

CHAPTER II

SUPPLEMENTARY AUDIT UNDER THE SCHEME OF TECHNICAL GUIDANCE AND SUPERVISION

2.1 Introduction

2.1.1 The Comptroller and Auditor General of India (CAG) conducts supplementary audit wherever entrusted and comments upon or supplements the reports of the statutory auditors. In supplementary audit, CAG audits the financial statements and accounts records and source data of the Local Self Government Institutions (LSGIs) where the Director of Local Fund Audit (DLFA) had conducted audit and issued Audit Reports.

2.1.2 In 2003-04, supplementary audit of 23 LSGIs in seven districts covering 19 Grama Panchayats, 1 Block Panchayat, one District Panchayat, one Municipality and one Municipal Corporation (MC) was conducted (*Appendix IV*), in addition to transaction audit of 203 LSGIs during the year (MCs – five, Municipalities – 35, District Panchayat -14, Block Panchayats - 40 and Grama Panchayats – 109). The supplementary audit observations are discussed as under:

2.2 Non maintenance or improper maintenance of books of accounts and other records

Cash Book

2.2.1 LSGIs maintained separate cash books for different sources of funds like own fund, Plan/Non-plan funds from State Government and Centrally Sponsored Scheme funds. Effective and coordinated control over various funds could not be ensured as a result of maintenance of more than one cash book.

The following discrepancies were observed in the maintenance of cash book:

- Daily closing of cash book was not carried out in all the 23 LSGIs* test checked
- Monthly closing was not carried out in two LSGIs (Poovar, and Vadanappally Grama Panchayats)
- Physical verification of cash was not conducted in 12 LSGIs[§]

* Mundakayam, Manimala, Erumeli, Budhanoor, Ala, Neendakara, Kottarakkara, Devikulangara, Muthukulam, Krishnapuram, Kattakada, Poovar, Venganoor, Cheriyanad, Thalavadi, Harippad, Koratty, Madakkathara and Vadanappally Grama Panchayats, Veliyanad Block Panchayat, Alappuzha District Panchayat, Shoranur Municipality and Kozhikode Corporation

[§] Devikulangara, Muthukulam, Krishnapuram, Kattakada, Poovar, Cheriyanad, Thalavady, Haripad, Koratty, Madakkathara, Vadanappally Grama Panchayats and Shoranur Municipality

- In four LSGIs authentication of monthly closing was not made (Devikulangara, Venganoor Grama Panchayats, Veliyanad Block Panchayat and Shoranur Municipality)
- Exhibition of unreliable opening balance for the year in the cash book was noticed in Kozhikode Corporation
- Non-reconciliation/improper reconciliation of cash book balance with pass book balance was noticed in 10 LSGIs[^]

Appropriation Register

2.2.2 Five LSGIs[#] did not maintain Appropriation Registers and one LSGI (Shoranur Municipality) maintained the Register improperly due to which effective utilisation of grants and loans received by these LSGIs could not be ascertained.

Register of advances

2.2.3 Eight¹ LSGIs did not maintain Register of Advances and one LSGI (Shoranur Municipality) maintained the register improperly due to which veracity of advances made and adjustment thereof could not be ensured.

Register of Deposits

2.2.4 Veliyanadu Block Panchayat did not maintain Register of Deposits and Erumeli Grama Panchayat maintained the register improperly, due to which a proper watch over the adjustment of deposits was not possible.

Demand Register and Arrear Demand Register

2.2.5 The proper revenue collection is watched through Demand Registers and Arrear Demand Registers. The Demand Register for profession tax maintained by Cheriyanad Grama Panchayat did not contain half yearly income of assesseees. The Panchayat did not maintain Arrear Demand Register for property tax and profession tax - due to which the correctness of demand, collection and balance statement could not be verified.

Register of Receipts and Register of Payments

2.2.6 Veliyanadu Block Panchayat did not maintain both the registers and Alappuzha District Panchayat did not maintain the Register of Payments. Due to non-maintenance of Register of Receipts and Register of Payments, it was not possible to ascertain how these LSGIs ensured correctness of the figures of their Annual Financial Statements.

[^] Manimala, Erumeli, Kottarakkara, Muthukulam, Krishnapuram, Kattakada, Poovar, Madakkathara Grama Panchayats, Veliyanad Block Panchayat and Shoranur Municipality

[#] Kottarakkara, Devikulangara, Muthukulam, Krishnapuram and Madakkathara Grama Panchayats

¹ Erumeli, Devikulangara, Muthukulam, Krishnapuram, Kattakada, Venganoor, Madakkathara Grama Panchayats and Veliyanad Block Panchayat.

2.3 Lapses in preparation of budget

Preparation of incomplete budget

2.3.1 Two LSGIs (Manimala and Budhanoor Grama Panchayats) prepared budgets by incorporating the estimates relating to own fund only. Estimates of Plan and Non-plan funds from Government were not included due to which incurring of expenditure against these funds was unauthorised.

