	Total		402.65	320.66	394390	318515	229.88	79.63	80.76

Area for allotment to private parties and used for construction of common facilities and own building.

The area allotted to co-developers where the construction has not yet commenced.

Transferred from Kinfra Export Promotion Industrial Parks Limited.

Total area of phase II land was 160 acres out of which 35 acres is yet to be acquired as it is under litigation.

IT policy 2007 envisaged creation of a Hub and Spoke model of IT development with two large IT Parks at Thiruvananthapuram (Techno-park) and Kochi (Info-park) functioning as the Hub for smaller IT Parks in other parts of the State. By having IT Parks in smaller cities regional disparities can be minimised, employee attrition and cost of operation lowered and local talent nurtured. Further, a new Hub was developed at Kozhikode under the name Cyber Park.

Audit noticed the instances of idling of 320.66 acres of land after incurring ₹229.88 crore as detailed below:

Kundara Techno-park (Spoke)- Idling of 18.45 acres and 94,229 sq ft built up space

IT department transferred (March 2009) to KSITIL, 44.47 acres of land at Mulavana village near Kundara in Kollam district for creation of a 'Spoke of Techno-park' so as to generate employment for 5,000 persons. Techno-park utilised 26.02 acres of land to construct (February 2011) an IT building having one lakh sq ft with amenities⁶ at a cost of ₹43.86 crore. As of November 2014, only 5,771 sq ft area of the building (5.77 per cent) was leased out, and it provided employment only to 125 persons. The remaining land (18.45 acres) ear marked for co- developers and the built up space of 94,229 sq ft was yet to be allotted.

The project site did not have a proper tarred road access to the nearby PWD road located 0.5 km away. Techno-park decided to construct a two lane approach road as deposit work and deposited ₹2.20 crore (March 2010) with PWD. However, due to the opposition from local people against acquiring land for road construction, the work was delayed. Later, the contractor had demanded revision of rates due to the delay; PWD did not carry out the work till date (November 2014).

Thus, the Spoke at Kundara, with an investment of ₹43.86 crore for the development was yet to be fully operationalised.

Managing Director (MD), KSITIL stated (March 2015) that appropriate marketing efforts were being made for lease of the remaining land. The reply from the Chief Executive Officer (CEO), Techno-park had not been received.

ii) Cherthala Info-park (Spoke) - idling of 51.20 acres and 2,24,286 sq ft built up space

The KSITIL purchased (2008) 66.20 acres of land in Pallipuram village of Cherthala, in Alappuzha district from Kerala State Industrial Development Corporation for an amount of ₹12.35 crore for creation of a Spoke of Infopark, Kochi. Out of this, 15 acres of land were used by Info-park, to develop infrastructure facilities. Audit observed that as there were no takers for the remaining area of 51.20 acres, the land was idling since 2010.

Info-park constructed (2012) an IT building of 2.40 lakh sq ft and common facilities by incurring an amount of ₹56.11 crore. But only 15,714 sq ft area of the IT buildings which employed only 250 IT professionals was so far allotted (August 2014) and the balance 2,24,286 sq ft (93 per cent) of the total area of the building was idling for the last two years.

Info-park stated that land at Cherthala was located far away from the NH and they were facing difficulties to get interested tenants because of lack of accommodation facilities, transportation etc.

^{6 110} KV power station, power distribution facilities, air conditioning chiller units, drainage, internal roads and water distribution facilities.

Thus, the selection of an improper location and failure to provide essential facilities led to idling of land. As a result the investment of ₹68.46 crore had not become fruitful as of now.

iii) Koratty Info-park (Spoke) idling of 12 acres

GoK transferred (2009) 30 acres of land valuing ₹30 crore at Koratty in Thrissur distrcit to KSITIL for developing a Spoke for Info-park, Kochi. Out of the total 30 acres of land, 18 acres of land was used by Info-park for the development of a Spoke and other common infrastructure facilities. This includes six acres which was allotted to Info-park for the development of its own Spoke and 12 acres of land utilised for common facilities and 11 old buildings (total area of 42,609 sq ft) located in the 12 acres of land were renovated by Info-park by incurring a total cost of ₹9.82 crore and leased out to 28 IT companies. The remaining 12 acres of land was remaining idle for five years, for which KSITIL did not give any reasons.

iv) Cyber Park Kozhikode (Hub) and Kannur and Kasargod (Spokes)

IT department sanctioned (December 2008) establishment of an IT park at Kozhikode under the name "Cyber Park" and with two Spokes at Kannur and Kasargod, with the objective of the socio- economic development of IT sector in the Northern (Malabar) region of Kerala and creation of 30,800 employment opportunities by March 2014. KSITIL purchased 44.40 acres of land valuing ₹40.62 crore at Kozhikode. The Government assigned 100 acres of revenue land costing ₹25 crore at Kasargod (September 2010) and 25 acres of revenue land costing ₹76.92 lakh at Kannur (January 2011). The land was assigned in consideration of equity share capital of KSITIL. Thus, total 169.40 acres of land was acquired/assigned/purchased for the purpose without assessing requirement. KSITIL and Cyber Park had made an investment of ₹95.89 crore (till August 2014) at Kozhikode, Kannur and Kasargod for creating infrastructure.

Audit found that the land was acquired in remote areas and that there were no takers for land at any of the parks as a result of which the entire 125 acres was lying idle at Kannur and Kasargod. Moreover, 21.43 acres of land out of 44.40⁷ acres was idling at Kozhikode.

Thus, about 146.43 acres (86.44 *per cent*) of the land was lying idle for several years, which is indicative of lack of proper planning and feasibility of the land for use for the purpose.

v) Unallotted land in Techno-park and Info-park

Audit found that 364.10 acres of land was idling in Techno-park and Infopark. The CEOs of these parks did not provide any reasons for the land remaining unutilised.

⁷Out of 44.40 acres, five acres were leased to Cyber Park, 2.51 acres was used for rehabilitation and one acre was leased to CREST, 10.86 acres for common facilities and 3.60 acres for KSITIL building.

There was no agency engaged in assessing the requirement of land for establishing IT firms in the parks. Thus, the land to the extent of 57.22 per cent acquired remained unused for the last four to 24 years.

4.2.3 Irregularities in allotment of land to co-developers by Technopark and Info-park

The land acquired by the parks is allotted on lease by Project Implementation Board (PIB) in the case of Techno-park and the Board of Governors (BoG) in the case of Info-park, as the case may be, on the basis of recommendation by CEO. Audit observed various irregularities such as absence of standardised procedures, dilution of terms of agreement etc. in the allotment of land to co-developers as discussed below:

4.2.4 Lack of procedures and standards for allotment of land

The land is leased based on a lease deed for varying periods. There are different methods which are adopted for levy of charges from co-developers e.g. one time lease premium, annual lease rent and annual maintenance charges.

One time lease premium collected from co-developers usually consist of the following elements:

- > cost of land acquired or purchased;
- > cost of development of common infrastructure facilities such as roads, land development, water and power distribution facilities etc;
- > administrative overheads, establishment charges and bank interest payable on the loan taken for purpose of acquisition; and
- future compensation payable to land owners on getting the final verdict on Land Acquisition Reference (court cases).

Audit found that IT department or IT parks had not fixed any criteria for allotment of land. There is no standard/ prescribed procedure to be followed for fixation of lease premium or determining the development cost, maintenance cost etc. As a result, land allotment was done arbitrarily by the CEOs concerned, on different terms to co- developers.

4.2.5 Allotment of land at low rates in Phase II by Techno-park

Techno-park acquired (2004) 86 acres of land at phase II; of which 50 acres of land was leased out (January 2006) to M/s Infosys and 36 acres (February 2006) to M/s UST Global for 25 years. Audit observed various irregularities in the allotment of land in Phase II by Techno-park as discussed below:

i) Fixation of lease premium lower than acquisition and development cost

The Government approved the proposal (March 2005) of Techno-park to fix lease premium at the rate of ₹20 lakh *per* acre. On the basis of approval, Techno-park allotted 86 acres of land to two co-developers collecting ₹17.20 crore (at the rate ₹20 lakh *per* acre) as one time lease premium for Phase II land. However, the actual cost incurred by Techno-park for

acquisition and development of land was ₹39.73 crore. Thus, the allotment of land at lower lease premium resulted in short recovery of ₹22.53 crore.

Audit observed that the allotment of land at subsidised rate was without any basis. Techno-park was not able to furnish any information with regard to the allotment of land at such a low rate which led to extra financial burden on the Techno-park.

ii) Fixation of low annual lease rent without any justification

GoK approved (March 2005) the allotment of 86 acres of land to M/s Infosys (50 acres) and M/s UST Global (36 acres) and the agreements were executed in January and February 2006 respectively. Techno-park had neither prescribed any rule or criteria to govern the fixation and collection of lease rent; nor the agreements prescribe a uniform rate of lease rent to be paid by the codeveloper.

Audit observed that the annual lease rent payable by M/s Infosys as per the agreement was ₹2,000 per acre whereas the annual lease rent payable by M/s UST Global was ₹10,000 per acre. Techno-park was not able to rectify the discrepancy in the fixation of lease rent till date. An apparent move in March 2006 to collect lease rent from M/s Infosys at par with the rent collected from M/s UST Global remained without any outcome. The intention of the Techno-park to help the multinational company was evident from the agreement executed in August 2009 wherein, instead of modifying the lease rent from ₹2,000 per acre to ₹10,000 per acre, the lease period was extended to 90 years without any justification.

