

## Chapter I

### General

#### 1.1 Introduction

Compliance Audit refers to examination of the transactions 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 competent authorities are being complied with. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence.

The primary purpose of this Report is to bring to the notice of the State Legislature, the important results of audit. Since Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions, only very important results are included in this Report. The findings of Audit are expected to enable the Executive to take corrective actions and to frame policies and directives that would 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 information on follow-up of previous Audit Reports.

#### 1.2 Profile of Departments under purview

The Departments are headed by Additional Chief Secretaries/ Principal Secretaries/ Secretaries, who are assisted by Commissioners/Directors/Deputy Secretaries and subordinate officers.

A brief profile of the 11 Departments covered in this Report, is discussed in **Appendix 1**.

The details of budgetary provisions and actuals of revenue and capital expenditure of 11 Departments under the purview of Office of the Principal Accountant General, Audit-II, Kerala is provided in **Table 1.1**:

**Table 1.1: Budgetary provisions and actuals of revenue and capital expenditure for 2021-22**

(₹ in crore)

Sl. No.	Name of Department	Revenue		Capital	
		Budget provision	Expenditure	Budget provision	Expenditure
1	Industries and Commerce	579.22	522.18	1,075.19	733.50
2	Power	415.47	380.91	64.85	58.32
3	Cultural Affairs	317.57	237.85	0	0
4	Electronics and Information Technology	2.00	2.00	107.71	100.44
5	Ports	72.38	72.83	73.13	39.79
6	Tourism	201.05	163.67	187.04	170.76
7	Transport	206.21	200.61	3,254.93	3,196.57
8	Environment and Climate Change	33.64	13.05	0	0
9	Public Works	3,971.75	3,423.02	4,295.15	3,594.21
10	Forest and Wildlife	717.52	704.39	82.40	82.60
11	Science and Technology	188.42	120.68	0	0
<b>Total</b>		<b>6,705.23</b>	<b>5,841.19</b>	<b>9,140.40</b>	<b>7,976.19</b>

(Source: Appropriation Accounts for the year 2021-22, Government of Kerala)

During the year 2021-22, all the 11 Departments had spent lesser amounts for both capital as well as revenue than that provided in the budget. Out of the total capital budget provision of ₹9,140.40 crore, an expenditure of ₹7,976.19 crore (87.26 per cent) was made by the Departments. Similarly, out of the total revenue budget provision of ₹6,705.23 crore, an expenditure of ₹5,841.19 crore (87.11 per cent) was made by the Departments.

The percentage of capital expenditure to budget provision was the least in Ports Department (54.41 per cent).

### 1.3 Authority for conducting audit

Authority of the Comptroller and Auditor General (CAG) for audit of Departments and Public Sector Undertakings (PSUs) 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 principles and methodologies for various audits are prescribed in the Regulations on Audit and Accounts, 2020 and Auditing Standards, 2017 issued by the CAG.

#### 1.4 Audit universe and coverage of units

During the year 2021-22, there were 1,065 auditee units under the 11 Departments, of which 119 units were planned for audit and 134 units audited.

Out of total 150 State PSUs, audit of 98 State PSUs<sup>1</sup> consisting of 125 auditee units are entrusted to the Office of the Principal Accountant General, Audit-II, Kerala. Out of these, besides financial attest audit of State PSUs, 27 units of 20 PSUs were selected for Compliance Audit during 2021-22.

#### 1.5 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various Departments of Government and PSUs 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. The frequency and extent of audit are decided based on risk assessment.

During the year 2021-22, 1,405 party days<sup>2</sup> were utilised to carry out audit of 134 units with respect to Departments and, 1,307 party days were utilised to carry out audit of 27 units of PSUs. In comparison, for the year 2020-21, 1,079 party days were utilised for audit of 48 units with respect to Departments and 794 party days were utilised for audit of 17 units of PSUs.

After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Department in respect of Departments, and in respect of PSUs to the Head of the PSU and the Administrative Department concerned. The Departments are requested to furnish replies to the audit findings within one month 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. The Audit Reports are submitted to the Hon'ble Governor of the State under Article 151 of the Constitution of India to be tabled in the State Legislature.

