

CHAPTER I

THE STRUCTURE AND FINANCES OF LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

The seventy third and seventy fourth amendments of Constitution of India, gave constitutional status to the Local Self Government Institutions (LSGIs). The Constitutional amendments established a system of uniform structure, regular election, regular flow of funds, etc. After the enactment of 73rd and 74th constitutional amendments, the State Legislature passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) to enable the LSGIs to work as a third tier of Government. In particular, the LSGIs were required to prepare plans and implement schemes for economic development and social justice including those included in the Eleventh Schedule of the Constitution. Government devolved upon the Panchayats and Municipalities the responsibilities, institutions and schemes relating to matters enlisted in the schedules of the Acts with effect from October 1995.

1.2 Decentralised Planning

The Constitution and the State Acts ibid envisage that the LSGIs are to plan and implement schemes for economic development and social justice. Accordingly, the Planning and Economic Affairs Department through an executive order introduced (July 1996) decentralization of the planning process in the State during the IX Five Year Plan. Government designed (July 1996) the decentralized planning process in a campaign mode called People's Plan Campaign with active participation of all sections of the people in the form of Working Groups, Grama / Ward Sabhas and development seminars. During the X Five Year Plan the decentralized programme in the State was restructured and named 'Kerala Development Plan'. Kerala's decentralised planning has been gearing up for the execution of the XI Five Year Plan from 2007-08. The Government (Local Self Government Department) decided (May 2007) to launch the second phase of the People's Plan Programme in the State for proper institutionalisation of decentralisation during the Plan period.

1.3 Profile of LSGIs

As on 31 March 2009, there were 1223 LSGIs in the State. The details of the area, population, etc., of the LSGIs are presented in **Table 1.1**.

Table 1.1: Area, Population, Population density of LSGIs

Sl. No.	Type of LSGIs	Number	Area (Sq Km)	Average area per LSGI (Sq Km)	Population (as per 2001 census)	Average population per LSGI	Density of population per Sq Km
1	Municipal Corporations	5	477.99	95.60	2456200	491240	5139
2	Municipalities	53	1253.22	23.65	2738170	51664	2185
3	District Panchayats (DPs)	14	37123.79	2651.70	26647004	1903357	718
4	Block Panchayats (BPs)	152		244.24		175309	
5	Grama Panchayats (GPs)	999		37.16		26674	
Total		1223	38855.00		31841374		819

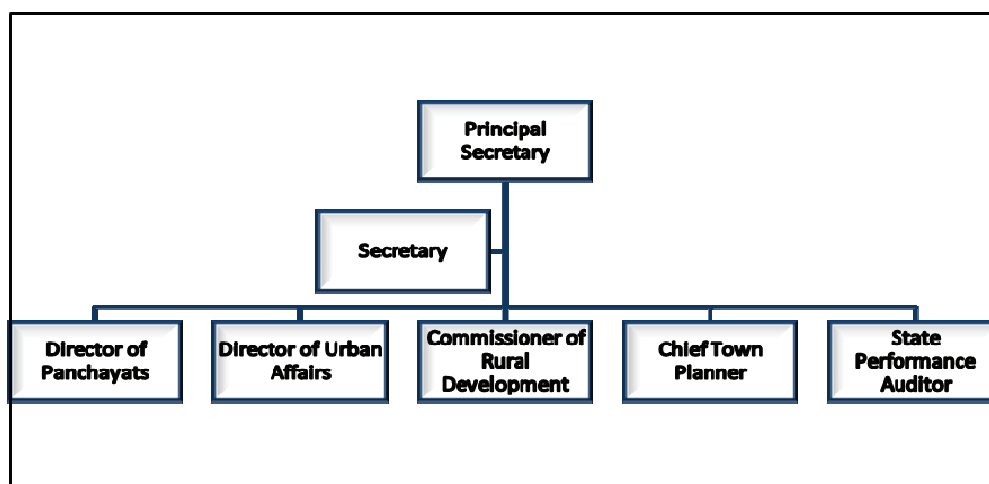
Source: Census 2001

The general election to 1223 LSGIs in Kerala was last held in September 2005 when 20554 representatives were elected.

1.4 Organisational set up

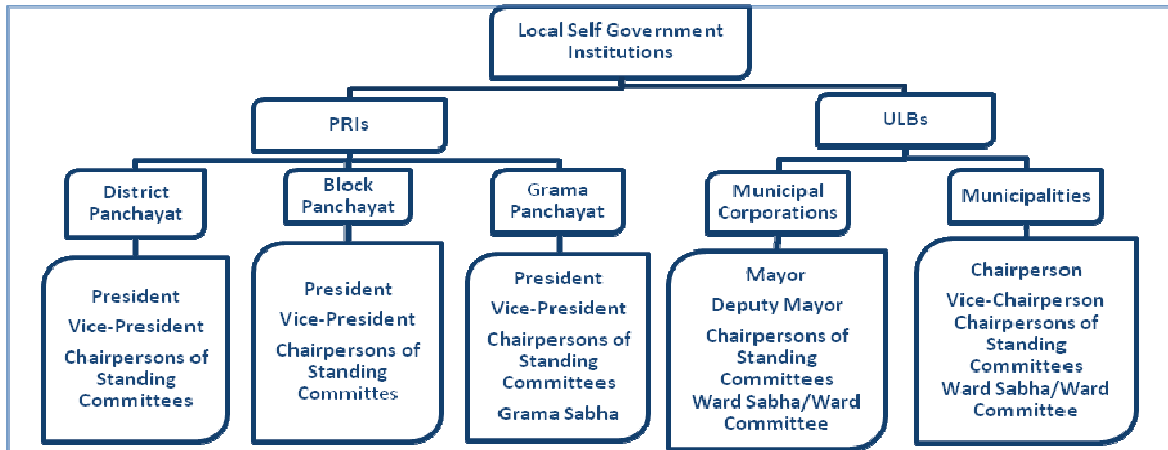
LSGIs constituted in rural and non-rural areas are referred to as Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. The Government in the Local Self Government Department (LSGD) is empowered to issue general guidelines to the LSGIs in accordance with the National and State policies in matters such as finance, maintenance of accounts, office management, formulation of schemes, selection of sites and beneficiaries, proper functioning of Grama Sabha, welfare programmes and environmental regulations and the LSGIs have to comply with such directions. Government also conducts periodical performance audit in respect of the administration of the LSGIs. **Chart 1.1** depicts the executive arrangements in place in the LSGD to execute the above functions of the Government.

Chart 1.1: Executive arrangements in LSGD



The administrative control of the Grama Panchayats, Block Panchayats and the Municipalities is vested with the Director of Panchayats, Commissioner of Rural Development and the Director of Urban Affairs respectively. The District Panchayats and the Municipal Corporations are under the direct control of the Government. The State Performance Auditor audits the performance of the LSGIs as per Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997. **Chart 1.2** presents the three tier system in LSGIs in the State.

Chart 1.2: Organogram of LSGIs



The members of each tier of the Panchayats elect the President, Vice President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/Municipal Corporation elect the Chairperson/Mayor, Vice Chairperson/Deputy Mayor and Chairpersons of the Standing Committees. The President/Chairperson/Mayor is the Executive Head of the LSGIs. Each LSGI has a Secretary and he is the Executive Officer. While the Secretaries of LSGIs and employees of PRIs are Government servants, the employees of ULBs are Municipal staff.

