

## 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 resource base of LSGIs consists of own revenues, Central Finance Commission grants, funds devolved by State Government for traditional functions (General Purpose Fund), for maintenance of assets (Maintenance Expenditure Fund) and for development purposes (Development Expenditure Fund) as per the recommendation of State Finance Commission, Central Government grants and loans. The different funds operated by LSGIs are given in **Appendix II**. The fund-wise source and its custody for each tier and fund flow arrangements in flagship schemes are given below in **Tables 2.1 and 2.2**.

**Table 2.1: Funds flow mechanism in each tier of PRI and ULB**

Nature of fund	District Panchayat		Block Panchayat		Grama Panchayat		Municipalities		Municipal Corporation	
	Source	Custody	Source	Custody	Source	Custody	Source	Custody	Source	Custody
Own receipts	Users	Treasury/ Bank	Users	Treasury/ Bank	Assesseees/ Users	Treasury/ Bank	Assesseees/ Users	Treasury / Bank	Assesseees/ Users	Treasury/ Bank
General Purpose Fund	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury
Maintenance Expenditure Fund	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury
Development Expenditure Fund	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury	State Government	Treasury
State Sponsored Schemes	State Government	Treasury*	State Government	Treasury*	State Government	Treasury*	State Government	Treasury*	State Government	Treasury*
Centrally Sponsored Schemes	GOI & State Government	Bank	GOI & State Government	Bank	GOI & State Government	Bank	GOI & State Government	Bank	GOI & State Government	Bank

\* Funds are, however, not transfer credited to public account from the consolidated fund of the State as done in case of other funds.

**Table 2.2 : Funds flow mechanism of Centrally Sponsored Schemes**

Name of Scheme	Fund flow to LSGIs
Swarnajayanthi Gram Swarozgar Yojana (SGSY)	Central Government share is released direct to the Poverty Alleviation Units (PAUs). State share provided in the Budget is released to the PAUs through District Panchayats. PAUs disburse the fund (Central and State share together) to Block Panchayats.
Indira Awaas Yojana (IAY)	
Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)	Central Government share is released direct to the PAU. State share provided in the Budget is released to the PAUs through District Panchayats. PAUs disburse the fund (Central and State share together) to Grama Panchayats through the Block Programme Officers.
Integrated Wasteland Development Programme (IWDP)	Central Government share is released direct to the PAU. State share provided in the Budget is released to the PAUs through District Panchayats. PAUs disburse the fund (Central and State share together) to Grama Panchayats through the Programme Implementation Agencies (generally the Block Panchayats).

Name of Scheme	Fund flow to LSGIs
Total Sanitation Campaign (TSC)	Central share is released direct to the Total Sanitation Mission, which is the State Level Nodal Agency (SLNA). State share provided in the Budget is also released to the SLNA. The SLNA disburses the funds to the implementing PRIs.
Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)	Central share is released direct to the State Poverty Eradication Mission (Kudumbasree), which is the SLNA. State share provided in the Budget is also released to the SLNA. The SLNA disburses the funds to the implementing ULBs.
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	Central share is released to the Kerala Sustainable Urban Development Project (KSUDP), which is the SLNA through State Government. State share provided in the Budget is also released to the SLNA. The SLNA disburses the funds to the implementing ULBs.
Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	
Basic Services to Urban Poor (BSUP)	Central share is released to the Kudumbasree, which is the SLNA through State Government. State share provided in the Budget is also released to the SLNA. The SLNA disburses the funds to the implementing ULBs.
Integrated Housing and Slum Development Programme (IHSDP)	

### 2.1.2 Resources: Trends and Composition

**Table 2.3** below shows the trend of resources of LSGIs for the period 2005-06 to 2009-10. Source-wise and Category-wise receipts are given in **Charts 2.1** and **2.2** respectively.

