

CHAPTER I

THE STRUCTURE AND FINANCES OF THE LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

1.1.1 The Kerala Legislative Assembly passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) in the year 1994. As envisaged in these Acts, the Government transferred (September 1995) to the Local Self Government Institutions (LSGIs) the functions, functionaries, institutions and schemes relating to matters enlisted in the respective Schedules to the Acts with effect from 2 October 1995. Government transferred the assets and liabilities of the transferred institutions also. Though LSGIs were made responsible for the administration of these institutions, they were not empowered to sell, transfer, alienate or pledge the transferred assets. The Government, however, continued to pay the salary of transferred employees.

1.2 Decentralised Planning

1.2.1 As envisaged in the Constitution and the State Acts *ibid* LSGIs were to plan and implement schemes for economic development and social justice. Based on this, Government decided (July 1996) to decentralise the planning process in Kerala during the Ninth Five Year Plan and earmark 35 to 40 *per cent* of the State's annual plan outlay for the projects drawn up by LSGIs. Government designed the decentralised planning process in a campaign mode called People's Plan Campaign with the active participation of all sections of people in the form of Working Groups, Grama/Ward Sabhas and Development Seminars. This initiative of planning from below continued during Tenth Five Year Plan under a different nomenclature viz. 'Kerala Development Plan'. By the end of 2006-07 grass roots level planning by LSGIs completed a decade.

1.3 Profile of LSGIs

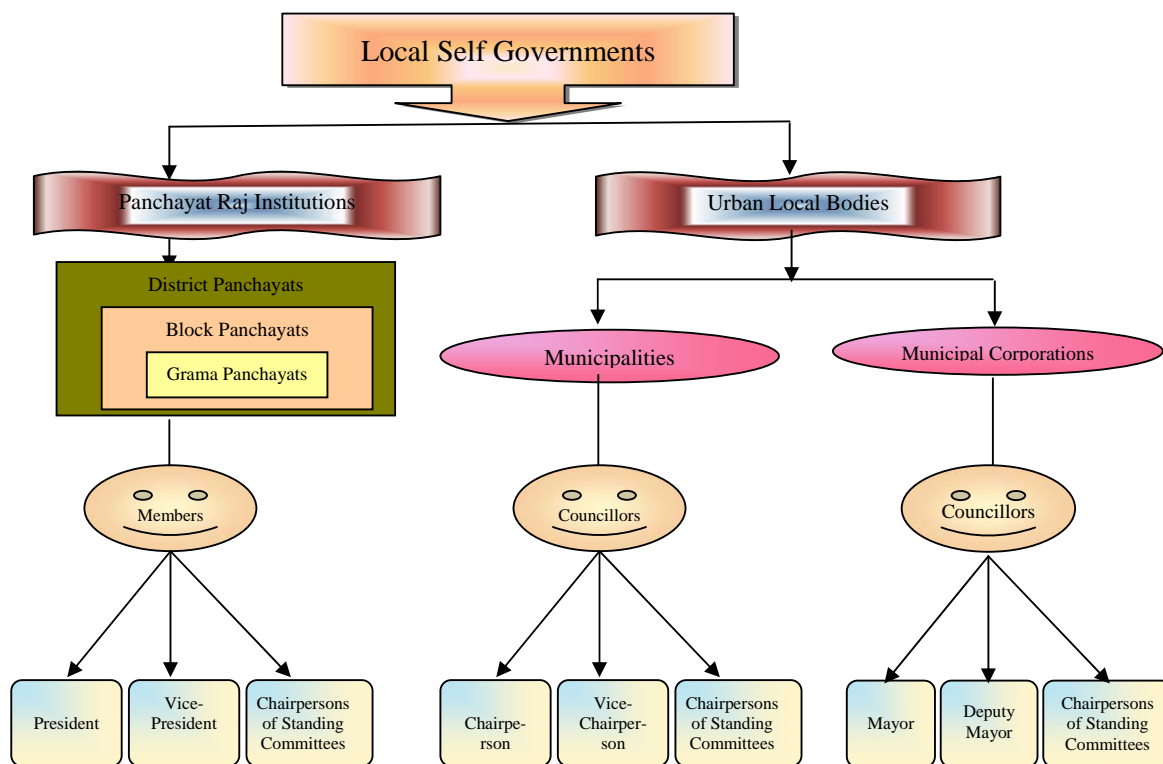
1.3.1 The total number of LSGIs in the State increased from 1215 to 1223 as a result of reorganisation of the Grama Panchayats (GPs) during October 2005. The number of LSGIs of various categories as on 31 March 2006 was as follows.

