CHAPTER II

Finances and Financial Reporting Issues of Local Self-Government Institutions

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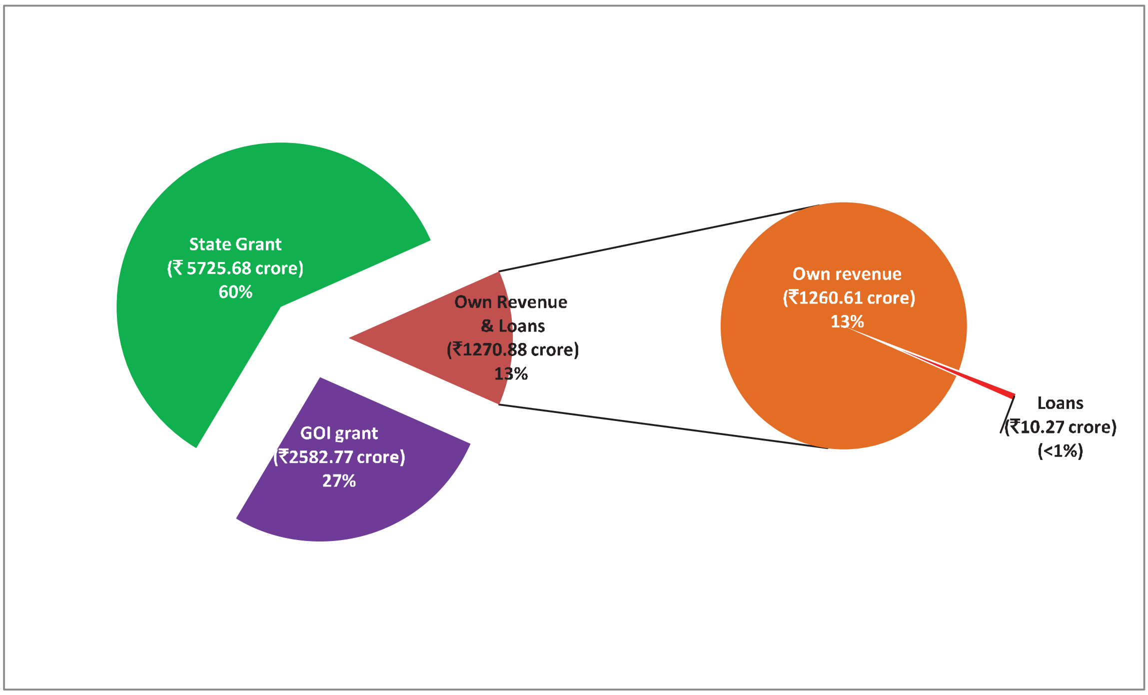
FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF-GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 Funds flow to LSGIs

The resources of LSGIs consist of funds devolved by State Government, Government of India (GOI), Own revenues of LSGIs and loans from financial institutions. Source-wise receipts of LSGIs during 2012-13 are depicted in **Chart 2.1.**

Chart 2.1: Source-wise receipts of LSGIs during 2012-13



2.1.1.1 Resources: Trends and Composition

The composition of resources[1] of LSGIs for the period 2008-09 to 2012-13 is given in **Table 2.1**.

[1]**Source:** Details of Own Revenue furnished by LSGIs, Finance Accounts of the State for the respective years, information from Commissioner of Rural Development, Information Kerala Mission (IKM), Kerala Urban and Rural Development Finance Corporation (KURDFC), Kerala Sustainable Urban Development Project (KSUDP) and Kudumbashree

Table 2.1: Time series data on resources of LSGIs

(₹ in crore)

Resources	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Own Revenue: (i) Tax Revenue (ii) Non -Tax Revenue	385.36 349.37	450.76 377.43	952.97[2]	561.79 376.69	661.01 599.60	
Total Own Revenue	**734.73**	**828.19**	**952.97**	**938.48**	**1260.61**	**4714.98**
State Fund: (i) Traditional Functions	363.98	399.31	440.47	644.98	757.89	2606.63
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	397.52	448.04	440.58	713.94	1039.45	3039.53
(iii) Expansion and Development	1670.23	1842.29	2277.72	2021.52	2062.61[3]	9874.37
(iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	807.44	840.80	1358.24	1358.45	1865.73	6230.66
Total State Fund	**3239.17**	**3530.44**	**4517.01**	**4738.89**	**5725.68**	**21751.19**
GOI grants: (i) Centrally Sponsored Schemes	811.12	832.49	1163.79	1280.72	1603.36	5691.48
(ii) Development and expansion	..	..	..	622.84	979.41	1602.25
Total GOI grant	**811.12**	**832.49**	**1163.79**	**1903.56**	**2582.77**	**7293.73**
Receipts from loans & other sources: Loans	7.81	72.35	812.36	39.16	10.27	941.95
Total Receipts	**4792.83**	**5263.47**	**7446.13**	**7620.09**	**9579.33**	**34701.85**

