

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, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during Compliance Audit and follow-up on previous Audit Reports.

1.2. Profile of units under audit jurisdiction

There were 43 Departments in the State at Secretariat level during 2018-19. The Principal Accountant General (Audit - I), Kerala (PAG (Audit - I)), conducts audit of 27 Secretariat Departments, all Public Sector Undertakings/Autonomous Bodies thereunder and Local Self-Government Institutions 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 (PAG (Audit - II)), conducts audit of 16 Departments.

The comparative position of expenditure incurred by the Government during the year 2018-19 and in the preceding two years is given in **Table 1.1**:

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2016-17			2017-18			2018-19		
	Plan	Non-plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Expenditure									
General Services	181.39	41013.94	41195.33	418.30	45105.47	45523.77	943.59	49883.54	50827.13
Social Services	9773.34	23991.38	33764.72	12425.84	23450.43	35876.27	9050.60	29160.17	38210.77
Economic Services	3537.62	7117.73	10655.35	3337.60	8013.48	11351.08	3896.37	8483.40	12379.77
Grants-in-aid and Contributions		5480.91	5480.91		7197.23	7197.23		8898.72	8898.72
Total	13492.35	77603.96	91096.31	16181.74	83766.61	99948.35	13890.56	96425.83	110316.39
Capital Expenditure									
Capital outlay	8945.65	1180.30	10125.95	7993.68	755.19	8748.87	6778.54	652.00	7430.54
Loans and advances disbursed	375.25	785.04	1160.29	1380.82	159.77	1540.59	1328.85	994.04	2322.89
Repayment of public debt			7706.01			13132.10			18195.99
Contingency Fund			0.00			0.00			0.00
Public Account disbursements			179910.43			207174.17			242890.37
Total			198902.68			230595.73			270839.79
GRAND TOTAL			289998.99			330544.08			381156.18

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 24 Autonomous Bodies in the General and Social Sector, which are audited under Sections 19 and 20(1) of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 244 Autonomous Bodies, which are substantially funded by the Government under Section 14 and 15 of the C&AG's (DPC) Act. There are also 1,158 educational institutions¹, 30 Public Sector Undertakings, Buildings Divisions of the Public Works Department and 1,200 Local Self-Government Institutions² under the audit jurisdiction in the General and Social Sector. 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 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.

1.4. Organisational structure of the Office of the Principal Accountant General (Audit - I)

Under the directions of the C&AG, the Office of the PAG (Audit - I) conducts audit of Government Departments, Offices, Autonomous Bodies and Institutions under the General and Social Sector, which are spread all over the State. The 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/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 (IR) 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 2018-19, the Office of the PAG (Audit – I) utilised 11,678 party days to carry out audit of 2,025 units (compliance, performance and financial audits) 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 Seventy-third and Seventy-fourth amendments of the Constitution of India gave constitutional status to Local Self-Government Institutions (LSGIs) and established a system of uniform structure, regular elections and flow of funds. Consequent to 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 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 Eleventh Schedule of the Constitution contains 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 as rules are required to be formed at the Government level. Likewise, the Twelfth 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, Asian Development Bank and Central and State Governments.

1.6.3. Profile and organisational set up of LSGIs

As of December 2019, 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 guidelines to LSGIs in accordance with the National and State policies.

The President/Chairperson/Mayor is the Chief Executive Head of PRIs/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 revenue such as tax and non-tax revenue, funds devolved by State Government, Government of India (GoI) grants, and loans from financial institutions. During 2018-19, out of the total funds available with LSGIs, State grants constituted 66 per cent, GoI grants 25 per cent and own funds including loans constituted nine per cent.

³ Grama Panchayat, Block Panchayat and District Panchayat

1.6.4.2. Resources: Trends and Composition

The composition of resources of LSGIs for the period 2016-17 to 2018-19 is given in **Table 1.2**:

Table 1.2: Time series data on resources of LSGIs

Resources	2016-17	2017-18	2018-19	Total
(₹ in crore)				
Own Revenue				
(i) Tax Revenue	1046.53	1356.47	1382.87	3785.87
(ii) Non –Tax revenue	306.02	300.44	288.90	895.36
Total Own Revenue	1352.55	1656.91	1671.77	4681.23
State Fund				
(i) Traditional Functions	1241.65	1364.67	2674.67	5280.99
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	1937.79	2265.33	2347.07	6550.19
(iii) Development Fund	4017.58	4870.18	5324.01	14211.77
(iv) Funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes	5767.44	6227.55	4059.26	16054.25
Total State Fund	12964.46	14727.73	14405.01	42097.20
GoI Grants				
(i) Centrally Sponsored Schemes	2235.46	2632.10	3612.01	8479.57
(ii) Development and expansion	1717.13	1793.92	1739.56	5250.61
Total GoI grant	3952.59	4426.02	5351.57	13730.18
Receipts from loans and other sources	24.58	24.78	249.85	299.21
Total Receipts	18294.18	20835.44	21678.20	60807.82

(Source: Details of Own Revenue furnished by Information Kerala Mission (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))

- During the three-year period 2016-17 to 2018-19, the increase in total receipts of the LSGIs was 19 *per cent*. Of the total receipts during the three-year period, the percentage share of State, Central and own revenue was 69, 23 and eight respectively.
- The share of GoI grant to total receipts increased from 22 *per cent* in 2016-17 to 25 *per cent* in 2018-19.
- The share of State grant to total receipts decreased from 71 *per cent* in 2016-17 to 66 *per cent* in 2018-19.
- Collection of tax revenue by the LSGIs during 2018-19 increased by two *per cent* from the previous year, while the collection of non-tax revenue decreased by four *per cent* from the previous year.