Sl No	Type of LSGIs	Number	Area (Sq Km)	Average area/LSGI (Sq Km)	Population	Average Population/LSGI	Density of Population
1	Grama Panchayats	999	37123.79	37.16	26647004	26674	718
2	Block Panchayats	152	37123.79	244.24	26647004	175309	718
3	District Panchayats	14	37123.79	2651.70	26647004	1903357	718
4	Municipalities	53	1253.22	23.65	2738170	51664	2185
5	Corporations	5	477.99	95.60	2456200	491240	5139
	Total	1223	38855	31.77	31841374	26035	819

1.3.2 The election to 1223 LSGIs in Kerala was last held in September 2005 when 20554 representatives were elected.

1.4 Organisational Setup

1.4.1 LSGIs constituted in rural and non-rural areas are referred to as Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. LSGIs in the State were constituted based on a three-tier system as shown in the chart below:



The members of each tier in the Panchayats elect the President, Vice President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/Municipal Corporation elect the Chairperson/Mayor, Vice Chairperson/Deputy Mayor and Chairpersons of the Standing Committees.

1.4.2 The President/Chairperson/Mayor is an ex-officio member of every standing Committee and the Vice President/Vice Chairperson/Deputy Mayor is an ex-officio member and Chairperson of the Standing Committee for Finance.

1.4.3 Each PRI has a Secretary and supporting staff who are Government servants. The Secretaries of Municipalities and Municipal Corporations are Government servants while the staff belongs to the Municipal Common Service.

1.5 Regulatory Environment

1.5.1 According to Section 9(1) of the Kerala Local Fund Audit Act, 1994, the LSGIs were required to submit annual accounts to the Director of Local Fund Audit (DLFA) within four months after the completion of the financial year and the audit was to be completed within six months of the receipt of accounts (Section 10 *ibid*). The audited statements of accounts submitted by all LSGIs were to be consolidated by an authorised officer for submission to Government and for placing before the Legislative Assembly. In the previous Report of the CAG, it was pointed out that as against the above provisions, the KPR Act and KM Act required that the annual report as certified by the DLFA should be submitted to the ‘authorised’ officer not later than by 15 May of the following year. Government is yet to take rectificatory action.

1.5.2 Though the Acts provided for authorising an officer for consolidating the accounts of all LSGIs, no officer has been authorised for this purpose.

1.5.3 Delay in submission of Annual Accounts

The position of submission of accounts by the PRIs was quite unsatisfactory during 2004-05 and 2005-06. As of September 2006, 203 PRIs (17.42 *per cent*) out of 1165, submitted their annual accounts for 2004-05 whereas annual accounts for 2005-06 were submitted only by 71 PRIs (6.09 *per cent*). No reason was adduced for the delay. This was indicative of the fact that submission of accounts by the PRIs is not being closely monitored. Consequently, possibility of misappropriation remaining unnoticed cannot be ruled out.

1.5.4 Revised formats for Budget and Accounts of Urban Local Bodies (ULBs) prescribed by CAG, were accepted by the Government in September 2003. Although 3 ½ years have elapsed, no account has been prepared in the new format. No reason was on record for the delay.

1.5.5 Audit issued questionnaires to all PRIs to ascertain how far the utilisation of revised formats for preparation of accounts brought systems improvement. 448 out of 1165 PRIs responded and of these:

- 336 PRIs (75 *per cent*) maintained cash book up to date
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- 233 PRIs (52 per cent) failed to close it daily
- 169 PRIs (38 per cent) maintained register of receipts up to date
- 137 PRIs (31 per cent) maintained payment register up to date
- 69 PRIs (15 per cent) submitted Annual Financial Statements for 2005-06 in time

1.5.6 Government did not frame Rules and Manuals for preparation of budget and accounts in PRIs in tune with the revised accounting formats. This contributed to the poor accounting and financial reporting by PRIs.

1.5.7 Administrative Report of each LSGI is to be prepared every year by 30 September of the succeeding year and forwarded to an officer authorised by the Government for consolidation and submission to the Government and the Legislative Assembly. The Government did not ensure preparation of such a consolidated report by nominating an officer for the purpose.

1.6 Financial Reporting

1.6.1 The DLFA is the primary auditor of the LSGIs. The CAG provides Technical Guidance and Supervision (TGS) for the proper maintenance of accounts and audit of LSGIs under Section 20(1) of CAG's (DPC) Act, 1971. The CAG also conducts audit of LSGIs under the provisions of sections 14 and 15 of the same Act wherever applicable.

1.6.2 The LSGIs are responsible for the timely submission of accounts to DLFA for audit. During 2004-05, the number of accounts submitted by the LSGIs for audit was 1314 (23.59 per cent) out of 5570 due (including arrears) and 820 (14.97 per cent) out of 5479 due during 2005-06 as detailed in the table below:-

Year	Number of accounts due for submission			Number of accounts submitted	Percentage	Number of accounts due for submission at the end of the year
	at the end of previous year	during the year	Total			
1996-97 to 2003-04	8501	1215	9716	5361	55.17	4355
2004-05	4355	1215	5570	1314	23.59	4256
2005-06	4256	1223	5479	820	14.97	4659

The poor percentage of submission of accounts indicated that the LSGIs did not discharge their responsibility of financial reporting properly.

