

OVERVIEW

This Report comprises four chapters of which Chapters I and II contain an overview of organisation, devolution, accountability, finances and financial reporting issues of Local Self-Government Institutions (LSGIs) and comments arising from supplementary audit under the scheme of providing Technical Guidance and Supervision (TGS) arrangement by the Comptroller and Auditor General of India. Chapter III and IV contains three performance/compliance audits and six individual compliance audit paragraphs. Copies of draft performance and compliance audits and compliance audit paragraphs were forwarded to the Government and replies wherever received have been duly incorporated.

Accountability framework, finances and financial reporting issues of LSGIs

Government w.e.f April 2015 dispensed with the system of transferring funds from Consolidated Fund to Public Account. In the newly introduced system, the individual LSGIs can draw directly from the Consolidated Fund based on the allotment received from Government of Kerala (GoK). We noticed that an amount of ₹923.46 crore was allotted between 21 and 26 March 2016. Delayed transfer of funds at the fag end of the year has the effect of rush of expenditure and lapse of fund due to non utilisation. Audit examination of the internal control mechanism in Engineering Wing in six municipalities in Alappuzha district revealed that their internal control mechanism was very weak and inadequate. Also, rules, regulations and orders of Government were not complied with properly. Eventhough GoK in April 2007 directed all Grama Panchayats to prepare a centralized road map connecting highways and major district roads for preparation of a road connectivity plan of the District integrating with the Road Maps of Municipalities and Pradhan Mantri Gram Sadak Yojana (PMGSY), no road map and road connectivity plan was prepared in any of the Municipalities. During the five year period 2011-16, the increase in total receipts of the LSGIs was 96 *per cent*. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 67, 23 and 10 respectively. The amount spent on Productive sector during 2015-16 accounted for only ₹453.78 crore (6.60 *per cent*) of the total Development Expenditure of ₹6872.33 crore, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries etc. Out of ₹4310.13 crore allotted by the State Government to LSGIs during 2015-16 for state sponsored schemes, ₹310.68 crore was surrendered. Entire fund allotted under 2217-Urban Development for implementation of projects to reduce poverty and vulnerability of the urban poor households (National Urban Livelihood Mission) and Modernisation of Slaughter Houses were surrendered.

(Chapters I & II)

IMPLEMENTATION OF ADB AIDED KERALA SUSTAINABLE URBAN DEVELOPMENT PROJECT

Kerala Sustainable Urban Development Project (KSUDP), a ₹1422.50 crore project substantially funded (₹995.40 crore) by the Asian Development Bank (ADB) was aimed at improving the urban environment, economy and living conditions of people in five Municipal Corporations (Corporations) of the State. There were many lapses in the formulation and implementation of the project. In spite of extending the project period to nine years from the original five, the Corporations could utilize only 51.48 *per cent* of the original loan sanctioned. Lapse on the part of Government in not cancelling the loan portion relating to projects which could not be implemented within the specified time also led to payment of commitment charges amounting to ₹43.68 crore to ADB. Cancellation of the component 'Part- C Local Government Infrastructure Improvement' resulted in forgoing \$15 million ADB loan meant for financing infrastructure projects in 53 Municipalities in the State. Out of 74 contract packages taken up for implementation, 15 packages were short closed due to public protest, environmental issues, delay in land acquisition, delay in getting road cutting permissions etc. Though major portion of the expenditure was proposed to be incurred on sewerage projects, the progress of implementation of sewerage projects was very slow and majority of these projects were short closed. Out of ₹573.09 crore utilized for actual implementation of projects, ₹86.77 crore turned out to be unfruitful. Mobilization advances given to contractors amounting to ₹19.46 crore, and interest thereon amounting to ₹6.22 crore relating to short closed/ongoing works were pending recovery. A considerable portion of assets generated as part of implementation were remaining idle and were thus prone to deterioration.