To execute the various functions of the LSGIs, Standing Committees have been constituted. The Committees in each type of the LSGI are given in **Table 1.2**.

Table 1.2: Standing Committees in LSGIs

Name of Committee	LSGIs where the Committees are constituted
Standing Committee for Finance	Municipal Corporation, Municipality, District Panchayat, Block Panchayat, Grama Panchayat
Standing Committee for Development	
Standing Committee for Welfare	
Standing Committee for Health Education	Municipal Corporation, Municipality, District Panchayat
Standing Committee for Works	
Standing Committee for Town Planning	Municipal Corporation
Standing Committee for Appeal relating to tax	

1.5 Powers of State Government over LSGIs

Table 1.3 below shows some of the powers of the State Government over the LSGIs in the decentralised set up.

Table 1.3: Powers of State Government over LSGIs

Act/Rule/Authority	Powers exercised by Government
Section 254 of KPR Act & Section 565 of KM Act	Power to frame rules Government may, by notification in Gazette make rule to carry out all or any purpose of KPR Act and KM Act subject to approval by the State Legislature.

Act/Rule/Authority	Powers exercised by Government
Section 193 of KPR Act & Section 64 of KM Act	<p>Power to dissolve LSGIs Government shall by notification in the gazette dissolve the LSGIs, if the LSGIs fail to pass the budget of the LSGIs for the succeeding financial year before the end of the financial year which causes financial crisis. Government may dissolve LSGIs if the Government is of the opinion that the LSGIs persistently make default in performing the duties imposed on it by law. The dissolution of the LSGIs is subject to approval by State Legislature.</p>
Section 191 of KPR Act & Section 57 of KM Act	<p>Power to cancel and suspend a resolution or decision taken by LSGIs Government may cancel a resolution or decision taken by LSGIs if Government is of the opinion that it is not legally passed or in excess of the power conferred by KPR Act /KM Act / any other law or likely to endanger human life, health, public safety or communal harmony or in violation of directions issued by Government.</p>
Sections 179,180 & 181 of KPR Act and Sections 48 & 227 of KM Act	<p>Power of appointment, cadre control, transfer etc The Secretaries of LSGIs and the employees of the PRIs are Government servants. The Government shall regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the Secretaries of the LSGIs. Government may at any time transfer the Secretary from a LSGI. The Government shall lend the service of Government officers and employees of the Panchayat as may be necessary for the implementation of any scheme, project or plan assigned to the Panchayat. An appeal against any order of the Panchayat imposing any minor penalty on any officer or employee shall lie with Government.</p>
Section 189 of KPR Act & 58 of KM Act	<p>Power to issue guidelines and to conduct enquiry Government shall have the power to issue general guidelines to the LSGIs in matters such as finance, maintenance of accounts, formulation of schemes, proper functioning of Grama Sabha, selection of sites and beneficiaries, etc. If there is any default in the implementation of the schemes or maintenance of accounts or complaint is received in the matter Government may arrange enquiry into the matter and the Panchayat shall co-operate with such enquiry.</p>

The KPR Act also empowers the State Government with the following powers so that it can monitor the proper functioning of the PRIs.

- Call for any record, register, plan, estimate, information from the PRIs
- Inspect any office or any record or any document of the PRIs
- Arrange periodical performance audit of the administration of the Panchayat
- Inspect the works and development schemes implemented by PRIs
- Take action for default by a Panchayat President or Secretary

In addition, the KPR Act and KM Act, *inter alia*, empowers the Secretary, LSGD who is the State Performance Audit Authority (SPAA) at the State level with the following powers:

- Rectification of defects and pointing out mistakes after inspecting the accounts, money transactions, office functioning and public works of the Panchayat ;

- To give necessary instructions to the Panchayats to take follow up actions on the performance audit report ;
- To ensure that the performance audit teams are conducting tri-monthly performance audit in all Panchayats.

Further, the Secretary of a Panchayat may adopt the following procedure to assist the State Government in preventing passing of illegal resolutions:

- When the Secretary is of the opinion that a resolution passed by the Panchayat has not been legally passed or passed in excess of the powers conferred by the Act, request the Panchayat, in writing, to review its decision;
- After discussion of the subject, if the Panchayat resolves to uphold its earlier decision, the Secretary shall forward the Panchayat resolution and his opinion thereon to the Government for its decision;
- The Secretary shall inform the President any direction received from the Government and shall take further action in accordance with the said direction.

Despite the above mentioned duties and powers vested in the Government for the enhancement of quality of public service and governance, Audit noticed numerous lapses / defects in the formulation and implementation of schemes, matters relating to finance, selection of beneficiaries etc., as mentioned in Chapters III and IV of this Report.

1.6 Status of transfer of functions and functionaries

Under KPR Act and KM Act it shall be the duty of the LSGIs to meet the requirements of the area of their jurisdiction in respect of the matters enumerated in the respective Schedules of the Acts and they shall have the exclusive power to administer the matters enumerated in the Schedules and to prepare and implement schemes relating thereto for economic development and social justice.

The State Government has transferred 26 functions to the PRIs and 17 functions to the ULBs. Three functions (minor forest produce, distribution of electricity and implementation of land reforms) relating to PRIs and one function (fire service) relating to ULBs remain to be transferred. KPR Act and KM Act define functional domain of different tiers / levels of LSGIs with great deal of precision. The functions have been divided into matters enumerated as mandatory, general and sector wise as given in **Table 1.4.**

Table 1.4: Functions of different tiers of LSGIs

Type of LSGIs	Acts/Rules/ Authority	Number of functions		
		Mandatory	General	Sector wise
Grama Panchayat	166 (1) of KPR Act	27	14	76
Block Panchayat	172 (1) of KPR Act	-	3	28
District Panchayat	173 (1) of KPR Act	-	3	65
Municipality	30 (1) of KM Act	30	14	107
Municipal Corporation	30 (1) of KM Act	30	14	107

Government transferred institutions and schemes relating to matters specified in the schedules to the KPR Act and KM Act to the LSGIs concerned. The institutions transferred to the LSGIs includes (i) Primary, Secondary and Higher Secondary Schools (ii) Dispensaries, Primary Health Centres, Community Health Centres, Taluk Hospitals (iii) Anganwadis (iv) Krishi Bhavan and District Agricultural Farms (v) Veterinary Institutions (vi) Animal Husbandry Farms (vii) Pre-matric Hostels for Scheduled Castes. The heads of the institutions are responsible for implementation of the schemes entrusted to them by LSGIs. Along with the transfer of institutions and schemes Government had also transferred the functionaries to the LSGIs.

1.7 Regulatory Environment

Mentions were made in Paragraph 1.5 of the Report of the Comptroller and Auditor General of India (LSGIs) for the years 31 March 2005, 31 March 2006, 31 March 2007 and 31 March 2008 regarding conflicting provisions in Kerala Local Fund Audit Act (KLFA Act), KPR Act & KM Act, on the due date for submission of Consolidated Audited Statement of accounts of all LSGIs to Government for placing before the Legislature. Though Government agreed (July 2007) to make suitable amendments to the KPR Act and KM Act, it has not materialised as of May 2010.

