

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. During 2013-14, out of total funds devolved to LSGIs, State grants constituted 64 *per cent*, GOI grant 24 *per cent* and own funds including loans constituted 12 *per cent*.

2.1.1.1 Resources: Trends and Composition

The composition of resources¹ of LSGIs for the period 2009-10 to 2013-14 is given in **Table 2.1**.

Table 2.1: Time series data on resources of LSGIs

Resources	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Own Revenue:						
(i) Tax Revenue	450.76	952.97 ²	561.79	661.01	662.78	
(ii) Non -Tax revenue	377.43		376.69	599.60	640.43	
Total Own Revenue	828.19	952.97	938.48	1260.61	1303.21	5283.46
State Fund:						
(i) Traditional Functions	399.31	440.47	644.98	757.89	900.15	3142.80
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	448.04	440.58	713.94	1039.45	1386.50	4028.51
(iii) Expansion and Development	1842.29	2277.72	2021.52	2062.61 ³	2701.75	10905.89
(iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	840.80	1358.24	1358.45	1865.73	2069.48	7492.70
Total State Fund	3530.44	4517.01	4738.89	5725.68	7057.88	25569.90
GOI grants:						
(i) Centrally Sponsored Schemes	832.49	1163.79	1280.72	1603.36	1607.00	6487.36
(ii) Development and expansion	622.84	979.41	993.94	2596.19
Total GOI grant	832.49	1163.79	1903.56	2582.77	2600.94	9083.55
Receipts from loans & other sources:						
Loans	72.35	812.36	39.16	10.27	17.52	951.66
Total Receipts	5263.47	7446.13	7620.09	9579.33	10979.55	40888.57

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

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

- During the five year period 2009-14, the increase in total receipts of the LSGIs was 109 *per cent*. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 63, 22 and 13 respectively.
- The share of GOI grant to total receipts increased from 16 *per cent* in 2009-10 to 24 *per cent* in 2013-14.
- The share of State grant to the total receipts decreased from 67 *per cent* in 2009-10 to 64 *per cent* in 2013-14.

Surrender of funds for State Sponsored Schemes/Centrally Sponsored Schemes

Out of ₹2281.44 crore allotted by the State Government during 2013-14 under ten heads⁴, ₹387.67 crore was surrendered (**Appendix I**). The major surrender was noticed under the major heads 2217- Urban Development (91.95 *per cent*), and 2230 – Labour and Employment (67.93 *per cent*). More than 50 *per cent* of the allotment made under Urban Development was being surrendered continuously for the last four years.

Audit further noticed that the entire funds allotted under Urban Development for implementation of projects for solid waste management, sewerage, drinking water supply were surrendered.

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 2013-14, 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 2013-14 (₹ 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	5054.04	Routed through Public Account

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

⁵ Kerala Local Government Service Delivery Project

⁶ Asian Development Bank

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2013-14 (₹ in crore)	Release mechanism
		3054-Roads and Bridges	928.30	
Total			5982.34	
2	State Sponsored Schemes	10 Major Heads	1893.77	Routed through State Level Nodal Agencies ⁷ / Poverty Alleviation Units
3	State share of CSSs	4 Major Heads	175.71	
Grand total			8051.82	

(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 2013-14.

Table 2.3: Release of fund by Government under different categories during 2013-14

(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Total
Corporations	209.01	107.86	117.72	434.59
Municipalities	238.61	147.68	83.96	470.25
District Panchayats (DPs)	474.93	283.53	25.76	784.22
Block Panchayats (BPs)	478.92	48.94	36.48	564.34
Grama Panchayats (GPs)	1300.28	798.49	636.23	2735.00
Total	2701.75	1386.50	900.15	4988.40

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

- **Funds not credited to Public accounts:** The Finance Department was required to transfer funds from the Consolidated Fund to Public Account on the first working day of the month. Audit noticed that ₹299.87 crore released in August 2013 as fifth instalment of Development Expenditure Fund was not credited in the Public Account.

Government stated that the amount was not credited due to oversight.

