

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 2016-17, out of the total funds available with LSGIs, State grants constituted 71 *per cent*, GoI grant 22 *per cent* and own funds including loans constituted seven *per cent*.

2.1.1.1 Resources: Trends and Composition

The composition of resources of LSGIs for the period 2012-13 to 2016-17 is given in **Table 2.1**.

Table 2.1: Time series data on resources of LSGIs

Resources	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Own Revenue:						
(i) Tax Revenue	661.01	662.78	842.64	937.46	1046.53	4150.42
(ii) Non –Tax revenue	599.60	640.43	263.15	281.02	306.02	2090.22
Total Own Revenue	1260.61	1303.21	1105.79	1218.48	1352.55	6240.64
State Fund:						
(i) Traditional Functions	757.89	900.15	1052.68	1119.83	1241.65	5072.20
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	1039.45	1386.50	1542.45	1746.22	1937.79	7652.41
(iii) Expansion and Development	2062.61	2701.75	3539.51	3391.88	4017.58	15713.33
(iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	1865.73	2069.48	3070.58	4667.98	5767.44	17441.21
Total State Fund	5725.68	7057.88	9205.22	10925.91	12964.46	45879.15
GoI grants:						
(i) Centrally Sponsored Schemes	1603.36	1607.00	1890.06	1969.62	2235.46	9305.50
(ii) Development and expansion	979.41	993.94	1369.15	785.42	1717.13	5845.05
Total GoI grant	2582.77	2600.94	3259.21	2755.04	3952.59	15150.55
Receipts from loans & other sources:						
Loans	10.27	17.52	15.48	25.59	24.58	93.44
Total Receipts	9579.33	10979.55	13585.70	14925.02	18294.18	67363.78

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 Kerala State Poverty Eradication Mission (Kudumbashree).

- During the five year period 2012-13 to 2016-17, the increase in total receipts of the LSGIs was 91 *per cent*. Of the total receipts during the five year period, the

percentage share of State, Central and Own revenue was 68, 23 and nine respectively.

- The share of GoI grant to total receipts decreased from 27 *per cent* in 2012-13 to 22 *per cent* in 2016-17.
- The share of State grant to total receipts increased from 60 *per cent* in 2012-13 to 71 *per cent* in 2016-17.

Surrender of funds meant for State Sponsored Schemes

Out of ₹ 6,723.02 crore allotted by the State Government to LSGIs during 2016-17 under eleven heads¹, ₹ 1,542.27 crore was surrendered (**Appendix III**). The major surrender was noticed under the major head 2202 – General Education. Out of ₹ 7.65 crore allotted under this head, ₹ 5.81 crore (76 *per cent*) was surrendered. In the case of major head 2501 – Special Programmes for Rural Development, out of ₹ 386.04 crore allotted, ₹ 208.80 crore (54 *per cent*) was surrendered and in the case of major head 2515 – Other Rural Development Programmes, out of ₹ 38.16 crore allotted, ₹ 18.86 crore (49 *per cent*) was surrendered and in the case of major head 2217 – Urban development, out of ₹ 1,133.60 crore allotted, ₹ 364.68 crore (32 *per cent*) was surrendered.

2.1.1.2 Transfer of funds from Government to LSGIs

(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 2016-17, are given in **Table 2.2**.

Table 2.2: Categories of funds and their allotment to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is allotted	Amount allotted during 2016-17 (₹ in crore)	Allotment mechanism
1	Grants ² , World Bank aided Performance grant under KLGSDP ³ , KSUDP (ADB ⁴), Fourteenth Finance Commission grant.	3604- Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	7622.29	All the grants are drawn directly from Consolidated fund based on allotment.
		3054-Roads and Bridges	1291.86	
Total			8914.15	

¹General 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 & Small Industries and Other Rural Development Programmes.

²General Purpose Fund, Maintenance Fund (Non-Road), Development Fund.

³Kerala Local Government Service Delivery Project.

⁴Asian Development Bank.

Sl. No.	Category	Major Head of Account from which Budget Provision is allotted	Amount allotted during 2016-17 (₹ in crore)	Allotment mechanism
2	State Sponsored Schemes	11 Major Heads	5180.76 ⁵	Routed through State Level Nodal Agencies ⁶ /Commissionerate of Rural Development
3	State share of CSSs	3 Major Heads ⁷	586.68	
Grand total			14681.59	

Source: Government Orders, Voucher Level Computerisation figures, details furnished by KSUDP, Kudumbashree, Commissionerate of Rural Development.