- Increase in the total receipts of the LSGIs during the five year period 2008-09 to 2012-13 was nearly cent *per cent*.
- Percentage increase in GOI grants was 36 and that of State grant was 21 during 2012-13 as compared to previous year.

Surrender of funds for State Sponsored Schemes/State Share of Centrally Sponsored Schemes

Out of ₹ 1869.96 crore allotted by the State Government during 2012-13 under eleven heads[4], ₹ 111.84 crore was surrendered (**Appendix II**). The major surrender was noticed under the major heads 2217- Urban Development (55.27 *per cent*), 2225- Welfare of SC/ST (35.98 *per cent*) and 2230 – Labour and Employment (35.24 *per cent*). Audit also noticed that more than 50 *per cent* of the allotment

[2] Break up of Tax & Non-tax revenue not provided by the LSGIs

[3] Includes special advance of ₹ 4.29 crore released to Wayanad DP which will be recovered in 2013-14 & 2014-15

[4] General Education, Medical and Public Health, Urban Development, Welfare of SC/ST, Labour and Employment, Social Security and Welfare, Crop Husbandry, Soil and Water Conservation, Dairy and Development, Special Programme for Rural Development, Village and Small Industries

made under Urban Development was being surrendered continuously for the last three years.

2.1.1.2 Transfer of funds from the Government and associated audit issues

(i) The State 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 funds. The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund, along with the releases made during 2012-13, are given in **Table 2.2**.

Table 2.2: Categories of funds and their release to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2012-13 (₹ in crore)	Release mechanism
1	Grants, World Bank aided Performance grant under KLGSDP[5], KSUDP, ADB[6] assistance, Thirteenth Finance Commission award	3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	4126.30	Routed through Public Account
		3054-Roads and Bridges	713.06	
Total			**4839.36**	
2	State Sponsored Schemes	11 Major Heads	1758.12	Routed through State Level Nodal Agencies[7]/ Poverty Alleviation Units
3	State share of CSSs	4 Major Heads	107.61	
Grand total			**6705.09**	

(ii) The funds are credited to the Public Account by Finance Department in monthly instalments to enable LSGIs to draw money from treasuries through Controlling Officers.

(iii) **Table 2.3** gives the details of funds released by the Government under various categories during 2012-13.

[5] Kerala Local Government Service Delivery Project
[6] Asian Development Bank
[7] Kudumbashree, KSUDP, Suchitwa Mission

Table 2.3: Release of fund by Government under different categories during 2012-13

(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Total
Corporations	162.86	81.47	99.55	343.88
Municipalities	199.22	112.00	71.31	382.53
District Panchayats(DPs)	332.28	218.67	21.70	572.65
Block Panchayats(BPs)	375.67	35.19	30.40	441.26
Grama Panchayats(GPs)	992.58	592.12	534.93	2119.63
Total	**2062.61**	**1039.45**	**757.89**	**3859.95**

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

- **Short release of Funds:** Against ₹ 189.56 crore to be transferred to GPs as 10th instalment of Development Expenditure Fund, the amount actually released by the Government was only ₹ 57.16 crore, resulting in short release of ₹ 132.40 crore. Government stated that there was a mistake in the amount included in the statement appended to the Government order releasing 10th instalment of the GP share.

- **Delayed release of funds:** 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 was required to transfer fund on the first working day of the month. Audit noticed that there was delay ranging from ten to 58 days in transferring funds, in 14 out of 32 transfer credits[8] made during 2012-13. Delayed transfer of funds has the effect of rush of expenditure at the fag end of the year/ non-utilisation of the entire fund during financial year itself.

- **Delay in issuing Letters of Authority:** There were delays in issuing Letters of Authority to LSGIs by the Controlling Officers. Delays ranging from ten to 142 days were noticed in 94 out of 128 instalments of LSGI funds released during 2012-13. This included 54 instances where the delay was more than one month. The delay in issuing Letter of Authority has an adverse impact on the implementation of projects formulated by LSGIs.

