

CHAPTER II

FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF-GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 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 2014-15, out of the total funds available with LSGIs, State grants constituted 68 *per cent*, GOI grant 24 *per cent* and own funds including loans constituted eight *per cent*.

2.1.1.1 Resources: Trends and Composition

The composition of resources¹ of LSGIs for the period 2010-11 to 2014-15 is given in **Table 2.1**.

Table 2.1: Time series data on resources of LSGIs

(₹ in crore)

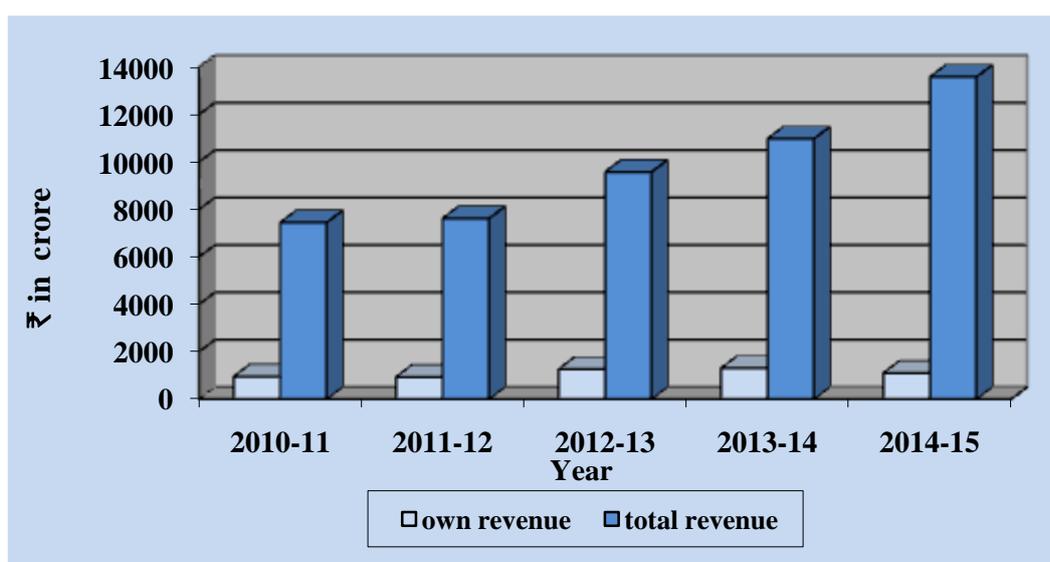
| Resources | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---------------------|----------------|----------------|-----------------|-----------------|-----------------|
| Own Revenue: | | | | | | |
| (i) Tax Revenue | 952.97 ² | 561.79 | 661.01 | 662.78 | 842.64 | |
| (ii) Non-Tax revenue | | 376.69 | 599.60 | 640.43 | 263.15 | |
| Total Own Revenue | 952.97 | 938.48 | 1260.61 | 1303.21 | 1105.79 | 5561.06 |
| State Fund: | | | | | | |
| (i) Traditional Functions | 440.47 | 644.98 | 757.89 | 900.15 | 1052.68 | 3796.17 |
| (ii) Maintenance Expenditure (Road Assets and Non-Road Assets) | 440.58 | 713.94 | 1039.45 | 1386.50 | 1542.45 | 5122.92 |
| (iii) Expansion and Development | 2277.72 | 2021.52 | 2062.61 | 2701.75 | 3539.51 | 12603.11 |
| (iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes | 1358.24 | 1358.45 | 1865.73 | 2069.48 | 3070.58 | 9722.48 |
| Total State Fund | 4517.01 | 4738.89 | 5725.68 | 7057.88 | 9205.22 | 31244.68 |
| GOI grants: | | | | | | |
| (i) Centrally Sponsored Schemes | 1163.79 | 1280.72 | 1603.36 | 1607.00 | 1890.06 | 7544.93 |
| (ii) Development and expansion | .. | 622.84 | 979.41 | 993.94 | 1369.15 | 3965.34 |
| Total GOI grant | 1163.79 | 1903.56 | 2582.77 | 2600.94 | 3259.21 | 11510.27 |
| Receipts from loans & other sources: | | | | | | |
| Loans | 812.36 | 39.16 | 10.27 | 17.52 | 15.48 | 894.79 |
| Total Receipts | 7446.13 | 7620.09 | 9579.33 | 10979.55 | 13585.70 | 49210.80 |