Thus, the lack of due diligence by Techno-park to incorporate the agreed rate of annual lease rent of ₹10,000 per acre in the new agreement amounted to undue benefit to Infosys to the tune of $₹3.60^8$ crore, which calls for investigation by the Government so as to avoid such abberrations in future.

4.2.6 Dilution of terms of original agreement by Techno-park

As per the agreement with M/s Infosys, the co-developer was required to create at least 5,000 job opportunities in IT/ITeS by 2014. The agreement with the co-developer was cancelled and new agreement entered (2009) with the party extending the lease period from 25 to 90 years. While executing the new agreement, the date of completion of the project was extended upto the year 2016 as against 2014 envisaged in the original agreement. At the same time, the target with regard to the creation of 5,000 job opportunities was not enhanced in proportion with extension of lease period. In this connection, the audit observed as under:

- The basis of extension of period of lease from 25 to 90 years was not explained;
- The justification for not enhancing the job opportunities was not on record; and
- The lease premium at the rate of ₹20 lakh per acre was approved (March 2005) by Government for leasing the land for 25 years. The

^{8 (₹10,000 - ₹2000)} x 50 acres x 90 years.

justification for charging the same lease premium for 90 years without the concurrence of the Government was not on record.

Thus, the terms of new agreement set forth by Techno-park were detrimental to the interest of State as the lease premium for 25 years as well as for 90 years was the same. Similarly, through the execution of new agreement, instead of increasing the number of job opportunities proportionately for 90 years, the co-developer was extended undue extension of time for even achieving the target for creation of 5,000 job opportunities. Therefore, the new agreement was tilted in favour of the co-developer and was, therefore, against the interest of the State, which needs further probe for fixing of responsibility.

4.2.7 Allotment of land for non-IT related purpose

Techno-park had acquired 92 acres of land at phase III location and leased out 12.93 acres adjacent to NH bye pass to seven co-developers on payment of lease premium ranging between ₹0.60 crore to ₹5.79 crore for 90 years during 2010-2013 for carrying out IT development activities. The terms of agreement included construction of at least 80,000 sq ft built up space per acre. Audit found that before handing over the land to the co-developers, Techno-park initiated proposals to allot (May 2013) 19.73 acres of land at a prime location adjacent to NH bye pass to a real estate developer M/s Taurus Development Investment Advisory (P) Ltd. which comprised of 12.93 acres of land already allotted to the seven co-developers. The proposal was approved by State Government (October 2014). It is pertinent to mention that M/s Taurus Development Investment Advisory (P) Ltd. is not an IT company but a real estate developer engaged in the work of developing shopping malls. Techno-park failed to provide any justification for the allotment of land to a non IT company and non-handing over the site to seven co-developers.

One of the seven allottees viz. M/s Speridian Technologies who was allotted two acres of land in September 2010 moved the High Court of Kerala which ordered (July 2014) Techno-park to hand over the possession of the land at the originally earmarked area to M/s Speridian Technologies. Thus, the non-handing over of land to seven co-developers and allotment of the same land to a multinational real estate developer was indicative of non-transparency in the allotment of land which was primarily acquired for IT activities.

Besides, the non-handing over of land had resulted in non-commencement of construction of 1.03 million sq ft built up space for IT activities by the seven co developers as per the agreement.

4.2.8 Irregular fixation of lease premium at Technocity (Phase IV Techno-park)

Techno-park acquired/ purchased (between 2009 and 2010) 423.51 acres of land at Phase IV (Technocity) campus. Out of the total area, 175.17 acres of land was so far allotted to five co-developers till November 2014 as shown below:

Speridian Technologies (P) Ltd. (₹2.40 crore), Ariva Med Data Infotech (P) Ltd. (₹5.79crore), Vinvish Technologies (P) Ltd. (₹1.20 crore), Virtus IT Services (P) Ltd. (₹0.60 crore), Zafin software Centre of Excellence (P) Ltd. (₹1.80 crore), Microsec Technologies Ltd. (₹1.70 crore), HCL Info systems (₹2.40 crore).

Table 4.3: Details of allotment of land in Technocity (Phase IV)

Sl. No.	Name of allottee	Area allotted (in acres)
1	Tata Consultancy service (TCS)	97.00
2	Infosys	49.84
3	SunTec	10.00
4	Indian Institute of Information Technology and Management Kerala (IIITM-K)	10.33
5	Kerala Academy for Skills Excellence (KASE)	5.00
Total		172.17*

^{*} Three acres used for common facilities is excluded from 175.17 acres.

Of the 175.17 acres allotted to various co-developers, 15.33 acres were allotted to two co-developers who were Government agencies and substantial land area of 156.84 acres was allotted to major companies and were given undue benefit in fixation of lease premium. Audit noticed various lapses in the fixation of lease premium at the time of allotment of land in Technocity as discussed below:

i) Non inclusion of land acquisition reference 10 (LAR) amount in lease premium

Techno-park acquired (between 2009 and 2010) 423.51 acres of land for setting up of Technocity. Of the land acquired, 287.42 acres (67.87per cent) was acquired under Land Acquisition Act, 1894 and the balance through direct purchases.

The lease premium is fixed after taking into account the purchase cost, cost of acquisition and provision for additional compensation payable (LAR) etc. Techno-park leased 156.84 acres (37.03 per cent) of Technocity to three firms (co-developers) for ₹149.24 crore. Audit observed that Techno-park had not followed a uniform procedure for fixation of lease premium. While fixing the lease premium in respect of three co-developers, Techno-park did not include the amount of provision for additional LAR compensation. This resulted in short recovery of ₹42.95 crore as shown below:

In certain emergent situations, Government acquire land for public purpose without giving land owners an opportunity to raise objections, if any, over the proposed acquisition of their land and advance possession of land is taken even before compensation payable to the land losers is determined. In such situation, an amount similar to cost of acquisition will be provided for in the agreement with co-developers for recovery in future.

Table 4.4: Statement showing the non collection of LAR compensation

Sl. No.	Name of the co- developer	Land area leased (acres)	Year of allotment	Area acquired under LA Act (acres)	LAR compensation excluded from lease premium (₹ in crore)
1	TCS	82.00	2010	44.51	31.53
		15.00	2013	LAR compensate ₹1.56 crore was colle premium.	ion amounting to ceted while fixing the lease
2	Infosys	49.84	2012	8.00	5.06
3	Sun Tec	10.00	2013	10.00	6.36
	Total	156.84		62.51	42.95

Out of 156.84 acres leased to three co-developers, 62.51 acres were acquired under the LA Act and the balance 94.33 acres were acquired through direct purchase.

The omission to include the amount of LAR compensation for calculation of the lease premium dues would pose the risk of extra financial burden to Techno-park/Government.

ii) Non-reckoning of development charges for fixation of lease premium

Techno-park incurs development charge in respect of infrastructure facilities like power, water, road etc. created and the cost is to be recovered from co-developers. As per the industrial practice, development charges are incurred by the entity and realised from the co-developers as per the agreement conditions. The development charges are initially provided for in the budget of Techno-park each year and met from the grants received or loans availed from banks.

Audit noticed that while fixing the lease premium on allotment of land at Technocity, Techno-park failed to include the development charges in the agreements based on the estimates in respect of 156.84 out of 406.44 acres of land area leased during the period 2009-14 resulting in non recovery of lease premium of ₹27.09 crore as shown below:

Table 4.5: Statement showing non collection of the development charges

Name of the co- developer	Area leased (acres)	Year of leasing*	Development charge estimated for Technocity (₹ in crore)	Proportionate development charge omitted (₹ in crore)
A	В	C	D	$E = D \times (B / 406.44)$
TCS	82.00	2010-11	34.33	6.93
	15.00	2013-14	72.62	2.68
Infosys	49.84	2012-13	127.99	15.69
Sun Tec	10.00	2013-14	72.62	1.79
Total	156.84			27.09

^{*} During 2011-12 land was not allotted.

Techno-park had not incorporated the provision for collection of development charges from the three co-developers in Phase–IV (Technocity) as per financial prudence. In the absence of provision for recovery of development cost in the agreement, the possibility of recovery of the development cost is remote as per the practice followed till date.

Thus, due to imprudent financial control by the management, the avoidable financial liability of the park had increased year after year.

4.2.9 Issues in the allotment of land at Info-park Phase II

Info-park acquired 125.56 acres of land at its Phase II campus and acquisition of another 35 acres of land was in progress. Out of the 125.56 acres acquired, Info-park allotted/utilised an extent of 66.81 acres of land so far. Audit noticed lapses in determining the lease premium during the course of allotment of the land at phase II campus between 2011 and 2014 as detailed below:

Non inclusion of area for common facilities in the fixation of lease premium

IT Park creates infrastructure facilities (common facilities) such as internal roads, sewage treatment plants, power station, drainages, pathways etc., in the acquired land and allots the remaining allotable area to potential entrepreneurs and IT firms (co-developer) on lease for setting up IT/ITeS units. The period of lease was 90 years and the allottees have to pay a lump sum amount as lease premium before executing the lease agreement. On completion of the lease period, the co-developers are given the first right to accept or reject extension of the lease tenure for further period.