- **Non-release of full amount to LSGIs:** Supplementary Nutrition Programme (SNP) is being implemented by LSGIs utilising Development Expenditure Fund. 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. Despite being reported earlier in paragraphs 2.1.1.1 and 2.1.1.2 of the Reports of the Comptroller and Auditor General of India for the years ended March 2011 and

[8] Transfer of funds (Development Expenditure Fund in ten equal monthly instalments from May to February, Maintenance Expenditure Fund in ten equal monthly instalments from April to January and General Purpose Fund in twelve equal monthly instalments from April to March) from the Consolidated Fund to Public Account.

March 2012 about the non-release of full amount reimbursed by GOI to LSGIs under SNP, the irregularity continued in 2012-13 also. As at the end of March 2013, the Social Welfare Department had received ₹ 64.76 crore from GOI towards reimbursement of expenditure on SNP fund against which the Social Welfare Department transferred only ₹ 35.98 crore to LSGIs. The Department utilised ₹ 1.65 crore for another scheme, *viz.*, Wheat Based Nutrition Programme and retained (October 2013) the balance amount of ₹ 27.13 crore (42 *per cent*).

- **Deduction from allocation due to short utilisation:** As per the Government Order, LSGIs were to utilise at least 70 *per cent* of the allocation for 2010-11 under Development Expenditure Fund and Maintenance Expenditure Fund, failing which the unspent amount would be deducted from the budget allocation for 2012-13. Audit noticed that ₹ 229.19 crore was deducted (Development Expenditure Fund: ₹ 181.68 crore; Maintenance Expenditure Fund: ₹ 47.51 crore) from budget allocation for 2012-13, due to short utilisation of fund during 2010-11.

- **Irregular deduction from Development Expenditure Fund:** Development Expenditure Funds are provided to LSGIs for implementation of schemes proposed by them under the decentralized planning programme. Diversion of this fund to meet non-Plan expenditure is prohibited. However, during 2012-13, the Controlling Officers under the direction of Government, deducted ₹ 9.82 crore from Development Expenditure Fund and remitted the same to the Information Kerala Mission towards charges for technical support. Routine and non-plan expenditure should have been met from either Own Fund or General Purpose Fund. Utilisation of Development Expenditure Fund for routine non-plan expenses was not in order.

(iv) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2008-09 to 2012-13 are given in **Table 2.4**.

Table 2.4: State Plan Outlay vis-à-vis Development Expenditure Fund of LSGIs

(₹ in crore)

Year	State Plan Outlay	Development Fund of LSGIs	Percentage of Development Fund of LSGIs to State Plan Outlay
2008-09	7700.47	1670.23	21.69
2009-10	8920.00	1842.29	20.65
2010-11	10025.00	2277.72	22.72
2011-12	11030.00	2563.76	23.24
2012-13	14010.00	2942.02	21.00
Total	**51685.47**	**11296.02**	**21.86**

Development Fund devolved to LSGIs constituted 21 *per cent* of the State Plan outlay for the year 2012-13, while it was 23.24 *per cent* during 2011-12.

2.1.1.3 Receipts from GOI

The category-wise release of fund by GOI during 2012-13 is given in **Table 2.5.**

Table 2.5: Category-wise release of GOI fund

Category	Amount (₹ in crore)
Thirteenth Finance Commission grant[9]	591.16
Additional Central Assistance for Externally Aided projects for KLGSDP	288.25
ADB assisted KSUDP	100.00
Centrally Sponsored Schemes	1603.36
Total	**2582.77**

GOI grant for implementation of CSSs:

The GOI provided grants amounting to ₹ 1603.36 crore to LSGIs for implementation of eight flagship CSSs. The grants were provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/ Poverty Alleviation Units (PAUs), etc. The details of GOI grants transferred to LSGIs for implementation of CSSs during 2012-13 are given in **Table 2.6**.