#### 1.6 Coverage of the Report

This Report relates to the matters arising from Compliance audit of Departments and PSUs of the Government of Kerala (GoK) coming under the purview of Office of the Principal Accountant General, Audit-II, Kerala, conducted during 2021-22 and earlier periods. Ten Paragraphs relating to the Departments are included in **Chapter II** of this Report. Seven Paragraphs relating to State PSUs issued (August 2022 to January 2023) to the Principal Secretaries/ Secretaries concerned of GoK are included in **Chapter III** of this Report. The total financial impact of the Compliance Audit Paragraphs is ₹27,855.78 crore.

<sup>1</sup> Seventy-nine working companies, three Statutory Corporations and 16 non-working companies

<sup>2</sup> Number of days utilised for audit by audit party.

## 1.7 Response of the Departments/PSUs to Audit

The Principal Accountant General (Audit-II), Kerala audits the Government Departments and PSUs to test check the transactions and verify the maintenance of accounts and other records as prescribed in the rules and procedures. These inspections are followed by IRs which incorporate irregularities detected during the audit and not settled on the spot. The Heads of Departments and/or PSUs are required to furnish replies to the IRs within a period of one month, as the case may be. In order to monitor and expedite the progress of settlement of the paragraphs in the IRs, the Government also constitutes Audit Committees/ Audit Sub-committees. In this regard, Audit observed the following:

### 1.7.1 Inspection Reports outstanding

#### 1.7.1.1 Departments

Analysis of IRs related to Departments issued up to September 2022 disclosed that 6,395 paragraphs relating to 1,076 IRs remained outstanding as at the end of September 2022. The figures as of September 2022 along with the corresponding figures for the preceding two years are given in **Table 1.2:**

**Table 1.2: Details of Inspection Reports outstanding**

Particulars	September 2020	September 2021	September 2022
Number of IRs pending for settlement	1,033	1,041	1,076
Number of paragraphs outstanding	5,939	6,177	6,395

(Source: Details compiled by Audit and reconciled with respective Departments)

As could be seen from the table, the number of IRs and paragraphs outstanding are increasing over the years.

The Department-wise details of the IRs and paragraphs outstanding as on 30 September 2022 are given in **Table 1.3:**

**Table 1.3: Department-wise details of IRs and paragraphs outstanding**

Sl. No.	Name of the Department	Number of IRs outstanding	Number of paragraphs outstanding
1	Industries and Commerce	78	379
2	Power	27	110
3	Cultural Affairs	92	474
4	Electronics and Information Technology	24	216
5	Port	16	47
6	Tourism	18	108
7	Transport	294	2,377
8	Environment and Climate Change	12	86
9	Public Works	327	1,734

Sl. No.	Name of the Department	Number of IRs outstanding	Number of paragraphs outstanding
10	Forests and Wildlife	164	779
11	Science and Technology	24	85
<b>Total</b>		<b>1,076</b>	<b>6,395</b>

(Source: Details compiled by Audit and reconciled with respective Departments)

As could be seen from the table, the pendency in terms of IRs outstanding is highest in the Public Works Department. Age wise analysis of IRs outstanding and paragraphs is detailed in **Appendix 2**, which reveals that 682 IRs (63.38 per cent of total IRs outstanding) were outstanding for more than five years.

### 1.7.1.2 Public Sector Undertakings

IRs issued up to September 2022 pertaining to 68 State PSUs disclosed that 1,894 paragraphs relating to 335 IRs remained outstanding at the end of September 2022. PSU-wise status of IRs and paragraphs as of September 2022 is given in **Appendix 3**.

The pendency is indicative of the fact that the Heads of Offices and the Departments/ PSUs need to take effective action to rectify the defects and irregularities pointed out by Audit through the IRs.

## 1.7.2 Audit Committee Meetings

### 1.7.2.1 Departments

The details of the Audit Committee Meetings (ACM) held during the year 2021-22 and the paragraphs settled therein are given in **Table 1.4**:

**Table 1.4: Details of Audit Committee Meetings during 2021-22**

Sl. No.	Name of the Department	Number of Audit Committee Meetings held	Number of paragraphs settled
1	Public Works	1	10
2	Transport	16	167
<b>Total</b>		<b>17</b>	<b>177</b>

(Source: Details compiled by Audit)

It can be seen from the Table that ACMs were held only in respect of two departments. In respect of remaining nine Departments *i.e.*, Industries and Commerce, Power, Cultural Affairs, Electronics and Information Technology, Ports, Tourism, Environment and Climate Change, Forests and Wildlife and Science and Technology, no ACM was held during 2021-22. Similarly, meetings of Audit Sub-committees were not held in any of these 11 Departments during this period.