The total fund allotted by the State Government for 2016-17 was ₹ 14,681.59 crore as against ₹ 11,757.33 crore allotted during 2015-16, an increase of 24.87 per cent. The main reason for higher allotment compared to previous year was on account of increase in Kerala Local Government Service Delivery Project loan amount from nil to ₹ 549.32 crore and FFC grant from ₹ 785.42 crore to ₹ 1,310.05 crore.

(ii) **Table 2.3** gives the details of funds allotted by the State Government under various categories⁸ during 2016-17.

Table 2.3: Funds allotted by State Government under different categories during 2016-17

(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Total
Corporations	312.07	160.16	170.39	642.62
Municipalities	403.47	236.32	153.06	792.85
District Panchayats (DPs)	658.59	406.70	35.50	1100.79
Block Panchayats (BPs)	658.58	69.60	50.37	778.55
Grama Panchayats (GPs)	1832.63	1065.01	832.33	3729.97
Total	3865.34	1937.79	1241.65	7044.78

Source: Government Order

Audit observed the following deficiencies in the allotment and utilisation of Government funds:

- **Delayed allotment of funds**

The sanction for allotment of funds for a financial year would be issued by the State Finance Commission (SFC) cell in three instalments on or before 25 of March, July and November every year and the LSGIs can utilise the funds with effect from the first working day of the next month. The funds not drawn upto 31 March of a financial year will lapse automatically. Audit observed that there was delay ranging from 21 to 248 days in the allotment of funds in 13 cases out of 22 allotments made during 2016-17.

⁵ Net Budget figure.

⁶ Kudumbashree, KSUDP, Commissioner of Rural Development (CRD).

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

⁸ Excluding funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes.

Delayed release of funds reduces the time available to LSGIs for utilisation. The total lapsed fund was ₹ 1,878.61 crore (21.67 per cent) out of the total allotment of ₹ 7,044.78 crore.

- **Non-authorisation of unspent balance**

As per the revised guidelines (March 2015), for the drawal of funds by LSGIs from the Consolidated Fund, the allotted fund not drawn by 31 March of a particular year, shall be provided through additional authorisation/Supplementary Demands for Grants along with the second allotment in July of the subsequent year based on the consolidated figures furnished by the Directorate of Treasuries. Audit observed that total unspent balance in the Consolidated Fund, FFC and KLGSDP for the period 2015-16 and 2016-17 was ₹ 5,877.18 crore⁹ as on 31 March 2017. Out of this, Government re-authorised in March 2017, an amount of ₹ 74.16 crore only (General Purpose Fund ₹ 3.39 crore, World Bank aided KLGSDP ₹ 70.77 crore). The remaining portion of unspent balance ₹ 5,803.02 crore was not authorised to LSGIs (November 2017).

- **Irregular authorisation of Gap Fund**

The Fourth State Finance Commission recommended Gap Funding only to Grama Panchayats, which are not able to meet their establishment cost and obligatory expenses with their own revenue plus General Purpose Fund. However, it was noticed that an amount of ₹ 2.66 crore was authorised as Gap Funding to seven Municipalities. Audit observed that these seven Municipalities¹⁰ were not eligible for Gap Funding as per Fourth State Finance Commission recommendations and also their revenue was more than their expenditure.

- **Allotment of Maintenance Fund on Asset Base**

The Fourth State Finance Commission recommended that the Maintenance Fund should be allotted based on the extent of asset base, *i.e.*, roads, buildings, etc., owned by the LSGIs. Audit observed that allocation of Maintenance Fund was not based on asset base but was being done on an *ad hoc* basis.

Non-crediting of amount available in Public Accounts

In March 2016, Government directed to transfer credit the funds available in the Public Accounts of Local Governments to the head of account- 3604-00-911-99 'Deduct Recoveries of Overpayments'. As per the information furnished by Director of Treasuries (November 2017), an amount of ₹ 82.21 lakh still remained in the public account of 18 LSGIs as on 31 March 2017 due to omission on the part of LSGIs to transfer the balance fund in time.

(iii) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2012-13 to 2016-17 are given in **Table 2.4**.

⁹ 2015- 16: ₹ 3,121.22 crore and 2016-17: ₹ 2,755.96 crore (including FFC and KLGSDP).

¹⁰Changanassery, Chittur-Thathamangalam, Mavelikkara, Neyyattinkara, Palakkad, Perinthalmanna and Shornur.

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
2012-13	14010.00	2942.02	21.00
2013-14	17000.00	3645.69	21.45
2014-15	20000.00	4858.66	24.29
2015-16	20000.00	4177.30	20.89
2016-17	24000.00	5734.71	23.90

Source: Budget Brief 2016-17 and Government Orders

Development Fund devolved to LSGIs constituted 23.90 per cent of the State Plan outlay for the year 2016-17 while it was 20.89 per cent during 2015-16.