Table 2.6: Release of GOI grant for CSSs during 2012-13

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)	49.97
		Basic Services to the Urban Poor (BSUP)	7.45
2	Directly to State Level Nodal Agencies	Integrated Housing and Slum Development Programme (IHSDP)	18.80
		National Rural Livelihood Mission (NRLM)	35.86
		Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	26.35
3	Directly to Poverty Alleviation Unit	Indira Awaas Yojana (IAY)	153.44
		Integrated Wasteland Development Programme (IWDP)/ Hariyali	0.31
4	By online transfer to the Joint Bank Account of District Programme Co-ordinator and Joint Programme Co-ordinator	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	1311.18
Total			**1603.36**

[9] Up to 2010-11, Grants to LSGIs by Central Finance Commission were subsumed in the Development Funds devolved by the State Government. From 2011-12 onwards the Central Finance Commission Grants are released in a separate stream *viz.*, General Basic Grant, General Performance Grant, General Performance Grant forfeited by non-performing States

The State Government provided ₹ 107.61 crore as its share for implementation of CSSs. Thus, the total fund for implementation of CSSs during 2012-13 was ₹ 1710.97 crore. Compared to previous year, the GOI grant for implementation of CSSs during 2012-13 was ₹ 284.55 crore more. Substantial increase was noticed in the release of funds for MGNREGS (₹ 360.13 crore) followed by NRLM (₹ 34.86 crore) in 2012-13 over the previous year.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax[10] and non-tax revenue[11] collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994 (KPR Act)/Kerala Municipality Act, 1994 (KM Act) 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 the Government as envisaged in the Act. All LSGIs were requested by audit to furnish the details of own revenue in pro forma and as per the details furnished by the 1209 LSGIs, the own revenue amounted to ₹ 1260.61 crore. Following points were noticed in the mobilization of own revenue:

(i) The basis for calculation of Property tax has been changed from annual value to plinth area of buildings with effect from October 2009 through an amendment in Kerala Municipality Act, 1994 (KM Act) and Kerala Panchayat Raj Act, 1994 (KPR Act). However, the new methodology for assessment which was expected to bring in a greater degree of transparency and enhanced collection has not been brought into effect till date (December 2013).

(ii) Fourth State Finance Commission had recommended creation of a GIS[12] based database for Property tax assessment procedure which is successfully implemented in various Indian cities. This has not been implemented by any of the LSGIs.

2.1.1.5 Loans availed by LSGIs

As per provisions of Kerala Local Authorities Loans Act, 1963, LSGIs raise loans from KURDFC, Co-operative Banks, HUDCO[13], etc. **Table 2.7** gives the details of loans availed by LSGIs during 2012-13.

Table 2.7: Loans availed during 2012-13

Source of loan	Loan availed during 2012-13 (*₹ in crore*)
State Government	1.20
Co-operative Banks (EMS housing scheme)	0
HUDCO	0.83
KURDFC	8.24
Total	**10.27**

[10] Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.
[11] License fee, Registration fee, etc.
[12] Geographic Information System
[13] Housing and Urban Development Corporation Limited

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure is composed of expenditure on Productive Sector[14], Infrastructure Sector[15], Service Sector[16] and other expenditure[17]. As per the details obtained from the LSGIs and the Controlling Officers/IKM, the total expenditure incurred by LSGIs during 2012-13 amounted to ₹ 6705.23 crore.

Table 2.8 below shows the composition of application of resources of LSGIs on these components for the period from 2008-09 to 2012-13.

Table 2.8: Application of resources

(₹ in crore)

Sector	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Productive Sector	443.94	511.49	447.69	595.77	355.82	2354.71
Infrastructure Sector	589.58	656.11	936.05	1343.41	1528.58	5053.73
Service Sector	1463.55	1842.91	2139.26	2306.59	2182.48	9934.79
Total Development Expenditure	**2497.07**	**3010.51**	**3523.00**	**4245.77**	**4066.88**	**17343.23**
Other Expenditure	1951.94	2125.96	1798.26	2618.88	2638.35	11133.39
Total Expenditure	**4449.01**	**5136.47**	**5321.26**	**6864.65**	**6705.23**	**28476.62**
Percentage of Development Expenditure to Total Expenditure	**56.13**	**58.61**	**66.21**	**61.85**	**60.65**	**60.90**

Source: Details furnished by IKM/LSGIs

There was fall in the percentages of Development Expenditure to total expenditure during the period 2010-11 to 2012-13. The fall in the ratios reflects deceleration in the commitment of LSGIs to sustain the growth momentum.

The investments in Productive sector during 2012-13 registered the lowest of all the values during the five year period 2008-09 to 2012-13. Further, the amount spent for Productive sector accounted for only 8.75 *per cent* of the total Development Expenditure during 2012-13 and 13.58 *per cent* of the total Development Expenditure during the last five years 2008-09 to 2012-13, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, etc.