1.6.3 The number of LSGIs which did not submit their accounts within one year and two years after the completion of the financial year were as detailed below:

Year	No of LSGIs	Due date for submission of accounts	No of LSGIs which did not submit accounts			
			Within one year	Percentage	Within two years	Percentage
2001-02	1215	31-07-2002	Not Available	---	638	52.51
2002-03	1215	31-07-2003	937	77.12	671	55.23
2003-04	1215	31-07-2004	892	73.42	721	59.34
2004-05	1215	31-07-2005	1000	82.30	---	---

Thus 73.42 to 82.30 *per cent* of LSGIs did not submit accounts within one year. 52.51 to 59.34 *per cent* did not submit accounts even within two years during the period from 2001-02 to 2004-05.

1.6.4 Arrears in audit and issue of audit reports

DLFA received 7495 accounts out of 12154 receivable during the period from 1996-97 to 2005-06. Though 6697 were audited, DLFA issued only 5464 audit reports as of 30 September 2006 as detailed below:

Year	Accounts receivable	Accounts Received	Accounts audited	Audit Reports issued	Arrears in	
					Audit	Issuing Audit Reports
1996-97 to 2001-02	7286	6045	5882	5117	163	765
2002-03	1215	660	511	273	149	238
2003-04	1215	494	255	71	239	184
2004-05	1215	215	46	3	169	43
2005-06	1223	81	3	---	78	3
Total	12154	7495	6697	5464	798	1233

While the arrears in audit was 798 (10.65 *per cent*) the arrears in issue of audit reports was 1233 (18.41 *per cent*).

1.7 Upkeep of Accounts

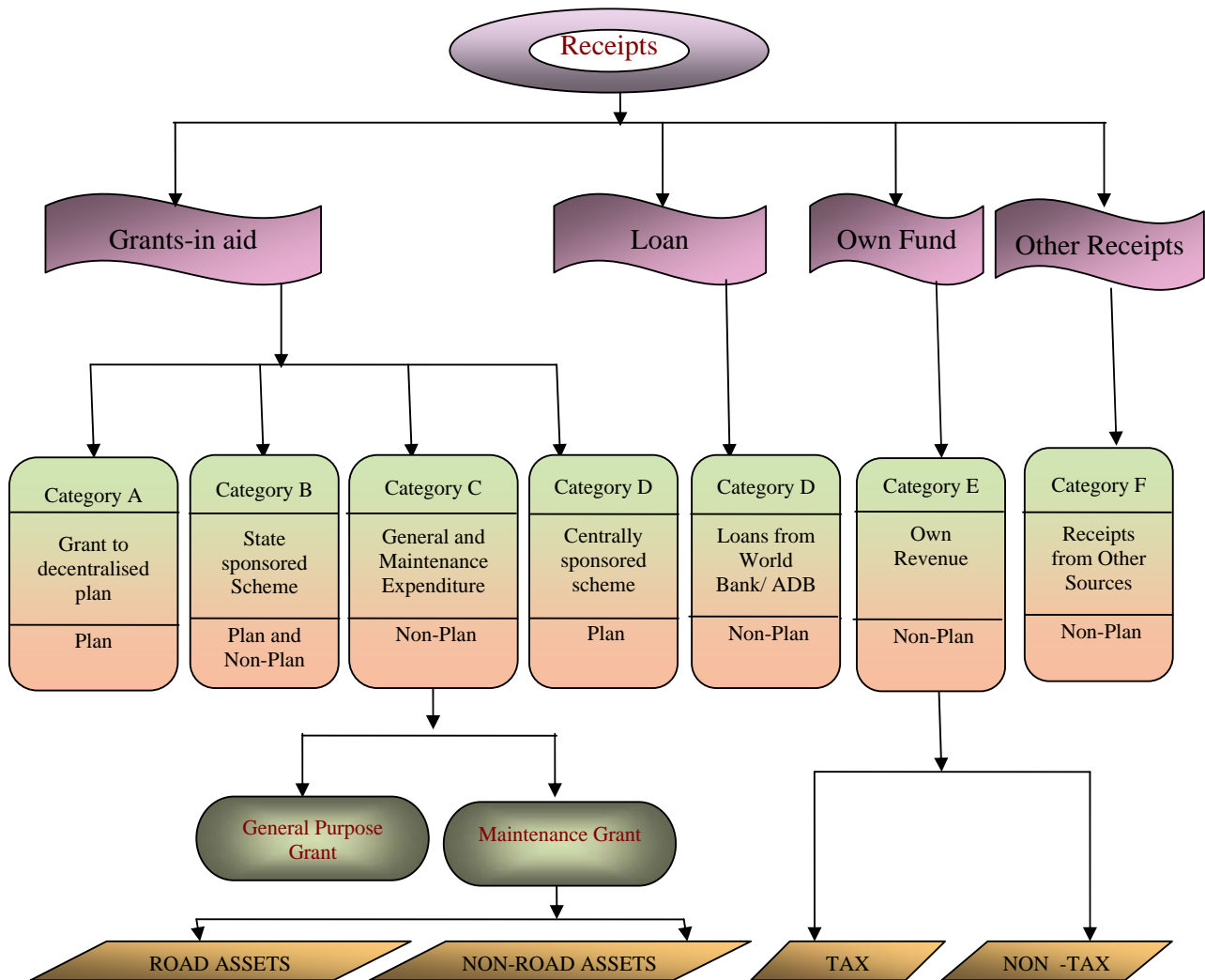
1.7.1 Eleventh Finance Commission (EFC) recommended grant of Rs.4000 per Panchayat per annum on an average for upkeep of accounts of Grama Panchayats and Block Panchayats which did not have exclusive staff for the purpose. The amount of grant recommended to be paid to the State per annum was Rs.46 lakh. Though the State Government received Rs.2.28 crore during the period from 2000-01 to 2004-05 for the above purpose, no amount was transferred to PRIs so far.