KPR Act and KM Act stipulate that an officer authorised by Government should consolidate audited accounts of LSGIs. Government stated (May 2010) that the LSGD finalised the formalities for collection and consolidation of audited accounts of LSGIs and authorised the Additional Secretary to Government (FM) to complete the process. Further progress in the matter is awaited.

Government did not frame Rules and Manuals for preparation of budget and accounts in PRIs in tune with the revised accounting formats. This contributed to the poor accounting and financial reporting by PRIs as evidenced from lapses in the preparation of Annual Financial Statements, preparation of budget, etc., mentioned in chapter II of this Report. Government stated (May 2010) that the preparation of KPR (Accounts) Rules and KPR (Accounts) Manual were at the final stage.

Section 63 of KM Act and Section 192 of KPR Act stipulate that the Administrative Report of each LSGI is to be prepared every year by 30 September of the succeeding year and forwarded to an officer authorised by the Government for consolidation and submission to the Government and the Legislative Assembly. No officer has been nominated to ensure preparation and consolidation of the Administrative Reports.

1.8 Financial Reporting

Director of Local Fund Audit (DLFA) is the statutory auditor of the LSGIs. The Comptroller and Auditor General of India (CAG) provides Technical Guidance and Supervision (TGS) under Section 20(1) of CAG's (DPC) Act, 1971 for the proper maintenance of accounts and audit of LSGIs. The CAG also conducts audit of LSGIs under the provisions of Sections 14 and 15 of the Act *ibid* wherever applicable.

According to Section 9(1) of KLFA Act, it is mandatory for the LSGIs to submit their accounts to DLFA for audit by 31 July every year. As on 31 July 2009, 1030 accounts pertaining to the period from 1996-97 to 2008-09 were in arrears as shown in **Appendix I**. Against 2947 accounts due to be received during 2008-09, the number of accounts received was 1917 (66 per cent). **Table 1.5** gives the age-wise details of pendency in submission of accounts by the LSGIs.

Table 1.5: Pendency in submission of accounts

Pendency	Number of Accounts
10 year and above	101
5 to 9 years	111
1 to 4 years	182
Less than 1 year	636
Total	1030

Source: DLFA

Analysis of arrears in submission of accounts showed that the pendency was high in Municipal Corporations followed by District Panchayats, Block Panchayats and Municipalities as shown in **Table 1.6**.

Table 1.6: LSGIs-wise arrears in submission of accounts

LSGIs	No. of LSGIs	No. of accounts in arrears	Ratio of column 3 to column 2
Grama Panchayat	999	573	0.57
Block Panchayat	152	298	1.96
District Panchayat	14	32	2.28
Municipality	53	100	1.89
Municipal Corporation	5	27	5.40

Source: DLFA

Though Rule 16 of Kerala Local Fund Audit Rules, 1996, empowers the DLFA to carry out proceedings in a Court of Law against the Secretaries of the LSGIs who default the submission of accounts, no such action was taken against the defaulting LSGIs.

1.9 Arrears in audit and issue of Audit Reports

DLFA received 14793 accounts up to July 2009 against 15823 accounts due to be received (including the accounts for 2008-09). Of these, 10048 Audit Reports were issued (July 2009). The arrears in the issue of Audit Reports were 4745 (32.08 per cent). As per Section 10 of KLFA Act, 1994, the DLFA should complete the audit of accounts submitted by LSGIs within six months of receipt of accounts. As of July 2009, 4168 accounts were pending audit. The DLFA stated (April 2010) that the audit of the accounts submitted by the auditee institutions could not be conducted on time due to shortage of staff.

1.10 Database on the finances of LSGIs

As recommended by Eleventh Finance Commission (EFC), CAG had prescribed eight standard formats for creation of database of the revenue and expenditure of all LSGIs. Though Government accepted (September 2004) the formats prescribed by CAG, the development of database was not started. Government constituted (February 2008) a committee to look into the matter. Government stated (January 2010) that the committee examined the formats for the creation of database on finances of PRIs/ULBs and arrived at the

conclusion that only after computerisation of accounts of ULBs/PRIs all the reports envisaged in the formats could be generated.

1.11 Receipts of LSGIs

The receipts of LSGIs are classified into four groups, viz., grant-in-aid, loans, own funds and other receipts. These groups are further classified into seven categories viz., Categories 'A' to 'G'. **Chart 1.3** depicts the categories of funds.

Chart 1.3: Categories of funds

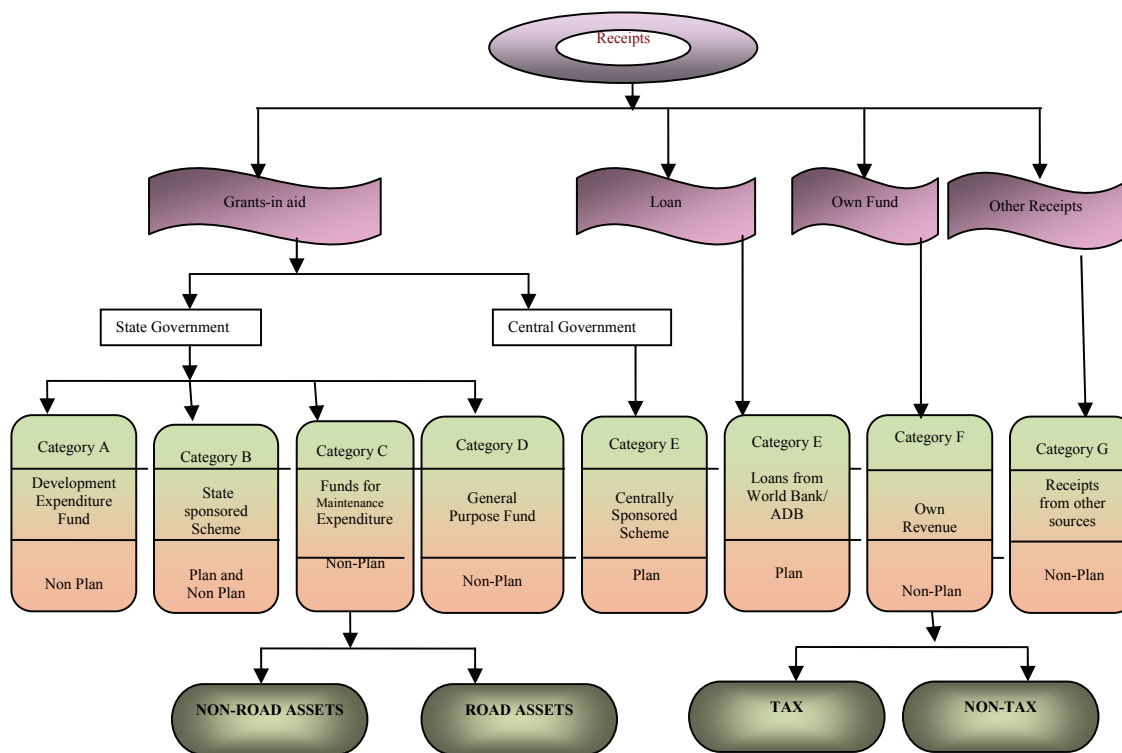


Table 1.7 presents the receipts of the PRIs and ULBs and the **Chart 1.4** depicts the trend in receipts during 2005-06 to 2008-09.

