

## Chapter I

### General

#### Introduction

**1.1** This part of the Report of the Comptroller and Auditor General of India (CAG) relates to the matters arising from Compliance Audit of 11 Departments<sup>1</sup> of the Government of Kerala (GoK). 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. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. 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.

#### Profile of Audited Entities

**1.2** 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 part of the Report, is discussed in *Appendix 1*.

The summary of fiscal operations of GoK during the year 2019-20 and 2020-21 is given in **Table 1.1**:

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<sup>1</sup> Departments of (i) Environment and Climate Change, (ii) Forest and Wildlife, (iii) Public Works, (iv) Science and Technology, (v) Cultural Affairs, (vi) Electronics and Information Technology, (vii) Industries and Commerce, (viii) Ports, (ix) Power, (x) Tourism and (xi) Transport.

**Table 1.1: Snapshot of Finances***(₹ in crore)*

Sl. No.	Components	2019-20 (Actual)	2020-21 (Budget Estimate)	2020-21 (Actuals)	Percentage of Actual to Budget Estimate	Percentage of Actuals to Gross State Domestic Product
1	Tax Revenue *	50,323.14	67,420.01	47,660.84	70.69	6.28
2	Non-Tax Revenue	12,265.22	14,587.00	7,327.31	50.23	0.97
3	Share of Union taxes/ duties **	16,401.05	20,934.80	11,560.40	55.22	1.52
4	Grants-in-aid and Contributions ***	11,235.26	11,694.09	31,068.28	265.68	4.09
<b>5</b>	<b>Revenue Receipts (1+2+3+4)</b>	<b>90,224.67</b>	<b>1,14,635.90</b>	<b>97,616.83</b>	<b>85.15</b>	<b>12.86</b>
6	Recovery of Loans and Advances	295.32	284.01	263.82	92.89	0.03
7	Other Receipts	27.48	50.00	34.15	68.30	0.00
8	Borrowings and other Liabilities	23,837.47	29,295.39	40,969.69 <sup>^</sup>	139.85	5.40
<b>9</b>	<b>Capital Receipts (6+7+8)</b>	<b>24,160.27</b>	<b>29,629.40</b>	<b>41,267.66</b>	<b>139.28</b>	<b>5.44</b>
<b>10</b>	<b>Total Receipts (5+9)</b>	<b>1,14,384.94</b>	<b>1,44,265.30</b>	<b>1,38,884.49</b>	<b>96.27</b>	<b>18.30</b>
<b>11</b>	<b>Revenue Expenditure</b>	<b>1,04,719.92</b>	<b>1,29,837.37</b>	<b>1,23,446.33</b>	<b>95.08</b>	<b>16.27</b>
12	Interest payments	19,214.70	19,850.00	20,975.36	105.67	2.76
<b>13</b>	<b>Capital Expenditure</b>	<b>9,665.02</b>	<b>14,427.93</b>	<b>15,438.16</b>	<b>107.00</b>	<b>2.03</b>
14	Capital outlay	8,454.80	12,913.22	12,889.65	99.82	1.70
15	Loan and advances	1,210.22	1,514.71	2,548.51	168.25	0.34
<b>16</b>	<b>Total Expenditure (11+13)</b>	<b>1,14,384.94</b>	<b>1,44,265.30</b>	<b>1,38,884.49</b>	<b>96.27</b>	<b>18.30</b>
<b>17</b>	<b>Revenue Deficit (5-11)</b>	<b>14,495.25</b>	<b>15,201.47</b>	<b>25,829.50</b>	<b>169.91</b>	<b>3.40</b>
<b>18</b>	<b>Fiscal Deficit<sup>^</sup> {16-(5+6+7)}</b>	<b>23,837.47</b>	<b>29,295.39</b>	<b>40,969.69</b>	<b>139.85</b>	<b>5.40</b>
<b>19</b>	<b>Primary Deficit<sup>^</sup> (18-12)</b>	<b>4,622.77</b>	<b>9,445.39</b>	<b>19,994.33</b>	<b>211.68</b>	<b>2.63</b>

Source: Finance Accounts for 2019-20 and 2020-21, Annual Financial Statement- 2020-21.

\* Including State Goods and Services Tax of ₹20,028.31 crore .

\*\* Including Central Goods and Services Tax of ₹3,325.63 crore.

\*\*\* Including ₹6,721.38 crore of compensation for loss of revenue arising out of implementation of Goods and Services Tax (GST).

<sup>^</sup> Effective Borrowings and other liabilities would be ₹35,203.69 crore as the Department of Expenditure, Government of India had decided that GST compensation of ₹5,766 crore given to the State as back-to-back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

### **Authority for conducting audit**

**1.3** Authority of the CAG for audit 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.

### **Planning and conduct of audit**

**1.4** 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. The frequency and extent of audit are decided based on risk assessment. During the years 2019-20 and 2020-21, 1,858 party days and 1,079 party days were utilised to carry out audit of 175 and 48 units respectively.

After completion of audit of each unit, Inspection Report (IR) containing audit findings is issued to the Head of the Department. 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, which are submitted to the Governor of State under Article 151 of the Constitution of India to be tabled in the State Legislature.

### **Coverage of this part of the Report**

**1.5** This part of the Report contains 11 Paragraphs having financial impact of ₹145.69 crore pertaining to Departments. These are discussed in Chapter II. The Government/ Departments have accepted audit observations involving ₹44.12 crore (as of February 2022).

