

CHAPTER I

**INTRODUCTION TO THE LOCAL
SELF-GOVERNMENT INSTITUTIONS OF
THE STATE AND ITS AUDIT**

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INTRODUCTION TO THE LOCAL SELF-GOVERNMENT INSTITUTIONS OF THE STATE AND ITS AUDIT

1.1 Introduction

The Seventy-third and Seventy-fourth amendments of the Constitution of India gave constitutional status to Local Self-Government Institutions (LSGIs) and established a system of uniform structure, regular elections and flow of funds. Consequent to these amendments, the State Legislature passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) to enable LSGIs to work as third tier of the Government. In pursuance of Eleventh and Twelfth Schedules introduced through the constitutional amendments, the State entrusted LSGIs with such powers, functions and responsibilities as to enable them to function as institutions of self-government. In order to fulfil the mandate bestowed on them under the Constitution and various laws, LSGIs are required to prepare plans and implement schemes for economic development and social justice, including those listed in the Eleventh and Twelfth Schedules of the Constitution. While the Constitution and the Acts confer autonomy and independent status to the LSGIs within the functional domain, the Local Self Government Department (LSGD) of Government is empowered to issue general guidelines to LSGIs in accordance with the National and State Policies.

1.2 Profile of LSGIs

As of March 2024, Kerala has 1200 LSGIs in the State. This includes 941 Grama Panchayats, 152 Block Panchayats, 14 District Panchayats, 87 Municipalities and six Municipal Corporations. The details of their area, wards/divisions, population, etc., are presented in **Table 1.1**

Table 1.1: Area, Population, Population density and other metrics of LSGIs

Sl. No.	Type of LSGIs	No. of LSGIs	No. of Wards	Area (sq.km)	Population as per 2011 census (in lakh)	Density of population per sq.km.
1	Municipal Corporations	6	414	682.55	31.17	4566.70
2	Municipalities	87	3113	2374.57	45.09	1898.87
3	District Panchayats (DPs)	14	331	35805.39	258.41	721.71
4	Block Panchayats (BPs)	152	2080			
5	Grama Panchayats (GPs)	941	15962			

(Source: *Economic Review 2023 Kerala*)

1.3 Fund flow to LSGIs

The resources of LSGIs consist of Own Revenue viz., Tax and Non-tax revenue, funds devolved by the State Government viz., General Purpose Fund,

Maintenance Fund and Development Fund, Government of India (GoI) grants and loans from State Government and financial institutions. Government of Kerala devolves grants to LSGIs based on the recommendations of State Finance Commissions. The composition of resources of LSGIs for the period 2018-19 to 2022-23 is given in **Table 1.2**.

Table 1.2: Resources of LSGIs

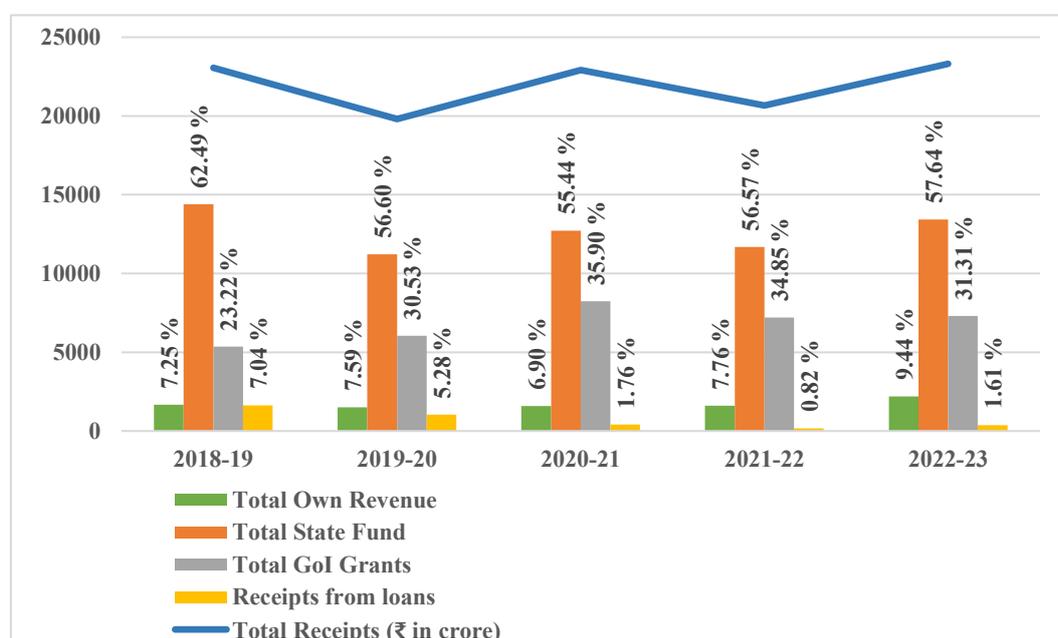
Resources	2018-19	2019-20	2020-21	2021-22	2022-23
Total Own Revenue	1671.77	1504.03	1581.64	1603.47	2200.93
Total State Fund	14405.01	11208.52	12707.78	11684.97	13435.97
Total GoI grants	5351.57	6046.39	8228.34	7197.92	7298.53
Receipts from other sources:					
Loans	1623.14	1045.54	403.80	168.42	375.17
Total Receipts	23051.49	19804.48	22921.56	20654.78	23310.60