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 (*viz*., 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.

[14] Agriculture, Animal husbandry, Diary Development, Fisheries, Minor Irrigation, etc
[15] Buildings, bridges, roads and other infrastructure
[16] Water supply, education, health, energy, etc.
[17] Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

Out of ₹ 2413.04 crore[18] available for implementation of CSSs, substantial portion of the funds amounting to ₹ 450.78 crore was lying unspent with Kudumbashree (₹ 99.49 crore), PAU (₹ 144.44 crore), and KSUDP (₹ 206.85 crore), thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Out of ₹ 1962.26 crore released, the expenditure incurred by LSGIs was ₹ 1489.73 crore (76 *per cent*). The balance amount of ₹ 472.53 crore remained unutilised with LSGIs. Thus, out of the total amount of ₹ 2413.04 crore available for utilisation under CSSs, ₹ 923.31 crore was remaining unutilised with various agencies. Unutilised fund mainly related to IAY (₹ 239.48 crore), JNNURM (₹ 208.77 crore), UIDSSMT (₹ 182.60 crore) MGNREGS (₹ 58.43 crore), SJSRY (₹ 55.89 crore), IHSDP (₹ 44.35 crore) and NRLM (₹ 42.42 crore).

2.1.2 Poor implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 185122 projects with a total outlay of ₹ 8594.97 crore during 2012-13. Of these, the LSGIs had taken up 131294 projects (70.92 *per cent*) for implementation and had spent ₹ 4066.88 crore on the projects. Of the projects taken up for implementation, only 104352 projects (79.48 *per cent*) were completed during 2012-13 at a cost of ₹ 3072.44 crore. The details are given in **Table 2.9**.

Table 2.9: Details of projects taken up and expenditure incurred

Type of LSGI	Number of projects				Amount (*₹in crore*)				Percentage of expenditure on projects taken up to total outlay of projects formulated
	Formulated	Taken up	Completed	Abandoned	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	Expenditure on projects abandoned	
Grama Panchayat	144648	103794	84666	2891	4584.50	2442.74	1979.31	32.61	53.28
Block Panchayat	12843	9732	7998	236	1389.21	575.73	417.82	1.40	41.44
District Panchayat	9014	5412	3515	68	1107.31	450.57	298.85	0.18	40.69
Municipality	13887	9616	6748	126	832.68	353.58	250.66	4.66	42.46
Corporation	4730	2740	1425	29	681.27	244.26	125.80	0.02	35.85
Total	**185122**	**131294**	**104352**	**3350**	**8594.97**	**4066.88**	**3072.44**	**38.87**	**47.32**

With reference to the outlay of projects formulated, the percentage utilisation of fund was only 47.32. The largest shortfall in implementation of projects was noticed in Corporations, followed by DPs. While there was a positive trend in utilisation of funds by the GPs compared to 2011-12, all the other tiers of LSGIs registered shortfall in utilisation of funds for implementation of projects.

Data furnished by 1209 LSGIs revealed that 3350 projects were abandoned by the LSGIs during 2012-13, after incurring expenditure of ₹ 38.87 crore. Of the total wasteful expenditure on abandoned projects, 58.2 *per cent* relate to Service Sector projects such as Solid Waste Management, Housing schemes, construction of

[18]The funds retained by the Nodal agencies in 2011-12 was not furnished as the OB during the year 2012-13.

toilets, Health and sanitation/drinking water schemes, plastic recycling plant, Biogas installation etc., which, if implemented effectively, would have resulted in enhancement of living standards of rural population. The LSGIs attributed the reasons for abandonment of projects to lack of time, delay in execution, non-receipt of BP share of funds, reluctance of contractors to take up work, non-receipt of permission from concerned Departments, etc.

2.1.3 High establishment costs in LSGIs

The LSGIs were required to meet the expenses towards establishment (including salaries) from Own revenue/General Purpose Fund. Against the total fund of ₹ 2018.50 crore available under Own Fund and General Purpose Fund, the LSGIs incurred ₹ 2638.35 crore towards establishment expenses during 2012-13. The excess expenditure of ₹ 619.85 crore over the available fund was met from the Development Expenditure Fund. Diversion of 30.05 *per cent* of Development Expenditure Fund had an adverse impact on the implementation of the plan projects by LSGIs.

2.1.4 Misappropriation, loss, defalcation, etc.

The Kerala Financial Code stipulates that each Drawing and Disbursing Officer should report all cases of loss, theft or fraud to the Principal Accountant General and 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 misappropriations, losses, theft and fraud is not available with the Government.