### **1.6 Response of the Government/ Departments to Audit observations**

#### **Inspection Reports outstanding**

**1.6.1** The Principal Accountant General (Audit-II), Kerala audits the Government Departments to test check the transactions and verify the maintenance of important 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.

Analysis of IRs issued up to September 2021 disclosed that 6,177 paragraphs relating to 1,041 IRs issued to these Departments remained outstanding at the end of September 2021. The figures as of September 2021 along with the corresponding figures for the preceding two years are given in the **Table 1.2**:

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

Particulars	September 2019	September 2020	September 2021
Number of IRs pending for settlement	999	1,033	1,041
Number of paragraphs outstanding	5,513	5,939	6,177

The Department-wise details of the IRs and paragraphs outstanding as on 30 September 2021 and the amount involved are given in the **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 in IRs
1	Industries and Commerce	76	364
2	Power	30	133
3	Cultural Affairs	100	541
4	Electronics and Information technology	22	202
5	Port	17	47
6	Tourism	18	113
7	Transport	279	2,263
8	Environment and Climate Change	9	65
9	Public Works	309	1,641
10	Forest and Wildlife	154	707
11	Science and Technology	27	101
<b>Total</b>		<b>1,041</b>	<b>6,177</b>

As can 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 598 IRs (57.44 per cent of total IRs outstanding) were outstanding for more than five years.

The pendency is indicative of the fact that the Heads of Offices and the Departments need to take effective action to rectify the defects and irregularities pointed out by Audit through the IRs. The year-wise and Department-wise details of IRs and paragraphs outstanding are detailed in **Appendix 2**.

### Departmental Audit Committee Meetings

**1.6.2** The Government constituted Audit Committees to monitor and expedite the progress of the settlement of the paragraphs in the IRs. The details of the Audit Committee Meetings (ACM) held during the year 2019-20 and 2020-21 and the paragraphs settled therein are given in the **Table 1.4:**

**Table 1.4: Departmental Audit Committee Meetings**

Sl. No.	Name of the Department	Number of Audit Committee Meetings held		Number of paragraphs settled	
		2019-20	2020-21	2019-20	2020-21
1	Forest and Wildlife	2	0	17	0
2	Public Works	5	0	132	0
3	Power	3	1	81	49
4	Transport	4	0	371	0
5	Industries and Commerce	3	0	10	0
<b>Total</b>		<b>17</b>	<b>1</b>	<b>611</b>	<b>49</b>

It can be seen from the Table that only 17 and one ACM was held during 2019-20 and 2020-21 respectively and settled 611 and 49 paragraphs during these periods. Further, in respect of six Departments *i.e.*, Environment, Science and Technology, Cultural Affairs, Electronics and Information Technology, Ports, and Tourism, no ACM was held during 2019-20 and 2020-21. Similarly, Audit sub-committees were not held in any of these Departments during these periods.

### Response of the Departments to the Draft Audit Paragraphs

**1.6.3** Statements of Facts followed by Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India were forwarded to the Principal Secretaries/ Secretaries of the five Departments<sup>2</sup> concerned drawing their attention to the audit findings and requesting them to send their response within four weeks. Eleven Paragraphs included in Part-I of the Report were forwarded demi-officially to the Additional Chief Secretaries/ Principal Secretaries/ Secretaries of the Departments concerned between August 2021 and October 2021. Government replies received in respect of the Paragraphs are suitably incorporated in the Report.

### Follow-up action on Audit Reports

**1.7** 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, Government of Kerala issued directions to all Administrative Departments in 2017 to furnish Explanatory

<sup>2</sup> Culture, Transport, Science and Technology, Forest and Wildlife, and Public Works.

Notes to Performance Audits/ Compliance Audits/ 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 Paragraphs/ Performance Audits not received as of March 2022 is given in **Table 1.5**:

**Table 1.5: Explanatory Notes not received as on 31 March 2022**

Year of Audit Report	Number of Performance Audits and Paragraphs		Number of Performance Audits and Paragraphs for which explanatory notes were not received	
	Performance Audits	Paragraphs	Performance Audits	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>

The Administrative Departments did not comply with these instructions as detailed in **Table 1.5** and did not submit Action Taken Notes for one Performance Audit and nine Paragraphs for the period 2015-16 to 2018-19 even as of March 2022.

**Paragraphs to be discussed by the Public Accounts Committee**

**1.8** The status of discussion of Performance Audits (PAs) and Paragraphs which appeared in Audit Report of Economic Sector by Public Accounts Committee as on 31 March 2022 is given in the **Table 1.6**.

**Table 1.6: Status of discussion of Performance Audits and Paragraphs**

Year of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paragraphs Discussed	
	Performance Audit	Paragraphs	Performance Audits	Paragraphs
2012-13	0	5	0	4
2013-14	0	0	0	0
2014-15	0	0	0	0
2015-16	1	5	0	4
2016-17	1	7	0	0
2017-18	1	7	0	1
2018-19	0	4	0	0
<b>Total</b>	<b>3</b>	<b>28</b>	<b>0</b>	<b>9</b>

A review of the position of PAs/ Paragraphs pending discussion by the Public Accounts Committee as of March 2022 showed that three PAs and 19 Paragraphs (pertaining to Forest and Wildlife, Tourism and Public Works Departments) were yet to be discussed.