Out of 125.56 acres of land acquired by Info-park, Kochi in Phase II, 23.56 acres were utilised for creating common infrastructure facilities and the area allottable to IT/ITeS units was only 102 acres. Of these, 6.8 acres were utilised for constructing own building by Info-park and 28.87 acres of land were allotted to the following private entrepreneurs so far (May 2014).

Table 4.6: Statement showing details of the allotment of land at Info-park Phase II

SI. No	Name of the co-developer	Date of intend	Area intended (acre)	Area allotted	Date of allotment order	Date of agreement	Lease premium per acre (₹ in lakh)	Date of remittance of lease amount
1	Cognizant Technologi es	15 September 2011	15	15.43	1 October 2011	12 April 2012	206.00	10 April 2012
2	Trans Asia	21 December 2012	1	2.06	22 March 2013	26 March 2014	255.50	Full amount on 20 March 2014
3	UST Global	20 March 2014	12	8.78	29 March 2014	Not registered	255.50	₹9,93,38,400 on 27 March 2014
4	Claysys	3 March 2014	1	1.60	27 March 2014	Not registered	255.50	27 June 2014
5	Media Systems	24 January 2013	1	1.00	28 March 2014	Not registered	255.50	₹one crore on 31 March 2014
Tot	al		30	28.87				

The lease premium was to be fixed after excluding the land utilised for common facilities. Audit observed that while fixing the lease premium on land, Info-park, instead of dividing the actual cost of land and infrastructure (₹300.96 crore) by net allotable area of 86.57 acres¹¹divided the cost of land and infrastructure (₹231.30 crore) by 90.70 acres inadvertently. Hence, the land area used for the purpose of the development of common facilities was

Total area (125.56) minus area utilised for common facilities (23.56) minus already allotted area to M/s Cognizant Technologies in 2012 (15.43).

not deducted from the total area so as to arrive at the allottable area. This resulted in undervaluation of 13.44¹² acres of land and consequent short recovery of lease premium amounting to ₹12.50 crore as detailed below:

Table 4.7: Short recovery of lease premium from leasing land at Info-park Phase II

(₹ in crore

Lease	oremium f	ixed by In	fo-park in 2013	Lease	premium a	Rate difference	THE RESERVE		
Cost of land	Develop- ment cost	Total cost (A+B)	Per acre rate (C/90.70 acres)	Cost of land	Develop- ment cost	Total cost (E+F)	Per acre rate (G/86.57 acres)	(H-D)	of lease premium (I x 13.44 acres)
A	В	C	D	E	F	G	Н	I	J
192.15	39.16	231.30	2.55	192.15	108.81	300.96	3.48	0.93	12.50

ii) Undue favour to M/s UST Global by allotting land at discounted rate

The Board of Governors of Info-park, Kochi approved (August 2011) the basic lease premium as ₹2.42 crore *per* acre for IT companies and codevelopers. Info-park had launched 'Early Bird Scheme' in 2011-12 with the objective of attracting IT/ITeS companies. According to the scheme, 15 *per cent* discount on basic lease premium was allowed for the takers of first 25 acres (out of 125 acres in phase -II) which was applicable to IT/ITeS firms only. This was in force only during the first year (2011-12). As per the pricing policy for 2013-14, the lease premium fixed was ₹2.55 crore *per* acre.

Info-park allotted 12 acres of land to M/s UST Global in March 2014 at a discount (at ₹2.29 crore) of 10 per cent on lease premium of ₹2.55 crore per acre. The Board stated that the land was allotted at the discount rate taking into account a huge investment proposed to be made by M/s UST Global in the land earmarked for allotment. Allotment of land deviating from the approved policy had benefited M/s UST Global by an amount of ₹3.12¹³ crore being 10 per cent of the lease premium for 12 acres, which needs investigation.

4.3 Issues in the utilisation of land by lessees

4.3.1 Non levy of penalty for delay in commencement/completion of building in Techno-park

As per agreement entered into by Techno-park with the co-developers, the construction of building should be commenced within one year from the date of agreement and should commence operations within two to four years from the date of agreement. Failure to commence the construction would attract penalty at the rate of ₹ five lakh per acre for first year and ₹7.5 lakh per year for the second year and thereafter ₹10 lakh per acre as per the agreement. Techno-park also has the right to take back the possession of land by forfeiting the stipulated initial down payment of lease premium. Audit observed that though the co-developers did not commence the construction, Techno-park failed to levy penalty in the following cases:

¹³ (₹2.55 crore – ₹ 2.29 crore) X 12 acres.

Total land allotted as per (pricing policy 2013) to various parties.

In respect of 146.84 acres (Phase IV) and 1.97 acres (Phase I) of land allotted to three co-developers in Techno-park, penalty was not levied for non-commencement of construction of IT building as per the agreement. At the same time, in respect of 62 acres of land allotted to two co-developers (TCS and UST Global) in Phase I and Phase II in Techno-park, the penalty clauses were not included in the lease agreement.

Table 4.8: Details of non commencement of construction and non levy of penalty

Sl. No.	Name of the co- developer	Area leased (acres)	Date of agreemen t	commen	s of the cement of ruction	Envisaged benefits	Actual achieve -ment	Penalty not levied	
					Agreed date	Actual date			(₹ in crore)
1.	TCS at Technocity	82	29 December 2010	29 December 2011	Not commence d	Investment - ₹1,000 – to ₹1,500 crore &	Nil	18.45 ¹	
		15	25 September 2013	25 September 2014		academy to train 15,000 IT professionals		Not due	
2.	Infosys at Technocity	49.84	4 April 2012	4 April 2013	Not commence d	Investment of ₹1,500 crore. Construct one million built up space. Employment of 10,000 IT/ITeS professionals.	Nil	6.23	
3.	Leela lace Info-park at Techno- park Phase I	1.97	6 April 2013	29July 2013	Not commence d	Construction of IT/ITeS infrastructure facilities for setting up IT/ITeS software companies	Nil	0.0916	
4.	TCS at Techno- park Phase I	26	1July 2005	1January 2006	Under constructio n	Setting up an electronics/ software development unit	million sq ft buildin g under constru- ction	No clause for imposin g the penalty	
5.	UST Global at Techno- park Phase II	36	27 February 2006	23 November 2011	In 2010	5,000 job opportunities and construction of built up space of 5 lakh sq ft by February 2014	Not created any job and 1 million sq ft buildin g under constru- ction	No clause for imposin g the penalty	
	Total	210.81							

Techno-park did not explain reasons for not incorporating penalty clause in the agreement. The absence of penalty clause in the agreement in the above two cases (Sl. Nos. 4 and 5) facilitated the co-developers to prolong construction of IT building. At the same time, it prevented Techno-park from levying penalty for non-compliance of agreement.

¹⁴ (₹5,00,000 X 82) + (₹7,50,000 X 82) + (₹10,00,000 X 82) = ₹18,45,00,000

^{15 (₹5,00,000} X 49.84) + (₹7,50,000 X 49.84) = ₹6,23,00,000

^{16 (₹5,00,000} X 1.97) = ₹9,85,000

4.3.2 Info-park

Similarly, though the penalty clause for non-commencement of construction works was included in the agreement, the same was not realised in respect of two co-developers (M/s IBS Software Services Pvt. Ltd. and M/s Brigade Enterprises Ltd.) as explained below:

i) Info-park, Kochi had executed (March 2007) a lease agreement with M/s IBS Software Services Pvt. Ltd. Thiruvananthapuram (lessee) for leasing out 4.21 acres of land at Info-park, Kochi, Phase I SEZ for developing IT campus. The work was to be commenced by 20 September 2007. The lessee should commence the construction of the first building within a period of six months from the date of execution and registration of deed. The clause 7 of lease deed further provides that in the event of any delay directly attributed to IBS for commencement of construction beyond the aforesaid period of six months and any extension given by Info-park, IBS should pay ₹ one lakh per month of delay upto one year after which the lease deed shall get automatically terminated unless otherwise mutually agreed upon by both the parties for further extension. IBS did not commence construction of IT building so far except partial construction of a compound wall.

In the instant case, though the commencement of construction was delayed by more than six years, the penalty amounting to ₹12 lakh was not levied and collected for non-commencement of construction work nor was lease deed terminated. There was nothing on record to justify the reasons for the delay.

- ii) Info-park, Kochi had executed (March 2008) a lease agreement with M/s Brigade Enterprises Ltd. for leasing out 4.99 acres of land at Info-park, Kochi, Phase I SEZ for a premium of ₹27.45 crore (at the rate of ₹5.50 crore *per* acre) for developing IT campus. The terms of the agreement provided for the following:
 - Commencement of the construction of a built-up area of not less than four lakh sq ft within six months and complete the IT building for commencement of IT/ITeS operation.
 - If the construction was delayed beyond the four year period, ₹five lakh was payable by M/s Brigade Enterprises per month of delay upto six months and
 - After the delay beyond the period of six months, Info-park reserves the right to cancel the agreement and take over the leased land with assets created by M/s Brigade Enterprises till that time and lease out the same to other IT developer/IT companies. In such an eventuality, Info-park should reimburse 75 per cent of the market value of the super structure erected in the leased land certified by a registered valuer appointed by Info-park along with payment for value of land limited to lease premium paid after recovering all dues from M/s Brigade Enterprises.

In the instant case, the co-developer had not completed the construction within the stipulated time (26 March 2012). The delay in completion of work attracted penalty of ₹30 lakh. Instead of taking action to recover penalty, the Info-park granted extension of time upto March 2015 to the co-developer, on his request, for completion of IT building and the work was in progress.