Table 2.10 shows the details of misappropriation/defalcation reported to the Director of Urban Affairs, Commissioner of Rural Development, Project Director of KSUDP and Director of Panchayats.

Table 2.10: Misappropriation, loss, defalcation

Name of LSGIs	Amount (₹ in lakh) (Number of cases in bracket)					Total
	2008-09	2009-10	2010-11	2011-12	2012-13	
Corporations	1.42(1)	0.42(1)	0.59(1)	0.82(1)	1.52(3)	4.77 (7)
Municipalities	--	--	3.92(1)		--	3.92 (1)
Block Panchayats	16.82(6)	15.72(9)	16.58(5)	22.14(5)	92.36(1)	163.62 (26)
Grama Panchayats	4.43(5)	4.48(6)	0.90(2)	1.13(3)	1.57(3)	12.51 (19)
KSUDP	--	--	--	13.78(2)	--	13.78 (2)
Total						198.60 (55)

2.2 Legal frame-work for maintenance of accounts

According to Section 215 of KPR Act, 1994 and Section 295 of KM Act, 1994, LSGIs are to prepare annual accounts every year. The Government has issued new accounting rules for ULBs[19] in 2007 and for PRIs[20] in 2011. The accrual based

[19] Kerala Municipal Accounts Rules, 2007
[20] Kerala Panchayat Raj (Accounts) Rules, 2011

double entry accounting system has been introduced in all the LSGIs as of March 2013.

The Government developed accounting software 'Saankhya' for the introduction of accrual based accounting in LSGIs. Some of the deficiencies noticed in Saankhya are mentioned below:

- Non-provision of facility for comparing the accounts of a particular year with previous years' figures
- No provision for generating Utilisation Certificates
- Audit Module is not available
- Absence of interface between PRIA Soft[21] and Saankhya

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. Shortcomings in the financial administration of LSGIs are mentioned below:

2.3.1 Budget

As per KPR Act and KM Act, the budget proposals containing detailed estimate of income and expenditure were to be placed by the Standing Committee for Finance before the LSGI not later than the first week of March.

Though the LSGIs passed the budget before the beginning of the year, there was delay in presentation of budget by 58 (46 GPs, seven BPs, two Municipalities, two DPs and one Corporation) out of 110 LSGIs test- checked. As a result, the budget proposals were not discussed adequately and subjected to detailed deliberations, in the respective Panchayats/Councils. Further the budget prepared by 31 LSGIs (28 GPs, one BP, two Municipalities) were unrealistic as there were wide variations of estimated receipts and expenditure with the actual (**Appendix III**).

2.3.2 Monthly Progress Reports

According to the guidelines issued (April 2006) by the Government for allocation and drawal of funds, each LSGI shall prepare a Monthly Progress Report (MPR) of Expenditure for obtaining funds for subsequent month. MPR is to indicate budget provision, up to date allotment and expenditure and percentage of expenditure to allotment. LSGIs are required to forward the MPRs to designated authorities (*viz.,* 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 the Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs respectively by the 15th day of the month. These state level

[21] Panchayat Raj Institutions Accounting Software

authorities are then required to prepare State-wise consolidated progress reports of expenditure and forward them to the Secretary to Government, LSGD and to the Secretary, Finance (Expenditure) Department by 20th of the month. DPs and Corporations are required to forward their MPRs by the 10th of the succeeding month to the Secretary to Government, 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.

Mention was made in paragraph 2.3.1 of the Reports of the Comptroller and Auditor General of India for the years ended March 2011 and March 2012 (Local Self-Government Institutions) about the laxity of the designated authorities in submission of the MPRs. Audit noticed no improvement in the situation for the period 2012-13.

Out of 228 MPRs due from DPs and Corporations during 2012-13, Finance Department had not received any MPRs. But Finance Department continued to allot funds for the subsequent months to DPs and Corporations which did not forward the MPRs, in contravention of its own orders.

On a scrutiny of MPRs submitted by DPs and Corporations to LSGD, Audit noticed that out of 228 reports due during 2012-13, 61 reports (26.75 *per cent*) only were received, resulting in shortfall of 167.

The Secretary, Finance (Expenditure) Department was to receive 36 consolidated MPRs during 2012-13 from Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs. But the Finance Department has not received any of the MPRs. Laxity in furnishing MPRs by the LSGIs points to the fact that the funds sanctioning authority had not scrupulously observed the responsibility thrust upon them.