2.1.1.3 Receipts from GoI

The category-wise release of funds by GoI during 2016-17 is given in Table 2.5.

Table 2.5: Category-wise release of GoI fund

Sl. No.	Category	Amount (₹ in crore)
1	Fourteenth Finance Commission grant	1310.05
2	World Bank aided Kerala Local Government Service Delivery Project	407.08
3	Centrally Sponsored Schemes	2235.46
	Total	3952.59

Source: Government Orders, Voucher Level Computerisation figures, details furnished by KSUDP, Kudumbashree, Commissionerate of Rural Development.

Audit observed an increase of ₹ 1,151.55 crore in release of fund under the above categories when compared to 2015-16.

GoI grant for implementation of Centrally Sponsored Schemes

During 2016-17, GoI provided grants amounting to ₹ 2,235.46 crore 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), etc. The details of GoI grants transferred to LSGIs for implementation of CSSs during 2016-17 are given in Table 2.6.

Table 2.6: Release of GoI Grant for Centrally Sponsored Schemes during 2016-17

Sl. No.	Authority/Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
1	State Budget	Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	151.53
		Smart City	190.80
		Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	25.24
	Directly to State Level Nodal Agencies – (Kudumbashree)	Rajiv Awas Yojana (RAY)	0.40
		National Rural Livelihood Mission (NRLM)/ National Rural Livelihood Project (NRLP)	21.36
		Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDUGKY) (Ajeevika Skills)	1.39

Sl. No.	Authority/Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
		Pradhan Mantri Awas Yojana (Urban) (PMAY-U)	51.68
		National Resource Organisation (NRO)	4.57
2	Directly to Poverty Alleviation unit (Commissioner for Rural Development)	Pradhan Mantri Awas Yojana (Gramin) (PMAY-G)	91.13
		Swachh Bharath Mission (Gramin) (SBM)	98.25
		Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)	16.62
	By online transfer to the Joint Bank Account of District Programme Co-ordinator and Joint Programme Co-ordinator	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	1582.49
		Total	2235.46

Source: Details furnished by KSUDP, Kudumbashree, Commissionerate of Rural Development.

In addition to the GoI grants of ₹ 2,235.46 crore, the State Government provided ₹ 586.68 crore as its share for implementation of CSSs. Thus, the total fund received for implementation of CSSs during 2016-17 was ₹ 2,822.14 crore as against ₹ 2,327.47 crore during 2015-16.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax¹¹ and non-tax revenue¹² 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 (IKM), Own revenue of 1200 LSGIs for 2016-17 amounted to ₹ 1,352.55 crore (tax revenue- ₹ 1,046.53 crore and non-tax revenue - ₹ 306.02 crore). Audit observed that the increase in collection of tax and non-tax revenue during 2016-17 from previous year was 11.64 and 8.90 *per cent* respectively.

2.1.1.5 Loans availed by LSGIs

As per provisions of Kerala Local Authorities Loans Act, 1963, LSGIs raise loans from State Government, Kerala Urban and Rural Development Finance Corporation Limited (KURDFC), Co-operative Banks, HUDCO¹³, etc. **Table 2.7** gives the details of loans availed by LSGIs during 2016-17.

Table 2.7: Loans availed by LSGIs during 2016-17

Source of loan	Loan availed during 2016-17	Loan outstanding as on 31 March 2017
State Government	Nil	90.95
KURDFC	23.79	60.09
Co-operative Bank	Nil	2.20
HUDCO	0.79	1.91
Total	24.58	155.15

Source: Details furnished by KURDFC, Kerala State Co-operative Bank Limited, HUDCO.

¹¹ Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.

¹² Licence fee, Registration fee, etc.

¹³ Housing and Urban Development Corporation Limited.

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure constitutes expenditure on Productive Sector, Infrastructure Sector, Service Sector and other expenditure¹⁴. As per the details obtained from the IKM, the total expenditure incurred by LSGIs during 2016-17 amounted to ₹ 6,334.04 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 2012-13 to 2016-17.

