

**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2011-2014)**

**SEVENTEENTH REPORT**

(Presented on 26th June, 2012)



SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

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**On**

**Paragraphs relating to Co-operation Department contained in the  
Report of the Comptroller and Auditor General of India  
for the year ended 31st March 2007 (Civil)**

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\* Resigned on 29th March 2012.

## INTRODUCTION

I, the Chairman, Committee on Public Accounts having been authorised by the Committee to present this Report on their behalf present the Seventeenth Report on paragraphs relating to Co-operation Department contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2007 (Civil).

The Report of the Comptroller and Auditor General of India for the year ended 31st March, 2007 (Civil) was laid on the Table of the House on 26th February 2008.

The Committee considered and finalised this Report at the meeting held on 28th March 2012.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,  
26th June, 2012.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

## REPORT

### CO-OPERATION DEPARTMENT

#### AUDIT PARAGRAPH

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

##### *Highlights*

Internal Control is an integral component of an organisation's management processes which are established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data are reliable and the applicable laws and regulations are complied with so as to achieve organisational objectives. Internationally the best practices in Internal Control have been given in the COSO\* framework which is a widely accepted model for internal controls. In India, the GOI has prescribed comprehensive instructions on maintenance of internal control in Government departments through Rule 64 of General Financial Rules, 2005. In the State, the accounting and other controls are laid down in the codes/manuals of the State. A review of internal control on selected areas of Co-operation Department has shown that:

*Budget estimates were not realistic resulting in persistent savings leading to surrender of savings on the last day of the financial year. Lack of regular monitoring of expenditure resulted in rush of expenditure in the last month of the financial year.*

*On account of lax controls/mechanism for watching utilization of funds released to co-operatives, the Department could not ensure timely utilization of funds for the intended purposes. Funds totaling ₹1.59 crore were retained without utilisation in three out of five districts test-checked. Utilization certificates from 416 institutions involving ₹57.91 crore were not obtained.*

*Administration of recovery of loans was poor. Due to inadequate monitoring mechanism dues and interest as furnished by the loanees were incorporated in the DCB. Against ₹39.23 crore paid by Government to NCDC, the amount recovered from societies was only ₹2.29 crore.*

*Failure to identify eligible beneficiary Societies under Agricultural Debt Relief Scheme led to payment of excess interest subsidy of ₹6.91 crore in 7 out of 14 districts.*

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\* Committee of Sponsoring Organisation of the National Commission of Fraudulent Financial Reporting or the Treadway Commission.

*Out of ₹3.21 crore released to co-operatives in four districts for computerisation under NCDC Scheme, ₹2.61 crore remained unutilised causing unnecessary interest liability to Government due to lack of monitoring by the Department.*

NO INTERNAL AUDIT WING WAS FUNCTIONING IN THE DEPARTMENT

### **Introduction**

Co-operative movement has been identified as an instrument for achieving socio-economic transformation with special focus on rural population and livelihood. Kerala has a wide network of co-operatives engaged in various promotional activities such as distribution of credit, marketing, agro-processing, consumer activities, public health, education, insurance and infrastructure development. There are 12802 co-operative institutions under the control of the Registrar of Co-operative Societies (RCS).

The functions of the Co-operative Department include promotional activities viz., disbursement of assistance/loans sanctioned by Government/National Co-operative Development Corporation (NCDC) to Co-operative Institutions for implementation of various schemes\*, monitoring the utilisation of funds, effecting recovery of principal/interest on loans etc. Besides, statutory functions like audit of co-operatives, arbitration, execution and liquidation are also the responsibility of the Department. The affairs of certain categories of Co-operatives, such as Handlooms, Coir, Khadi and Village Industries, Fisheries, Milk Marketing etc., are administered by the respective Heads of Department, but the audit of all Co-operatives is carried out by RCS.

### **Organisational set up**

The Department of Co-operation is headed at Government level by the Principal Secretary to Government. The RCS is the Head of the Department assisted at Headquarters by five Additional Registrars, two Joint Registrars, a Law Officer, a Finance Officer and other supporting staff. The districts have one Joint Registrar (General) and one Joint Registrar (Audit) for administrative and audit functions respectively; they are assisted by 36 Deputy Registrars. At taluk level one Assistant Registrar (General) and one Assistant Registrar (Audit) are functioning.

### **Audit Objectives**

This review of internal control has been conducted to test compliance with the instructions in the Kerala Financial Code, Kerala Budget Manual, Kerala Treasury Code and related accounting instructions. In addition, the arrangements

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\* Integrated co-operative Development Project, Macro Management, Margin Money, Infrastructure Development, revitalization, Development of Consumer Co-operatives etc.

for information, communication, monitoring and evaluation including Internal Audit and Vigilance have been examined. Internal control activities designed and put into operation for ensuring achievement of programme objectives have also been examined for some selected areas.

#### **Audit coverage**

An evaluation of the internal control system in the Department of Co-operation covering the period 2001-02 to 2006-07 was conducted during January to June 2007. Records in the Administrative Secretariat, Office of the RCS, offices of the Joint Registrar (General) and Joint Registrar (Audit) in five (out of 14) selected districts (Thiruvananthapuram, Ernakulam, Palakkad, Wayanad and Kannur) and Assistant Registrar (General) and Assistant Registrar (Audit) in nine taluks in these districts were examined.

An entry conference was conducted in January 2007 with the RCS and his team. The audit objectives were discussed and explained to them. A meeting with the Principal Secretary (Co-operation) was also held. The audit team collected data from the RCS and field offices, issued audit enquiries to elicit information, scrutinized files/records, conducted discussions with officers and visited selected offices to assess the internal control system and vigilance mechanism in the Department. An exit meeting was conducted with Principal Secretary, Co-operation in June 2007. The audit findings are discussed in the succeeding paragraphs.

#### **Compliance with State Financial Rules and Instructions in the Budget Manual**

##### *Inadequacies in surrender of savings*

The position in respect of Budget provision and its utilization during 2002-07 by the Department is tabulated below:

*(Rupees in crore)*

<i>Year</i>	<i>Budget provision</i>			<i>Actual expenditure</i>	<i>Surrender</i>
	<i>Original</i>	<i>Supplementary</i>	<i>Total</i>		
2002-03	92.75	28.99	121.74	111.57	5.41
2003-04	82.50	..	82.50	73.32	9.01
2004-05	91.33	35.00	126.33	113.19	6.39
2005-06	97.75	140.00	237.75	218.72	20.93
2006-07	119.05	7.17	126.22	84.04	43.98

There was savings during all the years under review indicating that the budget estimates/proposal for supplementary funds were not realistic. During 2002-03 to 2004-05 out of total savings of ₹ 32.49\* crore an amount of ₹ 20.81 crore only was surrendered. In all the above years, surrender of funds (₹ 85.72 crore aggregate) was made on the last day of the respective financial year indicating non-adherence to rules and procedures of financial control over expenditure. Finance Department was thus deprived of the opportunity to re-appropriate funds to other needy departments.

### **Rush of expenditure**

According to Kerala Budget Manual the flow of expenditure should be so regulated that there should not be any rush of expenditure particularly during the closing months of the financial year. As per Article 40(c) 7 of Kerala Financial Code (KFC) Volume I, no attempt should be made to prevent the lapse of an appropriation by any undue rush of expenditure during March. These directions were not adhered to by the RCS for plan expenditure of every financial year under review.

*(Rupees in crore)*

<i>Year</i>	<i>Total Plan expenditure</i>	<i>Expenditure during March</i>	<i>Percentage</i>
2003-04	17.70	9.40	53
2004-05	18.03	6.68	37
2005-06	14.58	2.53	17
2006-07	7.38	4.91	67

The fact that Plan expenditure incurred in March during 2003-04 to 2006-07 reached up to 67 per cent indicated lack of effective monitoring mechanism in the department to regulate the flow of expenditure.