1.8 Database on the finances of LSGIs

1.8.1 As recommended by EFC, the CAG prescribed eight standard formats for creation of database on the revenue and expenditure of all LSGIs. These were accepted by the Government in September 2004. Development of database was, however, not started as of March 2006. Though the Government planned for automation and networking of the operations of LSGIs, it did not materialise.

1.9 Funds of LSGIs

1.9.1 The receipts of LSGIs are classified into four groups viz. own funds, grant-in-aid, loan and other receipts. These groups are further classified into categories A to F as shown in the chart below:



1.9.2 Grant-in-aid constituted 82.30 *per cent* of the revenue of LSGIs. The State and Central Governments provide grants for specific and non-specific purposes. Funds received for specific purposes are called tied funds and those for non-specific purposes untied funds. Grants received under Category 'A' are untied whereas those under Categories B and D are tied.

1.9.3 Category 'A' funds are plan funds provided by the State Government from the State annual plan outlay to carry out projects relating to functions transferred and formulated by LSGIs under People's Plan Campaign/Kerala Development Plan. The share of each LSGI is indicated in Appendix IV of the Detailed Budget of the State every year.

1.9.4 Category 'B' Funds consist of plan and non-plan funds for implementation of State Schemes transferred to the LSGIs. The major State-Sponsored Plan schemes are Special Live Stock Breeding Programme, distribution of house sites to rural landless workers, etc. whereas distribution of unemployment wages, agricultural workers pension, widow pension, etc.

are the non-plan schemes. The share of each LSGI is not provided in the budget and is decided by the Head of the Department to which the scheme relates. The allotments of funds are made by the District officers of the Department concerned.

1.9.5 Against a budget provision of Rs.7119.67 crore, the State Government released to the LSGIs during the period from 2002-03 to 2005-06, Rs.6054.82 crore under Category ‘A’ and ‘B’ as shown below:

(Rupees in crore)

Year	Budget Provision				Amount released				Percentage of release
	Category A	Category B		Total	Category A	Category B		Total	
		Plan	Non Plan			Plan	Non Plan		
2002-03	1251.21	125.38	351.89	1728.48	1021.48	97.23	338.96	1457.67	84.33
2003-04	1425.99	8.55	326.55	1761.09	1284.22	100.76	314.01	1698.99	96.47
2004-05	1288.10	113.46	348.06	1749.62	991.00	101.74	323.93	1416.67	80.97
2005-06	1366.01	110.11	404.36	1880.48	1008.15	101.62	371.72	1481.49	78.78
Total	5331.31	357.50	1430.86	7119.67	4304.85	401.35	1348.62	6054.82	85.04

1.9.6 The policy statement of 1996 envisaged implementation of 35-40 per cent of State’s plan Schemes through LSGIs from the year 1997-98 with corresponding devolution of funds to the LSGIs. However, only 29.68 per cent of plan funds were transferred during the period 2002-03 to 2005-06 as shown below:-

(Rupees in crore)

Year	State Plan Budget	Amount provided to LSGIs under Category A	Percentage	State Plan Expenditure	Release (Category A)	Percentage to State Plan Expenditure
2002-03	3943.99	1251.21	31.72	3730.52	1021.48	27.38
2003-04	3617.64	1425.99	39.42	2999.02	1284.22	42.82
2004-05	3836.79	1288.10	33.57	3755.25	991.00	26.39
2005-06	5357.16	1366.01	25.50	4017.49	1008.15	25.09
Total	16755.58	5331.31	31.82	14502.28	4304.85	29.68

The short transfer worked out to Rs.770.95* crore.

1.9.7 Category ‘C’ funds are non-plan grants provided by the State Government to the LSGIs to meet their non-plan expenditure such as office expenses, water and electricity charges, maintenance charges, etc. Funds were separately provided for maintenance and for other purposes. Funds received for maintenance of assets are called ‘Maintenance Grant’ (MG) and for other purposes are called ‘General Purpose Grant’ (GPG).