⁷ Kudumbashree, KSUDP, Suchitwa Mission

- **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. There was delay ranging from ten to 41 days in transferring funds, in nine out of 32 transfer credits⁸ made during 2013-14. 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 56 days were noticed in 72 out of 128 instalments of LSGI funds released during 2013-14. The delay in issuing Letter of Authority has an adverse impact on the implementation of projects formulated by LSGIs.
 - **Deduction from allocation due to short utilisation:** As per the Government Order, LSGIs were to utilise at least 60 *per cent* of the allocation for 2011-12 under Development Expenditure Fund and Maintenance Expenditure Fund, failing which the unspent amount would be deducted from the budget allocation for 2013-14. Audit noticed that ₹37.82 crore was deducted (Development Expenditure Fund: ₹10.24 crore; Maintenance Expenditure Fund: ₹27.58 crore) from budget allocation for 2013-14, due to short utilisation of fund during 2011-12.
 - **Lapse of Performance Grant:** Performance Grant is provided as untied fund to GPs and Municipalities as part of Kerala Local Government Service Delivery Project (KLGSDP) to enhance their development spending in areas of public services including maintenance of assets. The release of the grant requires the LSGIs to follow certain fiduciary and procedural norms. From 2013-14 onwards, the LSGIs were expected to meet a set of Minimum Mandatory Conditions (MMC) pertaining to planning, budgeting, accounting, financial reporting and accountability etc., assessed annually through a set of performance criteria. Audit noticed that 21 Municipalities and 80 GPs did not satisfy MMC, resulting in lapse of Performance Grant amounting to ₹40.95 crore out of ₹310.96 crore allocated.
- (iv) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2009-10 to 2013-14 are given in **Table 2.4**.

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

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
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
2013-14	17000.00	3645.69	21.45
Total	60985.00	13271.48	21.76

Development Fund devolved to LSGIs constituted 21.45 *per cent* of the State Plan outlay for the year 2013-14 while it was 21 *per cent* during 2012-13.

2.1.1.3 Receipts from GOI

The category-wise release of fund by GOI during 2013-14 is given in **Table 2.5**.

Table 2.5: Category-wise release of GOI fund

Category	Amount (₹ in crore)
Thirteenth Finance Commission grant ⁹	673.93
Additional Central Assistance for Externally Aided projects for KLGSDP	270.01
ADB assisted KSUDP	50.00
Centrally Sponsored Schemes	1607.00
Total	2600.94

GOI grant for implementation of CSSs:

The GOI provided grants amounting to ₹1607 crore to LSGIs for implementation of nine 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 2013-14 are given in **Table 2.6**.

⁹Up 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

Table 2.6: Release of GOI grant for CSSs during 2013-14

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)	00
		Basic Services to the Urban Poor (BSUP)	00
2	Directly to State Level Nodal Agencies	Integrated Housing and Slum Development Programme (IHSDP)	11.78
		National Rural Livelihood Mission (NRLM)	24.22
		National Resource Organisation (NRO)	3.01
		Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	30.46
3	Directly to Poverty Alleviation Unit	Indira Awaas Yojana (IAY)	217.42
		Total Sanitation Campaign (TSC)	43.01
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)	1277.10
Total			1607.00

The State Government provided ₹175.71 crore as its share for implementation of CSSs. Thus, the total fund for implementation of CSSs during 2013-14 was ₹1782.71 crore.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax¹⁰ and non-tax revenue¹¹ 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 funds are not compiled and consolidated by the Government as envisaged in the Act. As per the details furnished by Information Kerala Mission, own revenue of 1209 LSGIs amounted to ₹1303.21 crore. Various shortcomings in assessment and collection have been included in paragraph 3.1 of this report.

¹⁰ Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.

¹¹ Licence fee, Registration fee, etc.

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, HUDCO¹² etc. **Table 2.7** gives the details of loans availed by LSGIs during 2013-14.

Table 2.7: Loans availed during 2013-14

Source of loan	Loan availed during 2013-14 (₹ in crore)
State Government	2.44
KURDFC	15.08
Total	17.52

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure composed of expenditure on Productive Sector¹³, Infrastructure Sector¹⁴, Service Sector¹⁵ and other expenditure¹⁶. As per the details obtained from the LSGIs and the Controlling Officers/IKM, the total expenditure incurred by LSGIs during 2013-14 amounted to ₹8151.96 crore.

Table 2.8 below shows the composition of application of resources of LSGIs on these components for the period from 2009-10 to 2013-14.

Table 2.8: Application of resources

Sector	(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Productive Sector	511.49	447.69	595.77	355.82	459.24	2370.01
Infrastructure Sector	656.11	936.05	1343.41	1528.58	2684.02	7148.17
Service Sector	1842.91	2139.26	2306.59	2182.48	2945.85	11417.09
Total Development Expenditure	3010.51	3523.00	4245.77	4066.88	6089.11	20935.27
Other Expenditure	2125.96	1798.26	2618.88	2638.35	2062.85	11244.30
Total Expenditure	5136.47	5321.26	6864.65	6705.23	8151.96	32179.57
Percentage of Development Expenditure to Total Expenditure	58.61	66.21	61.85	60.65	74.70	65.06

Source: Details furnished by IKM/LSGIs

Though there has been steady improvement in investments in infrastructure and service sector (except for 2012-13) the amount spent on Productive sector was not

¹² Housing and Urban Development Corporation Limited

¹³ Agriculture, Animal husbandry, Dairy Development, Fisheries, Minor Irrigation, etc

¹⁴ Buildings, bridges, roads and other infrastructure

¹⁵ Water supply, education, health, energy, etc.

