

CHAPTER II

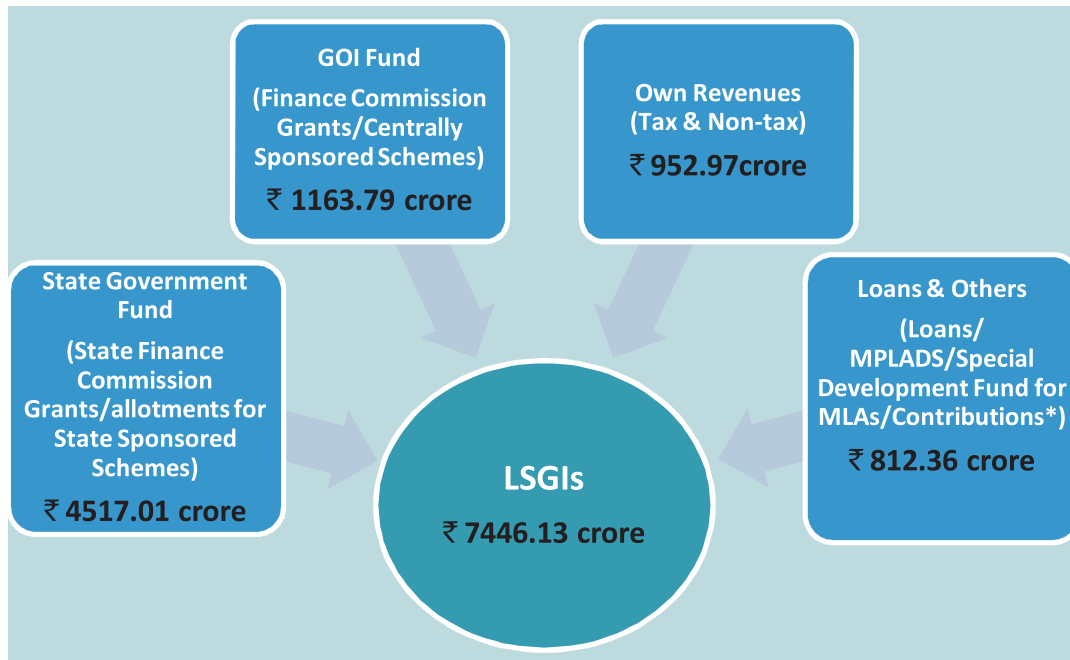
FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 Funds flow to LSGIs

The resource base of LSGIs consists of funds devolved by State Government, Government of India (GOI) Grants, Own Revenues and Loans from financial institutions. **Diagram 2.1** below depicts the fund flow to LSGIs during 2010-11.

Diagram 2.1: Fund flow to LSGIs during 2010-11



*Details of MPLADS/Special Development Fund for MLAs and contributions not included

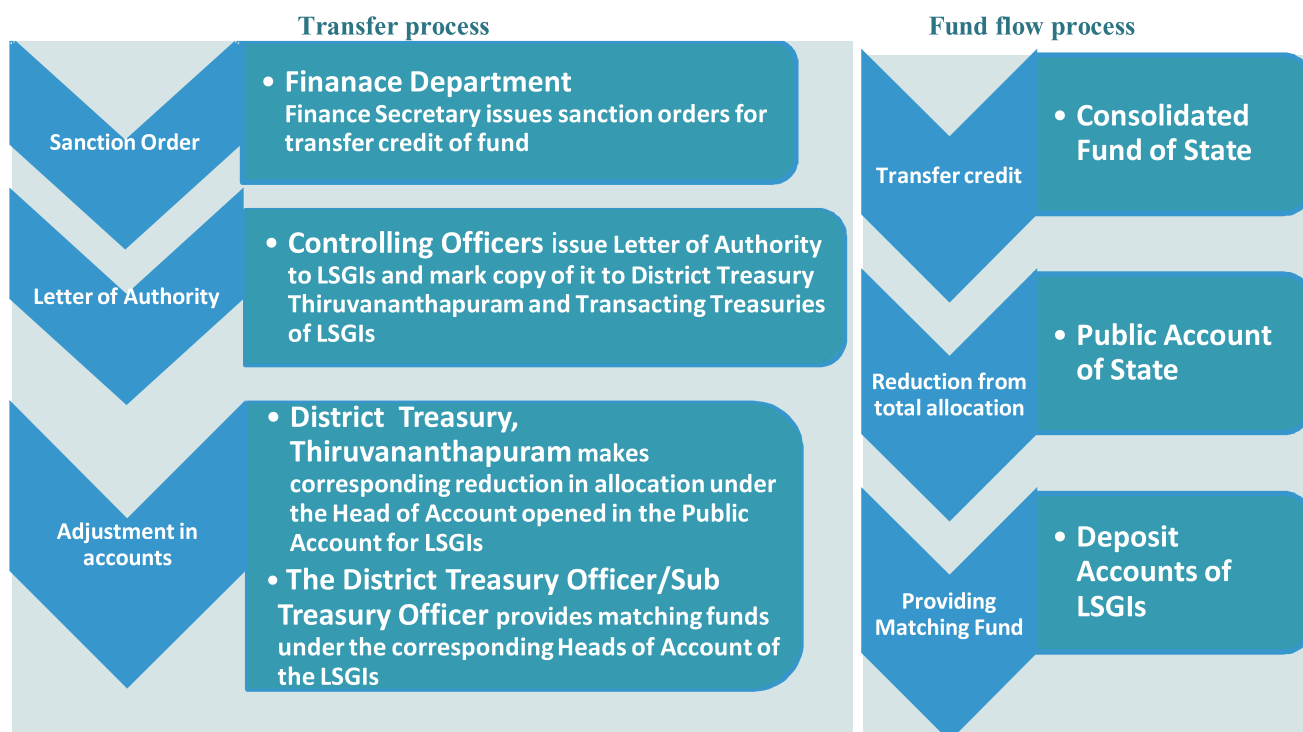
2.1.1.1 Transfer of funds from the Government and associated audit issues