1.9.8 Amount equal to 3.5 per cent of tax revenue of the State during the previous year was to be provided as GPG in lieu of Basic Tax Grant, Surcharge on Stamp Duty, Rural Pool Grant, etc. GPG was to be utilised for all general expenditure admissible as per the rules. During the period 2004-05 and 2005-06 GPG released to the LSGIs was Rs.442.40 crore as against Rs.596.83 crore admissible as shown in the table below:-

* (35 per cent of 14502.28) – 4304.85 = 770.95.

(Rupees in crore)

Year	State tax revenue of previous year	GPG due (3.5 per cent)	GPG released	Short release	Percentage of short release
2004-05	8089	283.12	192.05	91.07	32.17
2005-06	8963	313.71	250.35	63.36	20.20
Total	17052	596.83	442.40	154.43	25.88

The short release was Rs.154.43 crore which worked to 25.88 per cent.

1.9.9 MG equal to 5.5 per cent of State tax revenue of previous year was to be provided for maintenance of road assets and non-road assets including transferred assets. During 2004-05 and 2005-06 Government released MG of Rs.481.05 crore to the LSGIs as against Rs.937.87 crore admissible as shown in the table below:-

(Rupees in crore)

Year	State tax revenue of previous year	MG due (5.5 per cent)	MG released	Short release	Percentage of short release
2004-05	8089	444.90	174.43	270.47	60.79
2005-06	8963	492.97	306.62	186.35	37.80
Total	17052	937.87	481.05	456.82	48.71

Government did not release 48.71 per cent of the eligible amount to the LSGIs during the period. The funds under Category A, B and C transferred to each category of LSGIs during the period from 2002-03 to 2005-06 were as follows.

(Rupees in crore)

Sl No	Category of LSGIs	Budget provision	Release	Percentage of Release	Average Release per annum
1	Grama Panchayats	5021.30	4296.85	85.57	1.08
2	Block Panchayats	940.00	839.43	89.30	1.38
3	District Panchayats	1001.86	765.72	76.43	13.67
4	Municipalities	758.60	601.85	79.34	2.83
5	Municipal Corporations	552.66	474.43	85.84	23.72
	Total	8274.42	6978.28	84.34	

The Government released 76.43 to 89.30 per cent of the amount provided in the budget to the various categories of LSGIs. The average transfer of funds ranged from Rs1.08 crore in Grama Panchayats to Rs.23.72 crore in Municipal Corporations (**Appendix I**).

1.9.10 Category 'D' funds are grants received from Government of India including State share for implementation of various Centrally Sponsored Schemes such as Sampoorna Grameen Rozgar Yojana, Indira Awas Yojana, Swarna Jayanthi Grama Swarozgar Yojana, National Slum Development Programme, Valmiki Ambedkar Awas Yojana, Swarna Jayanthi Shahari Rozgar Yojana, etc. This included assistance provided by the World Bank, Asian Development Bank, etc. The funds under this category are disbursed through agencies such as District Rural Development Agencies (DRDA), State Poverty Eradication Mission (SPEM), Directorate of Urban Affairs (DUA), District Collectors and are to be kept in Bank Accounts and utilised for purposes as specified by the fund provider. The details of assistance under this category received for 17 Centrally Sponsored Schemes during 2005-06 are given below:-

(Rupees in crore)

Authority / Agency who disbursed the fund	Type of LSGI	Opening Balance	Distribution to LSGIs		Total available funds	Funds utilised by LSGIs	Balance	Percentage of utilisation
			Central Share	State Share				
1. District Rural Development Agency	PRIs	76.88	299.92	80.77	457.57	375.80	81.77	82.12
2. Director of Urban Affairs	ULBs	-	4.16	2.94	7.10	7.10	-	100.00
3. Kudumbashree (The State Poverty Eradication Mission)	ULBs	49.63	27.41	17.41	94.45	30.70	63.75	32.50
Total		126.51¹	331.49	101.12	559.12	413.60	145.52	73.97

Source: Information collected from CRD, DUA and SPEM.

LSGIs received Rs.331.49 crore as central assistance and Rs.101.12 crore as State share out of which Rs.413.60 crore was utilised. The details of funds transferred by Central Government directly to the LSGIs called for were awaited (March 2007). At the end of the year there was an unspent balance of Rs.145.52 crore (**Appendix II**).

1.9.11 Category 'E' funds consist of tax and non-tax revenue of LSGIs which are also known as 'Own Funds'. Property tax, profession tax, entertainment tax, advertisement tax and timber tax constituted tax revenue. Non-tax revenue consists of licence fees, registration fees, etc. leviable under the Acts. LSGIs except District Panchayats and Block Panchayats are empowered to collect the above tax and non-tax revenues. Own funds also include income derived from assets of LSGIs. However, income from transferred assets and institutions could be utilised only for their maintenance. The details of own funds were not gathered from LSGIs and consolidated State wide by the Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available.