The delay in completion of work consequently also delayed achieving the objective of providing 6,000 employments.

4.3.3 Idling of prime land due to delay in execution of agreement and construction of IT building

Info-park acquired 91.90 acres of land for setting up IT park from M/s Kerala Industrial Infrastructure Development Corporation (KINFRA) in 2004. Consequent on the formation of Info-park, the land already leased had also been taken over by Info-park. Accordingly, as per the directions (November 2007) of Industries department, a tripartite agreement was executed among M/s KINFRA, M/s Geon Air and Info-park to lease 2.61 acres of land for developing IT infrastructure facilities for leasing out to IT companies.

A supplementary agreement (SA) (September 2012) was also executed between Info-park and M/s Geon Air which envisaged commencement of construction of first IT building with a minimum built up area of three lakh sq ft for IT/ITeS purpose within six months of executing the agreement. In case of failure to comply with the agreement, M/s Geon Air shall pay ₹one lakh per month per acre for a maximum period of one year, after which the SA may be cancelled and the land taken over by Info-park.

On scrutiny of the relevant records, audit noticed the following:

- The Industries Department directed to execute (November 2007) a tripartite agreement and based on the agreement, a SA was to be executed between M/s Geon Air and Info-park. However, the SA was executed (September 2012), after a delay of four and half years. Info-park was not able to provide any justification for the delay in execution of the agreement.
- The land was in possession of M/s Geon Air since 2003. The company was not able to commence construction till October 2014. In pursuance of the tripartite agreement, Info-park could have taken action to recover the land and to levy and collect penalty of ₹31.32 lakh (2.61 acre x ₹ one lakh x 12 months). But Info-park failed to impose penalty and to take back the land.
- Civic charges at the rate of ₹1.5 lakh *per* acre *per* year were leviable from the co-developers for the upkeep and maintenance of the park. However, Info-park did not take any steps to recover the civic charges from M/s Geon Air. The non-collection of civic charges works out to ₹23.49 lakh (2.61 acre x ₹1.5 lakh x 6 years) relating to the period from 2008 to 2014.

Thus, the prime industrial land inside phase I of Info-park leased to a co-developer was idling for seven years without fulfilment of intended purpose.

4.3.4 Issue of NOC to obtain bank loan by ineligible firms

i) Technopark leased (January 1995) one acre of land to CASE Consult India Pvt. Ltd. (CCIPL) for 25 years fixing lease premium of ₹eight lakh and an annual lease rent of ₹10,000 per acre with the condition that the lessee shall commence construction in the lease hold

land within two years from the date of leasing the land and to commence commercial operation within three years. The failure to comply with the agreement by lessee confers Techno-park the right to take back the possession of land repaying 25 per cent of lease amount paid.

Instead of constructing IT Infrastructure, CCIPL transferred (July 2007) the lease hold land to Case Consult Business Software Solutions Pvt. Ltd (CCBS), a subsidiary of CCIPL under a tripartite agreement. Subsequently, CCBS obtained (June 2008) a NOC from Techno-park for mortgaging the land and managed to avail a loan from Canara Bank on the basis of NOC. CCBS defaulted on the loan and consequently the bank initiated (January 2011) action to recover the loan and interest for an amount of ₹4.33 crore (December 2012) under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 by attaching the land mortgaged by CCBS. The land was idling (December 2014) and it was not taken back by Techno-park owing to non compliance of the agreement to commence commercial operations.

In this regard Audit observed as under:

- Techno-park failed to take back the possession of land though CCIPL had defaulted in the payment of the lease amount for 12 years;
- Techno-park had wrongly allowed CCIPL to transfer lease to CCBS by being a signatory to a tripartite agreement; and
- Techno-park had issued NOC to CCBS before recovering all the dues outstanding towards lease premium, lease rent, and civic charges.

Thus, the land acquired for development of IT infrastructure was still remaining idle even after 20 years, due to non application of the provisions of the agreement by Techno-park.

ii) Techno-park had leased (February 2012) 4.63 acres of land from the Phase III project to M/s Ariva Med Data Info Tech (co-developer) for a period of 90 years on a lease premium of ₹5.79 crore and an annual lease rent of ₹10,000 per acre for the purpose of developing the land for IT business. The land was not handed over to the co-developer. Prior to execution of lease agreement, Techno-park issued (February 2011) NOC in favour of co-developer to mortgage the land. On the basis of the NOC, the developer had obtained loan of ₹four crore. However, the co-developer defaulted in repayment with the result that the bank initiated (September 2014) recovery proceedings under the SARFAESI.

In this connection the Audit observed as follows:

- Techno-park issued the NOC to co-developer in February 2011 before payment of lease premium by M/s Ariva Med Data Info Tech and execution of lease agreement.
- Techno-park had not ascertained the status of the M/s Ariva Med Data Info Tech before issuing NOC as the firm was neither a co-developer nor a lessee. The land was also not handed over to the firm (January 2015).

Thus, the lack of due diligence in issuing NOC to a person/entity who had not paid for land at the time of issuing the NOC enabled the allottee to obtain loan at the expense of Techno-park risking the land at its disposal.

4.4 Non/short recovery of maintenance charges by Techno-park

The expenditure incurred for the maintenance of water lines, roads, power infrastructure facilities etc.is to be recovered from the co-developers as maintenance charges. An enabling clause is incorporated in the agreement with co-developers to pay the maintenance charges at the prevailing rate per acre of land leased out. Audit noticed that in respect of land leased to three co-developers in Phase II and Technocity (Techno-park), the enabling clause for collecting maintenance charges was not included in the agreement. However, in respect of IBS, though the clause for maintenance charges was provided for in the agreement, the same were not collected since April 2012. As a result, maintenance charges at the rate of ₹1.50 lakh *per* acre *per* year upto 30 November 2014 were not collected, which amounted to undue favour to the allottees to the tune of ₹19.37 crore as shown below:

Name of allottee	Location	Agreement date	Area allotted (in acres)	Amount of short collection (₹ in crore)
TCS	Technocity	29 December 2010	82.00	4.92
	1.57	25 September 2013	15.00	0.45
Infosys	Technocity	4 April 2012	49.84	2.24
	Phase II	14 January 2006	50.00	6.75
UST Global	Phase II	27 February 2006	36.00	4.86
IBS	Phase I	23 May 2005	5.00	0.15
Total			237.84	19.37

Table 4.9: Details of short recovery of maintenance charges

4.5 Other issues related to land

4.5.1 Techno - lodge centres

In order to encourage the Information Technology (IT) companies to create employment in rural areas and to operate from rural centres at low cost, the Government decided (June 2008) to set up Techno-lodge centres in small towns and *Grama panchayat* wherever land and buildings were available with Government/local bodies/other Non-Government Organisations. Government prescribed the mode of implementation of the Techno-lodge centres and appointed KSITIL as the main implementing agency for the scheme. KSITIL started Techno-lodges at Kadakkal, Perinad, Piravam, Mayyil, Pathanapuram and Veliyam. Of these, only Piravam became operational on a continuous basis. The Board of KSITIL (February 2012) decided not to make further investments on Techno-lodges as the performance of other Techno-lodges was very poor.

KSITIL had expended ₹2.01 crore out of grant received from Government towards setting up and maintaining these Techno-lodges and total income derived during 2009-10 to 2013-14 had been only ₹0.13 crore. Thus, there was a loss of ₹1.87 crore in setting up and maintaining these Techno-lodges for five years. Besides, no infrastructure was built in the case of Techno-lodge at Mayyil despite spending ₹18.50 lakh by KSITIL.

Hence, the IT penetration and generation of employment in rural areas was not able to deliver the objectives as envisaged in the IT policy (2007) except at Piravam, due to the absence of cost benefit analysis and non identification of potential clients and their requirements prior to the launch of the scheme. KSITIL was not able to spell out a strategy for effective implementation of the scheme. Moreover, there was no action plan to make good the loss sustained due to lack of proper implementation of the scheme.

4.5.2 Failure to obtain refund of the cost of acquisition from LA Tahsildar

Techno-park acquired 92 acres of land at phase III campus by incurring a total amount of ₹48.26 crore and acquired 423.51 acre of land at Technocity for an amount of ₹238.39 crore. Out of the 92 acres of land, an area of 9.46 acres in Phase III and 287.42 acres out of 423.51 acres in Technocity were acquired under Land Acquisition Act (LAA) through the special *Tahsildar*. Balance area of land was purchased through negotiation made by the Techno-park with the land owners.

The cost of acquisition was mainly met by bank loan availed by Techno-park. For acquisition under LAA, Techno-park deposit advance amount with the LA office for making payment to the parties and the LA office charges administrative cost (20 per cent of cost of acquisition or 50 per cent cost of establishment whichever is less) for acquisition and the balance amount left with LA office was refunded to Techno-park from time to time. For the purpose of acquisition of land under LAA, Techno-park remitted an amount of ₹218.75 crore at different dates in LA office for the acquisition of land at Phase III campus and at Technocity. The Techno-park did not take any action to claim the refund of the balance amount of ₹6.05crore left with LA office till January 2014.

Audit noticed that the request for the refund was submitted only in January 2014. Since the amount for acquisition was sourced through bank loan availed by Techno-park, idling of fund at LA office would affect the borrowing cost. As such, proper reconciliation of the amount paid by LA office and total deposit made under the LAA should have been done from time to time and the management should have taken action to get refund from the LA office in time. The failure to claim the refund resulted in idling of fund and consequent loss of interest amounting to ₹4.00 crore.