The Government provides three types of funds to LSGIs from the Consolidated Fund – grants, funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes (CSSs). Appendix IV to the Detailed Budget Estimates of the Government gives the LSGI-wise allocation of two types of funds (i) funds as per the recommendation of State Finance Commission and (ii) funds for implementation of State Sponsored Schemes. The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund along with the releases made during 2010-11, are given in **Table 2.1**.

Table 2.1: Three categories of funds and their release to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2010-11 (₹ in crore)	Release mechanism
1	Grants and Road Renovation Schemes	3604 – Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	2786.61	Routed through Public Account
		3054 – Roads and Bridges	192.94	
		5054 – Capital Outlay on Roads and Bridges	179.22	
Total			3158.77	
2	State Sponsored Schemes	14 Major Heads	1165.30	Routed through State Level Nodal Agencies* / Poverty Alleviation Units
3	State share for CSSs	4 Major Heads	146.79	
Grand total			4470.86	

A flow chart of the above categories of funds is given in **Appendix IV**. The Grants and the fund for Road Renovation Scheme are transfer credited to the Public Account by Finance Department in monthly instalments to enable LSGIs to draw money from treasuries. The various procedures involved in the transfer of these funds from the Government to LSGIs are shown in **Diagram 2.2**.

Diagram 2.2: Transfer/ Fund flow process

* Kudumbashree, Kerala Sustainable Urban Development Project, Suchitwa Mission

Table 2.2 gives the details of funds released by the Government under various categories during 2010-11.

Table 2.2: Release of the Government Fund under different categories during 2010-11
(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Road Renovation Scheme Fund	Amount released (Total)
District Panchayats (DPs)	292.12	52.26	12.91	144.00	501.29
Block Panchayats (BPs)	291.56	28.20	17.89	85.56	423.21
Grama Panchayats (GPs)	1130.12	280.28	321.65	----	1732.05
Corporations	128.93	35.40	53.22	19.92	237.47
Municipalities	165.77	44.44	34.80	19.74	264.75
Total	2008.50	440.58	440.47	269.22	3158.77

Audit noticed following points in the release of the Government funds:

- Use of wrong account heads: The Government grant to LSGIs included an amount of ₹ 269.22 crore provided by XII Finance Commission under maintenance of Roads and Buildings. The Government released the amount under the nomenclature 'Road Renovation Scheme' under two heads of accounts, viz., Major Heads 3604 and 5054. Major Head 5054 being a Capital Head was operated under Maintenance Head for the first time though the fund was released for maintenance of roads. Accounting the amount released for maintenance of Roads and Buildings under capital head of account was not in order.
- Delayed release: Monthly transfer-credit of fund from Consolidated Fund to Public Account was devised as a means to ensure availability of fund for incurring expenditure by LSGIs. The State Finance Department is required to transfer funds on the first working day of the month. Delay ranging from two to 20 days was noticed in 32 out of 65 transfer credits made during 2009-10 and 2010-11.
- There was also delay in issuing Letter of Authority (LoA) by the Controlling Officers. Delay was noticed in 181 out of 246 instalments of LSGI funds released during 2009-10 and 2010-11. This included 49 instances where the delay was more than a month.
- Short credit of funds to LSGIs: Audit noticed that ₹ 2.04 crore in one instalment to District Panchayat, Thiruvananthapuram and ₹ 51.94 lakh in three instalments under Maintenance Expenditure (for Road and Non-Road) and one instalment of ₹ 6.48 lakh under General Purpose Fund to District Panchayat, Pathanamthitta were not credited.
- Non release of full provision to LSGIs: Supplementary Nutrition Programme (SNP) is implemented by LSGIs utilising Development Expenditure Fund. From 2005-06 onwards, GOI reimburses 50 per cent of the expenditure on SNP to the Government who in turn transfers the money to LSGIs through Child Development Project Officers of Social Welfare Department. During 2010-11, the Government received ₹ 80.71 crore towards reimbursement of SNP from GOI, out of which ₹ 53.50 crore only was transferred to LSGIs.

From the balance amount of ₹ 27.21 crore, the Government diverted ₹ 6.38 crore for another scheme, viz., Wheat Based Nutrition Programme and retained ₹ 20.83 crore.

A comparison of funds released to LSGIs for implementation of annual plans along with the State Plan Outlay for the first four years of XI Plan is given in **Table 2.3**.

Table 2.3: State Plan vis-à-vis Development Expenditure of LSGIs

(₹ in crore)

Year	State Plan Outlay	Development Expenditure Fund	Percentage to State Plan Outlay
2007-08	6950.00	1538.44	22.13
2008-09	7700.47	1670.23	21.69
2009-10	8920.00	1842.29	20.65
2010-11	10025.00	2277.72	22.72
Total	33595.47	7328.68	21.80

Development Expenditure Fund to LSGIs constituted 22 per cent of the State Plan Outlay.

2.1.1.2 Receipts from GOI

A flow chart showing the transfer of funds from Government of India (GOI) to LSGIs for implementation of CSSs is given in **Appendix V**. GOI provided grants amounting to ₹ 1163.79 crore to LSGIs for implementation of 10 CSSs. The grants are provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/ Poverty Alleviation Units (PAUs). The details of GOI grants transferred to LSGIs during 2010-11 are given in **Table 2.4**.

Table 2.4: Release of GOI grants during 2010-11

Sl. No.	Authority/ Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
1	State Budget	Jawaharlal Nehru National Urban Renewal Mission –Urban Infrastructure and Governance (JNNURM-UIG)	25.99
		Basic Services to Urban Poor (BSUP)	55.19
2	Directly to SLNA	Integrated Housing and Slum Development Programme (IHSDP)	37.29
		Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	5.39
		Total Sanitation Campaign (TSC)	22.86
		Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	80.39
3	Directly to PAU	Swarnajayanti Gram Swarozgar Yojana (SGSY)	41.47
		Indira Awaas Yojana (IAY)	185.91
		Integrated Wasteland Development Programme (IWDP)/ Hariyali	5.07
		Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	704.23
Total			1163.79

The Government provided ₹ 146.79 crore as its share for implementation of above GOI schemes. Thus the total fund available for implementation of CSSs during 2010-11 was ₹ 1310.58 crore. Compared to 2009-10, the GOI grant was ₹ 331.30 crore more. Substantial increase was noticed in the release of funds for MGNREGS, BSUP, UIDSSMT schemes.

2.1.1.3 Own funds

Own fund consists of tax[†] and non-tax revenue[‡] collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994/Kerala Municipality Act, 1994 and allied Acts. This category also includes income derived from assets of LSGIs, beneficiary contributions, earnest money deposits, retention money etc. The details of own fund are not compiled and consolidated by Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. Though all LSGIs were requested to furnish the details of own revenue in a pro forma, many of the LSGIs did not respond. As per the details obtained from respective controlling officers, the own revenue of 1193 out of 1209 LSGIs amounted to ₹ 952.97 crore.

2.1.1.4 Loans availed by LSGIs

LSGIs raise loans as per provisions of Kerala Local Authorities Loans Act, 1963 from Kerala Urban and Rural Development Finance Corporation, Co-operative Banks etc. **Table 2.5** gives the details of loans availed by LSGIs during 2010-11 and the loans outstanding as at the end of March 2011.