1.9.12 Since the State wide position of collection of own funds was not available, Audit sent a questionnaire in July 2006 to all LSGIs to collect the details of own funds. One hundred and fifty nine LSGIs furnished details of their own fund collection during 2005-06 which are given below:-

(Rupees in crore)

Sl No	Category LSGIs	Number	Own fund collected	Average
1	Grama Panchayats	117	47.06	0.40
2	Block Panchayats	35	0.40	0.01
3	District Panchayats	1	0.50	0.50
4	Municipalities	4	12.25	3.06
5	Corporations	2	36.55	18.28
	Total	159	96.76	0.61

The collection ranged from Rs.0.01 crore in Block Panchayats to Rs.18.28 crore in Corporations.

¹ The opening balance of Rs.126.51 crore does not tally with the closing balances of previous year, furnished by the agencies.

1.9.13 Category 'F' funds consist of all other receipts which do not come under other categories. This includes beneficiary contributions, voluntary contributions, contributions in kind, etc. and loans other than from World Bank, ADB, etc. These funds are utilised for specified purposes. Details of funds received by LSGIs under this category were not available. However, during 2005-06 the LSGIs received Rs.1.49 crore from the State Government and Rs.8.01 crore from 'KURDFC' as loan.

1.9.14 Loans aggregating Rs.363.08 crore availed by LSGIs from the following sources were outstanding to be repaid as on 31 March 2006.

(Rupees in crore)

Sl. No	Source of Loan	Loan outstanding as on 31 March 2006					Total
		GP ¹	BP ²	DP ³	Municipality	Municipal Corporation	
1.	State Government	---	---	0.13	22.71	70.37	93.21
2.	KURDFC	0.18	---	---	33.46	2.82	36.46
3.	KSRDB ⁴	17.96	---	---	0.13	---	18.09
4	HUDCO	---	---	112.21	---	4.28	116.49
5	Kerala State Co-operative Bank	---	---	98.80	---	---	98.80
6	LIC	---	---	---	0.03	---	0.03
	Total	18.14	---	211.14	56.33	77.47	363.08

1.10 Drawal of Funds

1.10.1 The total receipts of LSGIs under all categories was Rs.3002.49 crore during 2005-06 as detailed in the table below:-

(Rupees in crore)

Sl No	Type of LSGI	Funds Received (2005-06)										Total receipts
		Category A Funds for schemes formulated by LSGIs	Category B Funds for state sponsored scheme	Category C ⁵		Category D ⁶ Funds for Centrally Sponsored Scheme		Category E ⁷ Own Funds		Category F		
				GPG	MG	Central Share	State Share	Tax	Non-Tax	Loan ⁸	Other receipts	
1	Grama Panchayats	596.97	347.37	203.54	176.27	---	---	123.18	102.83	---	---	
2	Block Panchayats	140.84	44.08	---	20.29	---	---	---	---	---	---	
3	District Panchayats	117.02	21.17	---	51.97	---	---	---	---	---	---	
4	Total PRIs	854.83	412.62	203.54	248.53	299.92	80.77	123.18	102.83			2326.22
5	Municipalities	85.92	30.70	46.81	33.22	---	---	86.17	57.79	8.01	---	
6	Corporations	67.40	30.02	---	24.88	---	---	93.85	58.09	1.49	---	
7	Total ULBs	153.32	60.72	46.81	58.10	31.57	20.35	180.02	115.88	9.50	---	676.27
8	Total LSGIs	1008.15	473.34	250.35	306.63	331.49	101.12	303.20	218.71	9.50	---	3002.49

¹ Grama Panchayat

² Block Panchayat

³ District Panchayat

⁴ Kerala State Rural Development Board (defunct)

⁵ Devolved funds, General Purpose Grant and Maintenance Grant: extracted from Finance Accounts 2005-06.

⁶ Centrally Sponsored Scheme Funds received through DRDA, DUA and SPEM: Information furnished by CRD, DUA and SPEM

⁷ The figures submitted to the Twelfth Finance Commission by the Government of Kerala. In the absence of figures for the year 2005-06, the figures for 2002-03 are adopted.

⁸ Extracted from Finance Accounts 2005-06 and information collected from Kerala Urban and Rural Development Finance Corporation Limited and Housing and Urban Development Corporation Limited (HUDCO). Details of loans, if any, availed from any other source are not available.

The receipts increased from Rs.2909.71 crore in 2004-05 to Rs.3002.49 crore in 2005-06.