### **Compliance with State Treasury Rules/Financial Rules**

#### *Physical verification of cash*

As per Rule 92 of KTC Volume I, the head of office is required to verify the cash balance physically and affix signed and dated certificate to that effect.

This is not being done in two of the offices test checked.

#### *Failure to issue demand notices*

As per Article 234 [3(e)] of KFC Volume I, the officers responsible for maintenance of loan ledger and watching recovery of loan should issue warning

\* 2002-03: ₹ 10.17 crore, 2003-04: ₹ 9.18 crore, 2004-05: ₹ 13.14 crore.

notices in advance indicating the number of instalments due, principal, interest and penal interest.

This was not done in respect of State Government/NCDC loans (Share Capital, etc.) in one of the offices test checked.

### **Internal Control Activities**

#### *Lack of monitoring of expenditure from TP Account*

Funds released under State Plan/Central assistance for implementation of various schemes were drawn by the department and credited to the Treasury Public (TP) Accounts maintained by District/State Co-operative Banks in various treasuries.

Crores of Rupees were kept in TP Accounts of various Co-operatives/Banks in District Treasury, Thiruvananthapuram. The Department did not have details of the number of TP Accounts maintained, details of expenditure and present balance in each account. There was no centralised system to streamline and monitor the flow of expenditure from these accounts. The departmental officers had to rely on State Co-operative Bank/District Co-operative Banks/Federations to ascertain the balance in the TP Account on a given date.

It was noticed in audit that funds released by RCS for various schemes were deposited in the TP Account No. 637 maintained in the name of Kerala State Co-operative Bank (KSCB) at District Treasury, Thiruvananthapuram. The accumulated balance in the account as on 31st March 2006 was ₹ 226.62 crore. During 2006-07 KSCB withdrew ₹ 195 crore. But these withdrawals were made without the knowledge of RCS. Thus, the RCS was not aware of the transactions in the account maintained to operate the funds released for various schemes.

This showed deficient financial management and lack of monitoring by RCS of the funds drawn by him and released to the implementing agencies.

#### *Non-utilization of funds withdrawn under plan schemes*

Similarly, Plan funds sanctioned to various Co-operative Societies by means of share capital contribution, working capital loan/subsidy, etc. were drawn by the Joint Registrars and deposited in the Special Savings Accounts maintained by the Co-operative Societies in District/State Co-operative Banks. These amounts are to be released to the Co-operative Societies with the prior permission of the Joint Registrar of Co-operative Societies.

It was noticed that an amount of ₹ 1.59 crore was lying unutilized in three out of five selected districts.

*(Rupees in lakh)*

<i>Name of Bank</i>	<i>Amount</i>
District Co-operative Bank, Ernakulam	40.86
District Co-operative Bank, Palakkad	86.68
District Co-operative Bank, Kannur	31.29
Total	<u>158.83</u>

While the amount retained in respect of Ernakulam and Kannur related to the periods 1994-2006 there was no details to show the period to which the amount relates in respect of Palakkad. This indicated the lack of proper mechanism to ensure the timely utilisation of the amounts for the intended purpose.

*Failure to obtain utilization certificates*

Financial assistance from GOI, State Government and funding agencies of both the Governments are sanctioned to various co-operative institutions for various projects, schemes and programmes. A scrutiny of the records of the department showed that the implementing agencies were not submitting utilization certificates to the Department in time and the department did not take action to obtain them. The position of pending utilization certificates for the period 2002-03 to 2006-07, was as follows:—

*(Rupees in crore)*

<i>Year</i>	<i>Number of institutions from which UCs pending</i>	<i>Amount involved</i>
2002-03	84	20.89
2003-04	68	8.77
2004-05	86	9.19
2005-06	117	15.63
2006-07	<u>61*</u>	<u>3.43</u>
Total	<u>416</u>	<u>57.91</u>

\* Only part figures.

The fact that the department was not aware of the position of utilization of an amount as large as ₹ 57.91 crore allotted to 416 institutions from 2002-03 to 2006-07 indicated lack of any monitoring and absence of a centralized system at the RCS to ensure the timely utilisation of funds released and to obtain utilization certificates from the implementing agencies.

*Omission to demand dues/interest in time*

Interest on NCDC loan due from RUBCO\* for the period from April 2003 was not demanded by the RCS up to July 2006. The reason attributed was non-availability of relevant details in the offices of Joint Registrar (General)/ Assistant Registrar (General), Kannur since proposals for financial assistance were neither routed through nor intimated to the district/circle office. The interest amount of ₹ 8.31 crore from April 2003 to September 2006 as worked out and furnished by the loanee was incorporated in the Demand Collection Balance (DCB) statement without any verification.

The Joint Registrar of Co-operative Societies, Ernakulam had also included figures relating to four apex institutions in the DCB statement for the period from 1st July 2006 to 30th September 2006 for the first time based on the directions from the RCS. Prior to this, the dues from these apex institutions were not demanded through the district offices. The total dues as collected from the records worked out to ₹ 56.71 crore. The correctness of the figures was not seen subjected to any check by the Joint Registrar. This showed that the district level officers had no mechanism to monitor the transactions within their jurisdiction.

*Short realization of dues*

Government sanctioned (October 2006) payment of ₹ 92.34 crore to NCDC being the amount of principal and interest on various loans availed from them. Out of this, ₹ 39.23 crore was due from Co-operative Societies under the Department. As per the DCB statement prepared by the RCS, figures relating to NCDC were shown separately only in respect of Apex Societies and in the case of Primary Agricultural Credit Societies (PACS) figures for NCDC and Government loans were not shown separately. The position of the demand raised by the RCS and collection realized for the period 1st April 2005 to 31st March 2006 was as follows:

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\* The Kerala State Rubber Co-operative Limited.

(Rupees in crore)

	<i>Apex Societies</i>			<i>Primary Agricultural Co-operative Societies</i>		
	<i>Demand</i>	<i>Collection</i>	<i>Percentage</i>	<i>Demand</i>	<i>Collection</i>	<i>Percentage</i>
Loan	3.38	0.12	3.55	1.55	0.73	47.09
Interest on loan	5.68	..	..	0.72	0.23	31.94
Share capital	2.43	0.05	2.06	1.50	1.16	77.33
Total	11.49	0.17	1.48	3.47	2.12	56.23

The huge difference between the amount repaid by the Government to NCDC, the amount demanded by the RCS and that collected indicated lack of adequate controls for realising the dues to Government.

*Short recovery due to incomplete instructions*

As per Government Decision (ii) below Rule 156 of Kerala Service Rules (KSR) leave salary and pension contribution (LS and PC) in respect of a post will be worked out at one fourth of the total of the average cost\* plus Dearness pay, Special pay/Personal pay and Bonus/Special Festival Allowance admissible on the average cost. The element of Bonus/Special Festival Allowance was included in 1993. Government sanctions ₹ 1,000 as Festival Allowance annually for its employees who are not eligible for bonus.

There were 1322 personnel working in various Co-operative Institutions as on 31st March, 2007 covered under these provisions. As per instructions issued by the RCS from time to time, LS and PC are to be worked out at one fourth of the average cost. The RCS omitted to intimate the field offices the revised instructions to include the Bonus/Special Festival Allowance element also for reckoning LS and PC. For the period from 1993-2006, the short recovery worked out to ₹ 35<sup>†</sup> lakh (approximately) taking the minimum number of personnel so employed as 1000. This indicated that the instructions/orders issued by Government were not scrupulously followed by the department.

