

## **OVERVIEW**

*This report includes chapters containing the observations of audit on Finances of Local Self Government Institutions (LSGIs) and the results of supplementary audit under the scheme of Technical Guidance and Supervision. It also includes two performance reviews and eight paragraphs on transaction audit including a long paragraph on Kerala Information Network for Local Bodies.*

### **I Finances of the Local Self Government Institutions**

*Consequent on the 73<sup>rd</sup> and 74<sup>th</sup> amendments of the Constitution of India, the State Legislature enacted the Kerala Panchayat Raj Act, 1994 (Act 13 of 1994) and the Kerala Municipality Act, 1994 (Act 20 of 1994). Government transferred responsibilities, institutions and schemes relating to matters enlisted in the Schedules of the respective Acts to the Panchayats and Municipalities with effect from 2 October 1995.*

*A comprehensive picture of finances of LSGIs is not available as the LSGIs were not submitting abstract of the annual reports showing Receipts and Payments account certified by the auditors by 15<sup>th</sup> May of each year as prescribed in the Acts.*

*In spite of receiving Eleventh Finance Commission grant of Rs 1.83 crore for the period 2000-01 to 2003-04 for the maintenance of accounts of Grama Panchayats and Block Panchayats, the accounts were in arrears. As of 31 March 2004, 4578 number of accounts were in arrears.*

*The main sources of funds of LSGIs are (i) own fund (ii) funds devolved upon them by the State Government for the decentralised planning and State sponsored scheme (iii) centrally sponsored scheme funds (iv) loans and (v) other sources. From the year 1997-98 the State Government distributed 35 to 40 per cent of its annual plan out lay to LSGIs. Against the budget provision of Rs 10207.01 crore, the State Government had disbursed Rs 8741.87 crore during 1997-98 to 2003-04. The release included Rs 6945.39 crore as Plan funds. The Plan funds of Rs 581.20 crore were not utilised by LSGIs mainly due to inadequate capacity and delays in plan formulations.*

*Though LSGIs had created assets valued at Rs 552.82 crore during the years 2002-03 and 2003-04 out of Plan fund, the details of assets created were not available. The value of assets created during the years 1997-98 to 2001-02 were not accounted by the LSGIs.*

*The Government have not so far framed the rules and manuals for budget and accounts of Panchayat Raj Institutions and Urban Local Bodies. Consequently, the Kerala Panchayat (Accounts) Rules 1965, Kerala Municipalities (Accounts) Rules 1963 and the Kerala Municipal Corporation (Accounts) Rules 1967, which are at variance with the new formats, continue to be in force.*

**(Paragraphs 1.1 to 1.19)**

## **II Supplementary audit under the scheme of Technical guidance and Supervision**

*The Comptroller and Auditor General of India conducts supplementary audit wherever entrusted and comments upon or supplements the report of statutory audit. In supplementary audit, CAG audits the Financial statements and accounts of the LSGIs where the DLFA had conducted audit. Test check of 23 LSGIs revealed non-maintenance or improper maintenance of books of accounts and registers, lapses in preparation of budget, lapses in preparation of annual financial statement and non-compliance of statutory requirement by the DLFA of furnishing audit certificate.*

**(Paragraphs 2.1 to 2.7)**

## **III Performance Reviews**

### **i) Implementation of Housing Projects for below poverty line families**

*With the advent of decentralized planning at grass root level from 1997-98, LSGIs implemented various housing projects with the objective of providing houses to Below Poverty Line families. Projects were financed from Plan Funds provided by State Government and also through borrowings from financial institutions. Audit review revealed that neither the nodal agencies nor the implementing agencies had exact data on the actual progress of project implementation and utilization of funds deployed. The nodal agencies, apart from channelising the borrowed funds, did not play a lead role in the execution of the projects and did not monitor the projects.*

*The LSGIs were implementing various housing schemes such as Joint Housing Projects viz., Thanal Housing, Janakeeya Parpida Padhathi, Janakeeya Bhavana Padhathi, Sampoorna Parpida Padhathi and Other Housing Projects.*

*Despite making deposit of Rs 12.54 crore with COSTFORD by 90 LSGIs for construction of 12605 houses, COSTFORD could arrange financial assistance for construction of 3667 houses only of which 2058 houses could be completed.*

*In Thrissur, the interest liability on borrowed finance was passed on to beneficiaries. Arrears of interest payment amounted to Rs. 4.10 crore.*

*Four Hundred and Six LSGIs deposited Rs.13.62 crore with Kerala State Housing Board (KSHB) without identifying beneficiaries. Further, out of 1.24 lakh beneficiaries identified, 5045 beneficiaries for whom Rs 6.31 crore was deposited with KSHB were ineligible for the assistance. In addition, 2826 eligible beneficiaries for whom Rs 3.53 crore was deposited with KSHB did not claim the assistance. The total excess deposit for which the LSGIs did not take action to get the amount refunded from KSHB worked out to Rs 23.46 crore(Rs 13.62 crore + Rs 6.31 crore + Rs 3.53 crore).*