(₹ in crore)

(Source: Data collected from Information Kerala Mission, State Finance Commission Cell, Principal Directorate of LSGD, Kerala Urban and Rural Development Finance Corporation (KURDFC), Kerala State Poverty Eradication Mission (Kudumbashree)

The composition of resources of LSGIs for the period 2018-19 to 2022-23 in percentage terms is shown in **Chart 1.1**:

Chart 1.1: Resources of LSGIs



- During 2022-23, of the total receipts, the percentage share of State, Central, Own revenue and receipts from other sources were 57.64, 31.31, 9.44 and 1.61 *per cent* respectively.
- The share of GoI grant to total receipts increased from 23.22 *per cent* in 2018-19 to 31.31 *per cent* in 2022-23.
- The share of State grants to total receipts decreased from 62.49 *per cent* in 2018-19 to 57.64 *per cent* in 2022-23.

Further details of resources of PRIs and ULBs are given in Chapter II and Chapter IV respectively.

1.4 Status of devolution of functions and other important activities undertaken by LSGIs

According to KPR Act and KM Act, it shall be the duty of LSGIs to take care of the requirements of the areas of their jurisdiction in respect of the matters enumerated in the respective Schedule of the Acts and LSGIs shall have the exclusive power to administer the matters enumerated in the Schedules and to prepare and implement schemes relating thereto for economic development and social justice.

The Acts envisaged transfer of functions of various Departments of the Government to LSGIs, together with the staff to carry out the functions transferred. The transfer of functions to different tiers of LSGIs was to be done in such a way that none of the functions transferred to a particular tier overlapped with that of the other.

The Eleventh Schedule of the Constitution contains 29 functions (**Appendix 1.1**) pertaining to the PRIs. Government transferred (September 1995) 26 of these functions to PRIs. Likewise, the Twelfth Schedule of the Constitution includes 18 functions (**Appendix 1.2**) pertaining to ULBs, of which Government has transferred 14 functions. Devolution of functions to PRIs and ULBs are discussed in detail in Chapters II and IV respectively.

As part of administrative or functional decentralisation, Government transferred public service delivery institutions such as schools, dispensaries, public health centres, hospitals, anganwadis, district farms, veterinary institutions, etc. to LSGIs.

Besides the transferred subjects and activities, LSGIs also undertake various Central and State sponsored schemes to implement developmental programmes. All poverty alleviation programmes and welfare pension schemes are also implemented through LSGIs.

1.5 Audit Mandate and Methodology

1.5.1 Audit Mandate

1.5.1.1 Audit by Comptroller and Auditor General of India

The authority for audit by the Comptroller and Auditor General of India (C&AG) is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C&AG's (DPC) Act). Sections 14, 15 and 20(1) of CAG's DPC Act¹ empowers Comptroller and Auditor General of India to conduct audit of the Local Self-Government Institutions (LSGIs) of the State. The principles and methodologies of various types of audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, issued by the C&AG.

