

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 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 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 2020-21. 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 2020-21 and in the preceding four years is given in **Table 1.1**.

Table 1.1: Comparative position of expenditure*(₹ in crore)*

Disbursements	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue expenditure	91096	99948	110316	104720	123446
General services	41195	45524	50827	55504	50361
Social services	33765	35876	38211	34045	44832
Economic services	10655	11351	12380	9107	18761
Grants-in-aid and contributions	5481	7197	8898	6064	9492
Capital expenditure	10126	8749	7431	8455	12890
Loans and advances	1160	1541	2323	1210	2549
Repayment of public debt	7706	13132	18196	44001	38928
Contingency fund	0	0	0	75	0
Public account disbursement	179910	207174	242890	254475	337817
Total	289998	330544	381156	412936	515630

(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 22 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 183 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, 47 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, 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/

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.

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 of the Constitution of India for placing in the State Legislature.

During 2019-20, the Office of the PAG (Audit I) utilised 11,615 party days to carry out the audit (compliance, performance and financial audits) of 1,512 units and in 2020-21, 5,991 party days to carry out the audit of 761 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. Organisation, devolution, finances and accountability framework of Local Self-Government Institutions

1.6.1. Introduction

The 73rd and 74th amendments of the Constitution of India gave constitutional status to LSGIs and established a system of uniform structure, regular elections and flow of funds. Consequent upon these amendments, the State Legislature passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) to enable LSGIs to work as the third tier of the Government. As a follow up, the Government entrusted LSGIs with such powers, functions and responsibilities so as to enable them to function as institutions of Local Self-Government.

1.6.2. Status of transfer of functions and functionaries

The KPR Act and KM Act envisaged transfer of functions of various Departments of the Government to LSGIs together with the staff to carry out the functions transferred. The 11th Schedule of the Constitution of India lists 29 functions (**Appendix 1.1**) pertaining to the Panchayat Raj Institutions (PRIs). As mandated by KPR Act, GoK transferred (September 1995) 26 of these functions to PRIs. The functions relating to minor forest produce, distribution of electricity and implementation of land reforms are yet to be transferred to PRIs. Likewise, the 12th Schedule of the Constitution contains 18 functions (**Appendix 1.2**) pertaining to Urban Local Bodies (ULBs). The Government transferred (October 1995) 17 functions mandated under KM Act to ULBs and the function relating to fire services is yet to be transferred. In addition to the

functions mandated under the Constitution and the State Local Bodies Acts, the LSGIs also undertake projects with the funds provided by World Bank, Central and State Governments.

1.6.3. Profile and organisational set up of LSGIs

As of December 2020, there were 1,200 LSGIs in the State (14 District Panchayats, 152 Block Panchayats, 941 Grama Panchayats, six Municipal Corporations and 87 Municipalities). In the three-tier³ Panchayat Raj system in the State, each tier functions independently of the other. While the Constitution and the Acts confer autonomy and independent status to the LSGIs within the functional domain, the Local Self-Government Department (LSGD) is empowered to issue general directions to LSGIs in accordance with the National and State policies.

The President/ Chairperson/ Mayor is the Chief Executive Head of PRI/ Municipality/ Corporation respectively. Each LSGI has a Secretary who is the Chief Executive Officer. The members of each tier of PRIs elect the President, Vice-President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/ Municipal Corporation elect the Chairperson/ Mayor, Vice-Chairperson/ Deputy Mayor and Chairpersons of the Standing Committees.

1.6.4. Financial Profile of LSGIs

1.6.4.1. Funds flow to LSGIs

The resources of LSGIs consist of own revenues such as tax and non-tax revenues, funds devolved by State Government, Government of India (GoI) grants, and loans from financial institutions.

1.6.4.2. Resources: Trends and Composition

The composition of resources of LSGIs for the period 2018-19 to 2020-21 is given in **Table 1.2**.

³ Grama Panchayat, Block Panchayat and District Panchayat

Table 1.2: Time series data on resources of LSGIs*(₹ in crore)*

Resources	2018-19	2019-20	2020-21	Total
Own Revenue				
(i) Tax Revenue	1382.87	1228.81	244.93*	2856.61
(ii) Non -Tax revenue	288.90	275.22	51.06*	615.18
Total Own Revenue	1671.77	1504.03	295.99*	3471.79
State Fund				
(i) Traditional Functions	2674.67	1635.69	1721.78	6032.14
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	2347.07	2746.49	2943.83	8037.39
(iii) Development Fund	5324.01	5168.85	5466.24	15959.10
(iv) Funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes	4059.26	1657.49	2575.93	8292.68
Total State Fund	14405.01	11208.52	12707.78	38321.31
GoI Grants				
(i) Centrally Sponsored Schemes	3612.01	4005.88	4678.55	12296.44
(ii) Development and expansion	1739.56	2040.51	3549.79	7329.86
Total GoI grant	5351.57	6046.39	8228.34	19626.30
Receipts from loans and other sources	249.85	24.19	20.93	294.97
Total Receipts	21678.20	18783.13	21253.04	61714.37

* Out of 1,200 LSGIs, 931 LSGIs have not uploaded data regarding Tax/ Non-Tax Revenue. Information Kerala Mission (IKM) furnished data pertaining to 269 LSGIs, which had uploaded data as on 17 September 2021.

(Source: Details of Own Revenue furnished by IKM, Finance Accounts of the State for the respective years, information from Commissioner of Rural Development, Kerala Urban and Rural Development Finance Corporation (KURDFC) and Kerala State Poverty Eradication Mission (Kudumbashree))

1.6.4.3. Transfer of funds from Government to LSGIs

The State Government provides three types of funds to LSGIs from the Consolidated Fund viz., grants, funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes (CSSs). The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund, along with the releases made during 2020-21, are given in **Table 1.3**.