¹**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), Kerala Sustainable Urban Development Project (KSUDP) and Kudumbashree

² Break up of Tax and Non-tax revenue not provided by the LSGIs

- During the five year period 2010-15, the increase in total receipts of the LSGIs was 82 *per cent*. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 63, 23 and 11 respectively.
- The fourth State Finance Commission had recommended to augment collection of own revenue, as it felt that the existing potential had not been tapped effectively and efficiently by the LSGIs. However, there was no increase in the collection of own revenue. The percentage share of own revenue to total revenue during 2010-11 to 2014-15 was 12.80, 12.32, 13.16, 11.87 and 8.14 respectively. Audit observed that during 2014-15, though there was increase in collection of tax revenue, there was drastic reduction in collection of non-tax revenue.

Chart 2.1: Share of own revenue to total revenue of LSGIs



- The share of GOI grant to total receipts increased from 16 *per cent* in 2010-11 to 24 *per cent* in 2014-15.
- The share of State grant to total receipts increased from 61 *per cent* in 2010-11 to 68 *per cent* in 2014-15.

Surrender of funds for State Sponsored Schemes/Centrally Sponsored Schemes

Out of ₹3410.97 crore allotted by the State Government to LSGIs during 2014-15 under twelve heads³, ₹526.71 crore was surrendered (**Appendix III**). The major surrender was noticed under the major head 2217- Urban Development. Out of

³General Education, Medical and Public Health, Urban Development, Welfare of SC/ST, Labour and Employment, Social Security and Welfare, Crop Husbandry, Soil and Water Conservation, Special Programme for Rural Development, Village and Small Industries, Animal Husbandry, Other Rural Development Programmes.

₹298.48 crore allotted under the head, ₹237.46 crore was surrendered (79.56 per cent). In the case of major head 2225 – Welfare of SC/ST, out of ₹239.77 crore allotted ₹113.32 crore was surrendered (47.26 per cent). Audit noticed that more than 50 per cent of the fund allotted under Urban Development was being surrendered every year since 2010-11.

Audit further noticed that the entire funds allotted under 2217-Urban Development for implementation of projects for Integrated Housing and Slum Development Programme and Modernisation of Slaughter Houses were surrendered.

In response to audit query, Director of Urban Affairs stated that unavailability of viable proposals, public protest at the level of local bodies and difficulty in finding ULB contribution using their own funds were the reasons for non-utilisation. The reply is not tenable as these aspects should have been considered at the time of allocation of funds.

2.1.1.2 Transfer of funds from the Government and associated audit issues

(i) 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). Appendix IV to the Detailed Budget Estimates of the Government gives the LSGI-wise allocation of funds. The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund, along with the releases made during 2014-15, are given in **Table 2.2**.

Table 2.2: Categories of funds and their release to LSGIs

| Sl. No. | Category | Major Head of Account from which Budget Provision is released | Amount released during 2014-15 (₹ in crore) | Release mechanism |
|--------------------|--|--|---|---|
| 1 | Grants, World Bank aided Performance grant under KLGSDP ⁴ , KSUDP, ADB ⁵ assistance, Thirteenth Finance Commission award | 3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions | 6471.34 | Routed through Public Account |
| | | 3054-Roads and Bridges | 1032.45 | |
| Total | | | 7503.79 | |
| 2 | State Sponsored Schemes | 12 Major Heads | 2884.26 | Routed through State Level Nodal Agencies ⁶ /CRD |
| 3 | State share of CSSs | 3 Major Heads | 186.32 | |
| Grand total | | | 10574.37 | |

⁴ Kerala Local Government Service Delivery Project

⁵ Asian Development Bank

⁶ Kudumbashree, KSUDP, Suchitwa Mission

The total fund released by the State Government for 2014-15 was ₹10574.37 crore as against ₹8051.82 crore released during 2013-14, an increase of 31.33 per cent.