4.6 Failure of IT department

Failure to develop guidelines

IT department was not able to frame regulations to govern the activities connected with land issues of the IT parks in the State. The Department was lacking focus about the utilisation of grant and land. The department did not have a mechanism to address the issues where the land was put to risk by the IT Parks to facilitate attachment by banks.

4.7 Conclusion

In the absence of norms for assessing land required by IT firms, 64 *per cent* of the land obtained by IT park had been idling for several years. The IT department did not develop a uniform procedure or guidelines for allotting the

land and fixing the lease premium. As a result, the management of IT parks allotted vast tracts of land to co-developers in an arbitrary manner which was detrimental to the public interest. The Hub and Spoke model of IT development failed to deliver the intended objective for generation of employment in the rural areas and development of areas.

CHAPTER - V

COMPLIANCE AUDIT - OTHER TOPICS

INFORMATION TECHNOLOGY DEPARTMENT

5.1 Irregular expenses on stone laying/inauguration of three IT entities

KSITIL incurred an expenditure of ₹31.14 lakh for foundation stone laying ceremony of IIIT, Pala before acquisition of land; Cyber Park conducted inauguration ceremony spending ₹1.90 crore while five out of six components of the project including main IT building were not completed and Technopark irregularly spent an amount of ₹1.96 crore for the inauguration of an IT building at Phase III campus.

Information Technology department coordinates the IT development activities through various agencies such as Kerala State Information Technology Infrastructure Limited (KSITIL), IT parks etc. One of the initiatives of the Department was setting up of Indian Institute of Information Technology¹, Kerala (IIIT) launched by the State in 2012-13. KSITIL conducted stone laying ceremony of IIIT, Kerala at Pala. Similarly, Cyber Park and Technopark conducted the inauguration ceremonies at Kozhikode and Thiruvananthapuram. The ceremonies conducted by these entities incurring expenses of ₹4.17 crore were irregular as described below:

5.1.2 Expenses on stone laying ceremony of IIIT Pala

The Ministry of Human Resources Development, GoI had approved a scheme (September 2011) of establishing one IIIT at Pala in Kottayam district at a cost of ₹128 crore to be met from GoI grant (₹64 crore), State Government grant (₹45 crore) and through private participation (₹19 crore). The State Government was to provide land free of cost for the project. The IT Department appointed (September 2013) KSITIL as the authority for acquisition of land and all connected works required to set up IIIT Kerala and an Info city at Pala. KSITIL identified 22 hectares of land belonging to 76 survey numbers in Vallichira village in Meenachil *taluk* in Kottayam district.

Audit scrutiny revealed that before starting the land acquisition, the KSITIL conducted the stone laying ceremony on 24 February 2014 at a cost of ₹31.14 lakh in a plot of land belonging to M/s Kerala State Co-operative Tyre Factory Limited which was leased to M/s Palazhy Tyres Limited. Thus, the KSITIL conducted the stone laying ceremony on the private land which was not its own property or land acquired for the purpose of establishment of IIIT.

On being asked by Audit, the KSITIL stated (March 2015), that the land had not been acquired till date. Thus, ₹31.14 lakh incurred on the ceremony was a wasteful and unjustified expenditure.

An autonomous institute based on PPP model meant to specialise in application of IT skills in one or more domain area under Ministry of Human Resources Development, GoI.

5.1.3 Inauguration ceremony of Cyber Park, Kozhikode

KSITIL acquired (2010) 44.40 acres of land for establishing Cyber Park at Kozhikode. Out of this, five acres of land was transferred (November 2011) to Cyber Park for the development of infrastructure facility. The Detailed Project Report (DPR) of Cyber Park envisaged construction of six² components of work for the development of IT Park. Of the six components, only one component i.e the Common Facility Centre (CFC) was completed (May 2013) by Cyber Park. The inauguration ceremony of the Cyber Park was held on 15 February 2014 prior to completion of other five components envisaged in the DPR.

An expense of ₹1.90 crore was incurred by diverting the Government grant meant for creating capital assets. Out of ₹1.90 crore, ₹1.63 crore (85.79 per cent) was incurred on advertisement in 23 daily newspapers. Without inviting tender, Cyber Park, engaged a private agency (M/s Crysalis Communication) for carrying out the advertisement works and paid ₹20.38 lakh as agency commission. The company also incurred ₹27.00 lakh for other expenses connected with the inauguration out of which an amount of ₹22.03 lakh was paid to M/s 98 Point 6 for the event management without following tender procedures or issuing work orders.

Public Relations Department (PRD) of Government of Kerala clarified (1999) that in addition to Government departments, other Government bodies and Government organisations could avail the facility of advertising the developmental activities in newspapers through PRD at the reduced rate. PRD further clarified (2012) that if any Government organisation advertising in newspapers other than through PRD, the rate for such advertisement should not be more than 50 *per cent* of the rate applicable for the advertisement through PRD.

The Audit scrutiny revealed that had the Cyber Park advertised through PRD, the expenditure on advertisement would have been ₹54 lakh as against ₹1.63 crore resulting in excess expenditure of ₹1.09 crore. Even if the advertisement was through Crysalis, at the rate specified in the Government orders of 2012, the rate would have been ₹81 lakh. Hence, the non-compliance of Government regulations on advertisement by Cyber Park resulted in excess expenditure of ₹82 lakh.

Thus, without constructing the required infrastructure and basic amenities, the inauguration of Cyber Park conducted, in disregard of Government orders and prescribed procedures resulted in loss of ₹1.90 crore which requires investigation and fixing of responsibility.

5.1.4 Inauguration of IT building in Technopark Phase III campus

Technopark constructed (January 2014) twin building at Phase III campus for leasing to IT companies. The building was inaugurated on 15 January 2014.

Construction of IT building with 1.50 lakh sq ft area for accommodating 1,500 IT professionals, construction of power station, land development including internal roads, water supply system with 1.5 MLD capacity overhead tank, drainage and sewage treatment and Common Facility Centre for accommodating park office

The inauguration expenses of building sanctioned and paid by the Chief Executive Officer (CEO) to the contractors were as shown below:

(₹ in crore)

SI. No.				
1	Newspaper advertisement through M/s Stark Communications	1.41		
2	Event Management by M/s Stark Communications	0.14		
3	Tents and other items to M/s Christuraja Design	0.28		
4	Food and beverages	0.07		
5	Other expenses	0.06		
	Total	1.96		

Audit verified the expenses and observed as follows:

- There was no budget allocation or grant nor any prior sanction from the Board or Government for incurring the expense. As per the delegation of powers, the CEO had the power to issue orders upto an amount of ₹50 lakh. Therefore, the expenses sanctioned by CEO were beyond his financial powers.
- The entire expenses amounting to ₹1.41 crore for advertisement in newspapers was done through M/s Stark Communications without following prescribed tender procedure. Further, the original bills from the newspaper publishers were not furnished; instead M/s Stark Communications indicated the amount in the bill submitted for payment as payment made to the publishers. As the advertisement expenses of ₹1.41 crore were paid without supporting vouchers, the manner of making payment was not only irregular but it also lacked transparency which is one of the principle of Government transaction.
- An amount of ₹28 lakh was paid to M/s Christuraja Design for erecting tents and other installations without estimates and tender procedure for the work. Further, no measurement book was maintained to ascertain the actual quantity of work executed as required under the KFC. It was noticed that the payments were effected on the basis of quotation cum work bill submitted by contractor. Though there was a full fledged Engineering Wing, the CEO passed the bills without ascertaining the quantum of work executed. Similarly, an amount of ₹14.58 lakh paid to M/s Stark Communications for the event management and stage decoration was also paid without following tender procedures.

The management replied (March 2015) that major newspapers would not publish advertisement at PRD rates. The reply was not tenable as Government is required to publish advertisements in the news papers only at PRD rate.

Further, it was replied that the management did not have sufficient time to invite a tender to make arrangements for the inauguration because the decision to conduct inauguration was taken at short notice. The reply was not tenable as such ceremonies cannot be conducted without putting in place necessary infrastructure including land and building.

CO-OPERATION DEPARTMENT

5.2 Financial loss to Government due to non-commencement of operation of export processing unit.

Sanction of loan by the GoK to Agreenco Society, whose financial health was not sound and non-commencement of export oriented pineapple processing unit resulted in loss of ₹29.03 crore to the Government exchequer.

The Kerala State Agro Co-operative Limited (Agreenco), registered (April 2002) as a Society with the Registrar of Co-operative Societies, Kerala submitted (November 2002) a project proposal to the State Government seeking financial assistance from the National Co-operative Development Corporation (NCDC) to set up an export oriented Pineapple Processing Unit at Padiyur in Kannur district. The project envisaged formation of a company (Agreen Hashco Pvt. Ltd.) (company) in collaboration with M/s. Ashco Enterprises Incorporated (Ashco), of USA and Hawaiian Fruit Products Pvt. Ltd., Mangalore. The project was expected to generate direct employment to about 300 people and indirect employment to 4,500 people. The Agreenco society leased out (July 2003) 2.0235 hectares of its own land in Padiyur village to the company for a period of 50 years for setting up the Pineapple Processing Unit.

