

INTRODUCTION

CHAPTER I INTRODUCTION

1.1. About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Compliance Audit of Government Departments, Autonomous Bodies and Public Sector Undertakings.

Compliance Audit refers to examination of transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

The primary purpose of the Report is to bring to the notice of the State Legislature important results of audit. The audit findings are expected to enable the Executive to take corrective action as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter explains the profile of units under audit jurisdiction, planning and extent of audit and follow up on previous Audit Reports.

1.2. Profile of units under audit jurisdiction

There were 47 Departments in the State at Secretariat level during 2021-22. The Principal Accountant General (Audit I), Kerala (PAG (Audit I)), conducts audit of 33 Secretariat Departments, all Public Sector Undertakings/ Autonomous Bodies thereunder and Local Self-Government Institutions (LSGIs) in the State. The Departments are headed by Additional Chief Secretaries/ Principal Secretaries/ Secretaries, who are assisted by Directors/ Commissioners and subordinate officers under them. The Principal Accountant General (Audit II), Kerala, conducts audit of 14 Departments.

A comparative position of expenditure incurred by the Government during the year 2021-22 and in the preceding four years is given in **Table 1.1**.

Table 1.1: Comparative position of expenditure

Disbursements	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue expenditure	99948.35	110316.39	104719.92	123446.33	146179.51
General services	45523.77	50827.13	55504.03	50360.72	70110.00
Social services	35876.27	38210.77	34044.77	44832.44	50695.61
Economic services	11351.08	12379.77	9107.25	18760.72	15713.81
Grants-in-aid and contributions	7197.23	8898.72	6063.87	9492.45	9660.09
Capital expenditure	8748.87	7430.54	8454.80	12889.65	14191.73
General services	268.01	197.96	157.42	259.84	268.26
Social services	1405.89	1784.29	1090.64	2277.90	3342.63
Economic services	7074.97	5448.29	7206.74	10351.91	10580.84
Total	108697.22	117746.93	113174.72	136335.98	160371.24

(Source: Finance Accounts for the respective years)

1.3. Authority for Audit

The authority for audit by the C&AG 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 (C&AG's (DPC) Act). C&AG conducts audit of expenditure of the Departments of the Government of Kerala (GoK) under Section 13 of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 27 Autonomous Bodies which are audited under Sections 19 and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 182 Autonomous Bodies which are substantially funded by the Government, under Section 14 and 15 of the C&AG's (DPC) Act besides 1,158 educational institutions¹, 50 Public Sector Undertakings and 1,200 LSGIs². Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, issued by the C&AG.

1.4. Organisational structure of the Office of the Principal Accountant General (Audit I), Kerala

Under the directions of the C&AG, the Office of the PAG (Audit I) conducts audit of 33 Government Departments and Offices, PSUs, Autonomous Bodies and Institutions thereunder, which are spread all over the State. PAG (Audit I) is assisted by four Senior Deputy Accountants General/ Deputy Accountants General.

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, Inspection Reports (IRs) containing audit observations are issued to the Heads of the Offices and Departments. The Departments are requested to furnish replies to the audit observations within four weeks from the date of receipt of the IRs. Whenever replies are received, audit observations 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 Reports of the C&AG of India, which are submitted to the Governor of the State under Article 151 (2) of the Constitution of India for placing in the State Legislature.

¹ Government-aided Colleges: 184;
Government-aided Higher Secondary Schools: 846; and
Government-aided Vocational Higher Secondary Schools: 128.

² Grama Panchayats: 941, Block Panchayats: 152, District Panchayats: 14, Municipal Corporations: 6 and Municipalities: 87.

During 2021-22, the Office of the PAG (Audit I) utilised 10,699 party days to carry out the audit (compliance, performance and financial audits) of 672 units of various departments/ organisations under its jurisdiction. The Audit Plan covered those units/ entities, which were vulnerable to significant risks as per risk assessment.

1.6. Lack of responsiveness of Government to Audit

1.6.1. Outstanding Inspection Reports

The Handbook of Instructions for Speedy Settlement of Audit Objections/ Inspection Reports/ timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee, issued by the State Government in 2010 and 2017 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General for rectification, in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses etc., noticed during audit inspection. The Heads of Offices and next higher authorities are required to comply with the audit observations contained in the IRs, rectify the defects and omissions and promptly report their compliance to the Accountant General within four weeks of receipt of IRs. Half-yearly reports of pending IRs are being sent to the Secretaries of the Departments to facilitate monitoring of audit observations.

As on 31 January 2023, 5,771 IRs (28,543 paragraphs) (issued upto 31 March 2022) were outstanding in respect of 31 Departments. Details of IRs and paragraphs outstanding are given in **Appendix 1.1**.

1.6.2. Response of Departments to the paragraphs included in this Report

Compliance Audit paragraphs were forwarded to the Additional Chief Secretaries/ Principal Secretaries/ Secretaries of Departments concerned during August 2022 to January 2023 for furnishing replies. Response of Government was not received for the subject-specific Compliance Audit and one out of seven Compliance Audit paragraphs featured in this Report. The replies received were suitably incorporated in the Report.

1.6.3. Follow up on Audit Reports

According to the Handbook of Instructions for Speedy Settlement of Audit Objections/ Inspection Reports/ timely disposal of draft audit paragraphs and matters pertaining to the Public Accounts Committee and Committee on Public Undertakings issued by the State Government in 2010 and 2017, the Administrative Departments should submit Statements of Action Taken Notes on audit paragraphs included in the Reports of the C&AG directly to the Legislature Secretariat, with copies to the Accountant General within two months of their being laid on the Table of the Legislature. As of September 2022, eight Administrative Departments failed to comply with the instructions

and did not submit Statements of Action Taken Notes of 67 paragraphs for the period 2014-15 to 2020-21 as detailed in **Appendix 1.2**. Similarly in the case of PSUs, as of September 2022, 20 Departments failed to comply with the instructions and did not submit Statements of Action Taken Notes of eight paragraphs for the period 2015-16 to 2020-21 as detailed in **Appendix 1.3**.

1.6.4. Paragraphs pending discussion by the Public Accounts Committee and Committee on Public Undertakings

Ninety-four paragraphs pertaining to 15 Departments for the period 2013-14 to 2020-21 were pending discussion by the Public Accounts Committee as of September 2022 (**Appendix 1.4**). Twelve paragraphs pertaining to 21 Departments for the period 2015-16 to 2020-21 were pending discussion by the Committee on Public Undertakings as of September 2022 (**Appendix 1.5**).