(ii) The funds are credited to the Public Account by Finance Department in monthly installments to enable LSGIs to draw money from treasuries through Controlling Officers.

(iii) **Table 2.3** gives the details of funds released by the State Government under various categories⁷ during 2014-15.

Table 2.3: Funds released by State Government under different categories during 2014-15

(₹ in crore)

| Type of LSGIs | Development Expenditure Fund | Maintenance Expenditure Fund | General Purpose Fund | Total |
|---------------------------|------------------------------|------------------------------|----------------------|----------------|
| Corporations | 276.88 | 120.74 | 137.69 | 535.31 |
| Municipalities | 313.03 | 166.92 | 98.20 | 578.15 |
| District Panchayats (DPs) | 617.39 | 288.43 | 30.10 | 935.92 |
| Block Panchayats (BPs) | 620.99 | 53.66 | 42.56 | 717.21 |
| Grama Panchayats (GPs) | 1711.22 | 912.70 | 744.13 | 3368.05 |
| Total | 3539.51 | 1542.45 | 1052.68 | 6134.64 |

Audit noticed the following deficiencies in the release of Government funds:

- **Delayed release of funds:** Monthly transfer credit of fund from Consolidated Fund to Public Account was devised as a means to ensure availability of fund for incurring expenditure by LSGIs. In the case of Development Fund, Audit noticed delay ranging from 12 days to 110 days in transferring funds, in four transfer credits⁸ made during 2014-15. Of this, the 8th, 9th and 10th instalments of Development Fund were transfer credited on 28.03.2015 only causing delay of 110, 79 and 48 days respectively. Delayed transfer of funds has the effect of rush of expenditure at the fag end of the year and is against the financial rules which stipulates that rush of expenditure in the closing month of the financial year should be avoided.

In reply to audit query, Government stated that the LSGIs were instructed (September 2014) to incur expenditure only against a new revenue account and not from Public Account. Accordingly, it was decided to release the 8th and subsequent instalments of development fund through the new fund transfer mechanism. However, due to difficulty in implementation of new mechanism

⁷ Excluding funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes

⁸ Transfer of funds (Development Expenditure Fund in ten equal monthly instalments from May to February, Maintenance Expenditure Fund in ten equal monthly instalments from April to January and General Purpose Fund in twelve equal monthly instalments from April to March) from the Consolidated Fund to Public Account

towards the fag end of the financial year, Government subsequently decided to continue with existing system and the remaining instalments were released in March 2015.

- **Delay in issuing Letters of Authority:** There were delays in issuing Letters of Authority to LSGIs by the Controlling Officers. Delay ranging from ten to 57 days was noticed in 55 out of 128 instalments of LSGI funds released during 2014-15. The delay in issuing Letter of Authority has an adverse impact on the implementation of projects formulated by LSGIs.
- **Deduction from allocation due to short utilisation:** As per the Government Order, LSGIs were to utilise at least 60 *per cent* of the allocation for 2012-13 under Development Expenditure Fund and Maintenance Expenditure Fund, failing which the unspent amount would be deducted from the budget allocation for 2014-15. Audit noticed that ₹129.50 crore was deducted (Development Expenditure Fund: ₹17.74 crore; Maintenance Expenditure Fund: ₹111.76 crore) from budget allocation for 2014-15, due to short utilisation of fund during 2012-13.
- **Lapse of Performance Grant:** Performance Grant is provided as untied fund to GPs and Municipalities as part of Kerala Local Government Service Delivery Project (KLGSDP) to enhance their development spending in areas of public services including maintenance of assets. The release of the grant requires the LSGIs to follow certain fiduciary and procedural norms. From 2013-14 onwards, the LSGIs were expected to meet a set of Minimum Mandatory Conditions (MMC) pertaining to planning, budgeting, accounting, financial reporting and accountability etc., assessed annually through a set of performance criteria. Audit noticed that 14 Municipalities and 130 GPs did not satisfy MMC, resulting in lapse of Performance Grant amounting to ₹55.39 crore out of ₹374.85 crore allocated.