*Agricultural Debt Relief Scheme*

Government enacted (2001) the Kerala Agricultural Debtor's (Temporary Relief) Act, 2001 to grant temporary relief to the farmers for the payment of

\* Minimum of the scale plus maximum of the scale divided by two.

† 1,000 x 1,000 x 14 = 35,00,000.

interest on agricultural loan. As per para 7 of the Act the Co-operatives should apply to the Joint Registrar of concerned district for reimbursement of interest waived by them under the Debt Relief Scheme. Government sanctioned (March 2006) ₹ 140 crore for reimbursement of interest waived by Co-operative Societies to farmers on agricultural loans and instructed that the amount should be utilized only for the payment of interest relief on the schemes under the above Government Orders. The amount was drawn (March 2006) and credited to TSB Account of RCS in District Treasury, Thiruvananthapuram. It was noticed that an amount of ₹ 107.37 crore only had been released to the Co-operative Societies up to December 2006. The balance amount of ₹ 32.63 crore was refunded to Government in March 2007.

The sanction of ₹ 140 crore was made based on claims of the Co-operative Societies subjected to pre-audit by departmental officers during March 2006. Later, on receipt of complaints that all the conditions stipulated in the above Government Orders were not complied with by the Societies, the RCS ordered (January 2007) to conduct a post audit of these claims. The post audit is in progress and according to data available in respect of seven districts, an amount of ₹ 6.91 crore\* was paid in excess of eligibility.

The irregularity was detected only on receipt of complaints from the public. This meant that the reports received by the RCS from lower level offices were not reliable indicating that there was no foolproof system to identify the eligible loanees. Though the RCS had directed the JRs to complete post audit and submit the report by 28th February, 2007 the excess payments relating to other seven districts had not been finally assessed.

*Non-utilization of NCDC Funds for computerization of Co-operative Societies*

NCDC sanctioned (September 2000) ₹ 3.32 crore as loan assistance for computerization of 66 Primary Co-operative Societies/Farmers Service Co-operative Banks in the State, Further, an amount of ₹ 1.43 crore was sanctioned in January 2004 for benefiting 30 Co-operative societies.

As per Rules of NCDC Scheme, application for assistance under the scheme shall be submitted in duplicate to the RCS through the Joint Registrar of the district concerned supported by resolution of the Managing Committee of the Society specifying the amount of assistance required.

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\* Kottayam :₹ 0.04 crore, Idukki :₹ 0.10 crore, Thrissur :₹ 0.15 crore, Palakkad :₹ 4.23 crore, Malappuram :₹ 0.33 crore, Wayanad :₹ 2.05 crore and Kasargod :₹ 0.01 crore.

On scrutiny of the accounts of five districts it was noticed that in four districts major portion of the amount remained unutilized as detailed below:

*(Rupees in lakh)*

<i>Sl. No.</i>	<i>District</i>	<i>Number of beneficiary societies</i>	<i>Amount sanctioned</i>	<i>Amount utilised</i>	<i>Amount unutilised</i>
1	Thiruvananthapuram	9	31.25	5.50	25.75
2	Ernakulam	2	8.00	0.00	8.00
3	Palakkad	11	57.00	5.50	51.50
4	Kannur	45	224.67	48.50	176.17
	Total	67	320.92	59.50	261.42

As the Government was committed by agreement to repay the loan with interest to NCDC from the date on which loan was credited to Government account non-utilisation of the funds had created unnecessary liability to Government without serving any purpose.

The reasons attributed to the non-utilisation of funds were (i) amount could not be withdrawn from TP Account in time for want of Ways and Means clearance from Government (ii) the rate of interest of NCDC was found higher and the societies were reluctant to avail the loan.

As the loans were sanctioned by NCDC on the basis of application by the Co-operative Societies supported by resolutions passed by the Board of Directors and recommended by RCS, timely utilization of the sanctioned loan amount and the refund of unutilized fund by the societies should have been ensured. Lack of monitoring by the department caused loss to Government by way of interest. In the absence of details the liability could not be assessed.

#### *Annual audit plan*

As per the direction of RCS (November 1981) audit programme should be drawn up for the work proposed to be conducted during a year.

However, scrutiny revealed that no detailed plan was being prepared by Assistant Registrar (Audit) who is vested with powers to audit societies and under whose immediate control most of the Auditors are working.

*Shortfall in audit*

As per the Section 63(4) of Co-operative Societies Act, 1969 as amended in 2000, it shall be the duty of the Director of Co-operative audit to audit or to cause to be audited through persons authorized by him, the accounts of every society at least once in a year. As the Director of Co-operative Audit had not been appointed, this statutory function was being done by the RCS, which is beyond his power under the Act.

Scrutiny of records maintained by departmental officers revealed heavy shortfall in audit. The extent of shortfall in four of the selected districts as on 31st March 2006 was as follows:

<i>District</i>	<i>Up to 2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Thiruvananthapuram	180	200	316	636	1316
Ernakulam	114	215	503	956	1188
Palakkad	79	49	106	243	515
Kannur	..	3661	3782	3523	3402

The shortfall in audit as of March 2006 for the whole State was 77404.

One of the reasons attributed by the department for the huge pendency in audit is shortage of manpower. It was stated that the staff pattern was fixed as back as in 1981 and there was no revision in the strength of staff corresponding to the increase (78 per cent) in the number of societies.

*Continuity of top management*

The post of RCS, the head of the Department, was lying vacant from June 2002 till date (June 2007)

It was noticed that eight Additional Registrars held charge of the RCS for the last five years. During the period, 12 to 21 persons held charge of JRs at district level and 9-12 persons held charge at the taluk level offices. Frequent changes of top management are against the principle of continuity and would adversely affect the efficiency of the Department.

*Departmental Manual not prepared*

A departmental Manual is essential for any department for regulating and streamlining its functions and activities. But no departmental manual was prepared in the Co-operative Department. In the absence of a manual, effective internal control cannot be enforced.

*Independence of Audit personnel from Co-operative Department not ensured*

As per Rule 156 of K.S.R Vol-I an addition is made to regular establishment on the condition that cost or a definite portion of its cost shall be recovered from where the additional establishment is created. There are 1165 personnel working in various Co-operative institutions as on 31st October, 2006 under the provisions of KSR 156. This would be around 33 per cent of the total number of posts in the department. One of the conditions for the creation/continuation of the post is that the respective Co-operative institution should pass a resolution seeking for the creation/continuance of post. When the audited institution is at liberty for creation/continuance of the post of their Auditor at the departmental level regardless of the magnitude of the business of the society the independence and efficiency of audit cannot be ensured.

*Defective maintenance of Demand, Collection, Balance Statement*

The Demand-Collection-Balance (DCB) Statements are intended to indicate the exact position of the receipts due, collected and outstanding during a particular period and serve as an instrument of internal control system.

Items of receipts incorporated by the department in DCB are audit fees, arbitration fees, liquidation charges, application fees, etc. In addition, repayment of financial assistance sanctioned by State/Central Governments, NCDC, etc. were also being monitored by the department through the DCB. But it was observed during audit that the basic records from which DCB statements are prepared were not properly maintained by the field offices. A difference of ₹ 4.17 lakh was noticed in the DCB prepared and basic records of two Taluk level offices. This was also observed by Financial Wing of the RCS. Again, the Principal Secretary (Finance) reported in July 2006 that the basic records were not properly maintained by the Joint Registrar (General) and Joint Registrar (Audit) and Taluk level offices in Thiruvananthapuram District.

The Public Accounts Committee (PAC) in its 47th Report (2001-2004) had recommended prompt maintenance of basic records such as loan register, DCB register, etc, showing the details like sanctioning order, date of loan, amount, rate of interest, particulars of repayment, etc., relating to the various levels of officers of the Department of Co-operation. This was communicated to the field offices by the RCS in August 2003. On a review of the registers maintained in the department it was observed that the instructions had not been followed till date (March 2007). Thus the DCB prepared by the RCS from the returns furnished by the field offices cannot be relied upon.

