CHAPTER III
PERFORMANCE REVIEWS

3.1 Asset Management by Local Self Government Institutions

Highlights

The assets of Local Self Government Institutions (LSGIs) included movable and immovable assets, remunerative and non-remunerative assets historically owned by them and those acquired or created from time to time. Government had in the process of decentralisation, transferred to the LSGIs, assets and liabilities of the institutions such as primary health centres, hospitals and dispensaries, schools and agricultural farms having considerable assets in the form of land, buildings and other movable and immovable properties correlated to the transferred functions. Audit Review revealed that the asset management in LSGIs was not satisfactory.

- **Six projects for creating immovable assets were abandoned halfway and forty five others were incomplete due to poor planning, selection of unsuitable sites and laxity on the part of LSGIs in monitoring resulting in unfruitful expenditure of Rs.6.51 crore.**

(Paragraph 3.1.6.2)

- **Purchase of encumbered property by the Grama Panchayat, Kulathupuzha resulted in loss of Rs.15.16 lakh.**

(Paragraph 3.1.6.5)

- **Two slaughter houses constructed at a cost of Rs.67.90 lakh functioned only for two and three days.**

(Paragraph 3.1.8.8)

- **Pay wards attached to hospital and rooms in shopping complexes were not let out resulting in loss of revenue of Rs.87.40 lakh.**

(Paragraphs 3.1.8.12 and 3.1.8.13)

- **Two hundred and five buildings in 15 LSGIs remained without proper maintenance due to failure to utilise maintenance grant of Rs.21.07 crore during 2004-05 and 2005-06.**

(Paragraph 3.1.9.2)

- **Land measuring 9.63 acres owned by four LSGIs was encroached due to non-protection of boundaries.**

(Paragraph 3.1.9.3)

- **Thirty eight movable assets acquired at a cost of Rs.14.20 lakh were not utilised.**

(Paragraph 3.1.10.1)

3.1.1 Introduction

Creation, acquisition, utilisation and maintenance of assets are important functions of LSGIs. Asset Management includes:

- planning and decision making in creation or acquisition of assets
- proper accounting of assets
- utilisation of assets
- maintenance of assets
- disposal of obsolete assets.

Laxity in these areas is fraught with the risk of public funds invested on assets becoming unfruitful. A review of the asset management by LSGIs covering the life cycle of assets was conducted by Audit.

3.1.2 Audit objectives

The audit objectives were to examine whether

- the acquisition or creation of assets was properly planned and executed
- the LSGIs properly documented all the assets owned by them
- the assets were properly utilised
- there was a system for the proper upkeep and periodical maintenance of assets and
- there were losses, system deficiencies and lacunae in asset management.

3.1.3 Audit criteria

The criteria used to assess the effectiveness of the LSGIs in asset management were:

- Guidelines issued by the Government and project reports of LSGIs
- Provisions of Kerala Panchayat (Accounts) Rules, 1965 and Kerala Financial Code relating to asset accounting
- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipalities Act, 1994 relevant to asset management
- Norms fixed for upkeep and maintenance of assets.

3.1.4 Audit methodology and scope

Performance audit of the asset management by the LSGIs covering the period 2002-03 to 2005-06 was conducted during April to September 2006. Three districts[1] out of 14 were selected for audit scrutiny. Within the selected districts three District Panchayats (DPs), four Block Panchayats (BPs)[2], seven Municipalities/Corporations[3] and seven Grama Panchayats (GPs)[4] were selected for detailed examination in audit. The audit was conducted through test check of the records of the LSGIs such as financial statements, asset registers/stock registers, maintenance files, agreements, purchase files, verification reports, road maps, road registers, reports regarding stock verification, etc. Records relating to budget and expenditure, manpower policies, internal audit and control were also reviewed. The flow chart showing the components of asset management is given below:

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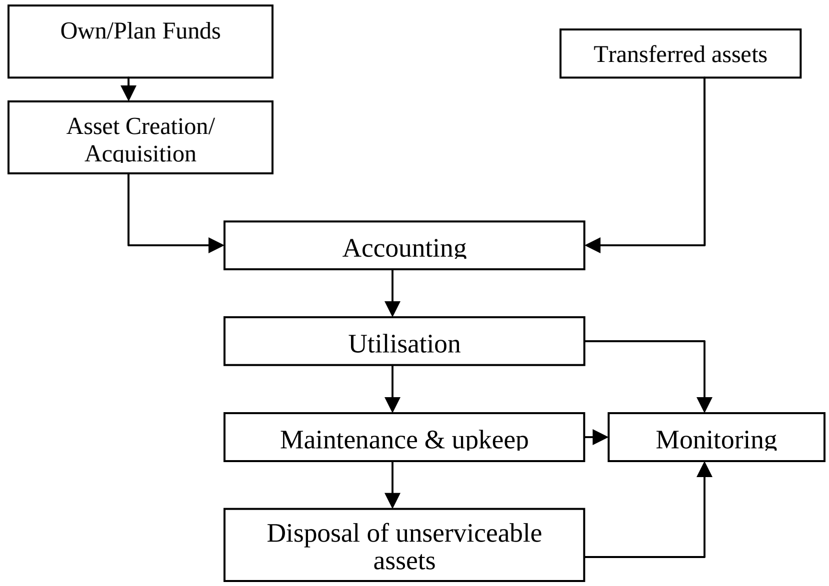
[1] Ernakulam, Kannur and Kollam.
[2] Anchal, Chadaymangalam, Kannur and Muvattupuzha.
[3] Aluva, Kannur, Kollam, Muvattupuzha, Punalur, Thallasserry and Thripunithura,
[4] Alayamon, Anchal, Edamulakkal, Kottarakara, Kulathupuzha,Pathanamthitta and Thrikkakara.



3.1.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.1.6 Creation and Acquisition of Assets

Asset acquisition involves sizeable investment and hence requires project specific business plans to be prepared for timely completion of projects for deriving optimal intended benefits. Assets intended to be acquired or created by LSGIs should be commensurate with the immediate and long term requirements. The points noticed during Audit scrutiny in this regard are summarised below:

3.1.6.1 *Trend of utilisation of funds for asset creation*

Out of total plan expenditure of Rs.519.21 crore incurred by 21 LSGIs test checked, Rs.119.26 crore were spent on creation or acquisition of assets during 2002-03 to 2005-06 as shown in the table below:

(Rupees in crore)

Year	Total expenditure	Funds utilised for creation/acquisition of assets	Percentage
2002-03	110.44	23.62	21.39
2003-04	147.48	30.88	20.94
2004-05	128.60	31.88	24.79
2005-06	132.69	32.88	24.78
Total	**519.21**	**119.26**	**22.97**

The average expenditure incurred by these LSGIs on creation of assets was 22.97 *per cent* of the total plan expenditure as against 30 *per cent* allowed to be incurred.

3.1.6.2 *Incomplete and abandoned projects*

Fifty one projects undertaken by six LSGIs during 1992-93 to 2003-04 for creation of assets were either abandoned or left incomplete after spending Rs.6.51 crore as detailed below:

(Rupees in lakh)