(iv) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2010-11 to 2014-15 are given in **Table 2.4**.

Table 2.4: State Plan Outlay vis-à-vis Development Expenditure Fund of LSGIs

(₹in crore)

| Year | State Plan Outlay | Development Fund of LSGIs | Percentage of Development Fund of LSGIs to State Plan Outlay |
|--------------|-------------------|---------------------------|--|
| 2010-11 | 10025.00 | 2277.72 | 22.72 |
| 2011-12 | 11030.00 | 2563.76 | 23.24 |
| 2012-13 | 14010.00 | 2942.02 | 21.00 |
| 2013-14 | 17000.00 | 3645.69 | 21.45 |
| 2014-15 | 20000.00 | 4858.66 | 24.29 |
| Total | 72065.00 | 16287.85 | 22.60 |

Development Fund devolved to LSGIs constituted 24.29 per cent of the State Plan outlay for the year 2014-15 while it was 21.45 per cent during 2013-14.

2.1.1.3 Receipts from GOI

The category-wise release of fund by GOI during 2014-15 is given in **Table 2.5**.

Table 2.5: Category-wise release of GOI fund

| Category | Amount (₹ in crore) |
|--|---------------------|
| Thirteenth Finance Commission grant ⁹ | 999.69 |
| Additional Central Assistance for Externally Aided projects for KLGSDP | 319.46 |
| ADB assisted KSUDP | 50.00 |
| Centrally Sponsored Schemes | 1890.06 |
| Total | 3259.21 |

Audit noticed an increase of ₹658.27 crore in release of fund under the above categories when compared to 2013-14.

GOI grant for implementation of CSSs:

The GOI provided grants amounting to ₹1890.06 crore to LSGIs for implementation of eleven flagship CSSs. The grants were provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/Poverty Alleviation Units (PAUs), etc. The details of GOI grants transferred to LSGIs for implementation of CSSs during 2014-15 are given in **Table 2.6**.

Table 2.6: Release of GOI grant for CSSs during 2014-15

| Sl. No. | Authority/Agency through which the grant was released | Details of Scheme | Amount (₹ in crore) |
|---------|---|---|---------------------|
| 1 | State Budget | Jawaharlal Nehru National Urban Renewal Mission –Urban Infrastructure and Governance (JNNURM) | 00 |
| | | Basic Services to the Urban Poor (BSUP) | 33.64 |
| | | Comprehensive Capacity Building Programme (CCBP) | 1.88 |
| 2 | Directly to State Level Nodal Agencies | Integrated Housing and Slum Development Programme (IHSDP) | 3.88 |
| | | National Rural Livelihood Mission (NRLM) | 18.06 |

⁹Up to 2010-11, Grants to LSGIs by Central Finance Commission were subsumed in the Development Funds devolved by the State Government. From 2011-12 onwards the Central Finance Commission Grants are released in a separate stream viz., General Basic Grant, General Performance Grant, General Performance Grant forfeited by non-performing States

| Sl. No. | Authority/Agency through which the grant was released | Details of Scheme | Amount (₹ in crore) |
|--------------|--|---|---------------------|
| | | National Resource Organisation (NRO) | 3.71 |
| | | Mahila Kisan Sashaktikaran Pariyojana (MKSP) (Attappady) | 3.07 |
| | | Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDUGKY) | 45.34 |
| | | Swarna Jayanti Shahari Rozgar Yojana (SJSRY) | 00 |
| 3 | Directly to Poverty Alleviation Unit | Indira Awaas Yojana (IAY) | 160.75 |
| | | Swachh Bharat Mission(SBM) | 16.99 |
| | | Pradhan Manthri Krishi Sinchai Yojana (PMKSY) | 15.16 |
| 4 | By online transfer to the Joint Bank Account of District Programme Co-ordinator and Joint Programme Co-ordinator | Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) | 1587.58 |
| Total | | | 1890.06 |

The State Government provided ₹186.32 crore as its share for implementation of CSSs. Thus, the total fund for implementation of CSSs during 2014-15 was ₹2076.38 crore as against ₹1782.71 crore during 2013-14.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax¹⁰ and non-tax revenue¹¹ collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994 (KPR Act)/Kerala Municipality Act, 1994 (KM Act) and allied Acts. This category also includes income derived from assets of LSGIs, beneficiary contributions, Earnest Money Deposits, Retention money, etc. As per the details furnished by Information Kerala Mission, Own revenue of 1209 LSGIs for 2014-15 amounted to ₹1105.79 crore.