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 2018-19, 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 2018-19 (₹ in crore)	Allotment mechanism
1	Grants ⁴ , Fourteenth Finance Commission grant	3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	10441.40	All the grants were drawn directly from Consolidated fund based on allotment.
		3054-Roads and Bridges	1643.90	
Total			12085.30	
2	State Sponsored Schemes	12 Major Heads	3430.41 ⁵	Routed through State Level Nodal Agencies ⁶
3	State share of CSSs	3 Major Heads ⁷	628.85	
Grand total			16144.56	

(Source: Government Orders, Voucher Level Compilation 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 2018-19 was ₹16,144.56 crore as against ₹16,521.66 crore allotted during 2017-18, with a decrease of two per cent.

1.6.4.4. Funds for implementation of Centrally Sponsored Schemes

During 2018-19, GoI provided grants amounting to ₹3,612.01 crore⁸ to LSGIs for implementation of 12 Centrally Sponsored Schemes (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 ₹3,612.01 crore, the State Government provided ₹628.85 crore as its share for implementation of CSSs. Thus, the total fund received for implementation of CSSs during 2018-19 was ₹4,240.86 crore as against ₹3,117.67 crore during 2017-18.

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 expenditure⁹. The total expenditure incurred by LSGIs during 2018-19 amounted to ₹11,370.52 crore.

Table 1.4 shows the composition of application of resources of LSGIs from all sources of funds on these components during 2018-19.

⁴ General Purpose Fund, Maintenance Fund (Non-Road), Development Fund (including additional authorisation for spill-over works under KLGSDP)

⁵ Net Budget figure

⁶ Kudumbashree, Commissioner of Rural Development (CRD)

⁷ Urban Development, Special Programmes for Rural Development, Other Rural Development programmes.

⁸ State Budget (₹509.40 crore)/State Level Nodal Agencies (₹617.52 crore)/Poverty Alleviation Units (₹141.76 crore)/online transfer (₹2,343.33 crore)

⁹ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

Table 1.4: Application of resources

Sector	Expenditure (₹ in crore)
Productive Sector	1029.78
Infrastructure Sector	3141.18
Service Sector	5843.66
Total Development Expenditure	10014.62
Other Expenditure	1355.90
Total Expenditure	11370.52
Percentage of development expenditure to total expenditure	88

(Source: Details furnished by IKM)

- During 2018-19, of the total development expenditure of ₹10,014.62 crore from all sources of fund, ₹5,843.66 crore i.e., 58 per cent was utilised for projects under service sector.
- The amount spent for productive sector was only ₹1,029.78 crore (10 per cent) out of the total development expenditure of ₹10,014.62 crore, indicating that the LSGIs assigned low priority to productive sector like Agriculture, Animal Husbandry, Fishing, Industries, etc.

1.6.4.6. Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 2,63,007 projects with a total outlay of ₹19,614.74 crore during 2018-19. Of these, the LSGIs had taken up 1,81,423 projects (69 per cent) for implementation and spent ₹10,014.62 crore on the projects. Of the projects taken up for implementation, only 1,53,874 projects (85 per cent) were completed during 2018-19, at a cost of ₹6,770.08 crore. The details are given in Table 1.5.

Table 1.5: Details of projects taken up and expenditure incurred

Type of LSGI	Number of projects			Amount (₹ in crore)			Percentage of expenditure on projects taken up to total outlay on projects formulated
	Formulated	Taken up	Completed	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	
Grama Panchayat	194142	137526	118586	11959.58	6261.91	3924.11	52.36
Block Panchayat	16496	12794	10345	1448.24	892.96	726.33	61.66
District Panchayat	13670	7309	5539	2322.72	1167.04	878.81	50.24
Municipality	30802	19382	16147	2448.17	1036.54	808.96	42.34
Corporation	7897	4412	3257	1436.03	656.17	431.87	45.69
Total	263007	181423	153874	19614.74	10014.62	6770.08	51.06

(Source: Details furnished by IKM)

With reference to the outlay on projects formulated, the percentage of utilisation of fund was only 51. The shortfall in implementation of projects was noticed mainly in Municipalities followed by Corporations.

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 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 June 2019, 542 IRs (2,985 paragraphs) were outstanding in respect of Election, Home, Information and Public Relations and Water Resources (excluding Kerala Water Authority) Departments. Even initial replies in respect of 19 IRs containing 129 paragraphs issued upto 2018-19 were pending from these Departments. Year-wise 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 August 2018 to June 2020 for furnishing replies within six weeks. Response of Government was received for eight out of the 10 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 2020, 12 Administrative Departments failed to comply with the instructions and did not submit Statements of Action Taken Notes of 16 paragraphs for the period 2014-15 to 2017-18, as detailed in **Appendix 1.4**.

1.7.4. Paragraphs pending discussion by the Public Accounts Committee

Thirty-eight paragraphs pertaining to 19 Departments for the period 2013-14 to 2017-18 were pending discussion by the Public Accounts Committee as of August 2020 (**Appendix 1.5**).