Table 1.7: Receipts of LSGIs

Receipts of LSGIs	2005-06	2006-07	2007-08	2008-09	Total
<i>(₹ in crore)</i>					
Receipts of PRIs					
Development Expenditure Fund (Category A)	854.83	1193.88	1311.49	1427.39	4787.59
State Sponsored Schemes & State share of Centrally Sponsored Scheme (Category B)	412.62	530.79	549.02	597.57	2090.00
Maintenance Expenditure Fund (Category C)	248.53	287.84	336.61	325.41	1198.39
General Purpose Fund (Category D)	203.54	239.85	263.86	291.24	998.49
Central share of Centrally Sponsored Schemes (Category E)	172.79	209.00	297.49	405.21	1084.49
Receipts from other sources (Category G)	-	100.41	0.90	2.49	103.80
Total*	1892.31	2561.77	2759.37	3049.31	10262.76

Receipts of ULBs					
Development Expenditure Fund (Category A)	153.32	206.48	226.95	242.84	829.59
State Sponsored Schemes & State share of Centrally Sponsored Scheme (Category B)	60.72	55.05	427.69	209.87	753.33
Maintenance Expenditure Fund (Category C)	58.10	62.16	68.37	72.11	260.74
General Purpose Fund (Category D)	46.81	60.11	66.12	72.74	245.78
Central share of Centrally Sponsored Scheme [#] (Category E)	31.06	114.09	157.19	405.91	708.25
Receipts from other sources (Category G)	9.50	60.01	22.24	5.32	97.07
Total*	359.51	557.90	968.56	1008.79	2894.76
Grand total*	2251.82	3119.67	3727.93	4058.10	13157.52

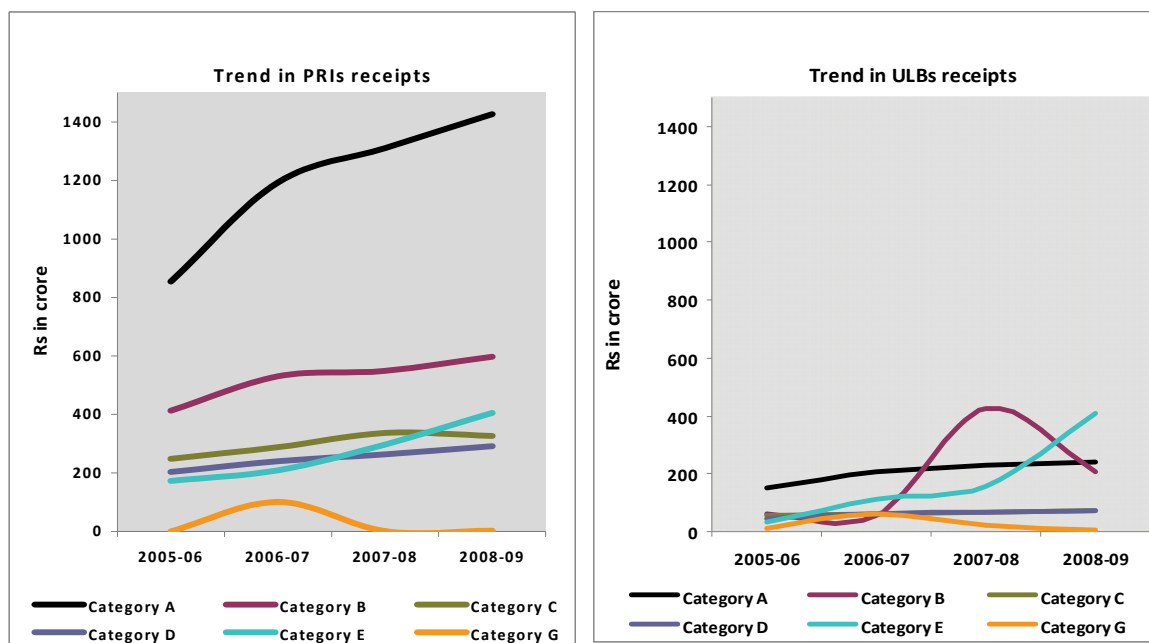
Source: Appendix IV to Budget Estimates of the State for 2005-06 to 2008-09, Appropriation Accounts for 2005-06 to 2008-09, Finance Accounts of the State, Kerala Urban and Rural Development Finance Corporation, Housing and Urban Development Corporation, Kerala State Co-operative Bank.

[#] Compiled from the details furnished by Commissioner of Rural Development, Kerala Sustainable Urban Development Project, State Poverty Eradication Mission and Chief Town Planner

* Does not include own fund as the details of own fund of the LSGIs are not collected and consolidated

State Government devolves/transfers funds to LSGIs under Category A, C and D. Central and State Finance Commission mandated transfers for LSGIs are subsumed in these categories.

Chart 1.4 Receipts of PRIs and ULBs



The table and the chart show the following:

- The receipts (excluding own fund) of PRIs increased from ₹ 1892.31 crore in 2005-06 to ₹ 3049.31 crore in 2008-09 (61 per cent) while in ULBs the receipts increased from ₹ 359.51 crore in 2005-06 to ₹ 1008.79 crore in 2008-09 (181 per cent).
- The receipts of LSGIs from State Government during 2005-06 to 2008-09 amounted to ₹ 11163.91 crore constituting 85 per cent of total receipts.

- The Development Expenditure Fund dominates receipts from State Government in LSGIs. The Development Expenditure Fund of PRIs and ULBs increased from ₹ 854.83 crore and ₹ 153.32 crore in 2005-06 to ₹ 1427.39 crore and ₹ 242.84 crore in 2008-09 respectively. The increase being 67 per cent for PRIs and 58 per cent for ULBs.
- The percentage increase in receipts for implementation of Centrally Sponsored Schemes was 135 for PRIs and 1207 for ULBs during 2005-06 to 2008-09.

1.12 Receipt under different categories of fund

Category ‘A’ funds are provided by the State Government under three distinct sectors viz. General, Special Component Plan (SCP) and Tribal Sub Plan (TSP) to LSGIs from the State annual plan outlay to carry out projects formulated by the LSGIs under People’s Plan Campaign. Based on the recommendation of Third State Finance Commission (TSFC), funds allocated to the LSGIs for meeting their expenditure on traditional functions, maintenance and developmental activities were deposited in Public Account as Deposit of Local Bodies by way of transfer credit from the Consolidated Fund of the State. The allocation to each LSGI was made in ten equal monthly instalments from the Public Account of the State. The amount provided in the budget of the State Government, the amount released, amount utilized, etc., during 2005-06 to 2008-09 are given in **Table 1.8**.