(Paragraph 3.1)

INSTALLATION AND MANAGEMENT OF BIO-GAS PLANTS BY URBAN LOCAL BODIES

The Kerala Municipality Act, 1994 and Municipal Solid Waste (Management and Handling) Rules, 2000 (MSW Rules) entrust the Municipal authorities the responsibility for collection, segregation, storage, transportation, processing and disposal of municipal solid waste. As per these Act and Rules, the ULBs, State Pollution Control Board (SPCB) and District Magistrates/Deputy Commissioners are assigned with specific responsibilities, roles and functions. The Government is encouraging setting up of composting units such as vermin compost, pipe compost, windrow compost, bio-gas plants etc. for the disposal of waste generated in Panchayat/Municipal/Corporation areas. Though the responsibility of management of solid waste is vested with ULBs, due to improper planning, compliance of standards as stipulated in the Rules could not be ensured besides polluting the environment and idling of plants. Crushing of the waste and the absence of skilled man-power for segregation of

waste had made eight plants defunct thereby, the amount spent ₹103.21 lakh for its construction had become infructuous. In the case of installation of house-hold bio-gas plants, six ULBs were unable to achieve even 50 per cent of the proposed target. Further, Kerala State Suchitwa Mission (KSSM) though entrusted with the responsibility of providing technical and financial support to the ULBs, failed to monitor functioning of the plants as well as utilization of funds. This had resulted in blocking up of Government money of ₹670.9 lakh with the ULBs. KSSM also failed to evaluate the performance of the service providers before their continued empanelment.

(Paragraph 4.1)

PROCUREMENT OF GOODS AND SERVICES BY LOCAL SELF GOVERNMENT INSTITUTIONS

Local Self Government Institutions in the course of carrying out various schemes and projects, had to spend a sizeable amount of their funds for procurement of Goods and Services. Kerala Panchayat Raj (KPR) Act, Kerala Municipality (KM) Act, Kerala Stores Purchase Rules and Kerala Panchayat Raj (execution of Public Works) Rules 1997 provide the legal foundation for the procurement system and management in LSGIs. Non preparation of procurement plan by LSGIs led to failure in ensuring actual requirements/rush of purchases towards the fag end of the year. Non compliance with rules and guidelines of procurement of goods led to purchases without tendering, non acceptance of lower offers, non ensuring timely supply, incurring infructuous expenditure etc. Non constitution of Social Audit Committee, absence of complaint redressal mechanism, not resorting to e-tendering indicated lack of transparency in procurement. Instances of overpayments to the Information Kerala Mission (IKM) for the services rendered to LSGIs were also noticed.

(Paragraph 4.2)

Other Compliance Audit Observations

Audit of financial transactions subjected to test check in various LSGIs revealed instances of infructuous/unproductive expenditure, idle investment and other irregularities as mentioned below:

Negligence in the construction of a school building by Alappuzha District Panchayat resulted in its collapse, endangering the lives of students and rendering the expenditure of ₹39.82 lakh spent for its construction and demolition of the remnants unfruitful.

(Paragraph 4.3)

Failure in ensuring supervision of the work by Attappady Block Panchayat led to the stoppage of construction of Agricultural Marketing Complex besides non-achievement of objectives and idle investment of ₹54.48 lakh.

(Paragraph 4.4)

Short assessment of Entertainment Tax (ET) due to non consideration of the actual structures, buildings and area in six amusement parks resulted in loss of revenue of ₹2.07 crore.

(Paragraph 4.5)

Payment of Service Tax from its own funds instead of collecting it from the tenants resulted in loss of ₹27.81 lakh besides avoidable interest of ₹24.07 lakh due to belated filing of declaration of Service Tax by Neyyattinkara Municipality.

(Paragraph 4.6)

Action of Pala Municipality in continuing with the Land Acquisition process despite not having adequate funds led to avoidable wasteful expenditure of ₹40.09 lakh by way of establishment charges

(Paragraph 4.7)

Despite incurring ₹3.86 crore, Kozhikode District Panchayat failed to increase the agricultural production in Kole land as salt water intrusion could not be prevented.

(Paragraph 4.8)