---

*Out of 1.16 lakh beneficiaries only 0.98 lakh beneficiaries completed houses as of March 2004 and 0.18 lakh beneficiaries did not complete their houses despite being provided assistance of Rs.24.70 crore by KSHB.*

**(Paragraph 3.1)**

**ii. Solid Waste Management by Municipal Corporations**

*With rapid urbanisation, the problem of disposal of solid waste has become a matter of prime concern to the Urban Local Bodies.*

*Under the Kerala Municipality Act 1994, the Urban Local Bodies are responsible for collection, segregation, storage, transportation, processing and disposal of solid waste generated in their areas giving care for environmental aspects. Ministry of Environment and Forests has also brought into effect the Municipal Solid Waste (M & H) Rules 2000 for the management of Solid Waste by Municipal corporations.*

*None of the Municipal Corporations had evolved adequate system for collection and segregation/removal of waste. In Thiruvananthapuram and Kozhikode Municipal Corporations adequate number of storage bins were not provided.*

*In Kollam, Kochi and Kozhikode Municipal Corporations, the number of sweepers employed was far below the required norms.*

*In Thiruvananthapuram, Thrissur and Kozhikode Municipal Corporations, pre-processing and post-processing rejects were allowed to decay in the premises of processing plants due to lack of proper infrastructure facilities for safe containment and disposal of waste.*

*Thiruvananthapuram Municipal Corporation passed on the Central assistance of Rs 40 lakh to POABS, a private company, though the agreement was on BOOM basis.*

*Advance of Rs 1.55 crore to KAICO towards running charges of processing plant remained to be settled.*

*Kozhikode Municipal Corporation had not demanded lease rent of Rs 40 lakh.*

*As of April 2004, Kozhikode Municipal Corporation claimed only Rs 2.46 lakh as royalty against Rs 43.80 lakh.*

*In Thrissur Municipal Corporation, 790 tonnes of manure costing Rs 11.85 lakh had not been accounted.*

**(Paragraph 3.2)**

#### **IV Transaction Audit**

##### ***Kerala Information Network for Local Bodies***

*With a view to facilitate easy and prompt communication between State Planning Board and the LSGIs for swift plan monitoring, Government launched the project Kerala Information Network for Local Bodies in August 1999. Networking, Plan Monitoring, Service Automation and training were the components of the project.*

*The Project was not properly conceived at the proposal stage and Government is yet to approve the revised Project proposal.*

*Due to inconsistencies in procurement policy, computers and other equipment had not yet been installed in the local bodies.*

*Expenditure of Rs 69.78 lakh incurred towards selection, training & stipend of nearly 1000 trainees had become waste.*

*Software for plan monitoring had not been installed even in local bodies where computers were available.*

*Most of the applications for Office Automation were at the development stage. Software already installed did not have adequate data validation controls.*

*In view of substantial impurities in the database maintained at Vellanad Grama Panchayat and Kochi and Kozhikode Corporations, the data were not reliable.*  
**(Paragraph 4.1)**

*Payment for earth filling with contractors' own earth at erroneous rates resulted in excess payment of Rs 40 lakh by 11 LSGIs.*  
**(Paragraph 4.2)**

*Kayamkulam Municipality rejected the lowest offer of a State Government Undertaking for supply and erection of an incinerator and placed orders with a private firm. The firm received Rs 21.50 lakh as advance but failed to supply the incinerator.*  
**(Paragraph 4.3)**

*Selection of inaccessible site for construction of a slaughter house by Thrissur District Panchayat resulted in unproductive expenditure of Rs 36.49 lakh.*  
**(Paragraph 4.4)**

*Purchase of equipment and chemicals by District Panchayat, Thrissur before creating infrastructure facilities for clinical laboratories in PHCs rendered the expenditure of Rs 22.64 lakh unfruitful. The objective of providing employment to women in paramedical field and extension of laboratory services at affordable cost to the rural population could not be achieved.*  
**(Paragraph 4.5)**

*Investment of Rs 20.28 lakh made during 1997-2002 for creation of blood banks in four LSGIs remained unproductive as LSGIs failed to provide infrastructure facilities.*

**(Paragraph 4.6)**

*Investment of Rs 2.96 crore made by sixteen LSGIs during 1998-2003 for setting up Mini Industrial Estates remained unfruitful.*

**(Paragraph 4.7)**

*Eight LSGIs procured Agro machinery during 1997-2002 at a cost of Rs 30.51 lakh. The machinery was idling/under utilised since their purchase.*

**(Paragraph 4.8)**