*Monitoring including Internal Audit and Vigilance arrangements Annual Administration Report*

As per directions, all Heads of Departments are required to submit annually their Administration Reports to Government on or before 15th April of the succeeding financial year and the Government Secretaries should review these reports before 15th May and make them available for presentation when the budget demands are taken up for consideration by the Subject Committee.

Administration Reports up to 1999-2000 only had been published by the Department. The Reports for five years from 2000-01 to 2004-05 though prepared by the RCS were pending with the administrative department and the Report for 2005-06 had not been finalized.

*Internal Audit Wing*

According to the instructions (December 2003/2005) of Government all departments should constitute Internal Audit Wing to conduct the audit of accounts of offices under their control. But no Internal Audit Wing was functioning in the Department of Co-operation.

The reason attributed by the Department for the non-formation of Internal Audit Wing was that though the number of co-operative societies increased annually the number of employees remained stagnant and there was no staff available to form the Internal Audit Wing.

*Response to audit*

Principal Accountant General (Audit) conducts audit of the RCS and subordinate offices of the Department and major irregularities are reported through Inspection Reports (IR). As of March 2007, 125 Paragraphs in 53 IRs issued up to 31st March 2007 were outstanding which included objections from 2001 onwards as detailed below:

<i>Year</i>	<i>Number of Inspection Reports</i>	<i>Number of Paragraphs</i>
2001-02	4	8
2002-03	8	14
2003-04	9	14
2004-05	6	16
2005-06	19	55
2006-07	7	18
Total	53	125

As per the Kerala Financial Code, the head of office is to take action to rectify the irregularities pointed out during audit even without waiting for receipt of the IR. But even after several years of the issuance of IRs, irregularities pointed out were not rectified.

Out of these even first reply was not furnished in respect of 11\* Inspection Reports containing 38 paragraphs.

#### *Vigilance Mechanism*

Government ordered (June 1997) the setting up of Vigilance Cell in all the Government departments. The senior most officer second to the rank of Head of Department was to be designated as the Vigilance Officer and supporting staff provided as necessary. It was aimed at strengthening the administrative vigilance set up in each organisation against corruption and malpractices, if any, from within the organization. The organizational set-up of vigilance mechanism in the Department of Co-operation consists of a Joint Registrar (Vigilance) at RCS assisted by six Deputy Registrars (Vigilance)<sup>†</sup> in charge of the districts.

Disciplinary proceedings from 2002 onwards against 108 officials for various malpractices including eight cases of financial irregularity were initiated. Out of this, 50 cases were still pending settlement as detailed below:

<i>Year</i>	<i>Total Number of cases</i>	<i>Number of cases settled</i>	<i>Number of cases pending</i>	<i>Number of cases involving financial irregularities</i>
2002	22	18	4	3
2003	21	14	7	4
2004	22	12	10	1
2005	25	11	14	..
2006	18	03	15	..
<b>Total</b>	<b>108</b>	<b>58</b>	<b>50</b>	<b>8</b>

It was noticed that 40 of the officials involved in the 108 cases were of the rank of Assistant Registrars and above. Two departmental officers were reported to be involved in major financial irregularities viz., fabrication of vouchers in payment of legal fees, printing expenses, payment of wages, election expenses, etc, as per the Inspection report for the years 2001-02 and 2002-03 of Nedyanga Service Co-operative Bank (Kannur District). The amount involved was

\* 2005-06 IRs-9 Paras- 31, 2006-07 IRs-2 Paras-7

<sup>†</sup> Deputy Registrar (Vigilance) at Thiruvananthapuram, Kottayam, Ernakulam, Palakkad, Kozhikkode and Kannur.

₹ 2.69 lakh. Though the irregularities and involvement by the departmental officers was brought to notice in March 2004, disciplinary action was initiated against them only in January 2007, i.e., after a delay of three years.

#### **Recommendations**

- Pre-budget scrutiny of funds should be done with great care so as to avoid savings and surrender of funds at the end of the financial year.
- Budgetary control should be strengthened so that rush of expenditure in the last month of the year is avoided.
- Effective monitoring mechanism should be put in place to watch utilisation of funds released to co-operatives.
- The department should take urgent steps to recover overdue principal and interest from loanees and evolve suitable mechanism for regular recovery of dues to Government.
- The department should ensure proper maintenance of basic records as required under the existing instructions.
- Audit of co-operatives should be organized according to the statutory provisions and internal audit of the department according to Government instructions.

These points were referred to Government in July 2007; reply has not been received (September 2007).

[Paragraph 5.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2007 (Civil)]

Notes furnished by Government on the above audit paragraph are included as Appendix II.

The Committee enquired about the huge difference in the Budget provision and actual expenditure during the period 2002-03 to 2006-07. Out of the total provision of ₹ 121.74 crore in 2002-03 including the Supplementary grant of ₹ 28.99 crore, ₹ 5.41 crore was surrendered. Similarly in 2003-04, ₹ 9.01 crore was surrendered out of ₹ 82.5 crore. Also in 2004-05, 2005-06 and 2006-07, the total budget provisions were ₹ 126.33 crore, ₹ 237.75 crore and ₹ 126.22 crore respectively and the amount surrendered were ₹ 6.39, ₹ 20.93 and ₹ 43.98 crore respectively.

2. To this, the Additional Chief Secretary, Co-operation Department, replied that the surrender of amounts during 2002-03, 2003-04 and 2004-05 was

mainly in the category of non-plan expenditure and salary projections were higher. The surrender amounts were on the higher side during the years 2005-06 and 2006-07.

3. The Committee enquired about the higher surrenders during the years 2005-06 and 2006-07 and sought the reasons, for the decrease in actual expenditure during the succeeding years from 2002-03. The Committee again asked the reason for the unusual difference between budget provision and actual expenditure. But a satisfactory answer was not forthcoming from the witnesses.

4. The Additional Chief Secretary, Co-operation Department stated that the amount was provided in the budget for the schemes financed by NABARD and NCDC and the assistance of NABARD was ₹ 25 crore to ₹ 30 crore. He admitted that delay occurred in submitting proposal in time.

5. The Committee pointed out that the actual expenditure during 2005-06 was ₹ 218.72 crore, but in 2006-07 actual expenditure was only ₹ 84.04 crore. The Committee further asked the reason for the surrender of a huge amount of ₹ 43.98 crore out of original budget provision of ₹ 119.05 crore in 2006-07. The Committee asked the reasons for moving supplementary grants without fully spending the original budget provision. The Additional Registrar of Co-operative Societies explained that most of the schemes were sanctioned by NABARD and NCDC. An amount of ₹ 30 lakh was provided for macro management scheme of the Control Sector Scheme but the Central Government did not sanction that amount. Also ₹ 300 lakh had been given as budget provision for share and subsidies of Primary Service Co-operative Banks. Out of this, ₹ 225 lakh had been provided for Risk Fund Scheme. But the rules for the scheme was not approved.

6. The Committee enquired specific reasons for asking supplementary grants of ₹ 7.17 crore where there was savings in the original budget provision amounting to ₹ 119.05 crore in the year 2006-07. The Committee again enquired as to why the amount from saving was not re-appropriated instead of moving Supplementary Demands for Grants. The Additional Chief Secretary, Co-operation Department replied that Supplementary Demands were moved scheme wise under NCDC Schemes.