Variations in Estimates

2.3.2 The estimated receipts and expenditure widely varied with the actuals in the case of 10 LSGIs* and detailed illustration in case of three LSGIs is given below:

Receipts

(Rs. in lakh)

Year	Name of Local Body	Head of Account	Estimate	Actuals	Shortfall	Percentage shortfall to the estimate
1998-99	Erumeli Grama Panchayat	Property Tax	10.00	4.35	5.65	56.50
		Revenues from Panchayat Properties	8.50	5.42	3.08	36.23
1999-2000	Cheriyamad Grama Panchayat	Property Tax	13.00	6.73	6.27	48.23
		Rent on land and buildings	1.25	0.64	0.61	48.80
2000-01	Kottarakara Grama Panchayat	Property Tax	30.00	18.86	11.14	37.13
		Rent on land and buildings	10.00	6.11	3.89	38.90

Expenditure

(Rs. in lakh)

Year	Name of Local Body	Head of Account	Estimate	Actuals	Savings	Percentage saving to the estimate
1998-99	Erumeli Grama Panchayat	Public Works	12.40	6.55	5.85	47.18
		Education	2.30	0.83	1.47	63.91
1999-2000	Cheriyamad Grama Panchayat	Maintenance of roads	3.00	1.38	1.62	54.00
		Capital expenditure on education – building	4.50	0.01	4.49	99.78
2000-01	Kottarakara Grama Panchayat	Sitting fee	10.00	2.24	7.76	77.60
		Travelling Allowance to President	3.00	0.16	2.84	94.67

2.4 Lapses in preparation of Annual Financial Statements

2.4.1 The Panchayats and Municipalities are to prepare Annual Financial Statements and Demand, Collection and Balance (DCB) Statements and to forward them to the DLFA after approval by the Panchayat/Municipal Council/Corporation Council by 31 July of the succeeding year. The following lapses were observed.

* Manimala, Erumeli, Budhanoor, Kottarakara, Devikulangara, Krishnapuram, Kattakada, Cheriyamad, Thalavady and Haripad Grama Panchayats.

2.4.2 In two LSGIs[@], the preparation of Annual Financial Statement was delayed by 9 months and 16 months respectively.

2.4.3 One District Panchayat (Alappuzha) and one Municipal Corporation (Kozhikode) forwarded the Annual Financial Statement to the DLFA without obtaining the approval of the Panchayat/Corporation Council.

2.4.4 The Annual Financial Statement of the test checked LSGIs did not incorporate transactions relating to Category A Fund (Plan Fund), Category B Fund (State Sponsored Fund – Plan and Non-Plan) and Centrally Sponsored Scheme Fund. Non incorporation of the transactions relating to the above funds resulted in understatement of receipts and expenditure of the LSGIs due to which no assessment of financial management was possible.

2.4.5 Annual Financial Statement is a document showing abstracts of receipt and expenditure, statement of assets and liabilities and the general financial position of the LSGIs. The figure shown therein should agree with those shown in the primary accounting records and subsidiary registers of LSGIs. The figures shown in the Annual Financial Statements prepared by the LSGIs varied with those of the accounting records and source data as follows:

- between the closing balance as per Annual Financial Statement and as per the Cash Books (Kozhikode Corporation)
- between Annual Financial Statement and DCB statement (Mundakayam, Erumeli Grama Panchayats, Shoranur Municipality and Kozhikode Corporation)
- between Annual Financial Statement and Register of Receipts (Manimala, Neendakara, Muthukulam, Kattakada and Poovar Grama Panchayats)
- between DCB statement and Demand Registers (Manimala, Kottarakkara and Madakkathara Grama Panchayats).

2.5 Non-assurance of the bonafides of receipts issued to tax payers

2.5.1 The Revenue Inspectors of the Municipalities are required to conduct test check of the original receipts with the Memorandum of Collections to ensure the bonafides of the receipts issued to parties by the tax collectors. Particulars of such check are to be entered in a 'Diary of Check of Original Receipts'. The Revenue Officers are to furnish every month a certificate to the Secretary after verification of the 'Diary' of Revenue Inspectors.

2.5.2 There was no evidence to show that the prescribed checks were carried out by the Revenue Inspectors in Shoranur Municipality and Kozhikode Corporation. As such, the control and monitoring mechanism to prevent loss or leakage of revenue was not ensured.

2.6 Lapses in safeguarding of assets

[@] Muthukulam Grama Panchayat and Alapuzha District Panchayat

In the LSGIs safeguarding of assets was deficient as under:

- ★ Improper maintenance of ‘Register of Immovable Properties’ (in 7 LSGIs[&])
- ★ Improper maintenance of Stock Register of Money Value Forms (Shoranur Municipality)
- ★ Non-maintenance of Investment Register (Erumeli Grama Panchayat)
- ★ Non-maintenance of Stock Register of cheque books (Thalavadi, Madakkathara, Vadanappally Grama Panchayats and Alappuzha District Panchayat)
- ★ Absence of control over stock of receipt books. The Record Keeper usually placed orders of printing of receipt books without specific authorization by the Secretary (Kozhikode Corporation). This was fraught with the risks of unauthorized use of the receipt books.