Table 2.8: Application of resources

(₹ in crore)						
Sector	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Productive Sector	355.82	459.24	493.10	453.78	567.81	2329.75
Infrastructure Sector	1528.58	2684.02	2619.76	3258.41	1747.73	11838.50
Service Sector	2182.48	2945.85	3022.01	3160.14	3122.09	14432.57
Total Development Expenditure	4066.88	6089.11	6134.87	6872.33	5437.63	28600.82
Other Expenditure	2638.35	2062.85	1227.98	894.57	896.41	7720.16
Total Expenditure	6705.23	8151.96	7362.85	7766.90	6334.04	36320.98
Percentage of Development Expenditure to Total Expenditure	60.65	74.70	83.32	88.48	85.85	78.74

Source: Details furnished by IKM

- During 2016-17, of the total development expenditure of ₹ 5,437.63 crore from all sources of fund, ₹ 3,122.09 crore i.e., 57.42 per cent was utilised for projects under service sector.
- Modified guidelines of the Twelfth Five Year Plan of LSGIs emphasised the need to give priority to projects under productive sector. The amount spent for productive sector was only ₹ 567.81 crore (10.45 per cent) out of the total development expenditure of ₹ 5,437.63 crore indicating that the LSGIs assigned low priority to productive sector like Agriculture, Animal Husbandry, Fishing, Industries, etc.

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 Poverty Alleviation Units (PAU) and State Level Nodal Agencies (SLNAs) viz., Kudumbashree, KSUDP, CRD, etc. The grants for CSSs enjoin upon sanctioning authorities in GoI, the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs.

¹⁴ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

Out of ₹ 3,475.25 crore¹⁵ available for implementation of CSSs, substantial portion of the funds amounting to ₹ 813.46 crore were lying unspent with agencies viz., PAU (₹ 260.44 crore), Kudumbashree (₹ 226.56 crore) and KSUDP (₹ 326.46 crore), thereby defeating the purpose for which the funds were earmarked and released. Unutilised fund mainly related to Indira Awas Yojana (IAY) (₹ 236.98 crore), AMRUT (₹ 283.33 crore) and BSUP (₹ 51.44 crore).

2.1.2 Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 2,16,266 projects with a total outlay of ₹ 12,549.72 crore during 2016-17. Of these, the LSGIs had taken up 1,30,112 projects (60 per cent) for implementation and spent ₹ 5,437.63 crore on the projects. Of the projects taken up for implementation, only 1,04,735 projects (80 per cent) were completed during 2016-17 at a cost of ₹ 4,235.08 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	160949	99710	81359	6394.56	3115.95	2485.88	48.73
Block Panchayat	13165	8830	7311	1287.88	521.55	443.24	40.50
District Panchayat	10732	4520	3583	1740.44	659.59	519.62	37.90
Municipality	25359	14059	10648	1966.03	705.01	521.22	35.86
Corporation	6061	2993	1834	1160.81	435.53	265.12	37.52
Total	216266	130112	104735	12549.72	5437.63	4235.08	43.33

Source: Details furnished by IKM

With reference to the outlay of projects formulated, the percentage of utilisation of fund was only 43.33. The shortfall in implementation of projects was noticed mainly in Municipalities, followed by Corporations.

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 was not available with the Government.

¹⁵The closing balance of previous year and the opening balance for current year furnished by SLNAs do not agree. The reason for the same is awaited (February 2018).

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

Table 2.10: Misappropriation, loss, defalcation

Name of LSGIs/Agency	Amount (₹ in lakh) (Number of cases in bracket)					Total
	2012-13	2013-14	2014-15	2015-16	2016-17	
Corporations	1.52(3)	--	--	0.40(2)	--	1.92(5)
Municipalities	--	1.29(2)	1.75(1)	--	0.42(1)	3.46(4)
Block Panchayats	92.36(1)	0.32(2)	324.69(8)	142.86(11)	71.22(2)	631.45(24)
Grama Panchayats	1.57(3)	18.33(8)	2.13(2)	10.17(6)	39.40(5)	71.60(24)
KSUDP	--	--	2.87(2)	--	--	2.87(2)
Directorate of Urban Affairs	--	--	--	--	0.18(1)	0.18(1)
Total						711.48(60)

Source: Directorate of Urban Affairs, Commissionerate of Rural Development, Project Director KSUDP and Directorate of Panchayats.

2.1.4 Surcharge and Charge imposed by the Kerala State Audit Department

Section 16(1) of Kerala Local Fund Audit Act, 1994, empowers the Kerala State Audit Department (KSAD) to disallow any illegal payment and surcharge the person making or authorising such illegal payment. KSAD can also charge any person responsible for the loss or deficiency of any sum which ought to have been recovered.

During the period 2009-10 to 2016-17, KSAD issued 104 charge certificates for ₹ 122.96 lakh and 543 surcharge certificates for ₹ 497.67 lakh. Against the total charge/surcharge amount of ₹ 620.63 lakh, only ₹ 19.86 lakh were realised (3.20 per cent), leaving ₹ 600.77 lakh unrealised.