**Table 2.3: Time series data on Resources of LSGIs**

Resources	(₹ in crore)					Total
	2005-06	2006-07	2007-08	2008-09	2009-10	
Own Revenue						
(i) Tax Revenue	282.19	357.41	334.42	385.36	450.76	1810.14
(ii) Non Tax Revenue (Category F Fund)	229.02	230.25	315.08	349.37	377.43	1501.15
<b>Total Own revenue *</b>	<b>511.21</b>	<b>587.66</b>	<b>649.50</b>	<b>734.73</b>	<b>828.19</b>	<b>3311.29</b>
Traditional Functions (Category D Fund)	250.35	299.96	329.98	363.98	399.31	1643.58
Maintenance of Assets (Category C Fund)	306.63	350.00	404.98	397.52	448.04	1907.17
Expansion and Development (Category A Fund)	1008.15	1400.36	1538.44	1670.23	1842.29	7459.47
Funds for State sponsored schemes & State share of Centrally Sponsored Schemes (Category B Fund)	473.34	585.84	976.71	807.44	840.80	3684.13
<b>Total State grant</b>	<b>2038.47</b>	<b>2636.16</b>	<b>3250.11</b>	<b>3239.17</b>	<b>3530.44</b>	<b>14694.35</b>
GOI grants for Centrally Sponsored Schemes (Category E Fund)	203.85	323.09	454.68	811.12	832.49	2625.23
Receipts from other sources (Category G)	9.50	160.42	23.14	7.81	72.35	273.22
<b>Total Receipts</b>	<b>2763.03</b>	<b>3707.33</b>	<b>4377.43</b>	<b>4792.83</b>	<b>5263.47</b>	<b>20904.09</b>

Source: Finance Accounts of respective years. Details of own funds furnished by LSGIs, information from Commissionerate of Rural Development

\* Excludes own revenue of 22 LSGIs which did not furnish the details

Chart 2.1: Source-wise receipts of LSGIs

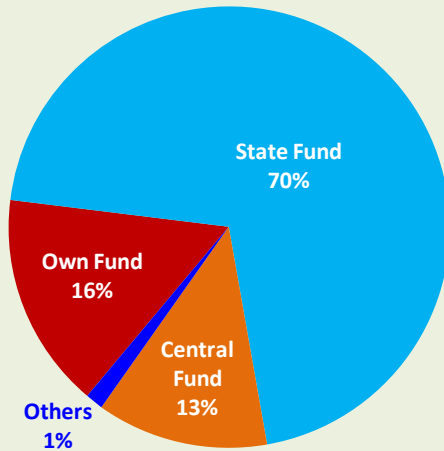
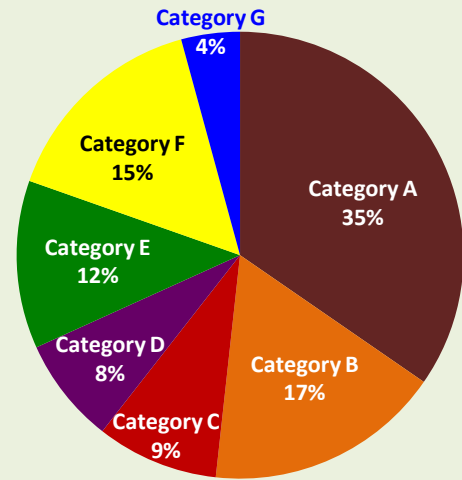


Chart 2.2: Category-wise receipts of LSGIs



- During the five year period 2005-10, the increase in total receipts of the LSGIs was 114 per cent.
- The share of GOI grant in the total receipts increased from seven per cent in 2005-06 to 16 per cent in 2009-10.
- Of the total receipts during the five year period 2005-10 the percentage share of State, Central, own revenue and other sources was 70, 13, 16 & 1 respectively. During this period GOI had released ₹ 1133.60 crore to State Government towards share of Local Bodies as per Twelfth Finance Commission (TFC) award. The releases of devolution to LSGIs by the State Government were inclusive of TFC grants. If this amount is excluded, the State grant to the LSGIs would only be 65 per cent and there would be corresponding increase in Central share.

