

Chapter III

General

Introduction

3.1 State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and they occupy an important place in the economy of the State. As on 31 March 2021, there were 144 State PSUs in Kerala which included 122 Government Companies (excluding 18 inactive Government Companies) and four Statutory Corporations under the audit jurisdiction of the Comptroller and Auditor General of India (CAG).

Audit universe and coverage

3.2 Out of total 144 State PSUs, audit of 95 State PSUs³¹ is entrusted to this Office (Office of the Principal Accountant General, Audit-II, Kerala) whereas audit of remaining 49 State PSUs is entrusted to Office of the Principal Accountant General, Audit-I, Kerala. During 2019-20 and 2020-21, 283 units pertaining to 95 State PSUs were under the audit universe of this Office. Besides financial attest audit of State PSUs, 22 units of 16 PSUs and 17 units of 11 PSUs were selected for Compliance Audit during 2019-20 and 2020-21 respectively.

Authority for conducting audit

3.3 Authority of the CAG for audit is derived from the provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. 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

3.4 Audit process starts with the assessment of risks faced by various 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 years 2019-20 and 2020-21, 1,010 party days and 794 party days were utilised to carry out audit of 25 and 17 units respectively.

³¹ Seventy-eight working companies, three Statutory Corporations and 14 non-working companies.

After completion of audit of each unit, Inspection Report (IR) containing audit findings is issued to the Head of the PSU and the Administrative Department concerned. The PSUs and Departments are requested to furnish replies to the audit findings within one month of receipt of the IR. 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 Government of Kerala under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 as amended from time to time.

Compliance Audit Paragraphs

3.5 For Part-II of the Compliance Audit Report of the CAG for the year ended 31 March 2021, five Compliance Audit Paragraphs relating to State PSUs were issued (August 2021 to October 2021) to the Principal Secretaries/ Secretaries concerned of Government of Kerala with requests to furnish replies within four weeks. Replies on all the four Paragraphs and partial replies to one Compliance Audit Paragraph have been received (June 2022) from the State Government and suitably incorporated in this Report. The total financial impact of the Paragraphs is ₹127.57 crore. These are discussed in Chapter IV.

Follow up action on Audit Reports and Inspection Reports

3.6 The Report of the CAG is the product of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The Finance Department, GoK issued (2017) instructions to all Administrative Departments to submit replies/ explanatory notes to Compliance Audit/ Paragraphs/ Performance Audits (PAs) included in the Reports of the CAG within a period of two months of their presentation to the Legislature, in the prescribed format, for speedy settlement of audit observations.

Table 3.1: Position of explanatory notes on Audit Reports related to State PSUs as on 31 March 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	
		Performance Audit	Paragraphs	Performance Audit	Paragraphs
2015-16	23/05/2017	3	11	1	5
2016-17	19/06/2018	2	10	1	5
2017-18	24/08/2020	1	7	0	5
2018-19	10/06/2021	1	10	1	8
Total		7	38	3	23

Source: Compiled based on explanatory notes received from respective Departments of GoK.

Explanatory notes on three Performance Audits and 23 Compliance Audit Paragraphs were pending till March 2022.

Audit observations noticed during audit and not settled on the spot are communicated through IRs to the Heads of respective State PSUs and Departments concerned of the State Government. The Heads of State PSUs are required to furnish replies to the IRs within a period of one month.

IRs issued up to September 2021 pertaining to 65 State PSUs disclosed that 2,167 paragraphs relating to 401 IRs remained outstanding at the end of September 2021. Company-wise status of IRs and paragraphs as on 30 September 2021 is given in **Appendix 19**. In order to expedite settlement of paragraphs outstanding, 12 Audit Committee meetings were held in five State PSUs during 2019-20 and 141 paragraphs were settled wherein position of paragraphs outstanding were discussed with the Executive/ Administrative Departments to ensure accountability and responsiveness.

Discussion of Audit Reports by Committee on Public Undertakings (CoPU)

3.7 The status of discussion of Performance Audits and Compliance Audit Paragraphs that appeared in Audit Reports (PSUs) by CoPU as on 31 March 2022 was as under:

Table 3.2: Performance Audits/ Compliance Audit Paragraphs appeared in Audit Reports *vis-à-vis* discussed as on 31 March 2022

Year of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2015-16	3	11	2	2
2016-17	3	11	2	2
2017-18	2	10	1	1
2018-19	1	7	0	0
Total	9	39	5	5

Source: Compiled based on the discussions of CoPU on the Audit Reports.