Sl No	Name of LSGI	Particulars of asset created/ Year of commencement	Expenditure incurred	Present stage	Reasons for non-completion/ abandonment
A - Abandoned projects					
1	Thalassery Municipality	Shopping complex cum lodge /1998-99	42.97 (includes interest of Rs.26.34 on loan)	Foundation completed. Abandoned during June 2003.	Contractor abandoned the work.
2	Thalassery Municipality	Bus stand and commercial complex./2001-02	7.91	Preliminary works such as preparation of design, plan and estimate completed. Abandoned	Appropriate steps were not initiated by the LSGI for commencing the work
3	Ernakulam District Panchayat	Thuthiyoor bridge/ 1998-99	18.18	Abandoned at early stage of construction	Paucity of funds and non-receipt of beneficiary contribution.
4	Ernakulam District Panchayat	Dairy farm unit, Kadungaloor/ 1999-2000	2.29	Land purchased. Abandoned during March 2003.	Land was not suitable for construction as it was water logged.
5	Chadayamangalam Block Panchayat	Women Industrial Training Centre/ 2000-01	16.79	Land purchased. Abandoned	No reasons assigned.
6	Thripunithura Muncipality	Shopping complex cum residential apartments/ 1998-99	2.77	Land purchased. Abandoned in May 1999.	No demand for residential flats.
		Total	**90.91**		
B - Incomplete projects					
7	Thripunithura Muncipality	Community hall/ 2000-01	15.66	Contractor abandoned the work during September 2001	Dispute with the contractor.
8	Thalassery Municipality	Town hall/ 1992-93	199.25 (includes interest of Rs.65.13 on loan)	Work at stand still. Fifty per cent of the work to be completed.	Paucity of funds.
9	Ernakulam District Panchayat	Mini industrial estate, Arakkunnam/1998-99	14.96	Building completed up to roof level	Work terminated during July 2002. No further action was taken.
10	Ernakulam District Panchayat	17 Lift irrigation projects/ 1998-2004	165.70	Civil works almost completed.	Electricity connection not obtained. Civil works to be completed in a few projects.
11	Kannur District Panchayat	Women industrial park, Chattukapara 1998-99	69.03	Civil work completed. Electrical, water supply works not done.	The park is situated in a remote place without road facility. Electric and water connection were not provided.
12	Kannur District Panchayat	12 water supply projects/ 2002-04	75.38	Civil works not completed.	Unsuitability of wells in two cases and laxity of the LSGI in the remaining cases.
13	Thalassery Municipality	Building for Homoeo Dispensary/1997-98	3.14	Fitting of doors, windows and electrification and water supply works to be completed.	No action was taken by the LSGI for completion of work.
14	Thalassery Municipality	10 water supply projects/1998-04	14.77	Four works were stopped and other works partly completed.	No recorded reasons.
15	Muvattupuzha Block Panchayat	Pathiyarakulam Lift irrigation project/ 1997-98	2.42	Work almost completed.	Dispute with the owner of adjacent plot.
		Total	**560.31**		
		Grand Total	**651.22**		

Four LSGIs abandoned six projects for creating assets resulting in wasteful expenditure of Rs.90.91 lakh.

Six projects on which Rs.90.91 lakh was invested were abandoned due to poor planning, selection of unsuitable land and laxity on the part of the LSGIs in execution of projects. The expenditure of Rs.5.60 crore incurred on 45 incomplete projects was unfruitful, due to failure of the LSGIs to ensure completion in time. Thalsassery Municipality had availed loan of Rs.1.03 crore from Kerala Urban Development Finance Corporation for the above projects and Rs.91.47 lakh had to be paid as interest on the loan which proved largely unfruitful.

3.1.6.3 *Creation of assets on reserved land*

Unencumbered ownership of land is a precondition for making investments in construction for unhindered enjoyment of benefits of the asset. Failure in ensuring ownership of land by two municipalities before taking up projects resulted in their abandonment as detailed below.

- Thalassery Municipality during 1997-98 started construction of an industrial centre at an estimated cost of Rs.2.71 lakh in Revenue purambokku[1] . The project had to be abandoned after spending Rs.1.06 lakh when revenue authorities objected to the construction.
- Similarly, Aluva Municipality during 1998-99 entrusted the construction of a bridge across the River Periyar at the Sivarathri Manappuram[2] at an estimated cost of Rs.3 crore to M/s Steel Industrials Limited Kerala (SILK) and paid an advance of Rs.6 lakh (November 1998). As the Manappuram was owned by the Devaswom Board, they objected to the construction of the bridge, and the construction had to be abandoned.

3.1.6.4 *Acquisition of land in excess of requirement*

During 1998, Thripunithura Municipality purchased 2.34 acres of land at a cost of Rs.21.03 lakh for constructing 20 houses for purambokku dwellers. The construction of the houses was completed during February 2001. As 2.5 cents was sufficient for construction of each unit as per the project, the extent of land actually required for the project was only 0.50 acre. The excess land of 1.84 acres costing Rs.16.54 lakh remained unutilised for the last eight years. Failure in assessing actual requirement resulted in unnecessary investment of money in land rather than utilising it for other development activities.