2.4 Administration Reports

Every LSGI is required to prepare a report in respect of institutions and offices under its control every year in such form and such details as may be prescribed by the Government. According to Section 192 of the KPR Act, 1994 and Section 63 of KM Act, 1994, the LSGIs were to prepare Administration Reports 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, the Government may withhold the payment of grants due to LSGIs. However, the Government has not nominated any officer to ensure preparation and consolidation of the Administration Reports. Though the Act requires the Government to place the consolidated Administration Report before the Legislative Assembly, it was not done in any year.

2.5 Arrears in accounts

According to Kerala Local Fund Audit Act, 1994 (KLFA Act) it was mandatory for LSGIs to submit their accounts to Director of Local Fund Audit (DLFA) for audit by 31 July every year. Further, Rule 16 of KLFA Rules 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 2013, 416 accounts pertaining to the period from 1997-98 to 2012-13 were in arrears. Of this, 67 accounts relate to 2005-06 and earlier periods.

2.6 Delay in conducting audit

Section 10 of the Kerala Local Fund Audit Act, 1994, lays down that the audit of the accounts prepared and presented shall be completed by DLFA within six months of the date of its presentation. However, delays ranging from three to 49 months were noticed in conducting audit of 13 GPs and three BPs (**Appendix IV**).

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 20216 accounts including 903 accounts which were received before the deadline of 31 July 2013. Of these, Audit Reports were issued in respect of 17768 accounts (October 2013). As at the end of March 2013, the arrears in issue of Audit Reports were 1545 (8 *per cent*).

The KLFA Rules 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 DLFA intends to bring to the notice of the Government. The Committee on Local Fund Accounts deliberates on this report. DLFA's office intimated that such reports had been submitted to the Government up to the year 2012-13 and reports up to the year 2011-12 were presented to State Legislature.

2.7.1 Surcharge and Charge imposed by the DLFA

Section 16(1) of KLFA Act, 1994, empowers the DLFA to disallow any illegal payment and surcharge the person making or authorizing such illegal payment. DLFA can also charge any person responsible for the loss or deficiency of any sum which ought to have been received.

During the period 2008-09 to 2012-13, DLFA had issued 88 charge certificates for ₹ 61.38 lakh and 549 surcharge certificates for ₹ 2.04 crore. Against the total charge/surcharge amount of ₹ 2.65 crore, only ₹ 11.10 lakh were realised (4.19 *per cent*) as shown in **Table 2.11**.

Table 2.11: Realisation of charge/surcharge amount

Year	Charge Certificate		Surcharge Certificate		Amount recovered (₹ in lakh)
	Number	Amount (₹ in lakh)	Number	Amount (₹ in lakh)	
2008-09	18	20.83	111	54.06	1.59
2009-10	23	18.42	164	53.34	2.64
2010-11	37	20.98	223	71.02	2.36
2011-12	5	0.44	28	5.91	1.60
2012-13	5	0.71	23	19.62	2.91
Total	**88**	**61.38**	**549**	**203.95**	**11.10**

The Local Fund Accounts Committee, while examining Chapter I of the Report of the CAG (LSGIs) for the years 2003-04 to 2006-07, had observed (31st Report) that as the Charge and Surcharge issued by the DLFA were not in the name of the officials responsible for the loss, the cases filed in the court got defeated. The Committee had, therefore, recommended (December 2010) that the Secretaries of all LSGIs may be made responsible to keep a register containing the details of names, addresses, posts, period of service, transfers, audit objections etc. of the officials working in the LSGIs. The action taken in this regard has not been furnished to the Committee so far (January 2014).

2.8 Results of Supplementary Audit

The Comptroller and Auditor General of India conducted supplementary audits under Section 20(1) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971 on the accounts of 89 GPs, 14 BPs, four Municipalities, two District Panchayats and one Corporation during the year 2012-13. The findings of such audit are given in subsequent paragraphs.

2.8.1 Quality of Annual Financial Statements

The KPR Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the KM Act, 1994 read with Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the PRIs/ULBs shall prepare Annual Financial Statements (AFS) and forward them to DLFA after approval by the Panchayat/Municipal Council/Corporation Council not later than 31 July/31 May/31 May respectively of the succeeding year. Audit noticed that in six GPs, one BP and one Municipality there was delay ranging from two to 43 months in forwarding the AFS to DLFA (**Appendix V**). Deficiencies noticed in the AFS submitted to DLFA are mentioned below.