The Co-operative Department, Government of Kerala (GoK) recommended the project to NCDC which approved it for ₹16.37 crore³ and sanctioned (March 2004) a loan of ₹10.64 crore for the project. The loan was required to be repaid with simple interest of nine *per cent* in eight years, including one year moratorium on repayment of principal amount. On the request of the company, the sanction initially valid upto 31 March 2006 was extended by the NCDC upto 31 August 2007, by which time, the project was to be completed and the entire loan drawn. The details of loan to Agreenco society are briefly as follows:

SI. No.	Item	Amount (₹ in core)
1.	Project cost	16.37
2.	NCDC loan	10.64
3.	Loan de-sanctioned	0.92
4.	Net loan sanctioned from NCDC	9.72
5.	Amount released by the Government to society (including ₹3.93 crore as share capital to society)	14.57
6.	Repayment by the Government to NCDC (including interest ₹3.41 crore)	13.13
7.	Total amount recoverable by the Government from the Society (NCDC loan + share capital contribution with interest and penal interest)	29.03

State Government to society: Loan (65%) ₹10.64 crore, share capital (24%) ₹3.93 crore, members contribution (11%) (a) Ashco USA ₹90.00 lakh (b) Agreenco ₹90.00 lakh. Total: ₹16.37 crore.

The Secretary to Government, Agriculture (IFA) Department released (between March 2004 and October 2005) an amount of ₹14.57 crore⁴ to the Agreenco Society on the security of mortgage of the leased land as collateral security for due repayment of principal, interest, penal interest. Due to non submission of utilisation certificate in respect of the loan amount by Agreenco to the GoK and further to the NCDC, an amount of ₹0.92 crore was de-sanctioned (March 2012) by NCDC reducing the effective loan amount to ₹9.72 crore.

On being asked by Audit about the status of the project, the GoK replied that though the pineapple processing unit project had been completed, it had not commenced commercial production due to non-availability of uninterrupted supply of pineapple for the processing unit. The reply was not tenable for the reason that it was Agreenco's responsibility to ensure the availability of raw material prior to establishing the processing unit. Moreover, the department had also failed to ascertain the viability of the project as well as the financial health of the Agreenco prior to sanctioning the loan.

Audit scrutiny further revealed that Agreenco failed to repay the loan to Government due to its weak financial health. The net loss during 2003-04 stood at ₹1.90 crore and its accumulated loss during 2004-05 was ₹14.13 crore. Besides, ₹29.11⁵ crore was outstanding towards loan, interest and penal interest (November 2013).

It was further observed by Audit that though the financial health of Agreenco was not sound, the GoK did not keep in view this important factor while sanctioning ₹ 10.64 crore to Agreenco as loan. Moreover, GoK had also failed to monitor the repayment of the loan by Agreenco society, which was obtained from NCDC.

Thus, sanction of loan by the GoK to Agreenco society, whose financial health was not sound and non-commencement of export oriented pineapple processing unit and non-repayment of loan amount of ₹10.64 crore resulted in loss of ₹29.03 crore to the Government exchequer.

The matter was reported to Government (September 2013); their reply had not been received (March 2015).

⁴ Share capital: ₹ 3.93 crore, NCDC loan: ₹ 10.64 crore

Principal amount - ₹10.64 crore, interest - ₹ 12.04 crore, penal interest - ₹ 2.42 crore and share capital - ₹ 3.93 crore.

PUBLIC WORKS DEPARTMENT

5.3 Avoidable expenditure in a bridge work

The Departmental lapses in working out the eligible rate for the items of work of forming sand bund using sand bags resulted in extra financial liability of ₹1.27 crore.

The Public Works Department, GoK issued (February 2012) Administrative Sanction and the Chief Engineer, Roads and Bridges, Thiruvananthapuram (CE) issued (March 2012) Technical Sanction for the construction of 89.28 m long Marancherrykadavu bridge across Kaliyar river in Ernakulam district at an estimated cost of ₹9.25 crore under Rural Infrastructure Development Fund (RIDF) XVII of National Bank for Agriculture and Rural Development (NABARD). The work was awarded to M/s. Kerala State Construction Corporation Limited (KSCC) at the accepted rate of 11.10 *per cent* below the Estimated Probable Amount of Contract (EPAC) of ₹8.60 crore and thus, the Accepted Probable Amount of Contract (APAC) of the work amounted to ₹7.73 crore⁶. The site was handed over to the contractor in February 2013 stipulating the period of completion as 18 months. The work was still in progress (March 2015).

The Audit scrutiny of the records revealed the following:

5.3.1 Avoidable expenditure in forming ring bund using river sand in place of sand for filling

When the foundation of abutment or piers is to be constructed at inundated locations, a suitable method is used to prevent intrusion of water from construction points. In this work, the method adopted was providing sand bunds using sand filled in empty cement bags. The requirement of sand considered for one metre of ring bund around the pier was one cubic metre (cum) of sand filled in 37 empty cement bags. The cost of sand was taken as ₹2,012.50 per cum which was the cost of river sand as per Schedule of Rates (revised SoR 2010). River sand (item no.62 of SoR 'River sand clean, sharp and dry for mortar') was not specifically required for the purpose of filling empty cement bags as the filling material would not require any physical property except that it should not dissolve in water. Sand for filling (item no.64 of SoR 'sand for filling') has such property and hence it would suffice for the purpose which costs only ₹517.50 per cum (revised SoR 2010). Had the sand for filling been used for the purpose, the cost of sand per one cum would have come down by ₹1,495. Even after taking into account the contractor's profit of 10 per cent and overhead of five per cent provided on the cost of materials, the cost difference would go up to ₹1,719.25 per m³. The net difference after applying the contractor's quoted rate of 11.10 per cent below the estimated rate amounted to ₹1,528.41 per m³. The quantity executed was 3,775 m³ for which 3,775 cum of sand was required. The avoidable expenditure thus works out to ₹0.58 crore.

⁶ ₹8.60 crore *less* cost of departmental materials, plant and machinery etc. of ₹0.68 crore on which tender variation is not applicable (88.90 *per cent* of ₹7.92 crore) (+) ₹0.68 crore cost of departmental materials.

5.3.2 Excess provision in computing rates of labour charges for filling sand in bags

In the case of filling sand in bags, the EE Roads Division, Muvattupuzha worked out the requirement of labour as per the stipulation in SI 56 Standard Data Book (SDB) of Kerala Public Works Department. The labour requirement under SI 56 is 2.96 days for 10 cum earth. But in the data sheet, it was taken as 3.65 days per one cum. As the permissible rate of wages for labour was to be taken as ₹276 per day per labourer, the permissible labour charges per one cum would amount to ₹93.96⁷ instead of ₹1,158.51⁸ as given in data sheet. The erroneous calculation resulted in an excess provision of ₹1,064.55⁹ per cum. Considering the tender rebate of 11.10 *per cent* also, the rate per cum was excessive by ₹946.38¹⁰. For the executed quantity of cum of work, the avoidable expenditure amounted to ₹0.36 crore¹¹.

5.3.3 Avoidable expenditure on conveyance of sand from far away source

The source of sand for the bridge work was shown as Kalady which is situated 41 km away from the site even though the source of sand for other works of the division was Ayavana which was the site of the bridge work itself. The conveyance charges of sand worked out in the revised estimates against the item 'forming sand bag bund around the piers and abutment' was ₹637.10 per cum. However, the conveyance element in the data is only ₹181.70 per cum in the case of sand taken for other works from the site of bridge work. Therefore, the amount allowed per cum of sand was in excess by ₹455.40. The net excess after allowing 10 per cent contractor's profit and five per cent over head charges and tender rebate of 11.10 per cent is ₹523.71 per cum. As the requirement of sand was 3,775 cum, the avoidable expenditure in this regard would be ₹0.18 crore.

5.3.4 Avoidable expenditure in providing ring bund for abutment at elevated ground level

Maximum flood level, ordinary flood level and low water level (LWL) in the river at the site of the bridge were 90.190 m, 88.50 m and 88.12 m above mean sea level (MSL) respectively. Of the two abutments, the ground level of abutment at Pothanikkadu side was 90.700 m above MSL. Hence, the foundation could be constructed without providing any barrier for preventing water intrusion even at the time of river having high water level. As the entire work on foundation of the bridge was executed during the time of LWL, provision for ring bund was not at all required at that abutment point. However, ring bund (using sand bags) for a length of 309.88 m was provided at that point resulting in avoidable extra financial liability of ₹0.15 crore including the filling cost inside the ring bund with contractor's own earth at the rate of ₹5,204 per m.

⁷ 2.96/10 x ₹276 = ₹81.67 + ₹8.17 (10 *per cent* contractor's profit) + ₹4.09 (five *per cent* overhead).

8 3.65 x ₹276 = ₹1,007.40 + 100.74 (10 *per cent* contractor's profit) + ₹50.37 (five *per cent* overhead).

⁹ ₹1,158.51 – ₹93.96.

^{10 1,064.55} less 11.10 per cent.

^{11 3,775} cum x ₹946.38.

Forming bund using sand bags at the rate of ₹5,204 per metre for 309.88 metre =₹16,12,615 Filling with contractor's own earth at the rate of ₹341per cum for 150.885 cum ₹51,451 Total expenditure = ₹16,64,066; less tender reduction of 11.10 per cent = ₹1,84,711; Excess expenditure = ₹14,79,355

Thus, the Departmental lapses in working out the correct eligible rate for the item of work of 'forming sand bund using sand bags' and providing for the execution of the item of work indiscriminately resulted in extra financial liability of ₹1.27 crore.