3.1.6.5 *Purchase of encumbered property*

Verification of title of landed property not done before purchase resulting in loss of Rs.15.16 lakh.

As decided by the Grama Panchayat, Kulathupuzha, the Secretary purchased 3.20 acres of land during March 1999 at a cost of Rs.15.16 lakh for rehabilitating landless poor. Four months after the purchase, the Thiruvananthapuram District Co-operative Bank attached the land as the original owner of the land had defaulted repayment of the loan of Rs.28.92 lakh availed by him from the bank by mortgaging this property. The Grama Panchayat had failed to ensure before purchase of land that the title of the property was free from all encumbrances. This resulted in loss of Rs.15.16 lakh. Besides, the objective of rehabilitating the landless poor was not achieved.

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[1] Unassessed lands which are the property of Government or used/reserved for public purposes.
[2] Temple premises, where Sivarathri Festival is conducted.

3.1.7 Asset accounting

Assets owned by LSGIs are expected to result in deriving future economic or service benefits. In order to ensure attainment of the objective, proper upkeep and maintenance, timely disposal and replacement are necessary for which proper accounting of the assets is required. Periodic verification of assets is an important process in asset management for which proper asset records are to be kept. Points noticed during scrutiny of records relating to Asset accounting by LSGIs are discussed below:

3.1.7.1 *Asset Registers not maintained*

Prior to December 2005, asset accounting was governed by Kerala Panchayat (Accounts) Rules, 1965 and Kerala Financial Code. The Rules provided for classification and grouping of various types of assets and the registers to be maintained for proper accounting. Separate forms were prescribed for maintenance of accounts of revenue yielding properties and immovable properties. Movable assets were to be accounted in stock registers with details of receipt, issue and balance. The LSGIs test checked did not maintain the prescribed registers and records. Government issued orders (December 2005) for the maintenance of detailed asset accounts on the basis of recommendations of the Second State Finance Commission. Accordingly, the LSGIs were required to maintain ten registers out of which nine were for accounting immovable assets and one for movable assets.

3.1.7.2 *Improper maintenance of asset registers*

Though all the LSGIs test checked had opened the registers for accounting of assets in accordance with the Government Order (December 2005) the maintenance was defective/incomplete as shown in the table below:

Sl No	Type of asset	Form No	Defects in maintenance of register	Incomplete details
1	Land	1	Though the area of land was to be recorded after conducting a survey, it was copied down from the records without any survey.	Details such as buildings, ponds, trees existing in the land and the protection works carried out were not noted.
2	Buildings	2	----	Area of the land and plinth area of the building, year and cost of construction, amenities provided were not noted.
3	Roads, lanes and culverts	3,4 & 5	----	Year and cost of construction were not noted.
4	Water supply	6	----	Sources of water, storage facility, pipe lines, number of connections, cost of construction etc were not noted.
5	Irrigation	7	----	Source of water, ayacut[1] area, cost of construction, type of irrigation were not noted.
6	Electricity	8	----	Number of posts and street lights, capacity of transformers and cost of installation were not noted.
7	Solid waste processing plant	9	----	Year and cost of construction were not noted.
8	Movable assets	10	Movable assets except vehicles and agricultural equipment were not accounted.	----

[1] Extent of land irrigated.

In the absence of complete details of assets, it could not be ascertained whether the assets were properly maintained and safeguarded by LSGIs.

3.1.7.3 *Survey to ascertain missing details of assets*

LSGIs conducted a survey to ascertain missing details of assets owned by them during 2005 as directed by the Government. However, complete details were not collected and recorded in the prescribed registers indicating continued slackness in asset accounting by the LSGIs.

3.1.8 Utilisation of Assets

LSGIs acquire assets as part of the infrastructure development for better civic services or to augment their revenue resources. Since acquisition/creation of assets involves investment of scarce resources, proper planning is required before investment to ensure economic viability and usefulness of the assets to be created. However, audit scrutiny revealed assets remaining idle and their improper utilisation, resulting in unfruitful investment of resources, as discussed in the following paragraphs.