2.1.1.5 Loans availed by LSGIs

As per provisions of Kerala Local Authorities Loans Act, 1963, LSGIs raise loans from State Government, KURDFC, Co-operative Banks, HUDCO¹², etc. **Table 2.7** gives the details of loans availed by LSGIs during 2014-15.

Table 2.7: Loans availed during 2014-15

| Source of loan | Loan availed during 2014-15 (₹ in crore) |
|------------------|--|
| State Government | Nil |
| KURDFC | 15.48 |
| Total | 15.48 |

¹⁰ Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.

¹¹ Licence fee, Registration fee, etc.

¹² Housing and Urban Development Corporation Limited

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure composed of expenditure on Productive Sector, Infrastructure Sector, Service Sector and other expenditure¹³. As per the details obtained from the LSGIs and the Controlling Officers/IKM, the total expenditure incurred by LSGIs during 2014-15 amounted to ₹7362.85 crore.

Table 2.8 below shows the composition of application of resources of LSGIs from all sources of funds on these components for the period from 2010-11 to 2014-15.

Table 2.8: Application of resources

(₹ in crore)

| Sector | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|
| Productive Sector | 447.69 | 595.77 | 355.82 | 459.24 | 493.10 | 2351.62 |
| Infrastructure Sector | 936.05 | 1343.41 | 1528.58 | 2684.02 | 2619.76 | 9111.82 |
| Service Sector | 2139.26 | 2306.59 | 2182.48 | 2945.85 | 3022.01 | 12596.19 |
| Total Development Expenditure | 3523.00 | 4245.77 | 4066.88 | 6089.11 | 6134.87 | 24059.63 |
| Other Expenditure | 1798.26 | 2618.88 | 2638.35 | 2062.85 | 1227.98 | 10346.32 |
| Total Expenditure | 5321.26 | 6864.65 | 6705.23 | 8151.96 | 7362.85 | 34405.95 |
| Percentage of Development Expenditure to Total Expenditure | 66.21 | 61.85 | 60.65 | 74.70 | 83.32 | 69.93 |

Source: Details furnished by IKM/LSGIs

- Audit observed heavy expenditure under service sector during 2014-15. Of the total development expenditure of ₹6134.87crore from all sources of fund, ₹3022.01 crore i.e., 49.26 per cent was utilised for projects under service sector.
- Productive sector was the most neglected sector with a meager expenditure of ₹493.10 crore out of total expenditure of ₹6134.87 crore (8.04 per cent), when the guideline emphasized the need to give priority for projects under productive sector.

2.1.1.7 Public investment in social sector and rural development through major Centrally Sponsored Schemes

Public investment in social sector and rural development through major CSSs are made to LSGIs through agencies such as PAUs and SLNAs (viz., Kudumbashree, KSUDP, Suchitwa Mission, etc.). The grants for CSSs enjoin upon sanctioning authorities in GOI the responsibility to ensure proper utilisation of grant money.

¹³ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs.

