Chapter I

Introduction

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from compliance audits, conducted by the Accountant General (Audit-II), of selected programmes and activities of Government Departments and Autonomous Bodies.

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. Since Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions, only very important results are included in this Report. 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.

1.2 Profile of units under audit jurisdiction

The Accountant General (Audit-II), Kerala conducts audit of 14 Departments and Autonomous Bodies thereunder. Significant observations under the Taxes Department are included in a separate report of the C&AG - Compliance Audit Report (Revenue). The Departments are headed by Additional Chief Secretaries/ Principal Secretaries/ Secretaries, who are assisted by Commissioners/ Directors/ Deputy Secretaries and subordinate officers.

A comparative position of expenditure incurred by the Government during the year 2023-24 with that of the preceding year is given in **Table 1.1:**

Table 1.1: Comparative position of expenditure incurred by the Government

(₹ in crore)

Disbursements	2022-23			2023-24			Percentage (+) Excess (-) Deficit
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	
Revenue Expenditure							
General Services	3,654.95	66,176.73	69,831.68	6,498.68	71,686.48	78,185.16	11.96
Social Services	9,869.70	40,406.21	50,275.91	8,669.16	35,336.12	44,005.28	-12.47
Economic Services	3,833.88	8,446.94	12,280.82	3,452.76	7,962.07	11,414.83	-7.05
Grants-in-aid and Contributions	---	9,562.52	9,562.52	---	9,021.07	9,021.07	-5.66
Total	**17,358.53**	**1,24,592.40**	**1,41,950.93**	**18,620.60**	**1,24,005.74**	**1,42,626.34**	**0.48**
Capital Expenditure							
Capital Outlay	13,260.46	736.10	13,996.56	13,056.42	528.03	13,584.45	-2.94
Loans and advances disbursed	---	---	2,790.93	---	---	3,295.72	18.09
Repayment of public debt	---	---	35,980.76	---	---	74,365.84	106.68
Contingency Fund	---	---	---	---	---	---	---
Public Account disbursements	---	---	4,18,119.90	---	---	3,80,839.42	-8.92
Total	**13,260.46**	**736.10**	**4,70,888.15**	**13,056.42**	**528.03**	**4,72,085.43**	**0.25**
Grand Total	**30,618.99**	**1,25,328.50**	**6,12,839.08**	**31,677.02**	**1,24,533.77**	**6,14,711.77**	**0.31**

(Source: Finance Accounts of the respective years)

1.3 Authority for Audit

Authority of the Comptroller and Auditor General (C&AG) for audit of Departments and Autonomous Bodies (ABs) 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 C&AG.

1.4 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various Departments of Government and autonomous bodies 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.

After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Department and the Administrative Department concerned. 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. The Audit Reports are submitted to the Hon'ble Governor of the State under Article 151 of the Constitution of India to be tabled in the State Legislature.

During the year 2023-24, under the 13 Departments, 220 units were audited.

1.5 Response of Government to Audit

The Accountant General (Audit-II), Kerala audits the Government Departments and Autonomous Bodies to test check the transactions and verify the maintenance of 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. The Heads of Departments are required to furnish replies to the IRs within a period of one month. In order to monitor and expedite the progress of settlement of the paragraphs in the IRs, the Government also constitutes Audit Committees/ Audit Sub-committees.

1.5.1 Inspection Reports outstanding

As on 30 June 2024, 982 IRs containing 5,322 paragraphs were outstanding against the 13 departments covered under this report. Department wise details of the IRs and paragraphs outstanding are detailed in **Appendix 1**.

1.5.2 Audit Committee Meetings

Following Audit's suggestion, the Finance (PAC) Department had instructed[1] all the Heads of Departments and offices to conduct quarterly Audit Committee Meetings (ACMs) to review the progress achieved in clearing pending audit observations in Inspection reports.

The details of the Audit Committee Meetings held during the year 2023-24 and the paragraphs settled therein are given in **Table 1.2:**

[1] Circular No.6/2004/Fin. dated 20 January 2004.

Table 1.2: Details of Audit Committee Meetings held during 2023-24

Sl. No.	Name of the Department	Number of Audit Committee Meetings held	Number of paragraphs settled
1	Public Works	1	153
2	Industries and Commerce	1	15
Total		**2**	**168**

(Source: Details compiled by Audit)

No meetings were held in respect of the Environment and Climate Change, Forest and Wildlife, Science and Technology, Tourism, Port, Cultural Affairs, Electronics and Information Technology, Transport, Power, Finance, Planning and Economic Affairs departments despite having pending audit observations.

1.5.3 Follow-up action on Audit Reports

The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit an appropriate and timely response from the Executive. The Finance Department, Government of Kerala (GoK) issued directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audits (PAs)/ 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.

As of March 2025, departments have not submitted Remedial Measures Taken Statement relating to 16 paragraphs pertaining to the Compliance Audit Reports for the period 2019-21 and 2021-22.

1.5.4 Discussion of Audit Paragraphs by the Public Accounts Committee

There were 19 paragraphs relating to five departments[2] pertaining to Compliance Audit Reports for the period 2019-21 and 2021-22 pending discussion by the Public Accounts Committee as of March 2025.

Recommendations:

The Government should

- ***ensure furnishing of replies/ explanatory notes to Audit Reports and Action Taken Notes on the recommendations of Public Accounts Committee as per the prescribed time schedule.***
- ***ensure that Audit Committee Meetings are held regularly.***
- ***instruct the departments to furnish the replies of the Draft Paragraphs and Compliance Audit Paragraphs on time.***

[2] Ten of Public Works, three of Forests and Wildlife, two of Science and Technology, two of Industries and Commerce (one each of Mining and Geology and Directorate of Coir Development), two of Cultural Affairs (one each of Archaeology and Museums and Zoos).