¹⁶ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

encouraging. The amount spent for Productive sector accounted for only 7.54 *per cent* of the total Development Expenditure during 2013-14 and 11.32 *per cent* during the last five years 2009-10 to 2013-14, indicating that the LSGIs had given low priority to Productive sector like Agriculture, Animal Husbandry, Fishing, Industries, etc.

2.1.1.7 Public investment in social sector and rural development through major Centrally Sponsored Schemes

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.

Out of ₹2281.32 crore¹⁷ available for implementation of CSSs, substantial portion of the funds amounting to ₹352.33 crore was lying unspent with Kudumbashree (₹104.36 crore), PAU (₹181.52 crore), and KSUDP (₹66.45 crore), thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Out of ₹1928.99 crore released, the expenditure incurred by LSGIs was ₹1364.24 crore (70.72 *per cent*). The balance amount of ₹564.75 crore remained unutilised with LSGIs. Thus, out of the total amount of ₹2281.32 crore available for utilisation under CSSs, ₹917.08 crore was remaining unutilised with various agencies. Unutilised fund mainly related to IAY (₹349.04 crore), JNNURM (₹160.29 crore), SJSRY (₹79.90 crore), UIDSSMT (₹71.80 crore), TSC (₹63.49 crore), BSUP (₹48.10 crore), IHSDP (₹36.81 crore), and NRLM (₹28.32 crore).

2.1.2 Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 208558 projects with a total outlay of ₹10681.25 crore during 2013-14. Of these, the LSGIs had taken up 164662 projects (78.95 *per cent*) for implementation and had spent ₹6089.11 crore on the projects. Of the projects taken up for implementation, only 141737 projects (86.08 *per cent*) were completed during 2013-14 at a cost of ₹4981.61 crore. The details are given in **Table 2.9**.

¹⁷The fund retained by the Nodal agencies in 2012-13 was not furnished as the OB during the year 2013-14.

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	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	
Grama Panchayat	163526	131270	115274	5703.69	3644.64	3084.33	63.90
Block Panchayat	12220	10367	9041	1634.22	701.20	616.28	42.91
District Panchayat	10936	6744	4544	1565.53	820.50	615.59	52.41
Municipality	15883	12404	10151	1022.46	569.78	419.60	55.73
Corporation	5993	3877	2727	755.35	352.99	245.81	46.73
Total	208558	164662	141737	10681.25	6089.11	4981.61	57.01

Source: Details furnished by IKM

With reference to the outlay of projects formulated, the percentage utilisation of funds was only 57.01. The shortfall in implementation of projects was noticed in BPs, followed by Corporations.

2.1.3 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)					Total
	(Number of cases in bracket)					
	2009-10	2010-11	2011-12	2012-13	2013-14	
Corporations	0.42(1)	0.59(1)	0.82(1)	1.52(3)	--	3.35 (6)
Municipalities	--	3.92(1)	--	--	1.29(2)	5.21 (3)
Block Panchayats	15.72(9)	16.58(5)	22.14(5)	92.36(1)	0.32(2)	147.12 (22)
Grama Panchayats	4.48(6)	0.90(2)	1.13(3)	1.57(3)	18.33(8)	26.41 (22)
KSUDP	--	--	13.78(2)	--	--	13.78 (2)
Total						195.87 (55)

2.2 Financial, Administrative and 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:

2.2.1 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 48 (35 GPs, seven BPs, four Municipalities, one DP and one Corporation) out of 117 LSGIs test-checked. The budget proposals were not discussed adequately and subjected to detailed deliberations, in the respective Panchayats/Councils. The budgets were passed on the day of its presentation. Further, the budget prepared by 45 LSGIs out of the 117 LSGIs test-checked (36 GPs, four BPs, two DPs and three Municipalities) were unrealistic as there were wide variations of estimated receipts and expenditure with the actuals.

2.2.2 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. 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.

Out of 228 MPRs due from DPs and Corporations and 36 consolidated MPRs from Director of Panchayats, DUA and CRD, LSGD received 63 MPRs/consolidated MPRs and Finance Department received six consolidated MPRs during 2013-14. Finance Department, however, continued to allot funds for the subsequent months to DPs and Corporations which did not forward the MPRs, in contravention of its own orders.