7. The Committee expressed displeasure over the delay on the part of the Registrar of Co-operative Societies in submitting the proposals to National Co-operative Development Corporation which usually release share contributions to Marketing Societies and Fisheries Societies and that in turn goes to the account of State Government. The Committee deplored the method of depositing that fund in the T.P Account. The Additional Chief Secretary, Co-operation

Department explained that the proposals of NCDC and NABARD would be pending in the month of January when Supplementary Demands for Grants were usually moved. It was also submitted that ₹ 7 crore had been projected as additional requirement during January.

8. The Committee asked about the violation of the provisions in the Budget Manual which stipulates that surrender of savings should not be done at the end of the financial year and expressed concern on the practice of surrendering of savings up to the fag end of the financial year.

9. Regarding the undue rush of expenditure during March, the Additional Chief Secretary, Co-operation Department replied that 99% of the amount was given to Co-operative Societies by entering into an agreement with them by mortgaging their immovable property.

10. The Committee asked about a huge expenditure amount of ₹ 9.40 crore in March which was 53% of the total expenditure of ₹ 17.70 crore in 2003-04. To this, the Additional Chief Secretary, Co-operation Department replied that the figures of 2006-07 was available then and the total expenditure was ₹ 24.57 crore and expenditure in March was only 20% (₹ 4.914 crore).

11. The Additional Chief Secretary disclosed that out of allotment of ₹ 34 crore, the expenditure was ₹ 13.68 crore in respect of NCDC Scheme during 2006-07. About 60% of the Scheme was not spent due to the lack of sanction from NCDC. On the Committee's enquiry about the non sanctioning of funds from NCDC, he replied that it was due to the difference in the criteria set by the working group. But the Committee disagreed with this reply and reiterated that submission of proposals should be done without any delay and there would be no dearth of funds from NCDC.

12. The Committee enquired about the reason for the issuance of re-appropriation orders of NCDC in March and the Additional Chief Secretary, Co-operation Department replied that sanction was issued in the last week of March.

13. On hearing this, the Committee was critical of the attitude of the Finance Department in issuing sanction orders on 30th and 31st of March. Citing the 5% expenditure and 95% surrender in the NABARD Scheme of 2005-06, the Committee enquired the reason for the surrender of ₹ 47 crore sanctioned by NABARD. The Additional Registrar of Co-operative Societies replied that amounts higher than 20 lakh of NABARD and NCDC were sanctioned in Mumbai and the orders were usually received only on 31st of March. The Additional Chief Secretary, Co-operation Department also submitted that in 2009-10, the department had achieved 84% sanction from NCDC and 96% from NABARD.

14. The Committee expressed strong disapproval over the violation of Kerala Treasury Code, Rule 92 which states that the Head of Office should conduct physical verification of cash balance and affix signed and dated certificate to that effect. On the reply of Additional Chief Secretary, Co-operation Department that a Circular had been issued in this regard, the Committee expressed its displeasure that even after the issuance of Circular, the impropriety was repeating as reported by the Committee's 47<sup>th</sup> report during 2001-2004. The Additional Chief Secretary, Co-operation Department also added that the Department was conducting physical verification of cash promptly by deputing two officials.

15. The Committee again enquired about the case of misappropriation, if any, detected by the Monitoring and Review Committee formed in 13-7-2006 numbered 27874/06 and demanded that the details regarding the number of districts which submitted reports, number of cases, action taken cases etc. should be submitted to the Committee within a fortnight. The Additional Chief Secretary, Co-operation Department answered in the affirmative. The Committee sternly recommended to take disciplinary action against Deputy Registrar, Joint Registrar, Additional Registrar of those districts where cash verification was not conducted properly.

16. The Committee enquired the reason for not issuing warning notices to the officers responsible for the improper maintenance of loan ledger and not carefully watching recovery of loan; even the Demand, Collection and Balance Statement was not maintaining accurately. The Secretary, Finance (Expenditure) Department submitted that the loan ledgers are maintained in the Secret Section of Finance Department but the Registrar of Co-operative Societies had not given the details regarding loan availed, loan repaid, outstanding amount and penal interest. On this, the Committee strongly directed the department to send a report to Government and place that before the Council. The Committee added that the whole impropriety was with the officers and not on the institutions whether they are Marketing Federation, Rubber Mark, State Co-operative Bank, Joint Registrar's Office, Deputy Registrar's Office or Additional Registrar's Office.

17. The Additional Registrar of Co-operative Societies further explained that all registers in the offices of the Assistant Registrar and Joint Registrar have been updated by a separate campaign and certificates authenticating the updation were under verification. But the actual amount could not be ascertained due to this updation.

18. On the Committee's question regarding the review mechanism in the department, the Additional Registrar of Co-operative Societies replied that review was conducted in the department level and said that more than ₹ 7 crore had been collected in terms of revenue in April 2010. The Committee repeated that the details regarding the date and number of Warning Notices issued etc. should be informed within 10 days. Opining that the department is not adhering to the general financial discipline, the Committee fiercely blamed the poor maintenance of records in the departments.

19. Regarding the lack of monitoring of expenditure from TP Account, the Committee reprehended that the department did not have details of the number of TP Accounts maintained, details of expenditure and present balance in each account and there was no centralised system to streamline and monitor the flow of expenditure from these accounts. The Committee viewed that the department had to rely on State/District Co-operative Banks/Federations to ascertain the balance in the TP Account on a given date. The Committee also noticed that the Registrar of Co-operative Societies did not have the information that out of ₹ 226.62 crore in their account in Kerala State Co-operative Bank, ₹ 195 crore had been drawn. The Committee viewed this as a serious violation of a Government Order which directs that the amount should be drawn only with the prior sanction of the Registrar of Co-operative Societies. The Committee also pointed out that no records like DCB Registers, loan ledgers etc. were properly maintained in the Department.

20. The Additional Chief Secretary, Co-operation Department clarified that out of ₹ 220 crore sanctioned in 2006-07, up to 13th March 2007, the expenditure was ₹ 184 crore and the balance amount was ₹ 36 crore. The Committee asked whether the amount was included in the budgetary provision and the witness replied in the affirmative. The Committee asserted that the audit objection against the withdrawal of ₹ 140 crore sanctioned through Supplementary Demand for Grants without the prior sanction of the Registrar of Co-operative Societies was correct.

21. Contradicting the opinion of the Additional Chief Secretary, Co-operation Department that ₹ 140 crore was a waiver amount, the Committee stated that the amount comes under DCB Statement. The Committee also stressed the importance of monthly reconciliation of departmental accounts with the Treasury and the Office of the Accountant General. The Committee also pointed out the delay occurred on the part of the department in furnishing reply to the final report of the Accountant General.

22. The Committee also was strongly critical of the deposit of funds released by the Registrar of Co-operative Societies for various schemes, in the TP Account No. 637 maintained in the name of Kerala State Co-operative Bank at District Treasury, Thiruvananthapuram. The Committee, citing the audit objection, opined that the Registrar who is the Chief Controlling Officer should keep proper records of the cash transactions and maintain Cash Book properly.

23. The Committee enquired about the reason for the non-utilisation of ₹ 1.59 crore in three districts and the present stage of plan funds sanctioned to various Co-operative Societies which was deposited in Savings Accounts maintained by the Co-operative Societies in District/State Co-operative Banks.

24. The Additional Chief Secretary, Co-operation Department replied that some amount was retained with SC/ST groups and School Societies and in Palakkad and Ernakulam districts ₹ 11.20 lakh remains to be withdrawn which was being monitored monthly.

25. The Committee then asked about the non-utilisation of ₹ 40.86 lakh and the Additional Chief Secretary, Co-operation Department replied that some of the schemes do not come under disbursement category and amount was given to societies in the form of loan or share capital contribution.