Table 2.5: Loans availed during 2010-11

(₹ in crore)

Source of loan	ULBs	PRIs	Total	Loans outstanding as at the end of March 2011
Cooperative Banks (EMS housing scheme)	42.20*	688.30*	730.50	640.69
KSUDP	71.00	-----	71.00	-----
KURDFC	6.42	4.44	10.86	29.54
Total	119.62	692.74	812.36	670.23

*Details of loan availed by five Corporations & 14 District Panchayats not made available.

2.1.1.5 Resources: Trends and Composition

Table 2.6 below shows the composition of resources of LSGIs for the period 2006-07 to 2010-11. Source-wise and category-wise receipts are given in **Chart 2.1**.

[†] Property tax, Profession tax, Entertainment tax, Advertisement tax etc.

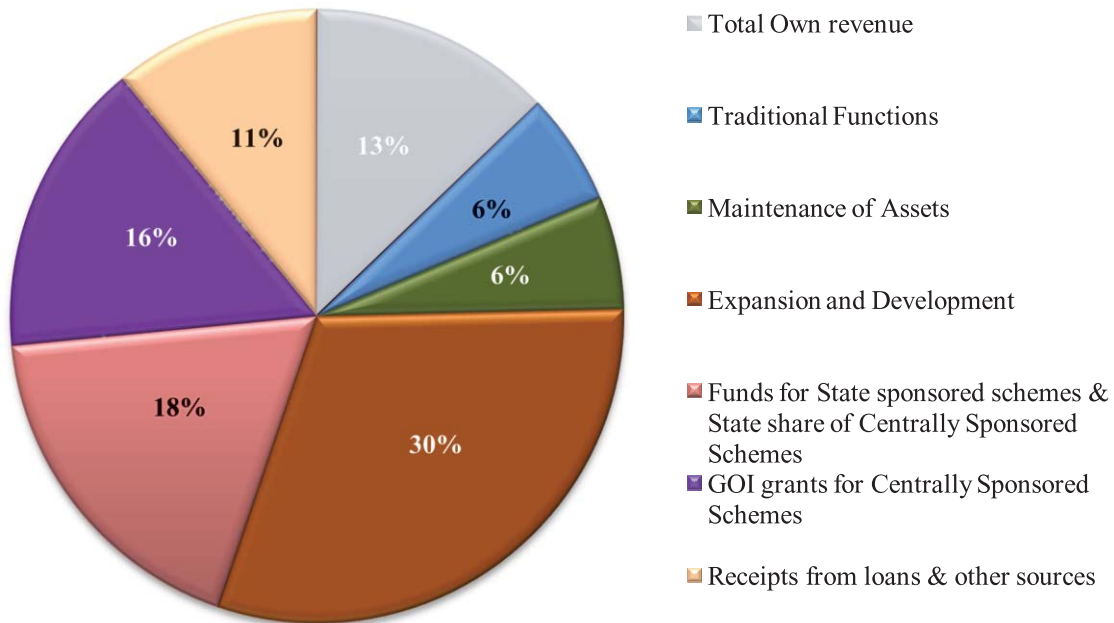
[‡] Licence fee, Registration fee etc.

Table 2.6: Time series data on Resources of LSGIs

Resources	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Own Revenue :						
(i) Tax Revenue	357.41	334.42	385.36	450.76	952.97 [#]	3753.05
(ii) Non Tax Revenue	230.25	315.08	349.37	377.43		
Total Own Revenue	587.66	649.50	734.73	828.19	952.97	3753.05
State Grant:						
Traditional Functions	299.96	329.98	363.98	399.31	440.47	1833.70
Maintenance of Assets	350.00	404.98	397.52	448.04	440.58	2041.12
Expansion and Development	1400.36	1538.44	1670.23	1842.29	2277.72	8729.04
Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	585.84	976.71	807.44	840.80	1358.24	4569.03
Total State Grant	2636.16	3250.11	3239.17	3530.44	4517.01	17172.89
GOI grants for Centrally Sponsored Schemes	323.09	454.68	811.12	832.49	1163.79	3585.17
Receipts from loans & other sources	160.42	23.14	7.81	72.35	812.36	1076.08
Total Receipts	3707.33	4377.43	4792.83	5263.47	7446.13	25587.19

Source: Finance Accounts of respective years, details of own funds furnished by LSGIs, information from Commissioner of Rural Development, KURDFC, KSUDP, Kudumbashree

break up of Tax & Non tax revenue not provided by the LSGIs

Chart 2.1: Source-wise receipts of LSGIs

- During the five year period (2006-11), the increase in total receipts of LSGIs was 101 per cent.