Out of ₹2605.24 crore¹⁴ available for implementation of CSSs, substantial portion of the funds amounting to ₹417.72 crore was lying unspent with Kudumbashree (₹238.98 crore), PAU (₹108.32 crore), and KSUDP (₹70.42 crore), thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Out of ₹2187.52 crore released, the expenditure incurred by LSGIs was ₹1653.44 crore (75.59 per cent). The balance amount of ₹417.82 crore remained unutilised with LSGIs, after refund of ₹116.26 crore to Government of Kerala against the borrowed funds from PRIs. Thus, out of the total amount of ₹2605.24 crore available for utilisation under CSSs, ₹835.54 crore was remaining unutilised with various agencies. Unutilised fund mainly related to IAY (₹348.83 crore), JNNURM (₹61.77 crore), SJSRY (₹36.83 crore), UIDSSMT (₹34.07 crore), TSC(SBM) (₹51.25 crore), BSUP (₹49.84 crore), IHSDP (₹39.93 crore), NRLM (₹48.34 crore) and DDUGKY (₹60.96 crore).

2.1.2 Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 2,23,553 projects with a total outlay of ₹11917.28 crore during 2014-15. Of these, the LSGIs had taken up 1,60,207 projects (71.66 per cent) for implementation and had spent ₹6134.87 crore on the projects. Of the projects taken up for implementation, only 1,34,935 projects (84.22 per cent) were completed during 2014-15 at a cost of ₹4931.49 crore. The details are given in **Table 2.9**.

Table 2.9: 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 of projects formulated |
|--------------------|--------------------|---------------|---------------|-------------------------------|----------------------------------|-----------------------------------|---|
| | Formulated | Taken up | Completed | Outlay on projects formulated | Expenditure on projects taken up | Expenditure on projects completed | |
| Grama Panchayat | 175509 | 126584 | 108965 | 6445.59 | 3535.91 | 2927.89 | 54.86 |
| Block Panchayat | 12266 | 9827 | 8160 | 1723.92 | 700.34 | 603.37 | 40.62 |
| District Panchayat | 12850 | 7418 | 5283 | 1742.16 | 910.43 | 710.03 | 52.26 |
| Municipality | 16839 | 12455 | 9660 | 1189.60 | 585.97 | 432.41 | 49.26 |
| Corporation | 6089 | 3923 | 2867 | 816.01 | 402.22 | 257.79 | 49.29 |
| Total | 223553 | 160207 | 134935 | 11917.28 | 6134.87 | 4931.49 | 51.48 |

Source: Details furnished by IKM

¹⁴The fund retained by the Nodal agencies in 2013-14 was not furnished as the OB during the year 2014-15.

With reference to the outlay of projects formulated, the percentage utilisation of funds was only 51.48. The shortfall in implementation of projects was noticed in BPs, followed by Municipalities.

2.1.3 Misappropriation, loss, defalcation, etc.

The Kerala Financial Code stipulates that each Drawing and Disbursing Officer should report all cases of loss, theft or fraud to the Principal Accountant General and the Government. The Government is required to recover the loss, fix responsibility and remove systemic deficiency, if any. A consolidated statement of the details of misappropriations, losses, theft and fraud is not available with the Government.

Table 2.10 shows the details of misappropriation/defalcation reported to the Director of Urban Affairs, Commissioner of Rural Development, Project Director of KSUDP and Director of Panchayats.

Table 2.10: Misappropriation, loss, defalcation

| Name of LSGIs | Amount (₹ in lakh) (Number of cases in bracket) | | | | | Total |
|------------------|--|----------|----------|----------|-----------|-------------------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | |
| Corporations | 0.59(1) | 0.82(1) | 1.52(3) | -- | --- | 2.93(5) |
| Municipalities | 3.92(1) | -- | -- | 1.29(2) | 1.75(1) | 6.96(4) |
| Block Panchayats | 16.58(5) | 22.14(5) | 92.36(1) | 0.32(2) | 324.69(8) | 456.09(21) |
| Grama Panchayats | 0.90(2) | 1.13(3) | 1.57(3) | 18.33(8) | 2.13(2) | 24.06(18) |
| KSUDP | -- | 13.78(2) | -- | -- | 2.87(2) | 16.65(4) |
| Total | | | | | | 506.69(52) |

2.2 Financial, Administrative and Reporting Issues

Financial reporting in LSGIs is a key element to ensure accountability of executives. The financial administration of LSGIs including budget preparation, maintenance of accounts, monitoring of expenditure, etc., is governed by the provisions of KPR Act, 1994, KM Act, 1994, Kerala Panchayats (Accounts) Rules, 1965, Kerala Municipal Accounts Manual, Kerala Financial Code, guidelines, standing orders and instructions. Shortcomings in the financial administration of LSGIs are mentioned below:

2.2.1 Budget

As per KPR Act and KM Act, the budget proposals containing detailed estimate of income and expenditure were to be placed by the Standing Committee for Finance before the LSGI not later than the first week of March. Though the LSGIs passed the budget before the beginning of the year, there was delay in presentation of budget by 39 (30 GPs, seven BPs, one DP and one Municipality) out of 131 LSGIs test-checked. The budget proposals were not discussed adequately and not subjected to detailed deliberations, in the respective Panchayats/Councils. The budgets were passed on the day of their presentation in 27 GPs, seven BPs, one DP and in one Municipality (**Appendix IV**).

2.3 Arrears in accounts

According to Kerala Local Fund Audit Act, 1994 (KLFA Act) it was mandatory for LSGIs to submit their accounts to Director of Local Fund Audit (DLFA), since renamed as Director of Kerala State Audit Department (KSAD), for audit by 31 July every year. Further, Rule 16 of KLFA Rules empowers DLFA to carry out proceedings in a Court of Law against the Secretaries of LSGIs who default in the submission of accounts. As on 31 July 2015, 73 accounts pertaining to the period from 1997-98 to 2014-15 were in arrears. Of this, 70 accounts relate to 2005-06 and earlier periods.

In response to audit query, Director of KSAD stated that though KSAD was empowered to take legal action against the Secretaries of LSGIs who have defaulted in the submission of accounts, the KSAD faces the following difficulties in initiating legal action.

- Large number of arrears in accounts.
- Prior permission of Government was required for taking action against Government employees.
- Non-availability of Government pleaders.
- Shortage of employees.

2.4 Arrears in audit and issue of audit reports

As per KLFA Act, DLFA is to complete the audit of accounts submitted by LSGIs within six months of receipt of accounts and issue Audit Report within three months from the date of completion of audit.

Out of the total 6049 accounts received by DLFA pertaining to the period from 2009-2010 to 2013-14, Audit Reports were issued in respect of 5146 accounts (October 2015) and 903 (14.93 *per cent*) Audit Reports were not issued.

Director, KSAD stated that the arrears in audit and issue of audit certificate was due to the non-availability of sufficient staff in the department.

2.4.1 Surcharge and Charge imposed by the DLFA

Section 16(1) of KLFA Act, 1994, empowers the DLFA to disallow any illegal payment and surcharge the person making or authorizing such illegal payment. DLFA can also charge any person responsible for the loss or deficiency of any sum which ought to have been received.

During the period 2010-11 to 2014-15, DLFA had issued 118 charge certificates for ₹65.52 lakh and 718 surcharge certificates for ₹3.44 crore. Against the total charge/surcharge amount of ₹4.10 crore, only ₹12.93 lakh were realised (3.15 per cent).

In reply to audit enquiry, Director of KSAD stated that the laxity on the part of the executive authority responsible for revenue recovery action adversely affected the recoveries.

2.5 Results of Supplementary Audit

The Comptroller and Auditor General of India conducted supplementary audits under Section 20(1) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971 in respect of the accounts of 99 GPs, 21 BPs, three District Panchayats, seven Municipalities and one Corporation during the year 2014-15. The findings of such audit are given in subsequent paragraphs.

2.5.1 Quality of Annual Financial Statements

The KPR Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the KM Act, 1994 read with Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the PRIs/ULBs shall prepare Annual Financial Statements (AFS) and forward them to DLFA after approval by the Panchayat/Municipal Council/Corporation Council not later than 31 July/31 May/31 May respectively of the succeeding year. Audit noticed that in one GP, four BPs and one Municipality, there was delay ranging from one to four months in forwarding the AFS to DLFA (**Appendix V**). Deficiencies noticed in the AFS submitted to DLFA are mentioned below.