26. The Committee did not agree with the explanation of the witness that subsidy, share capital and loan are interlinked and retorted that loan, subsidy and share capital were sanctioned separately. The Additional Chief Secretary, Co-operation Department agreed to submit detailed breakup of balance amount. The Committee enquired the date on which direction had been issued to Joint Registrar (General), Ernakulam and Palakkad to utilise its unspent amount in the TP Account and report up the details to the Registrar of Co-operative Societies. The Committee also directed to submit the details regarding the utilised amount, unspent amount, reason for non-utilisation etc. to the Committee.

27. The Committee enquired the purpose of retaining balance amount of ₹ 34 lakh with the Bank instead of surrendering the amount to the Government and stressed the fact that the amount given to the Societies should be returned to Government which in turn is allotted to NCDC.

28. The Committee was critical of the lack of monitoring and absence of a centralised system at the Registrar of Co-operative Societies to ensure timely utilisation of funds and to obtain utilisation certificates from the implementing agencies. The Committee felt infuriated on the feckless attitude of 416 institutions in not issuing utilisation certificates amounting to ₹ 57.91 crore and enquired whether suitable disciplinary action was taken against the

responsible officers. The Additional Chief Secretary, Co-operation Department submitted that figures of utility certificate upto 2008-09 are available and details are demanded every two months. The Committee strongly recommended to take stern disciplinary action against those who did not submit utilisation certificate and also against the officers who failed to take action against such persons.

29. The Committee enquired the reason for not taking suitable steps by the Joint Registrar or Additional Registrar to collect ₹ 8.31 crore as interest from RUBCO during the period from April 2003 to September 2006 as worked out by loanee and was incorporated in the Demand Collection Balance Statement without any verification. To this, the Additional Chief Secretary, Co-operation Department replied that Government have issued an order on 4-7-2009 based on Cabinet decision in which ₹ 26.16 crore was the principal amount and ₹ 12.77 crore was the interest and the total amount of ₹ 38.94 crore was converted as share capital.

30. Citing that the total dues as collected from the records worked out to ₹ 56.71 crore relating to four apex institutions coming under the control of the Joint Registrar of Co-operative Societies, Ernakulam the Committee asked whether the amount was recovered and enquired whether the already collected amount of ₹ 7,10,000 was converted to share contribution. The Additional Chief Secretary replied that the latest figure of dues was ₹ 69.92 crore.

31. Regarding the matter of short realisation of dues, the Committee found that ₹ 92.34 crore was given to NCDC being the amount of principal and interest on various loans availed from them on October 2006. Out of this, ₹ 39.23 crore was due from the Co-operative Societies under the Department.

32. The Committee enquired about the present stage of action taken to bifurcate outstanding amount of NCDC loan and Government loan while preparing DCB statement on that basis. On the Committee's enquiry about the remaining amount in Ernakulam district, the Additional Chief Secretary, Co-operation Department informed that the amount was ₹ 64.92 lakh. The Committee directed to record that no satisfactory answer was available from the witness in this regard.

33. The Committee noted that the short recovery of an amount of ₹ 35 lakh to be deposited in terms of leave surrender, salary, bonus for the year 2008 of 1322 employees in various co-operative institutions as on 31st March, 2007. The Additional Chief Secretary, Co-operation Department replied that arrears up to 31-12-2009 have been cleared.

34. On the Committee's query regarding whether any Circular was issued to collect arrears in districts other than 5 districts test checked and whether the anomalies were detected, the Additional Registrar and Registrar (in charge) of Co-operative Societies replied that ₹ 3.25 crore have been collected as leave salary and pension contribution.

35. The Committee then asked the reason for not specifying the Order number and Audit number in the Circular regarding the inclusion of dearness pay, special pay/personal pay and bonus/special festival allowance 'while calculating leave surrender and pension contribution of Concurrent Auditors'. The Additional Registrar and Registrar (In-charge) of Co-operative Societies replied that a circular numbered 59/2009 was issued on 20-12-2009. The Committee expressed concern over the prolonged delay in conducting inspection and taking corrective measures by the department in collecting revenue promptly.

36. Regarding the Agricultural Debt Relief Scheme, the Committee asked about the expenditure out of ₹ 140 crore sanctioned by Government in March 2006 as per the Kerala Agricultural Debtor's (Temporary Relief) Act 2001, to grant temporary relief to the farmers for the payment of interest on agricultural loans and whether the excess allotment of ₹ 6.91 crore had been recovered. The Additional Registrar of Co-operative Societies replied that moratorium was ordered for agricultural loans for a period of one year from 23-1-2004 to those loans which were taken by farmers after 29-12-2001. Based on this the amount was estimated as ₹ 140 crore. However the condition was changed subsequently as per the Government Order dated 1-3-2005 and letter dated 25-4-2005 issued by the Revenue Department. Hence amount of ₹ 32 crore was refunded in March 2007. Later, Government agreed with the expense. The Committee found that in respect of seven districts, ₹ 6.91 crore was paid in excess of eligibility and the other districts had already surrendered the excess amount.

37. The Committee enquired about the details regarding the utilization of ₹ 3.32 crore as loan assistance by NCDC in September 2000 for computerization of 66 primary Co-operative Societies/Farmers Service Co-operative Banks and an additional amount of ₹ 1.43 crore sanctioned in January 2004 for benefiting 30 Co-operative Societies. Also the Committee asked the reason for the non-utilisation of ₹ 261.42 lakh in four districts. The Additional Registrar of Co-operative Societies replied that even though ₹ 161 lakh was sanctioned as first instalment in 2000, none of the societies received the amount because of the higher rate of interest and deficiency in the amount for completing computerisation. The Committee also opined that the interest rate of 10.5 % was not higher at the period of 1998-99. The Additional Registrar of Co-operative Societies explained that proposals amounting to ₹ 2.5 lakh to ₹ 5 lakh submitted by the Societies were based on the budget allocations.

38. The Committee further enquired whether utilisation certificate for ₹ 59.50 lakh has been issued. The Additional Registrar of Co-operative Societies replied that only half of the amount requested had been sanctioned and the rate of interest decreased during the implementation of two ICDP Projects in various districts. On this the Committee asked the reason for implementing computerisation with their own fund. The Additional Registrar of Co-operative Societies replied that even though applications were submitted in 1998, sanction was given in 2000 only and in the meantime many of the societies have completed computerisation.

39. The Committee viewed with much indignation that the Registrar of Co-operative Societies had not prepared detailed audit plan for the work proposed to be conducted during the year and asked to explain the reason.

40. The Additional Registrar of Co-operative Societies explained that a separate Directorate was established in 2009 as per the Co-operative Societies (Amendment) Act, 2000 with the powers of Registrar delegated to the Director of Audit.

41. The Committee viewed with much displeasure that the statutory function of auditing of accounts of societies once in a year which should have been done by the Director of Co-operative Audit under the amendment Act, was being done by the Registrar of Co-operative Societies. This was beyond his power as per provision of the Act. However, the Committee enquired details of pending of audits and found that as on 31-3-2007 in 13549 societies audit pendency was 23293 concurrent single category, in 348 societies audit pendency was 199, concurrent group in 1583 societies, pendency was 914 and Apcos Milk 2292 societies, pendency was 3608. The Committee expressed its doubt over the pendency in concurrent audit and recommended that audit programme should be updated by sanctioning the required staff according to the development of the department. To this, the Secretary, Finance (Expenditure) Department replied that the Department of Personnel and Administrative Reforms have been entrusted to conduct a work study on this matter. The Committee strongly recommended to conduct the work study on this matter and submit report within three months.

42. On the Committee's enquiry about the formation of a department manual, the Additional Registrar of Co-operative Societies replied, that an Audit Manual is in use and the preparation of an Administrative Manual is in progress. The department had been functioning as per Act and Rules and therefore a separate Manual is not necessary. The Committee emphasized the need of an internal control in the Department.