Table 1.8: Allocation, receipt and utilisation of Category A fund

(₹ in crore)

Year	Budget provision				Amount released	Amount available ¹ for utilisation	Amount actually spent	Percentage of utilisation
	General	SCP	TSP	Total allocation				
Municipal Corporation								
2005-06	74.54	17.83	-	92.37	67.40	67.40	65.70	97.48
2006-07	70.50	21.49	-	91.99	92.03	92.05	71.75	77.95
2007-08	77.55	23.64	-	101.19	101.09	121.30	99.46	82
2008-09	85.31	26.00	-	107.42	106.92	109.50	85.53	78.11
Total	307.90	88.96	-	392.97	367.44	390.25	322.44	82.62
Municipality								
2005-06	93.75	20.80	0.57	115.12	85.92	85.92	85.28	99.25
2006-07	88.70	25.06	0.69	114.45	114.45	114.83	97.08	84.54
2007-08	97.58	27.57	0.75	125.90	125.86	142.39	114.59	80.48
2008-09	107.33	30.32	0.83	135.92	135.92	146.63	125.83	85.81
Total	387.36	103.75	2.84	491.39	462.15	489.77	422.78	86.32
District Panchayat								
2005-06	124.16	59.17	14.88	198.21	117.02	117.02	113.37	96.88
2006-07	116.60	71.29	17.94	205.83	205.83	207.89	178.28	85.76
2007-08	128.25	78.42	19.74	226.41	225.11	255.97	197.66	77.22
2008-09	141.08	86.26	21.71	243.67	243.66	277.69	200.53	72.21
Total	510.09	295.14	74.27	874.12	791.62	858.57	689.84	80.35
Block Panchayat								
2005-06	123.16	59.17	9.92	192.25	140.84	140.84	130.35	92.66
2006-07	116.60	71.29	11.96	199.85	199.85	207.26	178.98	86.36
2007-08	128.25	78.42	13.16	219.83	219.83	245.97	203.05	82.55
2008-09	141.08	86.26	14.47	240.08	240.07	263.33	223.77	84.98
Total	509.09	295.14	49.51	852.01	800.59	857.40	736.15	85.86

¹ Unutilized balance of previous year and amount transfer credited

Grama Panchayat								
2005-06	574.75	177.50	24.80	777.05	596.97	596.97	592.91	99.32
2006-07	544.10	213.87	29.91	787.88	788.20	790.77	688.61	87.08
2007-08	598.52	235.25	32.90	866.67	866.55	967.06	763.09	78.91
2008-09	658.37	258.79	36.19	943.44	943.66	1051.07	841.00	80.01
Total	2375.74	885.41	123.80	3375.04	3195.38	3405.87	2885.61	84.72

Source: Appendix IV to the budget estimates, detailed Appropriation Accounts for the years 2005-06 to 2008-09 and details furnished by Information Kerala Mission

- While the utilization in all the LSGIs was above 92 per cent during 2005-06, the utilization ranged between 72 per cent and 87 per cent during 2006-07 to 2008-09.
- Against ₹ 1848.22 crore available for utilization during 2008-09 the actual utilization was ₹ 1476.66 crore. The unutilized balance amounted to ₹ 371.56 crore.
- The LSGIs are prohibited from diverting funds earmarked for one sector to another. However, Government could not ensure that funds earmarked for a particular sector were not diverted to another sector as details of expenditure under each sector were not ascertainable from the Government accounts. The figures of expenditure booked in the State Accounts was actually the amount transferred to Public Account and not the actual expenditure incurred by the LSGIs.

Category 'B' funds consist of Plan and Non-plan funds for implementation of State schemes transferred to LSGIs and State share of Centrally Sponsored Schemes. The share of each LSGI is not provided in the budget and is decided by the Head of the Department to which the scheme relates. The allotments of funds to LSGIs are made by the District officers of the Department concerned. Department/Major Heads-wise allocation and utilization of Plan and Non-plan funds under category 'B' during 2008-09 are given in **Table 1.9**.

Table 1.9: Provision and expenditure under Category B fund

(₹ in crore)

Major Head	Provision			Expenditure			Percentage		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
2202-General Education	-	144.58	144.58	-	98.56	98.56	-	68.17	68.17
2210- Medical and Public Health	-	18.89	18.89	-	8.82	8.82	-	46.69	46.69
2217- Urban Development	156.00	-	156.00	181.80	-	181.80	116.54	-	116.54
2225- Welfare of SC/ST and other backward class	34.15	2.70	36.85	31.69	2.70	34.39	92.80	100.00	93.32
2230- Labour and Employment	-	52.12	52.12	-	48.96	48.96	-	93.94	93.94
2235- Social security and Welfare	-	322.49	322.49	-	303.66	303.66	-	94.16	94.16
2401- Crop Husbandry	-	10.61	10.61	-	10.33	10.33	-	97.36	97.36
2402-Soil and Water Conservation	-	0.11	0.11	-	0.11	0.11	-	100.00	100.00
2403- Animal Husbandry	-	∞	-	-	0.04	0.04	-	-	-
2415- Agricultural Research and Education	-	0.01	0.01	-	-	-	-	-	-

∞ Amount provided : ₹ 1000

2501- Special Programmes for Rural Development	40.82	-	40.82	37.18	-	37.18	91.08	0	91.08
2505-Rural Employment	0.10	-	0.10	-	-	-	0	-	0
2515- Other Rural Employment Programmes	24.82	-	24.82	23.34	-	23.34	94.04	-	94.04
2851- Village and Small Industries	-	0.04	0.04	-	0.04	0.04	100.00	100.00	100.00
Total	255.89	551.55	807.44	274.01	473.22	747.23	107.08	85.80	92.54

Source: Appendix IV to Budget Estimates of the State, Detailed Appropriation Accounts 2008-09.

The unutilised funds under category 'B' shall lapse as on 31 March of each year. Out of ₹ 807.44 crore allocated under category 'B' under 14 distinct Major Heads, the expenditure incurred was ₹ 747.23 crore (92.54 per cent). Non-utilisation of funds provided in the budget led to lapse of ₹ 60.21 crore as at the end of 2008-09. Audit noticed that barring 2007-08, persistent underutilization existed in Medical and Public Health during 2005-06 to 2008-09. The percentage of underutilisation ranged between 47 and 62.

Category 'C' funds are Non-plan grants provided by the State Government to meet the expenditure on maintenance of assets of LSGIs. Funds were provided separately for the maintenance of road and non-road assets under separate heads of accounts. As per the recommendation of Second State Finance Commission (SSFC) and TSFC, the State Government was to release under this category 5.5 per cent of State tax revenue of previous year. The Commission also recommended the amount of maintenance grant to be provided to each LSGI during 2006-07. Government accepted the amount of maintenance grant proposed by the Commission for each LSGI only for the first four months of 2006-07 stating that for the payment of maintenance grant for the remaining period, a formula would be finalised by June 2006 based on the value of actual assets transferred and the need for maintaining such assets by LSGIs. However, Government has not prescribed the formula for the periods 2006-07 to 2008-09 and the amount proposed by the Commission is continued to be paid to the LSGIs. The details regarding maintenance grant due and the maintenance grant released and the amount short released during 2005-06 to 2008-09 are given in **Table 1.10**.