Demand Collection Balance statements of 15 GPs and two Municipalities were incorrect/incomplete. (**Appendix VI**)

The AFS of 17 GPs, three BPs and two Municipalities did not contain all the transactions. In four BPs and three GPs, closing balance of previous years did not match with the opening balance of next year AFS. Appending statements of AFS were not prepared/submitted by one Corporation, two Municipalities, one DP, two BPs and 23 GPs (**Appendix VII**).

2.5.2 Preparation of Monthly Accounts

As per Government order about the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare accounts for every month and place the same before the Panchayat Committee/Council at its first meeting held after the 10th day of the succeeding month. Monthly Accounts were not prepared in nine GPs, three BPs and one Municipality (**Appendix VIII**).

2.5.3 Stock verification

Physical verification of stock was not done by 14 GPs, five BPs, one DP, three Municipalities and one Corporation (**Appendix IX**).

2.5.4 Maintenance of primary financial records

(a) Cash Book

Guidelines about maintenance of Panchayat accounts and Municipal Accounting Manual issued by the Government stipulate that all moneys received and payments made should be entered in the cash book and it should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank pass book balance under proper authentication was to be made. Supplementary audit revealed the following deficiencies in the maintenance of cash book by the LSGIs listed in **Appendix X**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 11 GPs, two BPs and one DP. Out of these, erasure and overwriting were certified in two GPs only.
- The daily closing of cash book was not certified in 17 GPs, four BPs, one DP and two Municipalities.
- Monthly closing of cash book was not carried out by three GPs.
- 15 GPs, seven BPs, one DP and one Municipality did not certify the monthly closing of the cash book.
- 10 GPs, three BPs, one DP and two Municipalities did not reconcile the cash book balance with pass book balance.
- Physical verification of cash was not done in 12 GPs, three BPs, one DP and three Municipalities.
- In eight GPs, three BPs and one DP the functional classifications of receipt and expenditure were not recorded in the cash book.

(b) Register of Advances

Guidelines about maintenance of Panchayat accounts stipulate that all advances paid are to be recorded in the Register of Advances. One GP, one BP and one DP did not maintain Register of Advances. In two GPs, the advance register maintained was incomplete. Non-maintenance/improper maintenance of Advance Register could lead to deficient monitoring and adjustment of advances (**Appendix XI**).

(c) Deposit Register

As per paragraph 3.37 of the Government order of June 2003 which prescribed the Accounting Format of Panchayats, each institution has to maintain Deposit Register to watch the receipts as well as adjustment of deposits. The procedures prescribed for the maintenance of Advance Registers were to be followed in the maintenance of Deposit Register. Two BPs and one DP did not maintain Deposit Register. Maintenance of Deposit Register was incomplete in three GPs (**Appendix XI**).

(d) Asset Register

Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipal Accounts Manuals and Government Order (December 2005) stipulate that each LSGI should maintain records of assets owned by it. One GP did not maintain Asset Register. The Asset Register maintained by 11 GPs, one BP and two Municipalities was incomplete. Non-maintenance/improper maintenance of Asset Register would have adverse impact on physical verification and proper inventorisation of the assets (**Appendix XI**).

2.6 Conclusion

- During the five year period 2010-15, there was 82 *per cent* increase in total receipts of the LSGIs. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 63, 23 and 11 respectively. The LSGIs need to make serious efforts to augment revenue collection.
- The amount spent on Productive sector accounted for only 8.04 *per cent* of the total Development Expenditure during 2014-15 and 9.77 *per cent* during the last five years 2010-11 to 2014-15, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries etc. The Government should analyse the reason for low expenditure and take sincere effort to make the LSGIs realize the need to productively utilise the fund. The Government should also fix a target for expenditure on productive sector.

- Audit noticed a tendency in formulating projects with higher outlay. However, in the implementation level, only 51.48 *per cent* of the amount earmarked was expended.
- Due to the failure in meeting Minimum Mandatory Condition pertaining to planning, budgeting, accounting, financial reporting and accountability etc, which was a mandatory condition for release of Performance Grant, 14 Municipalities and 130 GPs lost performance Grant of ₹55.39 crore out of ₹374.85 crore allotted.