2.2 Release and Utilisation of Fourteenth Finance Commission Grant

2.2.1 Introduction

The Finance Commission is a Constitutional body formulated under Article 280 of the Indian Constitution. The Fourteenth Finance Commission (FFC) was constituted by the President of India to give recommendations on specified aspects of Central/State fiscal relations for 2015-2020. The FFC submitted its report in December 2014 and recommended assured transfers to the local bodies for planning and delivering of basic services smoothly and effectively within the functional areas assigned to them under relevant legislations.

With a view to assess whether the grant was received by local bodies in time and was utilised for the intended purpose, audit was conducted from August 2017 to September 2017, covering the period 2015-16 to 2016-17. Out of 14 Districts, five districts¹⁶ were selected, seven Local Bodies were selected from each district on

¹⁶ Alappuzha, Kottayam, Kozhikode, Malappuram and Pathanamthitta.

random basis (i.e., 10 Municipalities¹⁷ and 25 Grama Panchayats¹⁸). Audit methodology included scrutiny of basic records, registers, files, issue of audit enquiries, etc.

2.2.2 Allocation and release of funds

The allocation of FFC grant to local bodies in the State was ₹ 7,681.96 crore (₹ 6,547.33 crore as basic grant for 2015-2020 and ₹ 1,134.63 crore as performance grant for 2016-2020) during the award period 2015-2020. During 2015-16 and 2016-17, Government of India (GoI) released basic grant of ₹ 1,872.98 crore and for the year 2016-17, GoI released performance grant of ₹ 222.49 crore.

2.2.3 Audit Findings

2.2.3.1 Delay in submission of utilisation certificate by Government of Kerala

As per the recommendations of the FFC, Government of India releases Basic Grant in two instalments in the month of June and October every fiscal year. According to clause 19 of the guidelines, the first instalment of Basic Grant was to be released unconditionally and subsequent instalments was to be released on receipt of the Utilisation Certificate (UC) for the previous instalments in the prescribed format. The performance grant for both Rural Local Bodies (RLBs) and Urban Local Bodies (ULBs) for the year 2016-17 was to be released by the Department of Expenditure in October 2016 on certification by Ministry of Panchayati Raj (MoPR)/Ministry of Urban Development (MoUD) that the finalised scheme in this regard was received from the State and it conformed to the recommendations of the FFC. The Finance Commission Grant so released by the Government of India was to be transferred to Local Bodies within 15 days on receipt of the same. In case of delay, the State Government was to release the instalment along with interest.

The details of funds released and UC furnished for each instalment are given in **Table 2.11**:

Table 2.11: Details of release of FFC grant and submission of UC

Details of Grant	Grant Released by GoI				Total Amount (₹ in crore)	Date of UC
	Rural Local Bodies (RLB)		Urban Local Bodies (ULB)			
	Date of release by GoI	Amount (₹ in crore)	Date of release by GoI	Amount (₹ in crore)		
2015-16 Basic grant- I st Instalment	13.07.2015	216.88	13.07.2015	175.83	392.71	30.03.2016
-do- II nd Instalment	02.06.2016	216.88	02.06.2016	175.83	392.71	16.08.2016

¹⁷Municipalities – Alappuzha, Ettumanur, Feroke, Koduvally, Manjeri, Mukkam, Pandalam, Pathanamthitta, Ponnani and Valanchery.

¹⁸Grama Panchayats – Ambalappuzha South, Chemanchery, Edathua, Enadimangalam, Erumely, Kangazha, Kannamangalam, Kodanchery, Kodur, Kunnamangalam, Mannancherry, Moorkkanad, Mundakkayam, Nedumparam, Pampady, Panachikkad, Parathodu, Pramadam, Pattanakkad, Peringara, Pulamanthole, Thalavady, Thiruvallur, Thuravoor and Vadasserikkara.

Details of Grant	Grant Released by GoI				Total Amount (₹ in crore)	Date of UC
	Rural Local Bodies (RLB)		Urban Local Bodies (ULB)			
	Date of release by GoI	Amount (₹ in crore)	Date of release by GoI	Amount (₹ in crore)		
2016-17 Basic grant- I st Instalment	16.01.2017	300.30	17.02.2017	243.47	543.77	02.03.2017(RLB) 27.03.2017(ULB)
-do- II nd Instalment	31.03.2017	300.31	21.06.2017	243.47	543.77	19.05.2017(RLB) 18.07.2017(ULB)
Performance Grant	31.03.2017	78.78	20.01.2017	143.71	222.49	19.05.2017(RLB) 18.07.2017(ULB)

Source: GoI, MoF, DoE: LB release No.55/2016-17 dated 31.03.2017

The first instalment of basic grant for 2015-16 was released in July 2015. However, the second instalment was released in June 2016 instead of October 2015 resulting in a delay of seven months. In 2016-17, the release of first and second instalments were delayed by seven and five months respectively. The release of second instalment of basic grant by GoI was delayed due to delay in submission of UC of previous instalments by the State Government.

