

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 and Autonomous Bodies.

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 46 Departments in the State at Secretariat level during 2022-23. The Accountant General (Audit I), Kerala (AG (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 Accountant General (Audit II), Kerala, conducts audit of 14 Departments¹.

A comparative position of expenditure incurred by the Government during the year 2022-23 and in the preceding four years is given in **Table 1.1**.

¹ In the case of Fisheries and Ports Department, auditee institutions under Fisheries is audited by AG (Audit I) and Ports by AG (Audit II).

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue expenditure	110316.39	104719.92	123446.33	146179.51	141950.93
General services	50827.13	55504.03	50360.72	70110.00	69831.68
Social services	38210.77	34044.77	44832.44	50695.61	50275.91
Economic services	12379.77	9107.25	18760.72	15713.81	12280.82
Grants-in-aid and contributions	8898.72	6063.87	9492.45	9660.09	9562.52
Capital expenditure	7430.54	8454.80	12889.65	14191.73	13996.56
General services	197.96	157.42	259.84	268.26	306.89
Social services	1784.29	1090.64	2277.90	3342.63	3030.08
Economic services	5448.29	7206.74	10351.91	10580.84	10659.59
Total	117746.93	113174.72	136335.98	160371.24	155947.49

(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 24 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 121 Autonomous Bodies which are substantially funded by the Government, under Sections 14 and 15 of the C&AG's (DPC) Act besides 1,158 educational institutions², 50 Public Sector Undertakings and 1,200 LSGIs³. 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 Accountant General (Audit I), Kerala

Under the directions of the C&AG, the Office of the AG (Audit I) conducts audit of 33 Government Departments and Offices, PSUs, Autonomous Bodies and Institutions thereunder, which are spread all over the State.

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.

² Government-aided Colleges: 184;
Government-aided Higher Secondary Schools: 846; and
Government-aided Vocational Higher Secondary Schools: 128.

³ Grama Panchayats: 941, Block Panchayats: 152, District Panchayats: 14, Municipal Corporations: 6 and Municipalities: 87.

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.

During 2022-23, the Office of the AG (Audit I) utilised 25,860 party days to carry out the audit (compliance, performance and financial audits) of 680 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 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 30 September 2023, 5,550 IRs (27,156 paragraphs) (issued upto 31 March 2023) 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 February 2024 to July 2024 for furnishing replies. Response of Government was received for the two Subject-Specific Compliance Audit paragraphs and two out of three 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 issued by the State Government in 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 2023, two Administrative Departments did not comply with the instructions and did not submit Statements of Action Taken Notes of 13 paragraphs for the period 2018-19 to 2020-21 as detailed in **Appendix 1.2**.

1.6.4. Paragraphs pending discussion by the Public Accounts Committee

Seventy-one paragraphs pertaining to five Departments for the period 2016-17 to 2020-21 were pending discussion by the Public Accounts Committee as of September 2023 (**Appendix 1.3**).