- The share of GOI grant in the total receipts increased from nine *per cent* in 2006-07 to 16 *per cent* in 2010-11.
- The share of State grant in the total receipts decreased from 71 *per cent* in 2006-07 to 60 *per cent* in 2010-11.

2.1.1.6 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 2.7** below shows the composition of application of resources of LSGIs on these components for the period from 2006-07 to 2010-11.

Table 2.7: Application of resources

Sector	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Productive Sector	361.82	411.79	443.94	511.49	447.69	2176.73
Infrastructure Sector	402.42	548.84	589.58	656.11	936.05	3133.00
Service Sector	983.95	1336.56	1463.55	1842.91	2139.26	7766.23
Total Development Expenditure	1748.19	2297.19	2497.07	3010.51	3523.00	13075.96
Other Expenditure	1478.36	1607.70	1951.94	2125.96	1798.26	8962.22
Total Expenditure	3226.55	3904.89	4449.01	5136.47	5321.26	22038.18

Source: Details furnished by Information Kerala Mission

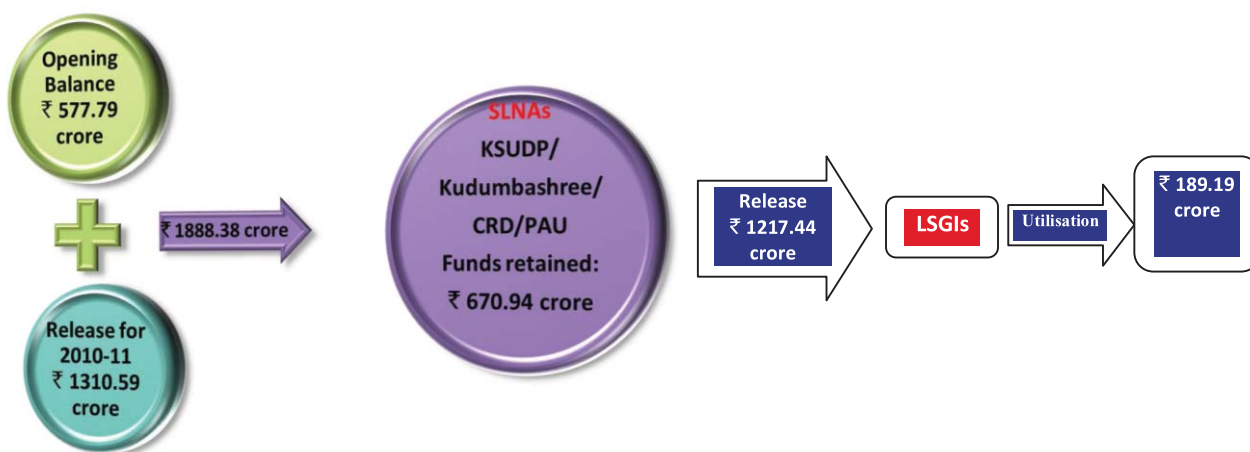
- Productive sector expenditure accounted for only 8.41 *per cent* of the total expenditure during 2010-11 indicating works of development nature received lower priority.
- Infrastructure sector expenditure accounted for 17.59 *per cent* of the total expenditure. There was poor utilisation of funds given under Road Renovation Scheme. Out of ₹ 263.94 crore given to 195 LSGIs during 2010-11 as one-time special assistance for Road Maintenance as per XII Finance Commission Award, only ₹ 96.82 crore (36.68 *per cent*) were spent by 160 LSGIs. Thirty-five LSGIs (25 BPs, one DP, eight Municipalities and one Corporation) did not spend any amount out of ₹ 28.95 crore received (December 2011) by them.
- Under Other Expenditure, establishment and other expenses were very high in ULBs. The establishment expenses (including salary) of ULBs are to be met from own revenue. During 2010-11, revenue collected from various tax and non tax items was ₹ 438.56 crore (64 *per cent* of total receipts). As against this, ₹ 464.06 crore was spent towards establishment and other expenses. This had adverse implications for development works.

2.1.1.7 Public investment in social sector and rural development through major centrally sponsored schemes – Poor utilisation of funds

Public investment in social sector and rural development through major CSSs are made to LSGIs through agencies such as PAUs and SLNAs -Kudumbashree, KSUDP, Suchitwa Mission etc. The grants for CSSs enjoin upon sanctioning authorities in GOI the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs. The details of funds released by

GOI and State Government and utilisation of fund during 2010-11 are given in **Chart 2.2** below.