Table 1.10: Release of Maintenance grant and utilisation

(₹ in crore)

Year	MG due	MG released	Short(-)/ excess (+) release with reference to entitlement	Expenditure
2005-06	492.97	306.62	(-)186.35	*
2006-07	350.00	350.00	-	*
2007-08	385.00	404.98	(+)19.98	335.08
2008-09	424.00	397.52	(-) 26.48	359.75

Source: Appendix IV to Budget Estimates of the State & detailed Appropriation Accounts of respective years

* Not available

Short release during 2008-09 was due to shortfall in utilisation during 2006-07. Percentage of utilization against release was only 83 and 90 during 2007-08 and 2008-09 respectively.

Category 'D' funds are General Purpose Funds (GPF) provided by the State Government for meeting general expenditure including the expenditure on

traditional functions of LSGIs. According to SSFC and TSFC recommendations, 3.5 per cent of the State tax revenue of previous year was to be provided as GPF in lieu of Basic Tax Grant, Surcharge on Stamp Duty, Rural Pool Grant etc. As against ₹1306.71 crore due to LSGIs, the State Government released ₹1244.27 crore during the period from 2005-06 to 2008-09 as detailed in **Table 1.11**. The short release during the period was ₹ 62.44 crore.

Table 1.11: Release and utilisation of General Purpose Fund*(₹ in crore)*

Year	GPF due	GPF released	Short(-)/excess (+) release with reference to entitlement
2005-06	313.71	250.35	(-) 63.36
2006-07	300.00	299.96	(-) 0.04
2007-08	330.00	329.98	(-) 0.02
2008-09	363.00	363.98	(+) 0.98
Total	1306.71	1244.27	(-) 62.44

Source: Appendix IV to Budget Estimates of the State and detailed Appropriation Accounts 2005-06 to 2008-09

Category 'E' funds consist of grants received from GOI for implementation of Centrally Sponsored Schemes, funds from World Bank, Asian Development Bank, and funds received from District Collector (for flood relief/drought relief), Literacy Mission, etc. The funds under this category are disbursed to the LSGIs through agencies such as Poverty Alleviation Units (PAUs), State Poverty Eradication Mission (SPEM), Kerala Sustainable Urban Development Project, Chief Town Planner, District Collector, etc. The funds are to be deposited and utilised as specified by the fund provider. The details of funds received and utilised during 2005-06 to 2008-09 for Centrally Sponsored Schemes are given in **Table 1.12**.

Table 1.12: Receipt and utilisation of funds for Centrally Sponsored Schemes*(₹ in crore)*

Year	Type of LSGI	Funds distributed to LSGIs				Funds utilized by LSGIs	Percentage of utilisation
		Opening balance*	Central share	State share	Total		
2005-06	PRI	63.31	172.79	58.28	294.38	265.31	90
	ULB	49.63	31.06	19.84	100.53	36.78	37
Total		112.94	203.85	78.12	394.91	302.09	77
2006-07	PRI	29.07	209.00	61.58	299.65	253.12	84
	ULB	63.75	114.09	15.08	192.92	39.85	21
Total		92.82	323.09	76.66	492.57	292.97	59
2007-08	PRI	46.53	297.49	86.21	430.23	371.89	86
	ULB	153.07	157.19	45.59	355.85	33.95	10
Total		199.60	454.68	131.80	786.08	405.84	52
2008-09	PRI	58.34	405.21	90.91	554.46	439.26	79
	ULB	321.90	405.91	28.02	755.83	191.66	25
Total		380.24	811.12	118.93	1310.29	630.92	48
Grand total			1792.74	405.51		1631.82	71

Source: Commissioner of Rural Development, Kerala Sustainable Urban Development Project, Chief Town Planner and State Poverty Eradication Mission.

*This is worked out based on receipts during the respective years. The figures are at variance with those given in earlier reports due to variation in the Closing Balance and Opening Balance reported by CRD, KSUDP, CTP and SPEM

Utilisation of funds for implementation of Centrally Sponsored Schemes by ULBs during 2006-07 to 2008-09 was only in the range 10 per cent to 37 per cent. The scheme-wise utilization of funds is given in **Appendix II**. Financial

achievement of TSC², UIDSSMT³, SJSRY⁴, IHSDP⁵, Hariyali and JNNURM⁶ was between 10 per cent and 58 per cent while it was 88 per cent for BSUP⁷ and 96 per cent for SGSY⁸ during 2008-09. Financial achievement in respect of SJSRY, IDSMT/UIDSSMT (except 2005-06) and JNNURM, was below 50 per cent in all the years during 2005-06 to 2008-09.

Category ‘F’ funds consist of tax and non-tax revenue of LSGIs which are also known as ‘Own Funds’. Property tax, Profession tax, Entertainment tax, Advertisement tax and Timber tax constitute tax revenue. Non-tax revenue consists of licence fees, registration fees, etc, leviable under the Acts. The LSGIs except District Panchayats and Block Panchayats are empowered to collect the above tax and non-tax revenues. This category also includes income derived from assets of LSGIs, beneficiary contributions, earnest money deposits, retention money etc. However, income from transferred assets and institutions could be utilised only for their maintenance. The details of own funds of LSGIs in the State were not collected and consolidated by the Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. However, the details of receipts of 378 LSGIs collected during audit are given in **Table 1.13**.

Table 1.13: Own fund receipts by LSGIs

(₹ in crore)

Type of LSGIs	No. of LSGIs	Tax	Non-tax	Total	Average receipt
Corporation	4	110.97	34.22	145.19	36.30
Municipalities	30	62.40	44.56	106.96	3.56
District Panchayats	13	-*	14.53	14.53	1.12
Block Panchayats	23	-*	0.91	0.91	0.04
Grama Panchayats	308	51.54	42.79	94.33	0.31
Total	378	224.91	137.01	361.92	0.96

*District Panchayats and Block Panchayats do not collect tax revenue

Category ‘G’ funds consist of all funds which do not come under any other category. This included loans from HUDCO⁹, KURDFC¹⁰, KSCB¹¹, etc; utilisation of which was governed by instructions/guidelines issued by the competent authority from time to time. Details of loans availed by LSGIs and the loans outstanding during the period 2005-06 to 2008-09 are given in **Table 1.14**. Loans aggregating ₹185.82 crore availed by LSGIs from the State Government, KURDFC, HUDCO, Kerala State Co-operative Bank were outstanding to be repaid as on 31 March 2009.

² Total Sanitation Campaign

³ Urban Infrastructure Development Scheme for Small and Medium Towns

⁴ Swarna Jayanthi Shahari Rozgar Yojana

⁵ Integrated Housing and Slum Development Programme

⁶ Jawaharlal Nehru National Urban Renewal Mission

⁷ Basic Services to Urban Poor

⁸ Swarnajayanthi Grama Swarozgar Yojana

⁹ Housing & Urban Development Corporation

¹⁰ Kerala Urban & Rural Development Finance Corporation

¹¹ Kerala State Co-operative Bank

Table 1.14: Loans availed by LSGIs

(₹ in crore)

LSGI	Loans availed					Loan outstanding as at the end of 31 March 2009
	2005-06	2006-07	2007-08	2008-09	Total	
Municipal Corporation	1.49	12.22	16.77	1.27	31.75	29.10
Municipality	8.01	47.79	5.47	4.05	65.32	35.79
District Panchayat	0	99.47	0	0	99.47	88.49
Block Panchayat	0	0	0	1.56	1.56	31.56
Grama Panchayat	0	0.94	0.90	0.93	2.77	0.88
Total	9.50	160.42	23.14	7.81	200.87	185.82

Source: Finance Accounts of the State, Kerala Urban and Rural Development Finance Corporation, Housing and Urban Development Corporation, Kerala State Co-operative Bank.