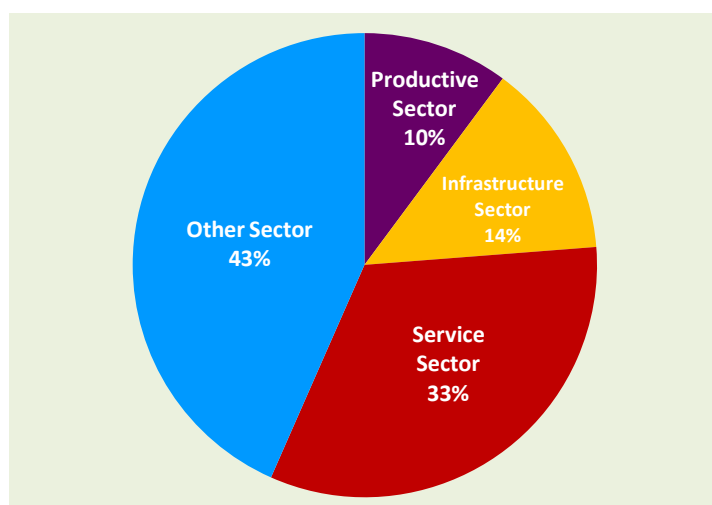
### 2.1.3 Application of Resources: Trends and Composition

In terms of activities, total expenditure is composed of expenditure on productive sector, infrastructure sector, service sector and other expenditure. **Table 2.4** below shows the trend of application of resources of LSGIs on these components for the period from 2005-06 to 2009-10. **Chart 2.3** indicates relative share of these components in total expenditure for the five year period.

Table 2.4: Application of resources

Sector	Year					Total
	2005-06	2006-07	2007-08	2008-09	2009-10	
Productive Sector	263.69	361.82	411.79	443.94	511.49	1992.73
Infrastructure Sector	484.56	402.42	548.84	589.58	656.11	2681.51
Service Sector	829.84	983.95	1336.56	1463.55	1842.91	6456.81
<b>Total Development Expenditure</b>	<b>1578.09</b>	<b>1748.19</b>	<b>2297.19</b>	<b>2497.07</b>	<b>3010.51</b>	<b>11131.05</b>
Other Expenditure	1368.89	1478.36	1607.70	1951.94	2125.96	8532.85
<b>Total expenditure</b>	<b>2946.98</b>	<b>3226.55</b>	<b>3904.89</b>	<b>4449.01</b>	<b>5136.47</b>	<b>19663.90</b>

Source: Details furnished by Information Kerala Mission

**Chart 2.3 : Relative share of components in total expenditure**

Productive sector expenditure accounted for only 10 per cent of the total expenditure indicating productive activities / works of development nature received lower priority.

#### 2.1.4 Public investment in social sector and rural development through major centrally sponsored schemes

Public investment in social sector and rural development through major Centrally Sponsored Schemes during 2009-10 is given in **Table 2.5**.

**Table 2.5: Expenditure on Centrally Sponsored Schemes**

Schemes	Base Year	Base year expenditure (₹ in crore)	2009-10 expenditure (₹ in crore)	Increase in expenditure (times in bracket)
Swarnajayanthi Gram Swarozgar Yojana (SGSY)	1999-00	25.07	50.88	25.81 (1.02)
Indira Awaas Yojana (IAY)	1999-00	39.21	212.57	173.36 (4.42)
Total Sanitation Campaign (TSC)	2002-03	6.02	17.22	11.20 (1.86)
Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)	2006-07	28.03	470.39	442.36 (15.78)
Integrated Wasteland Development Programme (IWDP)	2003-04	2.04	5.13	3.09 (1.51)
Swarna Jayanathi Shahari Rozgar Yojana (SJSRY)	1999-00	4.73	10.31	5.58 (1.18)
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	2006-07	7.56	64.81	57.25 (7.57)
Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	2005-06	6.08	53.00	46.92 (7.71)
Basic Services to Urban Poor (BSUP)	2008-09	43.81	56.22	12.41 (0.28)
Integrated Housing and Slum Development Programme (IHSDP)	2007-08	6.72	26.56	19.84 (2.95)