The matter was reported to the Department (January 2014) and to Government (September 2014); their reply has not been received (March 2015).

5.4 Overpayment due to mistake in calculation of rates

Erroneous calculation of rates on chiseling of rock and non application of agreed tender rebate for extra items resulted in overpayment of ₹ 66.00 lakh to a contractor for road work.

M/s.Kerala State Industrial Development Corporation (KSIDC) deposited (September 2007) ₹4.30 crore with the Executive Engineer, Roads Division, Kannur (EE) for improvement work of Koothuparamba - Mooriyad -Valiyavelicham Growth Centre road 0/000 to 6/000 km in Kannur district. The Government issued Administrative Sanction to execute the work as deposit work with an estimated cost of ₹4.30 crore. The Chief Engineer, Roads and Bridges, Thiruvananthapuram (CE) issued (November 2007) Technical Sanction for ₹4.21 crore. The Superintending Engineer, Roads and Bridges, North Circle, Kozhikode (SE) awarded the work to a contractor at 17.86 per cent below the Estimated Probable Amount of Contract (EPAC) of ₹4.13 crore (SoR 2007). Accepted Probable Amount of Contract (APAC) amounted to ₹3.45 crore. The site was handed over to the contractor on 15 February 2008, to complete the work within 18 months. Due to Departmental lapse in handing over land free from encumbrance and also due to detection of hard rock at works site between km 3/300 and 3/484 which could be removed only by chiseling operation, there was a delay in completion of work. The work was to be completed by 14 August 2009 but it was completed in March 2011. The EE paid (October 2013) a total amount of ₹4.02 crore.

The Audit scrutiny (January 2014) of the records in this regard revealed the following:

5.4.1 Payment of excessive rate for chiseling in hard rock

For removing the hard rock found in the alignment of the road, the CE accorded approval for chiseling an estimated quantity of 791.40 cum hard rock at the rate of ₹7,709 per 10 cum as blasting was prohibited in the inhabited area. A supplementary agreement was also executed with the contractor for removal of estimated quantity of hard rock. As the tendered rate of the contractor was 17.86 *per cent* below the estimates, the unit rate of the item should be ₹6,332.17 per 10 cum and the amount due on the item would be ₹5,01,128. But the amount of item was wrongly calculated as ₹61,00,903 applying the unit rate on one cum instead of 10 cum without applying the tender rebate and the payment was made by EE accordingly resulting in excess payment of ₹56.00 lakh to the contractor.

5.4.2 Non application of agreed tender rebate for extra items sanctioned

As per clause 23 (3) (iii), in the case of extra item, the rate shall be arrived at on the basis of Departmental data rate at the time of ordering the extra item after applying tender deduction except on cost of Departmental materials. Owing to the delay in providing encumbrance free land in time, the work was delayed and the Department accepted the demand of the contractor for revision of rates. The CE issued (November 2012) sanction for revised estimate incorporating seven extra items for ₹1.16 crore. While issuing sanction, the CE erroneously issued the direction for effecting payments for the above extra items without application of the agreed tender rebate. This was in violation of the terms of the agreement which clearly stipulated that original tender rebate was to be applied on the rates worked out for extra items also. Non-compliance of the stipulation of the agreement had resulted in excess expenditure of ₹10.00 lakh.

Thus, the failure of the Department to comply with the agreement stipulations in regard to the application of permissible unit rate and tender rates of the agreement while paying extra items resulted in excess payment of ₹66.00 lakh to the contractor.

The matter was reported to the Department (March 2014) and to Government (October 2014); their reply had not been received (March 2015).

5.5 Improper award of works

Awarding works that did not qualify to be executed by Labour Contract Co-operative Society to one such society and extension of price preference led to avoidable loss of ₹1.12 crore.

Co-operation Department issued (November 1997) instructions for award of works to Labour Contract Co-operative Societies (LCCS) which interalia provided the following stipulations:

- LCCS was eligible to be entrusted with earth work of all types, simple
 masonry works, simple building works, maintenance and minor repairs
 of roads and buildings, other items of works not involving skilled
 labour (clause 7).
- In cases where the bid of a private party happened to be the lowest (L1) and LCCS was also a participant, the work should be awarded to LCCS at 10 per cent above the lowest offer (Clause 8(b)(i)).
- Monetary limit for entrustment of an item of work to a Class 'A' LCCS was fixed at ₹10 lakh, subject to condition that the work in hand at any time should not exceed ₹50 lakh. The ceiling was enhanced (January 2002) to ₹20 lakh and ₹ one crore respectively.

Audit noticed that SE, NH, North Circle, Kozhikode awarded (December 2011 and August 2012) the following two road works at item rate¹³ to Uralungal Labour Contract Co-operative Society Ltd. (ULCC) – a Class 'A' contractor -

¹³ In item rate contract, the contractor is required to quote the rates for individual items mentioned in the schedule of quantities.

at higher rates allowing price preference and overlooking the lowest bid from a private contractor¹⁴.

Table 5.1: Details of road work awarded invoking price preference

(₹ in crore)

SI. No.	Name of work	Lowest bid amount	Agreed Probable Amount of Contract	Avoidable loss (4-3)
(1)	(2)	(3)	(4)	(5)
1.	CRF 2010-11 Improvements to Karipoor Airport – Edavannappara – Nellikkaparambu Road from 0/000 to 6/000	4.87	5.35	0.48
2.	Periodical Renewal of NH 17 for the year 2011-12 - 50 mm BM & 25 mm BC from 194/160 to 206/500	9,47	10.11	0.64
	Total	14.34	15.46	1.12

Both works were completed and ₹4.89 crore and ₹10.60 crore was paid (February 2015) respectively. On scrutiny of records of CE and SE (May 2013 and October 2012 respectively), Audit observed the following irregularities:

- The works awarded to ULCC required highly sophisticated equipments, skilled labour and were not labour oriented. Hence entrustment of such works by extending the benefit of price preference, was not in order.
- The APACs of the works far exceeded the monetary limits fixed for entrustment of works to LCCS, and thus award of works was in violation of Government instructions.

Thus, by awarding works involving skilled labour and sophisticated machinery to ULCC invoking price preference provisions overlooking the prescribed monetary ceiling resulted in avoidable loss of ₹1.12 crore.

The matter was reported to Government (September 2014); their reply had not been received (March 2015).

5.6 Avoidable expenditure due to delay in providing hindrance free land

The delay in providing hindrance free land and the injudicious decision of the Department for revaluation of land offered by PCK for road improvement work resulted in cost overrun of ₹ 0.85 crore.

Public Works Department (PWD) accorded (November 2004) Administrative Sanction (AS) for Improvement of Bevinje-Alur-Iriyani Road between km 4/500 and 9/48 in Kasaragod district at a cost of ₹ one crore. The Chief Engineer (CE), Roads and Bridges, issued (March 2005) Technical Sanction (TS) for ₹1.38 crore. The Superintending Engineer, North Circle, Kozhikode

¹⁴ Shri.V.P.Thrimathy, Government contractor, Edavanna (Work I), M/S PMR Construction Company Malappuram (Work II)

(SE) awarded (September 2005) the work to a contractor¹⁵ at the accepted rate of 10 *per cent* above the Estimated Probable Amount of Contract (EPAC) of ₹1.13 crore. The Accepted Probable Amount of Contract (APAC) worked out to ₹1.24 crore. The work was to be completed within 12 months from September 2005.

KPWD manual enjoins upon the authorities concerned to ensure before the award of work that land would be ready for being handed over to the contractor. The required land either should have already been acquired or the otherwise available or acquisition proceedings should have reached at a fairly advanced stage, when it could be reasonably anticipated to make available the land before the contractor starts the work.

The contractor could not commence the work as the land measuring 486.49 cents on which the road was to be constructed belonged to Plantation Corporation Kerala Ltd. (PCK) which had not been handed over by PWD to the contractor even after the award of work. PCK had agreed to hand over the land in July 2004, but demanded compensation of ₹15.29 lakh towards cost of land and crop loss. The Department did not accept the cost of land demanded by PCK and instructed (February 2006) the District Collector, Kasaragod (DC) to revaluate the land. The DC re-evaluated the cost of land at ₹1,250 per Cent. The Revenue Department, however fixed the compensation at ₹9.21 lakh and settled the claim in December 2007 after a lapse of three years. Accepting the compensation, PCK transferred the land in July 2009.

Meanwhile, the contractor demanded (June 2009) revision of estimates according to SoR 2009 citing various reasons such as increase in cost of materials, revisions of SoR, enhancement in labour charges. The Department rejected the demand and terminated (March 2011) the work without risk and cost of the contractor as the Department was not able to hand over the site in time.

PWD accorded (March 2011) fresh AS for ₹3.43 crore for the work and the CE awarded TS for ₹3.39 crore. SE awarded the work (August 2011) to another contractor¹⁶ at the accepted rate of 13.50 *per cent* below the EPAC of ₹3.12 crore. Thus, the APAC was ₹2.73 crore stipulating the time for completion of work as September 2012. The work was progressing as of October 2014. The contractor was paid ₹1.29 crore up to July 2013.