1.13 Pendency in clearing objections raised by CAG

CAG conducts audit of LSGIs under Sections 14, 15 and 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective LSGIs in the form of Local Audit Reports (LARs) with a copy to the Government. Though the replies to the objections were to be furnished within four weeks of receipt of LARs, 1018 LARs out of 1021 LARs issued (99.71 per cent) and 9803 paragraphs out of 10619 (92.31 per cent) were pending to be settled as on 31 December 2009 for want of satisfactory replies from LSGIs concerned as detailed in Table 1.15.

Table 1.15: LARs pending settlement

Year	Opening balance		Clearance		Outstanding	
	No. of LARs	No. of Paragraphs	No. of LARs	No. of Paragraphs	No. of LARs	No. of Paragraphs
1998-99 to 2002-03	09	268	0	116	09	152
2003-04	217	3319	1	244	216	3075
2004-05	202	2497	0	228	202	2269
2005-06	150	1259	2	77	148	1182
2006-07	167	1128	0	60	167	1068
2007-08	145	1061	0	21	145	1040
2008-09 ¹²	131	1087	0	70	131	1017
Total	1021	10619	3	816	1018	9803

Government constituted (August 2007) Audit Monitoring Committees (AMCs) at District and State Levels for different categories of LSGIs for timely settlement and clearance of audit paragraphs. The District level AMC (DLAMC) was to settle audit paragraphs in respect of GPs, BPs and Municipalities in the respective districts whereas the State Level AMC (SLAMC) was responsible for settlement of audit paragraphs in respect of DPs and Corporations. During the period from March 2009 to February 2010, twenty-five meetings of DLAMC were held and 170 paragraphs were settled. Two meeting of SLAMC were held during the period.

1.14 Maintenance of Accounts

Audit examined (April – May 2009) the quality of maintenance of accounts in

¹² Addition during 2008-09

PRIs for the period 2004-05 to 2008-09 in thirty¹³ PRIs consisting of seven Grama Panchayats (GPs), two Block Panchayats (BPs) and one District Panchayat (DP) each of Thiruvananthapuram, Ernakulam and Malappuram Districts.

1.14.1 Preparation of Accounts

The PRIs maintain accounts on cash basis. The receipts and payments are incorporated in the accounts in order to make the accounts complete, accurate and valid. The functional classification applied in the accounts of Union and State Governments have been adopted in accounts of PRIs.

1.14.1.1 Monthly Accounts

The Kerala Panchayat (Accounts) Rules, 1965 and the Government order issued in June 2003 prescribed that the PRIs should approve monthly accounts of each month in the first meeting of the Panchayat held after 10th of the succeeding month. Of the 30 PRIs test-checked, three¹⁴ PRIs did not prepare monthly accounts for any of the months during 2004-05 to 2008-09 and 27 PRIs approved their monthly accounts for the years 2004-05 to 2008-09 except Kazhakkoottam GP which did not approve monthly accounts for two months during 2007-08 and any of the months during 2008-09.

The monthly accounts approved by most of the PRIs were defective as none of them except Ponmundam GP prepared monthly accounts during 2004-05 to 2007-08 in the format prescribed by Government. Of the 26 PRIs which approved monthly accounts for 2008-09, Kuruva and Ponmundam GPs alone prepared monthly accounts in the prescribed format for all the twelve months and Malappuram DP for four months.

Non-preparation of monthly accounts in the prescribed format was a lapse on the part of PRIs. The heads of account provided in the Budget and Accounts formats introduced with effect from 1 April 2004 were identical. Hence, if monthly accounts were prepared in the prescribed format, it would have acted as a guide to the PRIs to take appropriate measures, if any, required for budgetary control.

1.14.1.2 Annual Financial Statement

Rule 11 (1) of Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 prescribes that the PRIs should submit Annual Financial Statements (AFSs) for audit within four months after the completion of the financial year, i.e., before 31st day of July. Following points were noticed during audit:

- All the PRIs test-checked, except Piravam GP and Ernakulam DP had prepared the AFSs for the years 2004-05 to 2007-08 and submitted the same to DLFA (April 2009).
- There was progress in timely submission of AFSs by PRIs. The number of PRIs that submitted the AFSs within four months after the

¹³ Angadippuram, Edarikkode, Kadinamkulam, Karakulam, Kazhakkuttam, Koothattukulam, Kuruva, Kuttampuzha, Makkaraparamba, Mookkannur, Mulamthuruthy, Nellanad, Ponmundam, Rayamangalam, Sreemoolanagaram, Thalakkad, Vamanapuram, Vembayam, Kallara, Piravom, Thrikkalongode GPs, Edappally, Kazhakkuttam, Malappuram, Mankada, Paravoor, Vattiyoorkavu BPs, Ernakulam, Malappuram, Thiruvananthapuram DPs

¹⁴ Mankada and Paravoor BP and Piravom GP

completion of the financial year increased from three during 2004-05 to 15 during 2007-08.

- Government revised (June 2003) the format for the AFSs of PRIs. Kazhakkootam GP and Malappuram, Mankada, Kazhakkootam and North Paravoor BPs did not prepare AFSs for the years 2004-05 to 2007-08 in the revised format.
- The AFSs prepared by all test checked PRIs during 2004-05 to 2007-08 were incomplete as they did not prepare statements such as Demand Collection Balance Statement, Capital Expenditure Statement, statement of receivables and payables, statement of loans and advances paid, statement showing utilisation of special purpose grant /loan which formed part of the revised AFSs (*vide Appendix III*). Non - preparation of the statements forming part of the AFSs resulted in non-providing of detailed analysis of the figures incorporated in the AFSs.

1.14.2 Improper maintenance of records

Maintenance of cash book, daily closing of cash book, attestation by the Authorised Officer, maintenance of Subsidiary Cash Book, maintenance of Treasury/Bank/Post office/Investment Balance Register, preparation of monthly accounts and its approval, maintenance of Asset Register, Register of Lands, Demand, Collection and Balance Register, etc are the controls prescribed by Government in the matter of accounting. This internal control system gear up the supervisory controls and management system in the organisation to insulate it from financial irregularities and frauds. Defects in the maintenance of registers noticed during audit are detailed below:

1.14.2.1 Cash Book

As per the accounting formats, all PRIs were to maintain a single Cash Book for recording all transactions. The accounting format also stipulates that (i) the Cash Book should be closed daily and the totalling of the Cash Book should be attested by the head of office or by some responsible subordinate other than the writer of the Cash Book, (ii) corrections in the Cash Book should be made by drawing the pen through the incorrect entry and inserting the correct one in red ink between the lines and got attested by the head of office, (iii) a monthly closing analysis statement should be prepared on the last working day of the month showing the details of closing balances of cash, treasury and bank accounts during the month, (iv) physical verification of the cash balance should also be conducted at the end of the month by the Secretary of the PRI. These instructions were not strictly followed by the PRIs test-checked. Details of non-observance of all or any of the instructions stipulated in the revised accounting rules for the maintenance of the Cash Book during the period 2004-05 to 2008-09 are given in **Appendix IV**. Improper maintenance of Cash Book may lead to malpractices remaining undetected.