The performance grant due for release in October 2016 was released by GoI in January 2017 for ULBs and in March 2017 for RLBs. As per FFC Guidelines, the State Government was to design a detailed procedure for disbursement of the Performance Grant and same was to be notified by March 2016. The GoK issued the notification only by October 2016. Due to the delay in issue of notification, the release of performance grant by GoI was delayed by five months in the case of RLBs and three months in the case of ULBs.

Thus, delay in submission of utilisation certificates by GoK resulted in delayed release of basic grant by GoI.

2.2.3.2 Execution of non-basic services/ineligible works

The FFC and Ministry of Finance (MoF) issued guidelines (October 2015) emphasising on delivery of basic services such as water supply, sanitation including septic management, sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, foot paths, street-lighting, burial and cremation grounds. Paragraph eight of FFC guidelines also emphasised that no expenditure will be incurred out of the FFC grant except on basic services. The State Government issued orders in January 2016 stipulating the projects on basic services delivery, which were to be undertaken using the FFC fund.

As per the negative list issued by the Ministry of Panchayati Raj (December 2015), the FFC Grant cannot be utilised for schemes funded by other Agencies.

Audit of test-checked LSGIs revealed that out of 3,235 projects for ₹ 74.48 crore taken up during 2015-16 and 2016-17, 405 projects¹⁹ amounting to ₹ 22.72 crore were used for non-basic services by LSGIs. Expenditure on activities already being funded under other schemes such as Indira Awas Yojana, Integrated Child Development Scheme, Sarva Shiksha Abhiyan, Pradhan Mantri Awas Yojana etc.,

¹⁹ House Construction, House Maintenance, Cattle shed construction, Poultry Farming etc.

amounting to ₹ 10.60 crore in 284 projects, which were included in the negative list were also undertaken by the local bodies. Thus, the test-checked LSGIs spent an amount of ₹ 33.32 crore on non-basic services/ineligible works. The LSGIs failed to comply with the FFC, GoK and MoF guidelines, which were intended to strengthen the delivery of basic services.

2.2.3.3 Under utilisation of funds by LSGIs

The FFC funds available with the local bodies during 2015-16 and 2016-17 were ₹ 785.42 crore and ₹ 1,310.05 crore respectively. According to the Director of Treasury, the unspent balances under FFC for 2015-16 and 2016-17 were ₹ 366.44 crore and ₹ 528.24 crore respectively, which lapsed at the end of the financial year. As per GoK Order (March 2015), the unspent amount was to be provided to the LSGIs as additional authorisation/supplementary demands for grants in July 2016/July 2017. However, Audit observed that the lapsed amount was not authorised to LSGIs so far (November 2017).

Audit of test-checked LSGIs revealed that out of total available fund of ₹ 119.53 crore for 2015-16 and 2016-17, only an amount of ₹ 74.94 crore was utilised leaving an unspent balance of ₹ 44.59 crore.

On this being pointed out, three LSGIs stated that under-utilisation of fund was mainly due to delay in receipt of funds, shortage of manpower to take up schemes etc. Replies from other LSGIs were awaited (March 2018).

2.2.3.4 Incorrect allotment of performance grant

The FFC recommended that 10 and 20 *per cent* of the allocated amount will be released to RLBs and ULBs respectively, as performance grant on fulfillment of stipulated conditions. The procedure and operational criteria for disbursement of performance grants for 2016-17 were subject to conditions such as submission of audited accounts related to year 2014-15, increase in own revenue over the preceding year (2013-14) as reflected in the audited accounts etc. In addition, ULBs must measure and publish the Service Level Bench Marks (SLBM) relating to basic urban services each year for the period of the award and make it publicly available. Each year based on fulfillment of conditions, GoK shall publish a list of local bodies eligible for receipt of performance grant by July every year. For 2016-17, the above said procedure was to be completed in November 2016. After disbursement of performance grant to the eligible RLBs or ULBs, the undisbursed amount, if any, should be distributed on equitable basis among all the eligible RLBs or ULBs.