1.10.2 The receipts of 159 LSGIs as furnished by them in response to the audit questionnaire were Rs.459.66 crore as shown in the table below:-

(Rupees in crore)

Sl No	Type of LSGI	No of LSGIs responded	Funds received during 2005-06								Total
			Category A	Category B	Category C		Category D	Category E		Category F	
					GPG	MG		Tax	Non Tax		
1	Grama Panchayats	117	68.32	30.57	19.54	19.49	10.95	38.39	8.67	22.20	218.13
2	Block Panchayats	35	39.53	2.85	5.53	5.44	30.68	---	0.40	8.82	93.25
3	District Panchayats	1	22.63	1.85	1.40	6.01	2.75	---	0.50	---	35.14
4	Total PRIs	153	130.48	35.27	26.47	30.94	44.38	38.39	9.57	31.02	346.52
5	Municipalities	4	6.20	1.38	1.06	1.76	2.65	11.42	0.83	4.99	30.29
6	Corporations	2	26.67	4.32	7.72	5.06	2.49	36.54	0.01	0.04	82.85
7	Total ULBs	6	32.87	5.70	8.78	6.82	5.14	47.96	0.84	5.03	113.14
8	Total LSGIs	159	163.35	40.97	35.25	37.76	49.52	86.35	10.41	36.05	459.66

1.11 Sectoral Allocation of Funds

1.11.1 Category 'A' funds for implementation of projects formulated by LSGIs are provided under the following three categories.

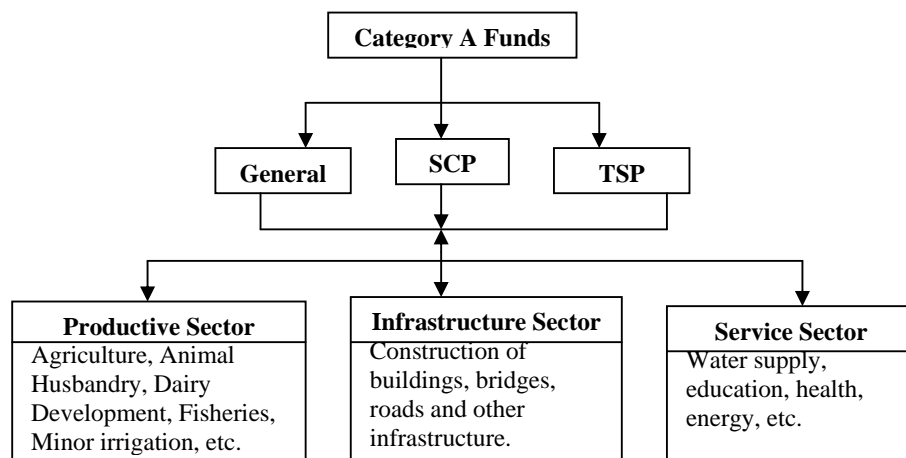
(Rupees in crore)

Sl No	Sectors	Budget Provision							
		2003-04		2004-05		2005-06		Total	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1	General	1009.23 ¹	76.63	1016.67	75.30	990.36	72.03	3016.26	74.62
2	Special Component Plan (SCP)	263.33	19.99	285.20	21.13	334.47	24.32	883.00	21.85
3	Tribal Sub Plan (TSP)	44.44	3.38	48.13	3.57	50.17	3.65	142.74	3.53
	Total	1317.00	100.00	1350.00	100.00	1375.00	100.00	4042.00	100.00

The allocation of plan funds for the development of Scheduled Caste and Scheduled Tribe during 2005-06 was 27.97 per cent against 23.37 per cent during 2003-04 and 24.70 per cent during 2004-05.

1.11.2 The LSGIs are to provide funds received under the above sectors again under three major sectors viz. productive sector, infrastructure development sector and service sector. The functions included under each such sector are indicated in the following chart.

¹ Includes EFC grant of Rs.80.98 crore.



Government prescribed the following ceilings for the utilisation of funds under each sector.

Sl No	Sector	IX Five Year Plan Period		X Five Year Plan Period	
		PRIs	ULBs	PRIs	ULBs
1	Productive Sector	40 per cent (minimum)	20 per cent (minimum)	30 per cent (GPs & BPs) 25 per cent (DPs)	10 per cent (minimum)
2	Infrastructure Development Sector	30 per cent (maximum)	30 per cent (maximum)	30 per cent (maximum)	50 per cent (maximum)
3	Service Sector	Not prescribed	Not prescribed	Not prescribed	Not prescribed

The allocation of funds by the LSGIs was as follows:

Sl. No	Type of Local Body	Percentages of expenditure under							
		Productive Sector		Infrastructure Dev. Sector		Service Sector		Projects not classified	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	Grama Panchayat	19.58	21.78	27.69	19.03	45.97	45.41	6.76	13.75
2	Block Panchayat	17.69	10.35	27.44	19.11	45.11	49.80	9.76	20.75
3	District Panchayat	23.59	13.95	25.07	26.91	50.76	57.66	0.59	1.48
4	Municipality	6.69	7.58	48.65	40.11	40.16	44.38	4.50	7.94
5	Corporation	2.60	7.51	48.22	42.26	46.25	38.02	2.33	12.21
	Total	17.68	17.18	46.47	46.77	30.33	23.24	6.53	12.82

Source : Economic Review 2005.