Table 1.3: Categories of funds and their allotment to LSGIs

Sl. No.	Category	Major Head of Account from which Budget provision is allotted	Amount allotted during 2020-21 (₹ in crore)	Allotment mechanism
1	Grants ⁴ , Fifteenth Finance Commission Grants	3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	11620.96	All the grants were drawn directly from Consolidated fund based on allotment.
		3054-Roads and Bridges	2060.68	
Total			13681.64	
2	State Sponsored Schemes	12 Major Heads	1518.27 ⁵	Routed through State Level Nodal Agencies/ Commissionerate of Rural Development
3	State share of CSSs	3 Major Heads ⁶	1057.66	
Grand total			16257.57	

(Source: Government Orders, Voucher Level Computerisation figures, details furnished by Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Kudumbashree, Commissionerate of Rural Development)

The total fund allotted by the State Government for 2020-21 was ₹16,257.57 crore as against ₹13,249.04 crore allotted during 2019-20, with increase of 22.71 per cent.

1.6.4.4. Funds for implementation of Centrally Sponsored Schemes

During 2020-21, GoI provided grants amounting to ₹4,678.55 crore⁷ to LSGIs for implementation of six CSSs. The grants were provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/ Poverty Alleviation Units (PAUs)/ online transfer.

In addition to the GoI grants of ₹4,678.55 crore, the State Government provided ₹1,057.66 crore as its share for implementation of CSSs. Thus, the total fund received for implementation of CSSs during 2020-21 was ₹5,736.21 crore as against ₹4,498.34 crore during 2019-20.

1.6.4.5. Application of Resources: Trends and Composition

In terms of activities, total expenditure constitutes expenditure on Productive Sector, Infrastructure Sector, Service Sector and other expenditure⁸. The total expenditure incurred by LSGIs during 2020-21 amounted to ₹11,998.18 crore.

⁴ Consists of General Purpose Fund, Maintenance Fund (Non-Road), Development Fund (including additional authorisation for spill-over works under Kerala Local Government Service Delivery Project)

⁵ Net Budget figure (Voucher Level Computerisation)

⁶ Urban Development, Special Programmes for Rural Development, Other Rural Development programmes.

⁷ State Budget (₹202.77 crore)/ State Level Nodal Agencies (₹81.38 crore)/ Poverty Alleviation Units (₹89.54 crore)/ online transfer (₹4,304.86 crore)

⁸ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

Table 1.4 shows the composition of application of resources of LSGIs from all sources of funds on these components during 2020-21.

Table 1.4: Application of resources

Sector	Expenditure (₹ in crore)
Productive Sector	1324.08
Infrastructure Sector	4485.14
Service Sector	5940.84
Total Development Expenditure	11750.06
Other Expenditure	248.12*
Total Expenditure	11998.18
Percentage of development expenditure to total expenditure	98

* Out of 1,200 LSGIs, IKM furnished data pertaining to 269 LSGIs, which had uploaded data as on 17 September 2021.

(Source: Details furnished by IKM)

1.6.4.6. Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 3,03,941 projects with a total outlay of ₹21,975.17 crore during 2020-21. Of these, the LSGIs had taken up 2,32,522 projects (77 per cent) for implementation and spent ₹11,750.07 crore on the projects. Of the projects taken up for implementation, 1,93,077 projects (83 per cent) were completed during 2020-21, at a cost of ₹8,894.36 crore. The details are given in **Table 1.5**.

Table 1.5: Details of projects taken up during 2020-21 and expenditure incurred

Type of LSGI	Number of projects			Amount (₹ in crore)			Percentage of expenditure on projects taken up to outlay on projects formulated
	Formulated	Taken up	Completed	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	
Grama Panchayat	227830	176260	147490	13307.50	6750.16	5144.30	50.72
Block Panchayat	19214	16049	12583	1588.88	993.12	752.62	62.50
District Panchayat	13898	9828	7714	2453.84	1491.89	1086.53	60.80
Municipality	34400	24140	20115	2712.26	1441.43	1129.82	53.14
Corporation	8599	6245	5175	1912.69	1073.47	781.09	56.12
Total	303941	232522	193077	21975.17	11750.07	8894.36	53.47

(Source: Details furnished by IKM)

With reference to the outlay on projects formulated, the percentage of utilisation of fund was only 53.47 per cent. The shortfall in implementation of projects was noticed mainly in Grama Panchayats followed by Municipalities.

1.7. Lack of responsiveness of Government to Audit

1.7.1. 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.

It was noticed that as on 30 September 2021, 6,708 IRs (33,740 paragraphs) (issued upto 31 March 2021) were outstanding in respect of 33 Departments. Details of IRs and paragraphs outstanding are given in **Appendix 1.3**.

1.7.2. 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 April 2021 to October 2021 for furnishing replies. Response of Government was received for all the nine Compliance Audit paragraphs featured in this Report. These replies were suitably incorporated in the Report.

1.7.3. 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 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 August 2021, nine Administrative Departments failed to comply with the instructions and did not submit Statements of Action Taken Notes of 12 paragraphs for the period 2014-15 to 2018-19, as detailed in **Appendix 1.4**.

1.7.4. Paragraphs pending discussion by the Public Accounts Committee

Thirty-three paragraphs pertaining to 20 Departments for the period 2013-14 to 2018-19 were pending discussion by the Public Accounts Committee as of August 2021 (**Appendix 1.5**).