During the period 2016-17, GoI released the entire amount of performance grant (₹ 222.49 crore). Out of 941 RLBs and 93 ULBs, 827 RLBs and 54 ULBs were selected for performance grant in 2016-17 based on the revenue increase over the previous year (2013-14). Audit observed that one of the conditions to publish the SLBM was not considered while selecting the Municipalities for performance grant. However, the performance grant was authorised to all RLBs (January 2017) and ULBs (March 2017) instead of eligible LSGIs.

As per the FFC recommendation, the performance grant due for the ineligible local bodies was to be distributed among eligible ones. Since GoK released the amount of performance grant to all the RLBs and ULBs without insisting on conditions of

eligibility, it was later found that the eligible LSGIs received less amount than their due share. In order to compensate this, the Government released an amount of ₹ 33.26 crore from Consolidated Fund to eligible RLBs and ULBs in April 2017 and July 2017 respectively. Out of the 10 Municipalities test-checked, GoK selected two Municipalities²⁰ for performance grant. Audit observed that these two Municipalities were not eligible as they did not satisfy the condition of publishing the SLBM as prescribed by FFC. The release of performance grant to all the RLBs and ULBs without following the FFC guidelines resulted in an extra expenditure of ₹ 33.26 crore to the exchequer.

2.2.3.5 Irregular adjustment of FFC grant

Paragraph 17 of FFC guidelines stipulates that there should not be any deductions at source from the grant due to the local bodies. Government of Kerala issued orders (June 2017) stating that Central Finance Commission Grants form part of Development fund.

During 2014-15, GoK released ₹ 166.39 crore of Thirteenth Finance Commission grant for the year in advance on the assumption that the funds will be received from GoI either in the same year or in the next year. However, the GoI did not release second instalment for the year 2014-15 as the term of the Thirteenth Finance Commission was over. Hence, GoK adjusted the excess amount released on account of Thirteenth Finance Commission Grant relating to the year 2014-15 amounting to ₹ 166.39 crore from the Development Fund grant in violation of guidelines.

Scrutiny of test-checked LSGIs for the period 2015-16 revealed that Development Fund to the extent of ₹ 6.33 crore was deducted on this account.

2.3 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 121²¹ LSGIs during 2016-17. The findings of such audit are given in subsequent paragraphs.

2.3.1 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. Out of 121 test-checked LSGIs, there was delay in presentation of budget by seven GPs. The budget proposals were also 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 10 GPs. Further, the expenditure incurred in excess of the budget provision was observed in two GPs and one BP without supplementary budget (**Appendix IV**).

²⁰ Pathanamthitta and Manjeri.

²¹ 91 GPs, 13 BPs, seven DPs, eight Municipalities and two Corporations.

2.3.2 Quality of Annual Financial Statements

As per Rule 62(5) of the Kerala Panchayat Raj (Accounts) Rules, 2011, and as per Rule 58(5) of Kerala Municipality (Accounts) Rules, 2007, the PRIs/ULBs shall prepare Annual Financial Statements (AFS) containing all Receipts and Payments Statement, Balance Sheet, Income and Expenditure Statement and forward them to Director, Kerala State Audit Department (KSAD) after approval by the Panchayat Committee/Municipal Council not later than 15 May and 31 May respectively of the succeeding year. Audit observed that in one Corporation, one Municipality and two GPs, there was delay ranging from 3 to 13 months in forwarding the AFS to KSAD (**Appendix V**).

(i) Deficiencies noticed in the AFS submitted to KSAD are mentioned below.

As per Rule 62(3) of the Kerala Panchayat Raj (Accounts) Rules, 2011 and Rule 58(3) of the Kerala Municipality (Accounts) Rules, 2007, comparative amounts shall be entered on the Financial Statements for the preceding year. The AFS of one Municipality, two DPs, five BPs and 16 GPs did not contain the comparative amounts (**Appendix VI**).

As per Rule 62(2) of the Kerala Panchayat Raj (Accounts) Rules, 2011 and Rule 58(2) of the Kerala Municipality (Accounts) Rules, 2007, Annual Financial Statement shall consist of Balance Sheet, Income and Expenditure Statement, Statement of Cash Flow, Receipt and Payment Statements, Notes to Accounts, Key Ratios or Financial Performance Indicators. Appending statements were not found in one Municipality, five BPs and 28 GPs with the AFS (**Appendix VI**).

As per Rule 62(4) of the Kerala Panchayat Raj (Accounts) Rules, 2011 and Rule 58(4) of the Kerala Municipality (Accounts) Rules, 2007, all amounts in the Financial Statements shall be rounded off to a rupee. Fraction of a rupee below fifty paise shall be rounded off to the immediately lower rupee and above fifty paise to the next higher rupee. In the AFS of two Municipalities and eight GPs, the amount in the Financial Statement were not rounded off to a rupee (**Appendix VI**).