Chart 2.2: Flow chart on funds released and utilised during 2010-11



Out of ₹ 1888.38 crore released by GOI/State Government, substantial portion of the funds amounting to ₹ 670.94 crore was lying unspent with SLNAs/ PAUs (35 *per cent*) thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Total expenditure incurred by LSGIs was ₹ 189.19 crore (10 *per cent*)[§] for all the CSSs during 2010-11. The balance of ₹ 1028.25 crore was lying with LSGIs.

2.1.1.8 Quality of expenditure

The Thirteenth Finance Commission has made recommendations on the need for improvement in the quality of expenditure to obtain better outputs 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. **Table 2.8** below shows the key parameters for evaluating the quality of expenditure of LSGIs.

Table 2.8: 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
2006-07	3226.55	1748.19	54.18	983.95	30.50
2007-08	3904.89	2297.19	58.83	1334.89	34.19
2008-09	4449.01	2497.07	56.13	1461.28	32.85
2009-10	5136.47	3010.51	58.61	1841.65	35.85
2010-11	5321.26	3523.00	66.21	2139.26	40.20

Source: Data furnished by LSGIs and IKM

Note: The amounts do not include expenditure of nine DPs which did not furnish the details for 2010-11

[§] Figures furnished by IKM

The percentage of Development Expenditure to total expenditure increased from 54.18 in 2006-07 to 66.21 in 2010-11. The percentage of Social Sector Expenditure to total expenditure increased from 30.50 in 2006-07 to 40.20 in 2010-11.

2.1.2 Poor implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 199378 projects with a total estimate/outlay of ₹10500.96 crore during 2010-11. Of these, the LSGIs had taken up 147222 projects for implementation and had spent ₹ 3521.88 crore on the projects. Of the projects taken up, LSGIs completed only 60495 projects. Thus LSGIs had completed only 30 *per cent* of the projects formulated during 2010-11. The tier-wise performance given in **Table 2.9** shows that the largest shortfall in plan performance was by Corporations, followed by Municipalities, GPs, BPs and DPs.

Table 2.9: Details of projects taken up and expenditure incurred

Type of LSGIs	No of projects			Amount (₹ in crore)		
	Formulated	Taken up	Per cent	Outlay of project formulated	Expenditure	Per cent
Grama Panchayats	157242	119049	75.71	6589.84	2134.71	32.39
Block Panchayats	16011	11932	74.52	1285.56	606.20	47.15
District Panchayats	10815	5196	48.04	1150.68	390.96	33.98
Municipalities	11883	8937	75.21	709.65	220.55	31.08
Corporations	3427	2108	61.51	765.23	169.46	22.14
Total	199378	147222	73.84	10500.96	3521.88**	33.53

Of the 147222 projects taken up for implementation, 17442 projects with an outlay of ₹ 804.47 crore related to certain important socially relevant projects, viz., Solid Waste Management (SWM) projects, welfare of women, welfare of children, poverty alleviation, drinking water schemes, scheduled caste welfare, sanitation, welfare of aged persons. As at the end of March 2011, ₹ 318.96 crore was incurred on these projects, the percentage of expenditure being 39.65. The lowest expenditure was incurred on sanitation (17 *per cent*) and SWM projects (18 *per cent*). The details are given in **Appendix VI**.

2.1.2.1 Poor execution of SWM projects

Government has approved 23 service providers for implementing solid waste management schemes of LSGIs. As per details received from five service providers, 35 LSGIs have paid ₹ 3.09 crore for installation of solid waste processing plants, out of which 16 plants were installed at a cost of ₹ 1.52 crore. Three service providers who received ₹ 36.05 lakh from five LSGIs^{††}, though started the works had not completed them. The solid waste processing plants installed in four LSGIs at a cost of ₹ 21.70 lakh by three service providers were not commissioned (January 2012).

** Expenditure of ₹ 3521.88 crore included ₹ 543.33 crore relating to 29425 spill over projects of previous years

†† Aikkarand GP, Parassala GP, Poothrikka GP, Vilakkudy GP, Kannur Municipality

2.1.3 Database on LSGIs' Finances

Based on the recommendations of the Eleventh Finance Commission (EFC), 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 LSGIs for the year 2009-10 was created. Information for the year 2010-11 was yet to be uploaded by LSGIs (March 2012).

2.1.4 Maintenance of community assets

Eleventh/ Twelfth Schedules of the Constitution read with KPR Act, 1994 and KM Act, 1994 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. The Government also did not call for any return on nature of asset, year of creation and monetary value of the asset, etc. During 2010-11, the Government released ₹ 247.63 crore to LSGIs as maintenance fund for non-road assets. 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 were adhered to by LSGIs because of poor maintenance of asset registers.