1.14.2.2 Subsidiary Cash Book

A Subsidiary Cash Book was to be maintained for recording transactions relating to disbursement of salary and amounts to be disbursed to more than one person from a single bill such as honorarium payable to elected members of the PRIs, unemployment wages etc. Out of the 30 PRIs test-checked, the

number of PRIs that did not maintain Subsidiary Cash Book ranged between eight and 12 during 2004-05 to 2008-09 (*vide Appendix IV*). Non-maintenance of Subsidiary Cash Book revealed lack of control and monitoring over undisbursed cash in these PRIs.

1.14.2.3 Cheque Issue Register

With the introduction of revised accounting formats, a subsidiary register called Cheque Issue Register was introduced to record the details of deposits as well as withdrawals relating to each Treasury/Bank Account and for ascertaining the balance in the account after each transaction. The register was not maintained by Edappally BP.

Reconciliation of balance shown in each Cheque Issue Register with the balance shown in the respective pass book/statement at the end of each month is an effective mechanism to ensure the correctness of entries in the above records as well as to detect malpractices, if any, without delay. Out of the 30 PRIs test-checked, the number of PRIs that did not prepare monthly reconciliation statements ranged between nine and 19 during 2004-05 to 2008-09 (*vide Appendix IV*). Non-preparation of monthly reconciliation statements was a lapse on the part of the PRIs and the possibility of misappropriation remaining unnoticed could not be ruled out.

1.14.2.4 Investment Register

Government had instructed (June 2003) that the investment of surplus cash made by PRIs in fixed deposits, etc, should form part of the balance in the Cash Book and the details of investments should be recorded in the Investment Register. Of the 30 PRIs test-checked, Ernakulam DP did not maintain Investment Register during 2004-05 to 2008-09.

1.14.2.5 Treasury/Bank/Post office/Investment Balance Register

PRIs were operating more than one Treasury Account and Bank Account and transactions relating to all treasury accounts were recorded in the treasury column of the Cash Book and all bank accounts were entered in the bank column of the Cash Book. Hence the closing balances shown in the treasury and bank columns of the Cash Book represented the sum of the closing balance of all treasury accounts and the sum of closing balance of all bank accounts respectively. The closing balance shown in the bank column of the Cash Book also included the total amount of investments made by the PRI and recorded in the Investment Register. As the individual balance of each treasury /bank account was available only in the respective Cheque Issue Register and the details of investments are available in the Investment Register, daily reconciliation of closing balances shown in the Cheque Issue Registers, Investment Register and the Cash Book was to be made to ensure their correctness. For such reconciliation, Government prescribed the Treasury/Bank/Post Office/Investment Balance Register.

Of the 30 PRIs test-checked, number of PRIs that did not maintain the Treasury/Bank/Post Office/Investment Balance Register during 2004-05 to 2008-09 ranged between nine and 18 (*vide Appendix IV*). The PRIs also did not reconcile the balances of Cash Book with that of Cheque Issue Register and Treasury/Bank/Post Office/Investment Balance Register. Non-reconciliation of balances may lead to malpractices remaining undetected.

1.14.2.6 Registers of Receipts and Payments

Registers of Receipts and Payments prescribed by Government act as ledgers of receipts and payments of the PRIs and they give classified details of receipts and payments. The progressive totals under each head of account are utilised for the preparation of AFS. Of the 30 PRIs test-checked, Ernakulam and Malappuram¹⁵ DPs and all the selected six Block Panchayats did not maintain the registers. As the AFS is compiled from the details of the Receipt and Payment Registers, the correctness of figures in the AFS could not be ensured in the absence of these registers.

1.14.2.7 Advance Register

For execution of works, supply of materials, PRIs make advance payments to conveners, contractors, suppliers, employees, implementing agencies etc; and to watch the adjustment of advances made to them, Advance Registers are to be maintained. Separate page or a set of pages should be provided in the Advance Register for each individual /institution. The Advance Register should be closed monthly and the year-wise analysis of the unadjusted advances should be recorded. Of the 30 PRIs test-checked, the number of PRIs that maintained Advance Registers during 2004-05 to 2008-09 was 12,11,13,14 and 17 respectively (*vide Appendix IV*). Even in respect of PRIs which maintained the Advance Registers, following deficiencies were noticed:

- no separate pages were provided for individuals /institutions
- advance to conveners, institutions were not recorded
- Advance Registers were not closed monthly/annually
- year-wise analysis of advances pending adjustment was not recorded

Non-recording of advances to conveners, contractors, etc and lack of monitoring of unadjusted advances through monthly closing of the register and through preparation of year-wise analysis will evade actions for recoveries and make long pending advances irrecoverable. Non-maintenance/improper maintenance of Advance Register is a serious lapse on the part of the PRIs which would lead to non-adjustment of advances being left undetected.

1.14.2.8 Deposit Register

The amount received towards library cess, retention amount, provident fund recovery, etc, should be kept in deposit head of account for eventual transfer to the concerned head of account. To watch these receipts as well as adjustment of deposits, Deposit Register was to be maintained according to the procedures prescribed for the maintenance of Advance Registers. Of the 30 PRIs test checked, the number of PRIs that maintained the Deposit Register during 2004-05 to 2008-09 ranged from 20 to 24 (**Appendix III**) and of these:

- none of the test-checked PRIs which maintained deposit register closed the register monthly
- 14 to 17 PRIs did not record recoveries from salary bills such as General Provident Fund, Kerala Panchayat Employees Provident Fund, etc

¹⁵ Malappuram DP maintained the payment register from 2007-08

- 16 to 18 PRIs did not record library cess collection
- 12 to 14 PRIs did not conduct annual closing
- 16 to 18 PRIs did not record year-wise analysis of unadjusted advances

Non-maintenance and improper maintenance of the deposit register resulted in non-availability of a clear picture about the liability of PRIs towards unadjusted deposits and would cause non-crediting or delayed crediting of lapsed deposits to Panchayat Fund.

1.14.3 Budget

Government prescribed (June 2003) the format for preparation of Budget of PRIs. Failure of the PRIs to pass Budget of the succeeding financial year before the end of the current financial year would attract dissolution of the PRIs as provided in Section 193 of Kerala Panchayat Raj Act, 1994. The following deficiencies were observed in the preparation of Budgets by the PRIs mentioned in **Appendix III**.

- Budgets were not prepared in the prescribed format during the period 2004-05 to 2008-09 in 3 to 12 PRIs.
- Actuals for the previous year were not incorporated in the budget of 10 to 12 PRIs during the period 2004-05 to 2008-09
- Current years Budget Estimates were not incorporated in the Budget of 8 to 12 PRIs during the period 2004-05 to 2008-09

The deficiencies are indicative of preparation of the budget without due diligence and care.