As per Rule 70 of the Kerala Panchayat Raj (Accounts) Rules, 2011, the Secretary of the Panchayat shall cause to publish the Monthly Receipts and Payments Statement, AFS and the Annual Report in the Notice Board and Websites of the Panchayat. Out of the 121 test-checked LSGIs, the AFS and Annual Reports were not published in the Notice Board and Websites by two BPs and five GPs (2.42 and 6.05 *per cent* respectively) (**Appendix VI**).

As per Rules 28, 58(4) of the Kerala Panchayat Raj (Accounts) Rules, 2011 and Rules 27, 54(5) of the Kerala Municipality (Accounts) Rules, 2007, at the end of the year, the Secretary may carry out procedures for creation of provision for already incurred expenditure but not paid and amounts receivable. Provision for expenditure already incurred but not paid or amounts receivable was not created in the AFS of one Municipality, one DP, one BP and 12 GPs (**Appendix VI**).

(ii) The following deficiencies were found in the Balance Sheet, Income and Expenditure Statement, Receipt and Payment Statement submitted to KSAD.

Improper accounting of Income and Expenditure

In two Municipalities, three DPs, three BPs and 28 GPs, the Gross Surplus or Gross Deficit was overstated/understated due to accounting of incorrect income and expenditure. Thus, the Income and Expenditure Statements were not exhibiting a true and correct view (**Appendix VII**).

Improper accounting of Assets and Liabilities

There were misclassification of revenue and capital expenditure, advances and Capital Work-in-Progress, incorporation of incorrect cash/bank/treasury balances in Balance Sheets, providing less, more or nil depreciation to assets resulting in not exhibiting a true and fair view of the state of affairs of one Corporation, five Municipalities, six DPs, eight BPs and 58 GPs (**Appendix VII**).

2.3.3 Preparation of Monthly Accounts

As per Rule 60 of the Kerala Panchayat Raj (Accounts) Rules, 2011, the Secretary of Panchayat shall, not later than 10 of the subsequent month, prepare and submit a Statement of Receipts and Payments in the prescribed format, to the Standing Committee for Finance. The Chairperson of the Standing Committee for Finance shall after scrutiny and audit by the Standing Committee, place the Monthly Statement of Receipts and Payments along with their recommendations, in the immediately succeeding meeting of the Panchayat. Monthly Accounts were not prepared in one BP and three GPs (**Appendix VIII**).

2.3.4 Stock /Asset verification

As per Rule 58 of Kerala Panchayat Raj (Accounts) Rules, 2011 and 54 of Kerala Municipal (Accounts) Rules, 2007, physical verification of stock/asset was to be done by the PRIs and ULBs respectively. Audit observed that physical verification of stock/asset was not done by one Municipality, three DPs, three BPs and seven GPs (**Appendix IX**).

2.4 Conclusion

- The amount spent on productive sector accounted for only 10.45 *per cent* of the total Development Expenditure during 2016-17 and 8.15 *per cent* during the last five years 2012-13 to 2016-17, indicating that the LSGIs assigned low priority to productive sector like Agriculture, Animal Husbandry, Fishing, Industries etc. The Government may analyse the reasons for low expenditure to enable the LSGIs to utilise the funds productively. The Government may also consider fixing a target for expenditure in the productive sector.
- Out of ₹ 3,475.25 crore available for implementation of Centrally sponsored schemes, an amount of ₹ 813.46 crore was retained by SLNA/PAUs/KSUDP thereby defeating the purpose for which the funds were earmarked and released by GoI / GoK.
- Delay in submission of Utilisation Certificates by GoK resulted in delay in release of further instalments of FFC basic grant by GoI. Similarly, delay on the part of GoK to notify detailed procedure for disbursement of performance grant resulted in delay in release of performance grant by GoI.

- Out of the release of ₹ 785.42 crore and ₹ 1,310.05 crore as FFC grant during 2015-16 and 2016-17 respectively, ₹ 366.44 crore and ₹ 528.24 crore remained unutilised.
- The FFC and MoF emphasised that no expenditure will be incurred out of the FFC grant except for basic services. However, an expenditure of ₹ 22.72 crore was incurred by 35 test-checked LSGIs on projects not meant for delivery of basic services. Similarly, ₹ 10.60 crore was utilised by these LSGIs on projects included in the negative list.

The matter was brought to the notice of the Government (January 2018). Reply was not received (March 2018).