

A decorative graphic of a scroll with a light blue outline and a grey shadow, containing the title text. The scroll is oriented horizontally and has a vertical tail extending downwards from the left side.

**BASIS AND APPROACH
TO STATE FINANCES
AUDIT REPORT**

Basis and Approach to State Finances Audit Report

In terms of Article 151(2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.

The Accountant General (Accounts and Entitlements) compiles the annual Finance Accounts and Appropriation Accounts of the State based on vouchers, challans, and initial and subsidiary accounts submitted by treasuries, offices, and departments under the control of the State Government, as well as statements received from the Reserve Bank of India. These accounts are independently audited by the Accountant General (Audit) and certified by the Comptroller and Auditor General of India.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures
- Results of audit carried out by the office of the Accountant General (Audit)
- Other data with departmental authorities and treasuries (accounting as well as MIS)
- GSDP data and other State related statistics
- State's Fiscal Responsibility and Budget Management (FRBM) Act
- Finance Commission recommendations
- Various audit reports of the CAG of India
- Best practices and guidelines of the Government of India (GoI)

An Entry Conference was held on 17 September 2025, with the Additional Chief Secretary, Finance, Government of Kerala wherein the audit approach followed in the preparation of the SFAR was explained. Exit meeting was held with Additional Chief Secretary, Finance Department on 17 January 2026 wherein Audit findings were discussed. The responses of the Government have been incorporated in the Report appropriately.

Structure of the Government Account

The Accounts of the State Government are kept in three parts.

1. Consolidated Fund of the State (Article 266 (1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State (Article 267 (2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Accounts of the State (Article 266 (2) of the Constitution)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Structure of Government Accounts