It would be seen that the utilisation of funds under productive sector was below the minimum prescribed by the Government.

1.12 Expenditure of LSGIs

1.12.1 The expenditure of 159 LSGIs, which responded to the questionnaire was Rs.402.48 crore during 2005-06 as shown below:

(Rupees in crore)

Sl No	Nature of expenditure	Grama Panchayats	Block Panchayats	District Panchayats	Municipalities	Corporations	Total
1	Direction and administration	87.68	8.15	0.88	10.43	37.48	144.62
2	Revenue Expenditure (Plan)	62.05	17.05	---	2.95	11.93	93.98
3	Capital Expenditure (Plan)	31.31	12.45	22.17	2.18	10.61	78.72
4	Loan Repayment	8.83	51.58	---	6.43	0.35	67.19
5	Deposits and advances	13.94	0.14	---	0.48	3.41	17.97
	Total Expenditure	203.81	89.37	23.05	22.47	63.78	402.48

The expenditure of Rs.144.62 crore incurred on Direction and Administration exceeded the own fund collection of Rs.96.76 crore¹.

1.13 Short utilisation of funds for Centrally Sponsored Schemes

1.13.1 The financial achievement in respect of the following Centrally Sponsored Schemes by LSGIs was tardy as shown below:-

(Rupees in crore)

Sl No	Name of Scheme	Opening Balance	Fund Received	Total	Fund utilised	Balance	Percentage of utilisation
1	Prime Ministers Gram Sadak Yojana (PMGSY)	1.01	121.97	122.98	76.95	46.03	62.57
2	Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)	11.28	9.08	20.36	6.90	13.46	33.89
3	National Slum Development Programme (NSDP)	16.08	10.33	26.41	14.48	11.93	54.82
4	Valmiki Ambedkar Awas Yojana (VAMBAY)	22.27	25.41	47.68	9.32	38.36	19.55
	Total	50.64	166.79	217.43	107.65	109.78	49.51

Out of Rs.217.43 crore available, the utilisation was only Rs.107.65 crore (49.51 per cent). The implementation of VAMBAY was poor, the financial achievement being only 19.55 per cent. No reasons were on record for the short utilisation.

1.14 Diversion of Plan funds for repayment of loan

1.14.1 In paragraph 4.6.6 of Report of the CAG (Civil) for the year ended 31 March 2003, mention was made about the diversion of plan funds amounting to Rs.14.26 crore by Local Bodies for repayment of loan availed from KUDFC. In spite of this, Government in March 2006 issued directions to LSGIs to utilise plan funds to repay the loans (principal amount) availed from KURDFC².

1.15 Pendency in clearing objections raised by the CAG

1.15.1 The CAG conducted the audit of LSGIs under Sections 14,15 and 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were

¹ See table under para 1.9.12.

² Kerala Urban Development Finance Corporation (KUDFC) was changed to Kerala Urban and Rural Development Corporation (KURDFC) with effect from 1 November 2004 in order to extend their area of operation to rural areas also.

communicated to the respective LSGIs in the form of Local Audit Reports (LARs) with copy to the Government. Though the replies to the objections were to be furnished within four weeks of receipt of LARs, 937 LARs (99.15 per cent) out of 945 issued and 12754 paragraphs (82.34 per cent) out of 15489 were pending to be settled as on 31 December 2006 for want of satisfactory replies from LSGIs concerned as shown in the table below:-

Year	Issued		Clearance		Outstanding	
	No of LARs	No of Paras	No of LARs	No of Paras	No of LARs	No of Paras
1998-99 to 2001-02	254	4744	04	2340	250	2404
2002-03	116	2431	01	157	115	2274
2003-04	218	3861	---	150	218	3711
2004-05	205	2951	01	26	204	2925
2005-06	152	1502	02	62	150	1440
Total	945	15489	08	2735	937	12754

Even though there was a proposal for constituting Audit Committees at appropriate levels to discuss and settle the objections on the spot, it did not materialise.

1.16 Conclusion

LSGIs were lagging behind in preparation and submission of annual accounts. There was no database on the revenue and expenditure of LSGIs. Government has yet to frame Budget and Accounts Rules to give effect the revised accounting formats. Clearance of audit objections was very slow.

1.17 Recommendations

- **Government should take effective steps to make the LSGIs update their accounts/accounts records and ensure proper financial reporting. Responsibilities should be fixed clearly for preparation of accounts so that lapses in this regard can be dealt with.**
- **Government should consider appointing an authorised officer to consolidate the audited accounts of LSGIs so that a clear picture of finances of all LSGIs is available.**
- **Government should take initiative for the creation of the financial database of the LSGIs.**
- **Government should prepare and put to use revised Budget/Account Rules for PRIs.**
- **Audit Committees should be constituted at appropriate levels to settle audit objections.**