¹ Section 14: Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State
Section 15: Functions of CAG in the case of Grants or Loans given to other authorities or bodies
Section 20(1): Audit of accounts of certain authorities or bodies

According to Section 20(1) of CAG's DPC Act and Section 120 of the Regulations on Audit and Accounts, 2020, function of Technical Guidance and Support (TGS) for Audit of LSGIs has been entrusted to C&AG. Government of Kerala entrusted the C&AG, for providing technical guidance and support to Kerala State Audit Department (KSAD), till March 2024.

1.5.1.2 Audit by Primary Audit Institutions (PAIs)

According to Kerala Local Fund Audit Act, 1994 (LFA Act), Kerala Panchayat Raj Act, 1994 (KPR Act) and Kerala Municipality Act, 1994 (KM Act), Director of KSAD is the Statutory Auditor of LSGIs. LFA Act has vested KSAD with necessary powers and responsibilities to conduct audit of accounts of LSGIs. Kerala Local Fund Audit Rules, 1996 (LFA Rules) provide for the manner of conducting the audit, form and contents of the audit reports, procedure for charge and surcharge, etc. The KSAD functions under the administrative control of the Finance Department, Government of Kerala.

According to LFA Rules, LSGIs should prepare Annual Financial Statements (AFS) containing Receipt and Payment Statement, Balance Sheet and Income and Expenditure Statement and present their accounts to KSAD by 31 July of the succeeding financial year. The KSAD should complete the audit of the accounts within six months of receipt of the accounts and issue Audit Report within three months of the date of completion of audit. The KSAD had received accounts pertaining to the year 2022-23 from all the LSGIs by the due date and Audit Reports were issued in respect of all accounts (June 2024).

According to Kerala Local Fund Audit Act (Section 23) and Local Fund Audit Rules (Rule 25), the Director should, 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 Consolidated Audit Report for the year 2022-23 was placed in the Legislature on 31 January 2024. Legislative Committee on Local Fund Accounts examines the Consolidated Audit Reports.

1.5.2 Audit Methodology

1.5.2.1 District-Centric Service Delivery oriented approach to audit

Currently, the Audit Report for LSGIs is focused primarily on the assessment of the quality of the Service Delivery by the Local Self-Government Institutions with respect to the functions devolved to them, and to assess to what extent these services have positively impacted the citizens at the grassroots under their jurisdiction.

This has been attempted by generally adopting a District-centric approach, where the Service Delivery has been assessed horizontally and vertically across all tiers of the LSGIs in a district to arrive at a comprehensive conclusion vis-à-vis the sample units of LSGIs chosen for audit.

Other issues of importance, noticed by Audit across LSGIs, have also been included for necessary remedial action.

Over and above these, large Municipal Corporations have also been audited as standalone entities with respect to their functions, efficiency and compliance issues, wherever applicable.

1.6 Structure of the Report

The report has been organised in following chapters:

- Chapter II - Overview of Panchayat Raj Institutions
- Chapter III - District Centric Audit of Panchayat Raj Institutions
- Chapter IV - Overview of Urban Local Bodies
- Chapter V - Subject-Specific Compliance Audit on Asset Management by Urban Local Bodies
- Chapter VI - Compliance Audit Paragraphs of Urban Local Bodies
- Chapter VII - District Centric Audit of Urban Local Bodies

1.7 Audit Scope and Criteria

The scope of Audit was mainly to analyse (i) the status of devolution of functions and flow of funds to LSGIs (ii) formulation and implementation of projects under SCSP and TSP by LSGIs and (iii) management of assets by ULBs

Audit criteria were mainly derived from the following: -

- Kerala Panchayat Raj Act, 1994
- Kerala Municipality Act, 1994
- Kerala Municipality (Accounts) Rules, 2008
- Kerala Panchayat (Accounts) Rules, 2011
- Kerala Municipality (Acquisition & disposal of property) Rules, 2000
- Manual for Asset Management in Local Self Government Institutions of Kerala, 2017
- State Finance Commission Reports

1.8 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Department of Local Self Government, Government of Kerala, and all test-checked ULBs and PRIs in the smooth conduct of the audit.