2.1.5 Liabilities of LSGIs

Kerala Financial Code stipulates incurring of expenditure only after obtaining financial sanction, ensuring availability of funds and immediate requirement of goods and services. Test check of 135 LSGIs in 14 districts revealed that liabilities as detailed in **Table 2.10** were outstanding.

Table 2.10: Outstanding liabilities of LSGIs

Nature of liability	No. of LSGIs	Amount (₹ in lakh)	Since when
Salary and DA arrears	25	198.21	2004-05
Work bills	35	1295.13	1979-80
Electricity charges of street lights	18	64.96	2008-09
Water charges of public taps	45	1658.12	1996-97
Audit fee	4	40.52	1997-98
Library cess	5	24.87	2007-08
EMS housing scheme	968	64068.57	2009-10
KURDFC	50	2954.02	2009-10
Other items	11	86.33	2002-03
Total	1161	70390.73	

Source: Details furnished by LSGIs & Controlling officers

2.1.6 Misappropriations, losses, defalcations, etc

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

2.2 Legal framework for maintenance of accounts

According to Section 215 of KPR Act, 1994 and Section 295 of KM Act, 1994, LSGIs shall prepare annual accounts for every year. The PRIs maintain accounts on cash basis. In respect of the accounting formats based on National Municipal Accounts Manual (NMAM) for ULBs, the Government has issued new accounting rules. The accrual system of accounting has been implemented in all the ULBs as of March 2012.

2.3 Financial Reporting Issues

Financial reporting in 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., is governed by the provisions of KPR Act, 1994, KM Act, 1994, Kerala Panchayats (Accounts) Rules, 1965, Kerala Municipal Accounts Manual, Kerala Financial Code, guidelines, standing orders and instructions.

2.3.1 Monthly Progress Reports

A condition for sanctioning funds to LSGIs for subsequent months was included in orders issued in April 2006, according to which, each LSGI shall prepare a Monthly Progress Report of Expenditure (MPR). MPR is to indicate budget provision, up to date allotment and expenditure and percentage of expenditure to allotment. LSGIs are required to forward it to designated authorities (Deputy Director of Panchayats for GPs, Assistant Development Commissioner (General) for BPs, Regional Joint Director for Municipalities) by the 10th of subsequent month in respect of Development Expenditure Fund and Maintenance Expenditure Fund. Such authorities are to consolidate them and forward to Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs respectively by the 15th day of the month. These State level authorities are then required to make State wise consolidated progress reports of expenditure and forward them to the Secretary to Government, Local Self Government Department (LSGD) and to the Secretary, Finance (Expenditure) Department by 20th of the month. District Panchayats and Corporations are required to forward their Monthly Progress Reports by 10th of the succeeding month to Secretary, LSGD and to Secretary, Finance (Expenditure) Department. Funds for the subsequent months are not to be allotted to those LSGIs which fail to forward the MPRs. These conditions were not adhered to by most LSGIs as mentioned below:

- Out of 456 MPRs due from District Panchayats and Corporations, during 2009-10 and 2010-11, Finance Department received only two MPRs from Palakkad District Panchayat for August 2010 and March 2011. But Finance

Department continued to allot funds for the subsequent months to District Panchayats and Corporations (which did not forward the MPRs) in contravention of its own orders.

- On a scrutiny of MPRs submitted by District Panchayats and Corporations to LSGD, Audit noticed that out of 456 MPRs due during 2009-10 and 2010-11, only 330 reports were received, resulting in a shortfall of 126.
- As per instructions, District Panchayats and Corporations were to forward MPRs to LSGD directly. But Corporations submitted the MPRs directly to the Director of Urban Affairs (DUA), which were consolidated and forwarded to LSGD by DUA. Due to adopting a procedure different from that prescribed, MPRs of Corporations for three months (October 2009, November 2009 and March 2011) only were received on due dates during 2009-10 and 2010-11 and the remaining 21 were delayed.
- Secretary, Finance (Expenditure) Department was to receive 72 consolidated MPRs during 2009-10 and 2010-11 from Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs, but the Secretary did not receive any consolidated MPRs so far.

2.3.2 Results of Supplementary Audit

CAG conducted supplementary audits under Section 20(1) of the CAG's DPC Act on the accounts of 96 GPs, four BPs, one DP, four Municipalities and one Corporation during the year 2010-11. The findings of such audits are given in subsequent paragraphs.