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 AFS were not prepared and submitted by 14 GPs, three BPs and one District Panchayat (**Appendix IV**). Non-preparation of the statements forming part of the AFS resulted in non-providing of detailed analysis of the figures incorporated in the AFS.

The AFS of three BPs, two Municipalities and one Corporation did not contain all transactions (**Appendix IV**). This led to understatement of receipts and expenditure of the LSGIs.

In four GPs and one BP, opening balance given in the AFS did not agree with figures of closing balance given in AFS of previous year (**Appendix IV**).

In eight GPs, four BPs and one Municipality opening balance / closing balance of AFS did not agree with the opening balance / closing balance of cash book for the period 2005-06 to 2010-11(**Appendix VI**).

2.8.2 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 of every month. Monthly Accounts were not prepared in 32 GPs and three BPs (**Appendix VII**).

2.8.3 Stock verification

Physical verification of stock was not done by 17 GPs, one Municipality, one DP and one BP (**Appendix VIII**).

2.8.4 Maintenance of primary financial records

(a) Cash Book

Guidelines for maintenance of Panchayat accounts and Municipal Accounting Manual issued by the 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 was to be made. Supplementary audit revealed the following deficiencies in the maintenance of cash book by the LSGIs listed in **Appendix IX.**

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 45 GPs and five BPs.
- Daily closing of cash book was not carried out by 24 GPs, three BPs and two Municipalities. In 37 GPs, the daily closing of cash book was not certified.
- Monthly closing of cash book was not carried out by 20 GPs, four BPs and three Municipalities. Seven LSGIs (three GPs, two BPs and two Municipalities) did not close the cash book annually.
- 10 GPs and one BP did not certify the monthly closing of the cash book.
- 16 GPs, six BPs and one Corporation did not reconcile the cash book balance with pass book balance.
- Physical verification of cash was not done in 47 GPs, five BPs and one DP and two Municipalities.
- A monthly abstract was to be prepared on the last working day of the month showing the details of closing balance of cash, treasury and bank account during the month. Five GPs and one Municipality did not prepare such monthly abstract.
- In 40 GPs, three BPs and one Municipality the functional classification of receipt and expenditure were not recorded in the cash book.

(b) Register of Advances

Guidelines for maintenance of Panchayat accounts stipulates that all advances paid are to be recorded in the Register of Advances. Five GPs and one BP did not maintain Register of Advances. In seven GPs, three Municipalities and one Corporation the advance register maintained was incomplete (**Appendix VIII**). Non-maintenance/ improper maintenance of Advance Register could lead to deficient monitoring and adjustment of advances.

(c) Deposit Register

As per paragraph 3.37 of the Government order of June 2003 which prescribed the Accounting Format of Panchayats, each institution has to maintain Deposit Register to watch the receipts as well as adjustment of deposits. The procedures prescribed for the maintenance of Advance Registers were to be followed in the maintenance of Deposit Register. One BP and one GP did not maintain Deposit Register. Maintenance of Deposit Register was incomplete in one Corporation, one BP, two Municipalities and eight GPs (**Appendix VIII**).

(d) Asset Register

Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipal Accounts Manuals and Government Order (December 2005) stipulate that each LSGI should maintain records of assets owned by it. Two GPs, one BP and one DP did not maintain Asset Register. The Asset Register maintained by 23 GPs, two BPs, one Municipality and one Corporation (**Appendix VIII**) was incomplete. Non-maintenance/improper maintenance would have adverse impact on physical verification and proper inventorisation of the assets. Shortcomings in the management of assets have been included in Chapter III of this report.

2.9 Conclusion

Though there has been steady improvement in investments in Infrastructure and Service sectors (except during 2012-13) which is a positive development, the amount spent in Productive sector like Agriculture, Animal Husbandry, Fishing, etc., registered the lowest of all values during the five year period 2008-09 to 2012-13 and there was increase in other expenditure like salaries, honorarium, contingency expenditure, etc. The Development Expenditure Fund released to the GPs was short by ₹ 132.40 crore due to mistake. With reference to the cost of the projects formulated, the percentage utilisation of funds in the LSGIs was only 47.32. The largest shortfall in the implementation of the projects was noticed in Corporations. There were shortcomings in the financial administration like budget preparation, submission of monthly progress reports, preparation of monthly accounts, etc.