**1.7.2.2 Public Sector Undertakings**

Nine ACMs were held in four PSUs during 2021-22 and 186 paragraphs were settled, wherein position of paragraphs outstanding were discussed with the managements of PSUs/ administrative departments to ensure accountability and responsiveness.

**1.8 Follow-up action on Audit Reports**

The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The Finance Department, GoK issued directions to all administrative departments in 2017 to furnish Explanatory Notes to Performance Audits (PAs)/ Paragraphs included in Audit Reports of the CAG within a period of two months of their presentation to the Legislature for speedy settlement of audit observations.

The status of Explanatory Notes on PAs and Paragraphs not received as of September 2022 in respect of Audit Reports relating to 11 Departments and PSUs under them are given in **Tables 1.5 and 1.6** respectively.

**Table 1.5: Position of Explanatory Notes on Audit Reports related to Departments as of September 2022**

Year of Audit Report	Number of PAs and Paragraphs		Number of PAs and Paragraphs for which Explanatory Notes were not received	
	PAs	Paragraphs	PAs	Paragraphs
2015-16	1	5	0	1
2016-17	1	7	1	1
2017-18	1	7	0	4
2018-19	0	4	0	3
<b>Total</b>	<b>3</b>	<b>23</b>	<b>1</b>	<b>9</b>

*(Source: Details compiled by Audit and reconciled with respective Departments)*

**Table 1.6: Position of Explanatory Notes on Audit Reports related to State PSUs as of September 2022**

Year of Audit Report	Date of placement of Audit Report in the State Legislature	Total number of PAs and Paragraphs related to State PSUs		Number of PAs and Paragraphs for which Explanatory Notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2015-16	23/05/2017	2	10	1	2
2016-17	19/06/2018	2	8	1	2
2017-18	24/08/2020	0	5	0	4
2018-19	10/06/2021	1	6	1	5
<b>Total</b>		<b>5</b>	<b>29</b>	<b>3</b>	<b>13</b>

(Source: Details compiled by Audit and reconciled with respective Departments)

The administrative departments did not comply with the directions of Finance Department, GoK and the responses to Audit Reports were delayed inordinately as detailed in the above tables.

### **1.9 Discussion of Audit Reports by the Public Accounts Committee (PAC)/ Committee on Public Undertakings (CoPU)**

The PAC and CoPU are committees constituted by the Legislature of the State to examine the Audit Reports of CAG on Departments and State PSUs respectively.

The status of discussion of PAs and Paragraphs by PAC and CoPU as of September 2022 are given in **Tables 1.7** and **1.8** respectively.

**Table 1.7: Status of discussion of PAs and Paragraphs relating to Departments by PAC**

Year of Audit Report	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	0	5	0	4
2013-14	0	1	0	0
2014-15	2	7	0	7
2015-16	1	5	0	4
2016-17	1	7	0	0
2017-18	1	7	0	0
2018-19	0	4	0	4
<b>Total</b>	<b>5</b>	<b>36</b>	<b>0</b>	<b>19</b>

(Source: Records maintained by Audit)

A review of the position of PAs/ Paragraphs pending discussion by the PAC as of September 2022 showed that five PAs and 17 Paragraphs (pertaining to Forest and Wildlife, Tourism and Public Works Departments) were yet to be discussed.

**Table 1.8: Status of discussion of PAs and Paragraphs relating to State PSUs by CoPU**

Year of Audit Report	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2015-16	2	10	1	6
2016-17	2	8	1	1
2017-18	0	5	0	0
2018-19	1	6	0	0
<b>Total</b>	<b>5</b>	<b>29</b>	<b>2</b>	<b>7</b>

(Source: Records maintained by Audit)

Delay in discussion of Audit Reports will lead to consequent delay in addressing any discrepancies, irregularities, or mismanagement highlighted in the Report. As could be seen from the table, three PAs and 22 Paragraphs were yet to be discussed by CoPU.

**Recommendations:**

**The Government should**

- *ensure furnishing of replies/ Explanatory Notes to Audit Reports and Action Taken Notes on the recommendations of Public Accounts Committee and Committee on Public Undertakings as per the prescribed time schedule.*
- *ensure that Audit Committee Meetings are held regularly.*
- *instruct the departments to furnish the replies to the Draft Paragraphs and Compliance Audit Paragraphs on time.*