Source: CRD, Kudumbasree, KSUDP

Note : In the case of schemes commenced prior to 1999-2000, base year is taken as 1999-2000. In the case of schemes commenced after 1999-2000, base year is reckoned as the year of commencement/ year of incurring expenditure

The grants for Centrally Sponsored Schemes enjoin upon sanctioning authorities in Government of India the responsibility to ensure proper

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

The expenditure in respect of MNREGS, JNNURM, UIDSSMT and IAY during 2009-10 ranged between five and 17 times the base year expenditure. In respect of other schemes it ranged between one and three. MNREGS achieved the highest expenditure and BSUP achieved the lowest expenditure during 2009-10.

### 2.1.5 Quality of expenditure

The Thirteenth Finance Commission has made recommendations on the need for improvement in the quality of expenditure to obtain better inputs and outcomes. The availability of better infrastructure in the social, educational and health sector in the country generally reflects the quality of its expenditure. In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 2.6** below shows the key parameters for evaluating the quality of expenditure of LSGIs:

**Table 2.6: Components of expenditure with relative share**

(₹ in crore)

Year	Total Expenditure	Development Expenditure (DE)	Percentage of DE to Total	Social Sector Expenditure (SSE)	Percentage of SSE to Total	Capital expenditure (CE)	Percentage of CE to Total
2005-06	2946.98	1578.09	53.55	829.84	28.16	747.84	25.38
2006-07	3226.55	1748.19	54.18	983.95	30.50	763.75	23.67
2007-08	3904.89	2297.19	58.83	1334.89	34.19	846.72	21.68
2008-09	4449.01	2497.07	56.13	1461.28	32.85	967.75	21.75
2009-10	5136.47	3010.51	58.61	1841.65	35.85	1120.46	21.81

Source: Data furnished by the LSGIs and IKM

Note: The amounts do not include expenditure of 20 GPs and 2 Municipalities which did not furnish the details

The percentage of Development Expenditure to total expenditure increased from 53.55 in 2005-06 to 58.61 in 2009-10. The percentage of Social Sector expenditure to total expenditure increased from 28.16 in 2005-06 to 35.85 in 2009-10. Though the capital expenditure increased in absolute terms from ₹ 747.84 crore in 2005-06 to ₹ 1120.46 crore in 2009-10, its percentage to total expenditure decreased during the same period.

### 2.1.6 Database on LSGIs' Finances

Based on the recommendations of the Eleventh Finance Commission (EFC), Comptroller and Auditor General of India (CAG) had prescribed database formats for capturing the finances of all LSGIs. The database formats were prescribed with a view to have a consolidated position of the sector-wise resource and application of funds by LSGIs, details of works executed by LSGIs and their physical progress, etc. Government accepted (September 2004) the formats prescribed by CAG and a database of the LSGIs for the year 2009-10 was created. As on 31 May 2011, 1216 LSGIs had uploaded

information in the database created. Audit noticed that figures contained in the database were at variance with the figures furnished to audit by the LSGIs.

### 2.1.7 Maintenance of community assets

Eleventh Schedule of the Constitution read with Kerala Panchayat Raj Act, 1994 (KPR Act) and Kerala Municipality Act, 1994 (KM Act) devolve the responsibility of maintenance of community assets to LSGIs. The Third State Finance Commission had recommended the maintenance grant for the period 2006-07 to 2010-11 applying 10 per cent annual growth rate. Government accepted the recommendations for the first four months of 2006-07. For the remaining period Government decided that the horizontal distribution of funds among the LSGIs would be based on the value of actual assets transferred and the need for maintaining such assets for which a separate formula would be evolved. No such formula has been finalised so far pending collection of data regarding type, area, age, etc. of assets under the control of LSGIs. Government also did not call for any return on nature of asset, year of creation and monetary value of the asset. The maintenance norms adopted by State Public Works Department (PWD) are made applicable to LSGIs. However, it could not be ensured that the norms of PWD are adhered to by the LSGIs due to deficiencies in the maintenance of asset registers.