43. The Committee enquired about the number of societies which have passed resolution about the post of Auditors. The Additional Registrar of Co-operative Societies replied that the request for the post was not sanctioned due to the shortage of auditors. The Committee then enquired about the number of posts requested by resolution and posts which were not sanctioned and directed to submit report within 10 days to the Committee in this regard.

44. Regarding the defective maintenance of demand, collection, balance statement, the Committee reiterated that disciplinary action should be taken against those responsible for the improper maintenance of DCB statement, Loan Ledger etc. and reminded that this case was reported five years back in the 47<sup>th</sup> Report of the Committee. The Committee also directed the department to submit Remedial Measures Taken Statements and Action Taken Notes within two months from the date of laying of Report on the Table of the House.

45. While discussing about the over all monitoring of internal audit and vigilance arrangement, the Committee instructed the witness, the Additional Registrar of Co-operative Societies, that Annual Report should be submitted to the Secretary, Co-operation Department before 15<sup>th</sup> of April and published before 15<sup>th</sup> of May in order to make it consider by the Members during budget scrutiny by the Subject Committee.

46. The Additional Registrar of Co-operative Societies replied that Annual Report for the year 2004-05 was published and reports for 2005-06, 2006-07, 2007-08, 2008-09 was being completed. The Committee directed that all the Annual Reports should be published before May 15<sup>th</sup>.

47. The Committee understood that there is no Internal Audit Wing functioning in the Department of Co-operation and recommended that Government should immediately take steps to constitute an Internal Audit Wing in Co-operation Department.

48. The Committee found that 125 paragraphs in 53 Inspection Reports relating to various irregularities were outstanding in the department for the period from 2001 to 2007. The Committee noted that the Head of Office had not taken any action to rectify the defects pointed out even after several years of the issuance of Inspection Reports. The Committee felt infuriated on the lazy attitude of the department and directed to take disciplinary action against those responsible for violating the articles in the Kerala Financial Code.

49. The Committee enquired about the latest position of 50 cases pending out of the total number of 108 cases in the Vigilance Cell for the period from 2002 to 2006, and the Additional Registrar of Co-operative Societies replied that

details would be submitted at the earliest. The Committee also pointed out that out of the pending cases 8 cases were involving financial irregularities and asked to submit details about the action taken within 10 days. The Committee repugnantly asked the reason for dropping the cases which was under the consideration of the Court. Citing the cases of Shri K.D. Sebastian and Shri K. Sivaraman who were involved in the financial irregularities in connection with the audit of Nedyanga Service Co-operative Bank, the Committee opined that disciplinary action can be taken and recovery may be made even if the cases were being dealt with by the Hon'ble Court.

#### **Conclusion/Recommendation**

**50. Regarding the huge difference between the budget provision and actual expenditure during the period from 2002-03 to 2006-07, the Committee is strongly critical of the habit of moving for supplementary demand for grants without spending the original budget provision and recommends that the amount from savings should be reappropriated to meet additional expenditure instead of moving for Supplementary Demands for Grants.**

**51. The Committee expresses displeasure over the practice of depositing share contributions, which were usually released to Marketing Societies and Fisheries Societies by the National Co-operative Development Corporation, in the TP Accounts. The Committee strongly recommends to put an end to the practice of surrendering of savings at the fag end of the financial year which is a blatant violation of the provisions of the Kerala Budget Manual. The Committee also recommends to conduct pre-budget scrutiny of funds so that the savings and surrender of funds at the end of the financial year could be avoided.**

**52. On the reply of the Government that about 60% of the amount allotted in 2006-07 for NCDC Schemes was not spent due to lack of sanctioning funds due to delayed proposals, the Committee strongly recommends that submission of proposals to NCDC/NABARD should be done without any delay, since there would be no dearth of funds from NCDC. Reprimanding severely the attitude of the Finance Department in issuing sanction orders on the 30<sup>th</sup> and 31<sup>st</sup> of March, the Committee recommends to rescind the practice of last minute sanctioning in future. The Committee also recommends to strengthen the budgetary control so that rush of expenditure in the last month of the year could be avoided. Expressing strong disapproval over the violation of Rule 92 of Kerala Treasury Code, detected by the Monitoring and Review Committee formed**

in 13-7-2006, the Committee strongly recommends to take disciplinary action against the Deputy Registrar, Joint Registrar and Additional Registrar of those Districts where cash verification has not been conducted as per Rule.

53. While examining the reasons for not issuing warning notices to the officers responsible for the improper maintenance of loan ledgers and DCB statements, the Committee directs the department to send a report to Government in this regard and place that before the Council. The Committee also recommends that the department should take urgent steps to recover overdue principal and interest from loanees and evolve suitable mechanism for regular recovery of dues to Government.

54. The committee examines the review mechanism of the department and recommends to strictly adhere to the general financial discipline and proper maintenance of records.

55. The Committee views the deficient financial management, lack of monitoring of expenditure from TP Account and the ignorance of transactions made with the Kerala State Co-operative Bank and strongly recommends that transactions should be done only with the prior sanction of the Registrar of Co-operative Societies.

56. The Committee asserts that the audit objection against the withdrawal of ₹ 140 crore sanctioned through supplementary demand for grants without the prior sanction of the Registrar of Co-operative Societies was correct. The Committee also stresses the importance of monthly reconciliation of departmental accounts with the treasury accounts and the office of the Accountant General.

57. The Committee strongly recommends to stop depositing the funds released by the Registrar of Co-operative Societies for various Schemes in the TP Account of Kerala State Co-operative Bank at the District Treasury, Thiruvananthapuram. The Committee directs the department that the Registrar who is the Chief Controlling Officer should keep proper records of the cash transactions and maintain cash book properly.

58. The Committee was totally dissatisfied with the non-utilisation of ₹ 1.59 crore in three districts viz., Ernakulam, Palakkad and Kannur, withdrawn under plan schemes and directs the department to submit the details regarding the utilised amount, unspent amount and the reason for non-utilisation. The Committee also viewed seriously the retention of

balance amount in District/State Co-operative Banks and directs that the amount given to the societies should be returned to Government.

59. Regarding the failure in issue of Utilisation Certificates by the implementing agencies and lack of monitoring and absence of a centralized system at the Registrar of Co-operative Societies, the Committee sternly recommends to take disciplinary action against the Co-operative institutions which do not submit utilisation certificates and also against the officers who failed to take action against them.

60. The Committee strongly disapproves the non-utilization of ₹ 261.42 lakh out of ₹ 32,902 lakh sanctioned by NCDC for the computerisation of Co-operative Societies in Thiruvananthapuram, Ernakulam, Palakkad and Kannur districts which would otherwise have benefited 67 Societies in total and recommends to put in place an effective monitoring mechanism to watch utilisation of funds released to Co-operative Institutions.

61. The Committee expresses concern over breach of powers by the Registrar of Co-operative Societies who was carrying out the function of auditing of accounts of societies once in a year which should have actually been done by the Director of Co-operative Audit and recommends that audit programme should be updated by sanctioning the required staff according to the development of the department and to conduct a work study on this matter and submit a report within three months. The Committee also recommends that the audit of Co-operative institutions should be organised according to the statutory provisions and internal audit of the department according to Government instructions.

62. Regarding the passing of resolution about posting of Auditors, the Committee directs the department to submit report urgently. The Committee reiterates that disciplinary action should be taken against those responsible for the improper maintenance of DCB statements, Loan Ledger, etc., and reminds that this was mentioned in the 47<sup>th</sup> report of PAC (2001-2004). The Committee directs the department to submit Remedial Measures Taken Statements on the Audit paras contained in the C&AG Reports and Action Taken Notes on the recommendation contained in various PAC Reports within two months from the date of laying of Report on the Table of the House.