2.7 Non-compliance of statutory requirements by the Director of Local Fund Audit

Non-issue of audit certificate

2.7.1 The DLFA did not issue audit certificates in respect of any of the 23 LSGIs, after conducting audit of financial statements for the period 1997-2001.

Delay in conducting audit and issuing audit reports

2.7.2 The DLFA is required to complete audit within six months of the presentation of the Annual Financial Statement and to issue the audit report within three months from the date of completion of audit. Supplementary audit revealed delay of 2 to 17 months in conducting audit after presentation of accounts by six LSGIs. In respect of 17 LSGIs, there was delay ranging from 2 to 29 months in issuing audit reports after completion of audit.

Conduct of audit without receiving Annual Financial Statement

2.7.3 In one Block Panchayat (Veliyanad), the DLFA conducted audit and issued audit report without receiving the Annual Financial Statement for 2000-01.

Conduct of audit of incomplete accounts

2.7.4 The DLFA generally insists on submission of statements of receipts, payments and balance in respect of Category ‘A’ Fund, Category ‘B’ Fund and Centrally Sponsored Scheme fund along with the Annual Financial Statement for own fund. However, DLFA conducted audit of Kozhikode Municipal Corporation and issued audit report, on receipt of the Annual Financial Statement relating to own fund only for the year 1999-2000.

[&]Devikulangara, Muthukulam, Krishnapuram, Kattakada, Venganoor, Thalavadi Grama Panchayats and Shoranur Municipality

Conduct of audit without receiving and auditing Annual Financial Statement for previous years

2.7.5 The audit of Annual Financial Statement for a year is taken up only on completion of the audit of the Annual Financial Statement for the previous year. This is necessary to ensure the correctness of the opening balance for the current year. However, in four LSGIs, DLFA conducted audit without auditing the Annual Financial Statement for the previous year, as indicated below.

LSGI	Year of audit	Years for which AFS was not received
Mundakkayam Grama Panchayat	1999-2000	1993-94 to 1998-99
Manimala Grama Panchayat	1999-2000	1995-96 to 1998-99
Erumeli Grama Panchayat	1998-99	1993-94 to 1997-98
Ala Grama Panchayat	1998-99	1995-96 to 1997-98

Preparation of parallel accounts and DCB statements by Director of Local Fund Audit

2.7.6 In five LSGIs, the DLFA reported in the audit reports, receipt and payment figures, which were at variance with the figures of the Annual Financial Statement prepared by LSGIs. The DLFA did not point out the specific discrepancies which caused the variance so as to enable the LSGIs to effect rectification. Apparently, the audit report contained a parallel account compiled by DLFA.

2.7.7 DLFA also prepared parallel DCB statements, which did not contain specific suggestions for rectification. Since rectification was neither insisted by the DLFA nor carried out by the LSGIs, the parallel accounts prepared by the DLFA did not help the LSGIs to maintain proper accounts. The details are given in Appendix V.

2.7.8 In his reply (December 2004), the DLFA stated that instead of pointing out deficiencies and defects in the accounts and waiting for correction by the LSGIs, he attempted to show correct accounts. The action of the DLFA, besides being outside the scope of his function, was not tenable as this did not help LSGIs to know specific discrepancies and to rectify their accounts.

2.7.9 The 'Auditing Standards for Panchayat Raj Institutions and Urban Local Bodies' and 'Guidelines for Certification Audit of Accounts of Panchayat Raj Institutions' prescribed by the CAG had been forwarded to Government for adoption and use by DLFA. Maintaining the standards as prescribed in the Auditing Standards and following the guidelines for certification of financial statements would ensure efficient and improved functioning by the DLFA.

2.8 Recommendations

- ❖ **Government may issue formal orders for the adoption of the ‘Auditing Standards for Panchayat Raj Institutions and Urban Local Bodies’ and ‘Guidelines for Certification Audit of Panchayat Raj Institutions’ prescribed by Comptroller and Auditor General of India.**
- ❖ **All audits of financial statements by the DLFA should invariably result in an Audit Certificate expressing an opinion on the financial statements and on the quality of controls over financial reporting.**
- ❖ **Instead of preparing parallel accounts and presenting them through the Audit Reports, the DLFA should point out the specific discrepancies and insist on their rectification before giving his certificate on the Accounts. This would result in the preparation of reliable Annual Financial Statements and DCB statements by the LSGIs and their certification by the DLFA.**
- ❖ **State Government may prescribe additional controls to ensure that discrepancies pointed out by DLFA are rectified by LSGIs in time.**
- ❖ **The LSGIs may give special emphasis on proper procedures for the maintenance of cash book and the safeguarding of assets.**