### 2.1.8 Liabilities of LSGIs

Kerala Financial Code stipulates incurring of expenditure only after financial sanction, availability of funds and immediate requirement of goods and services. Test check of 15 LSGIs<sup>1</sup> in eight districts revealed that liabilities as detailed in **Table 2.7** were outstanding.

**Table 2.7: Outstanding liabilities of LSGIs**

Nature of liability	Amount (₹ in lakh)	Since when
Salary (DA arrears)	360.17	2003-04
Contractor's bills	897.11	2006-07
Electricity charges	52.23	2008-09
Water charges	262.14	2006-07
Pay Bill Recovery, Library Cess, Audit Fee, IT, ST, Service Tax, River Management Fund etc. to be remitted	380.35	1998-99
Loan Repayment	78.40	
Other items	308.18	2007-08
<b>Total</b>	<b>2338.58</b>	--

Source: Details furnished by LSGIs

### 2.1.9 Misappropriations, losses, defalcations, etc.

The Kerala Financial Code stipulates that each DDO should report any case of loss, theft or fraud to the Accountant General and State Government. The State Government will follow it up to recover the loss, fix responsibility and remove systemic deficiency, if any. A consolidated statement of the details of loss, theft and fraud is not available with the Government.

<sup>1</sup> Aluva, Chalakkudy, Changanassery, Chavakkad, Irinjalakuda, Kanhangad, Kannur, Koothuparamba, Kothamangalam, Kottayam, Ottappalam, Paravur, Perinthalmanna, Shoranur Municipalities and Thrissur Corporation

## **2.2 Legal frame-work for maintenance of accounts**

According to Sections 215 and 295 of KPR Act and KM Act, LSGIs shall prepare annual accounts for every year. The PRIs maintain accounts on cash basis. The State Government has accepted the Budget and Accounting formats prescribed by the CAG, based on the Eleventh Finance Commission's recommendations and accounts are maintained in CAG's formats. In respect of the accounting formats based on National Municipal Accounts Manual (NMAM) for ULBs, the State Government has issued new accounting rules. The accrual system of accounting has been implemented in 57 out of 65 ULBs as of March 2011.

## **2.3 Financial Reporting Issues**

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

Under the Kerala Fiscal Responsibility Act, 2003 the State Government is required to ensure greater transparency in its fiscal operations and minimise, as far as practicable, official secrecy in the preparation of annual budget. The Act also requires Government to disclose all outstanding contractual liabilities, revenue demand raised but not realised, committed liability in respect of major works and supply contracts, losses incurred in providing public goods and services, off budget borrowings and contingent liabilities created by way of guarantees having potential budgetary implications. The State Government may consider making similar disclosures mandatory for the LSGIs by incorporating necessary provisions in the KPR Act and KM Act.

CAG conducted supplementary audit under Section 20(1) of the CAG's DPC Act on the Accounts of 97 GPs, three BPs, one DP and four Municipalities for the period 2000-01 to 2007-08. The findings of such audits relating to financial reporting issues are given in subsequent paragraphs.

### **2.3.1 Quality of Annual Financial Statements**

The Kerala Panchayat Raj Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the Kerala Municipality Act, 1994 read with the Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the LSGIs shall prepare Annual Financial Statements (AFS) containing all receipts and payments and Demand, Collection and Balance (DCB) Statements and forward them to the Director of Local Fund Audit (DLFA) after approval by the Panchayat/ Municipal Council/ Corporation Council not later than 31 July of the succeeding year. The Kerala Local Fund Audit Rules, 1996 also empower the DLFA to return the defective annual accounts submitted for audit. Deficiencies noticed in the preparation and submission of AFS were the following:

- In 54 LSGIs (GP : 50, BP : 2, DP : 1, Municipality : 1) there was delay of 1 to 49 months in forwarding the AFS to DLFA. Of this, delay was 12 months and above in 22 cases as detailed in **Appendix III**.
- Six<sup>2</sup> PRIs (GP : 3, BP : 3) forwarded AFS without obtaining approval of the Panchayat and four<sup>3</sup> PRIs (one GP, three BPs) did not prepare AFS in the prescribed format.
- The AFS of 11 LSGIs (GP : 9, BP : 2) for the period 2000-01 to 2006-07 did not account or short accounted transactions under IAY, SGRY, Jalanidhi, etc as detailed in **Appendix IV**. This resulted in understatement of receipts of ₹ 2.73 crore and expenditure of ₹ 2.51 crore.
- LSGIs had to prepare Capital Expenditure Statement, Statement of Receivables and Payables, Statement of Balance at the end of the year under Loans and Deposits received, Statement of Balance at the end of the year under Loans and Advances paid and Statement showing utilisation of special purpose grant/ loan along with Annual Financial Statement. 18 GPs, 2 BPs and one DP did not prepare the above statements along with AFS for the period 2004-05 to 2007-08 (**Appendix V**). Non preparation of the statements forming part of the AFS resulted in non providing of detailed analysis of the figures incorporated in the AFS.
- In 26 GPs (27 per cent), opening balance/ closing balance of AFS did not agree with the opening balance/ closing balance of cash book for the period 2001-02 to 2006-07 (**Appendix VI**). The difference between the AFS figure and Cash book figure was ₹ 4.84 crore. In 13 GPs<sup>4</sup> (13 per cent), opening balance given in the AFS did not agree with the figures of closing balance given in the AFS of previous year for the periods 2004-05 to 2006-07. The difference between the closing balance and opening balance of the AFS was ₹ 2.47 crore.

### 2.3.2 Preparation of Monthly Accounts

As per Government guidelines for the maintenance of Panchayat accounts, every Panchayat shall prepare monthly accounts for every month and place it before the Panchayat at its first meeting held after the 10<sup>th</sup> day in every month. Monthly Accounts was not prepared in 20 GPs and one DP (21 per cent of test checked PRIs) during 2004-05 to 2007-08 (**Appendix VII**).

### 2.3.3 Maintenance of primary financial records

#### 2.3.3.1 Cash Book and other subsidiary accounts

Guidelines for maintenance of Panchayat accounts and Municipal Accounting Manual issued by the State Government stipulate that all moneys received and

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<sup>2</sup> Poothrika Grama Panchayat (2004-05), Chottanikkara Grama Panchayat (2005-06), Pazhayakunnummel Grama Panchayat (2006-07), Koovappady Block Panchayat (2004-05), Muvattupuzha Block Panchayat (2004-05) and Thrithala Block Panchayat (2004-05)

<sup>3</sup> Peruvayal Grama Panchayat (2004-05), Muvattupuzha Block Panchayat (2004-05), Koovappady Block Panchayat (2004-05) and Thrithala Block Panchayat (2004-05)

<sup>4</sup> Munnar (2004-05), Nedumbram (2004-05), Pulpatta (2004-05), Ayyappankoil (2005-06), Kavassery (2005-06), Thazhekkode (2005-06), Vathikudy (2005-06), Mariyapuram (2005-06), Alakkode (2006-07), Keezhariyur (2006-07), Elanji (2006-07), Koovappady (2006-07), Manjallur (2006-07)



payments made should be entered in the cash book and it should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank pass book balance under proper authentication were to be done. Audit review revealed the following deficiencies in maintaining cash book by LSGIs listed in **Appendix VIII**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 17 GPs and two BPs (19 per cent) during the period 2003-04 to 2006-07.
- Five<sup>5</sup> LSGIs (four GPs and one Municipality) maintained more than one cash book for the period 2000-01 to 2004-05.
- Daily closing of cash book was not carried out in two Municipalities, two BPs and 19 GPs (22 per cent) during 2000-01 to 2006-07.

#### **2.3.3.2 Register of Advances**

- Guidelines for maintenance of Panchayat accounts stipulate that all advances paid are to be recorded in the Register of Advances. Two BPs and 16 GPs (18 per cent) did not maintain Register of Advances for the period 2001-02 to 2006-07 (**Appendix VIII**).
- In 13 GPs<sup>6</sup> (13 per cent), the Advance Register for the period 2001-02 to 2006-07 did not contain Mobilisation Advances to the convenors of Beneficiary Committees, Advances to Implementing Agencies, etc. As a result, monitoring and adjustment of advances could not be ensured.