Audit scrutiny of records of Executive Engineer, Roads Division, Kasaragod revealed the following:

The Department provided ₹16 lakh in TS for the purpose of payment of compensation on account of land acquisition from PCK. Despite having sufficient provision in the TS issued in March 2005 to pay the compensation of ₹15.29 lakh demanded by PCK, the Department insisted for fresh valuation by Revenue Department. The decision eventually delayed the execution significantly though the compensation amount got reduced marginally by ₹6.08 lakh. The cost escalation on account of the execution of the work through second contractor worked out to ₹91 lakh.

¹⁵ Shri.M.A.A.Haris, PWD contractor, P.O. Chengala, Kasaragod.

¹⁶ M/s. Delcon Engineering Pvt. Ltd. ,Chattanchal P.O Thokkil, Kasaragod district.

Thus, the failure of the Department to ensure the availability of the required land before the award of work and to accept the offer of land by PCK at a cost of ₹15.29 lakh for the construction of road and determination of the Department for valuation of land afresh by Revenue Department resulted in cost overrun of ₹85 lakh and time overrun of more than eight years.

The Department stated (January 2014) that delay in acquisition of land was inevitable. The reply is not tenable as it is mandatory for the Department to make available encumbrance free land to the contractor at the time of award of contract. The land should have been transferred at the time of award of contract in September 2005. PCK and PWD being Government entities, the dispute over the cost of land could have been settled subsequently by negotiations in order to avoid delay in completion of work.

Thiruvananthapuram,
The 1 6 MAY 2015

(N.NAGARAJAN)
Principal Accountant General
(Economic and Revenue Sector Audit), Kerala

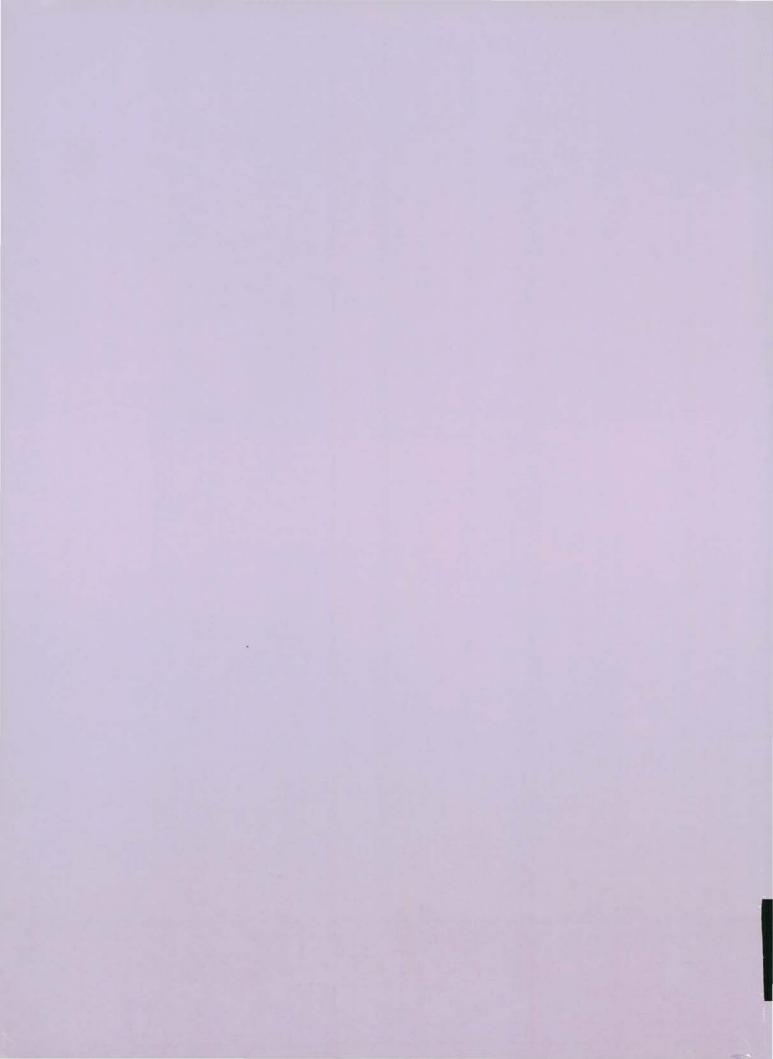
Countersigned

New Delhi,

The 2 0 MAY 2015

(SHASHI KANT SHARMA) Comptroller and Auditor General of India





ANNEXURE 1

Year-wise break up of outstanding Inspection Reports as on 30 June 2014 (Reference: paragraph 1.7.1; Page 7)

Year	Agriculture Department			Forest Department			Total					
	No. of outstanding IRs	No. of outstanding paras	No. of paras for which first reply has not been received		No. of outstanding IRs	No. of outstanding paras	No. of paras for which first reply has not been received		No. of outstanding IRs	No. of outstanding paras	No. of paras for which first reply has not been received	
			IR	Paras			IR	Paras			IR	Paras
Upto 2009- 10	66	255	0	0	107	200	0	0	173	455	0	0
2010-11	13	42	0	0	39	75	0	0	52	117	0	0
2011-12	30	88	0	0	24	71	0	0	54	159	0	0
2012-13	0	0	0	0	3	7	0	0	3	7	0	0
2013-14	26	152	2	5	40	169	0	0	66	321	2	5
Total	135	537	2	5	213	522	0	0	348	1059	2	5

ANNEXURE – II

Details of consultancy services assigned to external agencies by HED

(Reference: Paragraph: 3.6.3 Page 29)

Sl. No.	Name of Service provider	Details of project	Amount involved (₹)	Nature of service	Present status/ Remarks
1.	Central Water and Power Research Station, Pune	Muthalappozhy FH -Realignment of Breakwater	2046860	Model Studies	Completed
2.	Indian Institute of Technology, Chennai	Valiyathura FH	496350	Model Studies	Completed
3.	Central Water and Power Research Station, Pune	Varkala Chilakkoor FH	1420200	Model Studies	Completed
4.	Central Water and Power Research Station, Pune	Poonthura FH	1420590	Model Studies	Completed
5.	Central Water and Power Research Station, Pune	Neendakara FH – dredging siltation	1533690	Model Studies	Ongoing
6.	Central Water and Power Research Station, Pune	South Paravoor FH in Kollam District	5286130	Model Studies	Ongoing
7.	Managing Director, L&M Associates, Thiruvananthapuram	HED/23/09-10/CE dated 11/08/09 – Second stage Development of Chethi	72750	EIA Studies and preparation of EMP	
8.	Managing Director, L&M Associates, Thiruvananthapuram	HED/04/10-11/CE dated 03.07.10 – Second stage Development of Fishing Harbour at Arthunkal	75000	EIA Studies and preparation of EMP	

Sl. No.	Name of Service provider	Details of project	Amount involved (₹)	Nature of service	Present status/ Remarks
9.	Centre for Earth Science Studies, Thiruvananthapuram	Arthunkal FH	96789	Preparation of CRZ Status Report	
10.	Central Water and Power Research Station, Pune	Pathiyankara FH	1898490	Mathematical Model Study	Ongoing
11.	Central Water and Power Research Station, Pune	Development of FH at Arthunkal – Design of Breakwater	1174990	Desk and Wave Flume Studies	Ongoing
12.	Central Water and Power Research Station, Pune	Thottappally FH	3602480	Mathematical Model Studies and Hydro Dynamics	Ongoing
13.	Managing Director, L&M Associates, Thiruvananthapuram	HED/24/09-10/CE dated 22. 08.2009 – Development of FLC at Chellanam in Ernakulam District	98000	EIA Studies and preparation of EMP	
14.	M/s Envirochem Laboratories Private Ltd, Thrissur	HED/01/10-11/CE dated 11.05.10 Thanur FH in Malappuram District	118750	EIA Study	Completed
15.	M/s Envirochem Laboratories Private Ltd, Thrissur	HED/02/10-11/CE dated 29.05.10 – Parappanangadi FH in Malappuram District.	118750	EIA Study	Completed
16.	Centre for Earth Science Studies, Thiruvananthapuram	Valiyathura, Thanur, Parappanangadi and Vellayil FHs	312700	Preparation of CRZ Status Report	
17.	Central Water and Power Research Station, Pune	Thanur FH – Design of Breakwater	1190090	Desk and Wave Flume study	Completed
18.	Managing Director, L&M Associates, Thiruvananthapuram	03/10-11/CE dated 16.06.10 - Vellayil FH	122000	EIA Study	Completed
19.	Central Water and Power Research Station, Pune	Vellayil FH	1190090	Desk and Wave Flume study	Completed

Sl. No.	Name of Service provider	Details of project	Amount involved (₹)	Nature of service	Present status/ Remarks
20.	Central Water and Power Research Station, Pune	Construction of Puthiyangadi FH	3427610	Model Study	Ongoing
21.	Central Water and Power Research Station, Pune	Construction of Manjeswaram FH	1263921	Model Study	Completed
22.	Central Water and Power Research Station, Pune	Construction of FH at Ajanur in Kasargode District	1928600	Model Study	Ongoing
23.	Central Water and Power Research Station, Pune	Manjeswaram FH	1174990	Desk and Wave Flume study	Ongoing
24.	Centre for Earth Science Studies, Thiruvananthapuram	Manjeswaram FH	74453	Preparation of CRZ Status Report	Completed
25.	NIFPHATT, Kochi	01/11-12/CE dated 2/06/11 – Installation of 10 tonne Tube Ice Plant at Neendakara FH	830250	Technical and Technological Support	Civil work completed, Mechanical and Electrical works are under process of arranging.