Laxity in furnishing MPRs by the LSGIs points to the fact that the funds sanctioning authority had not performed the responsibility entrusted to them.

2.3 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 2014, 81 accounts pertaining to the period from 1997-98 to 2013-14 were in arrears. Of this, 49 accounts relate to 2005-06 and earlier periods.

2.4 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 20568 accounts including 1532 accounts which were received before the deadline of 31 July 2014. Of these, Audit Reports were issued in respect of 17945 accounts (October 2014). As at the end of March 2014, 1091 (5.73 *per cent*) Audit Reports were not issued.

DLFA attributed the reasons for arrears to taking up special audit as directed by Government.

The KLFA Rules stipulate that the DLFA shall, not later than 30th September every year, send a consolidated report of the accounts audited by him to the Government 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. DLFA's office intimated that such reports had been submitted to the Government up to the year 2013-14 and reports up to the year 2012-13 were presented to State Legislature.

2.4.1 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 2009-10 to 2013-14, DLFA had issued 83 charge certificates for ₹44.13 lakh and 527 surcharge certificates for ₹1.91 crore. Against the total charge/surcharge amount of ₹2.35 crore, only ₹13.29 lakh were realised (5.65 *per cent*).

2.5 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 in respect of the accounts of 81 GPs, 18 BPs, 13 Municipalities, two District Panchayats and three Corporations during the year 2013-14. The findings of such audit are given in subsequent paragraphs.

2.5.1 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 one BP, one DP, four Municipalities and one Corporation, there was delay ranging from one to 16 months in forwarding the AFS to DLFA (**Appendix II**). Deficiencies noticed in the AFS submitted to DLFA are mentioned below.

Demand Collection Balance statements of 15 GPs, one BP and one Municipality were incorrect/incomplete.

The AFS of 32 GPs, seven BPs, one DP, three Municipalities and two Corporations did not contain all transactions.

2.5.2 Preparation of Monthly Accounts

As per Government order about the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare monthly accounts for every month and place the same before the Panchayat Committee/Council at its first meeting held after the 10th day of the succeeding month. Monthly Accounts were not prepared in 24 GPs, five BPs, one DP and two Municipalities.

2.5.3 Stock verification

Physical verification of stock was not done by 16 GPs, two BPs, one Municipality and one Corporation.

2.5.4 Maintenance of primary financial records

(a) Cash Book

Guidelines about 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 III**.

- 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, seven BPs, one DP and one Municipality. Erasure and overwriting were not certified in one DP, five BPs, three Municipalities and 17 GPs.
- The daily closing of cash book was not certified in 19 GPs, three BPs, six Municipalities and one Corporation.
- Monthly closing of cash book was not carried out by seven GPs, four BPs and three Municipalities.
- 10 GPs, two BPs, one DP and four Municipalities did not certify the monthly closing of the cash book.
- 13 GPs, three BPs, one DP, three Municipalities and one Corporation did not reconcile the cash book balance with pass book balance.
- Physical verification of cash was not done in 24 GPs, six BPs, one DP, five Municipalities and one Corporation.
- 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. Two BPs did not prepare such monthly abstract.
- In 17 GPs, four BPs, two Municipalities and one DP, the functional classifications of receipt and expenditure were not recorded in the cash book.

(b) Register of Advances

Guidelines about maintenance of Panchayat accounts stipulate that all advances paid are to be recorded in the Register of Advances. Five GPs, two BPs and one DP did not maintain Register of Advances. In six GPs and one Municipality, the advance register maintained was incomplete. 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 GP, two BPs, two DPs and one Municipality did not maintain Deposit Register. Maintenance of Deposit Register was incomplete in seven GPs and one Municipality.

(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 and one Municipality did not maintain Asset Register. The Asset Register maintained by 16 GPs, four BPs and one Municipality was incomplete. Non-maintenance/improper maintenance of Asset Register would have adverse impact on physical verification and proper inventorisation of the assets.

2.6 Conclusion

During the five year period 2009-14, there was 109 *per cent* increase in total receipts of the LSGIs. Of the total receipts during the five year period, the percentage share of State, Central, Own revenue was 63, 22 and 13 respectively. The amount spent on Productive sector accounted for only 7.54 *per cent* of the total Development Expenditure during 2013-14 and 11.32 *per cent* during the last five years 2009-10 to 2013-14, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries etc. With reference to the cost of projects formulated, the percentage utilisation of funds in the LSGIs was only 57.01. There were shortcomings in the preparation of budget, submission of the Monthly Progress Reports and Preparation of Monthly Accounts.