#### **2.3.3.3 Asset Register**

Panchayat Account Rules, 1965, Kerala Municipal Accounts Manual and Government Order (December 2005) stipulate that each LSGI should maintain an asset register in prescribed form containing particulars of assets owned by it. The particulars include description of asset, year of acquisition and amount of acquisition. The scheme guidelines in respect of SSA, MDM, MNREGS, etc., also stipulate recording of assets created in implementing projects under the scheme. Further, Kerala Financial Code stipulates annual physical verification of assets. Assets Register was not maintained in Kappur GP (2001-02) and Muvattupuzha BP (2004-05) and maintenance was improper in 12 GPs, one BP and one Municipality (13 per cent) for the period 2001-02 to 2006-07 (**Appendix VIII**).

#### **2.3.3.4 Stock Register**

Stock Register of furniture/equipment/library books for the period 2004-05 to 2006-07 was not maintained in six GPs<sup>7</sup>. Periodical physical verification of

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<sup>5</sup> Manjeri Municipality (2000-01), Eriyad GP (2001-02), Porkulam GP (2001-02), Kappur GP (2001-02) and Vazhayur GP (2004-05)

<sup>6</sup> Kappur GP (2001-02), Kanthalloor GP (2004-05), Nannambra GP (2004-05), Thavinhal GP (2004-05), Puthenchira GP (2004-05), Chakkupallam GP (2005-06), Chinnakkanal GP (2005-06), Thazhekcode GP (2005-06), Thiruvegappura GP (2005-06), Kakkodi GP (2005-06), Sooranad North GP (2005-06), Sasthamkotta GP (2006-07), Pattiam GP (2005-06)

<sup>7</sup> Kanthalloor GP (2004-05), Nannambra GP (2004-05), Marayoor GP (2005-06), Vettikkavala GP (2005-06), Kuzhur GP (2005-06) and Poruvazhy GP (2006-07)

stock of furniture/ equipment/ library books was not conducted in 19 GPs, one BP and one Municipality (20 per cent) during the period 2001-02 to 2006-07 (**Appendix VIII**).

### 2.3.3.5 Reconciliation of cash book and Bank account figures

- Physical verification of cash was not done in 45 GPs, three BPs and one Municipality (47 per cent) during 2000-01 to 2007-08 (**Appendix IX**).
- Cash book balance was not reconciled with bank pass book balance in 25 GPs, two BPs, one DP and one Municipality (28 per cent) during 2000-01 to 2007-08 (**Appendix IX**).

### 2.3.3.6 Management and Accounting of statutory deductions

Income Tax (IT) Act and State Value Added Tax (VAT) Act require statutory deductions out of payments to contractors/ suppliers. The IT Act also requires each DDO to deduct income tax from salaries of employees. These statutory deductions are to be credited to respective Government account within specified period.

Test check of records in 105 LSGIs revealed that IT, Sales Tax/ VAT, Kerala Construction Workers' Welfare Fund (KCWWF) deducted from contractors and Library Cess collected during 1997-98 to 2006-07 were pending remittance as detailed in **Table 2.8**.

**Table 2.8: Amount pending remittance to Government account**

Name of LSGI	Item	Period during which collected	Amount (₹)
Pathanamthitta Municipality	IT, ST and KCWWF	2001-02	3,29,739
	Library Cess	1997-98 to 2001-02	7,32,372
Kayakkodi GP	IT, VAT and KCWWF	2004-05 to 2005-06	88,013
	Library Cess	2005-06	8,227
Pallivasal GP	Library Cess	2004-05 to 2006-07	1,06,059

### 2.3.3.7 Lapsed Deposits

As per Kerala Panchayat (Accounts) Rules, 1965, at the end of every financial year, any deposit in cash or balance thereof shall be lapsed and credited to the General account (own fund) of the Panchayats, if it remained unclaimed for a period of three years from the date on which the deposit became repayable consequent on its release or on the expiry of the term of the deposit. Eleven LSGIs (10 GPs and one Municipality) did not credit the lapsed deposit of ₹ 74.50 lakh during the period 2001-02 to 2006-07 to the General Account of the LSGIs<sup>8</sup>.