63. The Committee instructs that action should be taken to submit the Annual Report to the Secretary, Co-operation Department before 15<sup>th</sup> of April and published before 15<sup>th</sup> of May to enable the Members of Legislative Assembly to examine the report during Budget Scrutiny by the Subject Committee.

64. The Committee strictly recommends that the Government should take immediate steps to constitute an Internal Audit Wing in the Department.

65. The Committee expresses indignation over the huge pendency of paragraphs to which replies were not furnished by the department in various inspection reports and strongly recommends that disciplinary action should be taken against those responsible for violating the relevant articles in the Kerala Financial Code.

66. Relating to the 108 number of cases in the Vigilance Cell, the Committee severely criticizes the dropping of cases which were under the consideration of the Hon'ble Court and recommends that disciplinary action should be taken against those who were involved in financial irregularities, even if their cases were being dealt with by the Hon'ble High Court.

Thiruvananthapuram,  
26th June, 2012.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

## APPENDIX I

## SUMMARY OF MAIN CONCLUSION/RECOMMENDATION

Sl. No.	Paragraph No.	Department concerned	Conclusion/Recommendation
(1)	(2)	(3)	(4)
1	50	Co-operation	Regarding the huge difference between the budget provision and actual expenditure during the period from 2002-03 to 2006-07, the Committee is strongly critical of the habit of moving for supplementary demand for grants without spending the original budget provision and recommends that the amount from savings should be reappropriated to meet additional expenditure instead of moving for Supplementary Demands for Grants.
2	51	”	The Committee expresses displeasure over the practice of depositing share contributions, which were usually released to Marketing Societies and Fisheries Societies by the National Co-operative Development Corporation, in the TP Accounts. The Committee strongly recommends to put an end to the practice of surrendering of savings at the fag end of the financial year which is a blatant violation of the provisions of the Kerala Budget Manual. The Committee also recommends to conduct pre-budget scrutiny of funds so that the savings and surrender of funds at the end of the financial year could be avoided.
3	52	”	On the reply of the Government that about 60% of the amount allotted in 2006-07 for NCDC Schemes was not

(1)	(2)	(3)	(4)
			<p>spent due to lack of sanctioning funds due to delayed proposals, the Committee strongly recommends that submission of proposals to NCDC/ NABARD should be done without any delay, since there would be no dearth of funds from NCDC. Reprimanding severely the attitude of the Finance Department in issuing sanction orders on the 30<sup>th</sup> and 31<sup>st</sup> of March, the Committee recommends to rescind the practice of last minute sanctioning in future. The Committee also recommends to strengthen the budgetary control so that rush of expenditure in the last month of the year could be avoided. Expressing strong disapproval over the violation of Rule 92 of Kerala Treasury Code, detected by the Monitoring and Review Committee formed in 13-7-2006, the Committee strongly recommends to take disciplinary action against the Deputy Registrar, Joint Registrar and Additional Registrar of those Districts where cash verification has not been conducted as per Rule.</p>
4	53	Co-operation	<p>While examining the reasons for not issuing warning notices to the officers responsible for the improper maintenance of loan ledgers and DCB statements, the Committee directs the department to send a report to Government in this regard and place that before the Council. The Committee also recommends that the department should take urgent steps to recover overdue principal and interest from</p>

(1)	(2)	(3)	(4)
			loanees and evolve suitable mechanism for regular recovery of dues to Government.
5	54	Co-operation	The Committee examines the review mechanism of the department and recommends to strictly adhere to the general financial discipline and proper maintenance of records.
6	55	”	The Committee views the deficient financial management, lack of monitoring of expenditure from TP Account and the ignorance of transactions made with the Kerala State Co-operative Bank and strongly recommends that transactions should be done only with the prior sanction of the Registrar of Co-operative Societies.
7	56	”	The Committee asserts that the audit objection against the withdrawal of ₹ 140 crore sanctioned through supplementary demand for grants without the prior sanction of the Registrar of Co-operative Societies was correct. The Committee also stresses the importance of monthly reconciliation of departmental accounts with the treasury accounts and the office of the Accountant General.
8	57	”	The Committee strongly recommends to stop depositing the funds released by the Registrar of Co-operative Societies for various Schemes in the TP Account of Kerala State Co-operative Bank at the District Treasury, Thiruvananthapuram. The Committee directs the department that the Registrar who is the Chief

(1)	(2)	(3)	(4)
			Controlling Officer should keep proper records of the cash transactions and maintain cash book properly.
9	58	Co-operation	The Committee was totally dissatisfied with the non-utilisation of ₹ 1.59 crore in three districts viz., Ernakulam, Palakkad and Kannur, withdrawn under plan schemes and directs the department to submit the details regarding the utilised amount, unspent amount and the reason for non-utilisation. The Committee also viewed seriously the retention of balance amount in District/State Co-operative Banks and directs that the amount given to the societies should be returned to Government.
10	59	”	Regarding the failure in issue of Utilisation Certificates by the implementing agencies and lack of monitoring and absence of a centralized system at the Registrar of Co-operative Societies, the Committee sternly recommends to take disciplinary action against the Co-operative institutions which do not submit utilisation certificates and also against the officers who failed to take action against them.
11	60	”	The Committee strongly disapproves the non-utilization of ₹ 261.42 lakh out of ₹ 32,092 lakh sanctioned by NDCDC for the computerisation of Co-operative Societies in Thiruvananthapuram, Ernakulam, Palakkad and Kannur districts which would otherwise have benefited 67 Societies in total and recommends to put in place an effective

(1)	(2)	(3)	(4)
			monitoring mechanism to watch utilisation of funds released to Co-operative institutions.
12	61	Co-operation	The Committee expresses concern over breach of powers by the Registrar of Co-operative Societies who was carrying out the function of auditing of accounts of societies once in a year which should have actually been done by the Director of Co-operative Audit and recommends that audit programme should be updated by sanctioning the required staff according to the development of the department and to conduct a work study on this matter and submit a report within three months. The Committee also recommends that the audit of Co-operative institution should be organised according to the statutory provisions and internal audit of the department according to Government instructions.
13	62	”	Regarding the passing of resolution about posting of Auditors, the Committee directs the department to submit report urgently. The Committee reiterated that disciplinary action should be taken against those responsible for the improper maintenance of DCB Statements, Loan Ledger, etc., and reminds that this was mentioned in the 47 <sup>th</sup> report of PAC (2001-2004). The Committee directs the department to submit Remedial Measures Taken Statements on the Audit paras contained in the C&AG Reports and Action Taken Notes on the recommendation contained

(1)	(2)	(3)	(4)
			in various PAC Reports within two months from the date of laying of Report on the Table of the House.
14	63	Co-operation	The Committee instructs that action should be taken to submit the Annual Report to the Secretary, Co-operation Department before 15 <sup>th</sup> of April and published before 15 <sup>th</sup> of May to enable the Members of Legislative Assembly to examine the report during Budget Scrutiny by the Subject Committee.
15	64	”	The Committee strictly recommends that the Government should take immediate steps to constitute an Internal Audit Wing in the Department.
16	65	”	The Committee expresses indignation over the huge pendency of paragraphs to which replies were not furnished by the department in various inspection reports and strongly recommends that disciplinary action should be taken against those responsible for violating the relevant articles in the Kerala Financial Code.
17	66	”	Relating to the 108 number of cases in the Vigilance Cell, the Committee severely criticizes the dropping of cases which were under the consideration of the Hon'ble Court and recommends that disciplinary action should be taken against those who were involved in financial irregularities, even if their cases were being dealt with by the Hon'ble High Court.