2.3.2.1 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 PRIs/ULBs 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/31 May respectively of the succeeding year. The Kerala Local Fund Audit Rules, 1996 also empower the DLFA to return the defective AFS submitted for audit. Deficiencies noticed in the preparation and submission of AFS were the following:

- In 51 LSGIs (GP: 49, BP: one, Corporation: one) there was delay of two to 25 months in forwarding the AFS to DLFA. Of this, delay was 12 months and above in 27 cases as detailed in **Appendix VII**.
- Section 214(1A) of the KPR Act, 1994 and Section 287 and 289 of KM Act, 1994 stipulate that each PRI/ ULB should prepare the budget estimate for the next financial year and present before the Committee/ Council by 15 January and first week of March. There was delay in presentation of budget in 66 GPs, three BPs and four Municipalities. It was also noticed that budget was not presented in prescribed format in 17 GPs and two BPs (**Appendix VIII**).

- Appending statements of AFS were not prepared and submitted by 38 GPs, two BPs and two Municipalities (**Appendix IX**).
- In 12 GPs & one BP opening balance/closing balance of AFS did not agree with the opening balance/closing balance of the cash book for the period 2004-05 to 2008-09 (**Appendix X**).

2.3.2.2 Preparation of Monthly Accounts

As per Government guidelines for the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare monthly accounts for every month and place it before the Panchayat committee/Council at its first meeting held after the 10th day in every month. Monthly Accounts was not prepared in 46 GPs, three BPs and one Municipality during 2004-05 to 2007-08 (**Appendix XII**).

2.3.2.3 Maintenance of primary financial records

(a) Cash Book

Guidelines for maintenance of Panchayat accounts and Municipal Accounting Manual issued by the State Government stipulate that all moneys received and 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. Supplementary audit review revealed the following deficiencies in maintaining cash book by LSGIs listed in **Appendix XI**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 34 GPs during the period 2004-05 to 2008-09.
- 14 GPs and one Municipality did not maintain cash book in proper format.
- Daily closing of cash book was not carried out by 63 GPs, two BPs and four Municipalities.
- 60 GPs, two BPs and three Municipalities did not close the cash book even monthly and annually.
- 54 GPs, two BPs and one Municipality did not reconcile cash book with pass book.

(b) 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 21 GPs did not maintain Register of Advances during the period covered in audit - 2004-05 to 2007-08 (**Appendix XII**).

(c) Asset Register

Kerala Panchayat (Accounts) 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 Sarva Shiksha

Abhiyan, Mid Day Meal, Mahatma Gandhi National Rural Employment Guarantee Scheme, etc., also stipulate recording of assets created in implementing projects under the scheme. Further, Kerala Financial Code stipulates annual physical verification of assets.

- Asset register was not maintained properly by 25 GPs and one Municipality (**Appendix XIII**).
- Physical verification of stock was not done by 22 GPs, one Municipality and one Corporation (**Appendix IX**).
- Physical verification of cash was not done in 67 GPs, one BP and three Municipalities during the period covered in audit-2004-05 to 2008-09 (**Appendix IX**).

2.4 Consolidation of accounts of LSGIs

KPR Act, 1994 and KM Act, 1994 stipulate that an officer authorised by Government should consolidate audited accounts of LSGIs. Government stated (May 2010) that the State Government (LSGD) finalised the formalities for collection and 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 LSGIs. However, the 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 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 DLFA to carry out proceedings in a Court of Law against the Secretaries of LSGIs who default in the submission of accounts.

As on 31 July 2011, 221 accounts pertaining to the period from 1996-97 to 2010-11 were in arrears. However, DLFA did not take any action against the defaulting LSGIs.

2.7 Arrears in audit and issue of audit reports

As per KLFA Act, DLFA is to 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 18024 accounts up to July 2011. Of these Audit Reports were issued in respect of 13552 accounts (October 2011). The arrears in the issue of Audit Reports were 4472 (24.81 *per cent*).

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 the Government up to the year 2008-09 and reports up to the year 2006-07 were presented to State Legislature.

2.8 Conclusions

As against revenue of ₹ 438.56 crore collected by LSGIs establishment expenses was ₹ 464.06 crore. Out of ₹ 1888.38 crore released by GOI/State Government for CSSs, an amount of ₹ 670.94 crore was retained by SLNAs/PAUs. LSGIs spent only 10 *per cent* of the fund available for implementation of CSSs. LSGIs were not adhering to the procedures relating to reporting monthly progress of expenditure.