## 2.4 Consolidation of accounts of LSGIs

KPR Act and KM Act stipulate that an officer authorised by Government should consolidate audited accounts of PRIs. Government stated (May 2010) that the State Government (LSGD) finalised the formalities for collection and

<sup>8</sup> Thavinhal GP (₹ 0.19 lakh), Kayakkodi GP (₹ 0.01 lakh), Varapetty GP (₹ 0.38 lakh), Pallivasal GP (₹ 0.88 lakh), Thazhekodde GP (₹ 0.36 lakh), Kakkodi GP (₹ 0.27 lakh), Elathur GP (₹ 0.16 lakh), Kanthalloor GP (₹ 2.71 lakh), Marayur GP (₹ 6.22 lakh), Kappur GP (₹ 0.29 lakh), Muvattupuzha Municipality (₹ 63.03 lakh)

consolidation of audited accounts of PRIs and authorised the Additional Secretary to Government (FM) to complete the process. Information with regard to progress in the collection and consolidation of accounts is awaited.

## **2.5 Administration Reports**

According to the Kerala Panchayat Raj Act, 1994 and the Kerala Municipality Act, 1994, the LSGIs were to prepare Administration Report every year by 30 September of the succeeding year and forward them to the officers authorised by the Government for consolidation and submission to the Government and the Legislative Assembly. If the report is not received within the said time limit, Government may withhold the payment of grants due to the Panchayat. However, the State Government (LSGD) has not nominated any officer to ensure preparation and consolidation of the Administration Reports. Though the Act requires Government to place the consolidated Administration Report before the Legislative Assembly, it was not done in any year.

## **2.6 Arrears in accounts**

According to Kerala Local Fund Audit Act, 1994 (KLFA Act) it was mandatory for the LSGIs to submit their accounts to DLFA for audit by 31 July every year. Further, 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 in the submission of accounts.

As on 31 July 2010, 372 accounts pertaining to the period from 1996-97 to 2009-10 were in arrears. However, the DLFA did not take any action against the defaulting LSGIs.

## **2.7 Arrears in audit and issue of audit reports**

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

DLFA received 16633 accounts up to July 2010 against 17046 accounts due to be received (including the accounts for 2009-10). Of these, audit was completed in respect of 14033 accounts and 12080 Audit Reports were issued (December 2010).

The arrears in the issue of Audit Report were 4553 (27.37 per cent). Excluding the accounts for the year 2009-10, 3540 reports were pending issue.

## **2.8 Presentation of annual consolidated audit report**

As per KLFA Act, the DLFA is required to send to Government annually a consolidated report of the accounts audited by him and the Government is required to place the report before the Legislative Assembly.

The Kerala Local Fund Audit Rules, 1996 stipulate that the DLFA shall, not later than 30 September every year, send to the Government a consolidated report of the accounts audited by him during the previous financial year, containing such particulars which he intends to bring to the notice of the Government. The Committee on Local Fund Accounts deliberates on this report. Scrutiny of records in DLFA's office revealed that such report had been submitted to Government up to the year 2008-09 and reports up to year 2006-07 were presented to State Legislature.

## **2.9 Conclusions**

There was no system to consolidate the finances of LSGIs. While the share of the State Government in the total receipt of LSGIs declined from 74 per cent during 2005-06 to 67 per cent during 2009-10, the share of GOI grant increased from seven per cent to 16 per cent during the same period. Annual Financial Statement and primary financial records of LSGIs were deficient. Asset register was not maintained properly as a result of which it could not be assessed whether the norms for maintenance of assets had been strictly adhered to. Government had not placed Consolidated Administration Report before the Legislature.