3.1.8.1 *Properties remaining unutilised*

Land measuring 9.67 acres costing Rs.2.07 crore purchased by seven LSGIs test checked remained unutilised for periods ranging from one to eight years as detailed below:

Sl No	Name of LSGI	Extent	Date of acquisition	Cost (Rs in lakh)	Purpose	Reasons for assets remaining idle
1	Thalassery Municipality	0.25 acre	30.03.2004	26.30	Expansion of market and construction of slaughter house	Work not taken up.
2	Aluva Municipality	0.33 acre	10.08.2004	95.01	Parking area	8 persons who were occupying the shops in the acquired land were to be rehabilitated according to High court decision.
3	Thrikkakara Grama Panchayat	0.50 acre	15.03.2004	9.69	SC/ST industrial estate	Work not taken up.
4	Thrikkakara Grama Panchayat	0.26 acre	15.03.2004	18.11	Industrial park for women	Work not taken up.
5	Chadayamangalam Block Panchayat	1.63 acre	30.06.1998	7.58	Industrial estate	Work not taken up.
6	Kannur Municipality	0.99 acre	12.05.2005	10.28	Slaughter house	Work not taken up.
7	Thripunithura Muncipality	4.70 acre	30.03.2004	26.48	Solid waste processing plant	Paucity of funds
8	Pathanapuram Grama Panchayat	0.50 acres	2001-2002	4.95	Bio gas, solid waste processing plant	No recorded reasons
9	Thrikkakara Grama Panchayat	0.51 acres	26.02.2000	8.21	Slaughter house, solid waste treatment plant	Opposition of local people against the plant.
	Total	**9.67 acres**		**206.61**		

Paucity of funds, opposition from local people, etc. were the reasons given for not utilising the land purchased. This indicated slackness in the planning process in the LSGIs.

3.1.8.2 *Undue favour to the land owners*

Unjustified purchase of encroached land by Aluva municipality at Rs.95.01 lakh for parking area.

Aluva Municipality purchased (August 2004) 0.33 acres of land (Sl.No.2 of the above table) at a cost of Rs.95.01 lakh for establishing a parking area, though it was aware that there were eight unauthorised shops on the proposed land. It was noticed during audit that, based on a writ petition filed by the shopkeepers, the High Court had directed (May 2004) the Municipality to consider the matter and take a decision on the petitions. The Municipality resolved (July 2004) to rehabilitate the shopkeepers by constructing a shopping complex at an alternate site but this did not materialise due to the large financial liability involved. The purchase of land where unauthorised shops were already existing without taking into account the cost of rehabilitation was unjustified, and benefited only the owners of the land.

3.1.8.3 *Unutilised structures/buildings*

Buildings/structures constructed by nine LSGIs at a cost of Rs.3.87 crore were lying idle for one to eight years.

The LSGIs constructed structures/buildings for various commercial and non-commercial purposes on the land owned by them. A test check of utilisation of these buildings revealed that 16 such buildings constructed by nine LSGIs at a cost of Rs.3.87 crore remained idle/unutilised either fully or partially for years together as detailed in the table below:

Sl No	Name of LSGI	Asset	Date of completion of construction/ renovation	Cost (Rs in lakh)	Extent of non-utilisation	Reasons for non-utilisation
1	Kollam Corporation	Software Technology park	August 2000	59.66	23 rooms out of 31	For want of takers
2	Muvattupuzha Municipality	Mini Industrial Estate	June 1998	20.19 (including land)	Seven out of Nine rooms	For want of takers
3	Thalassery Municipality	Golden Jubilee Lorry Stand	June 1998	2.75	100 *per cent*	The stand is away from the town
4	Kannur Block Panchayat	Ladies Hostel	October 2002	16.92 (including land)	100 *per cent*	For want of inmates as the hostel is 5 KM away from the town
5	Kollam District Panchayat	Industrial Estate, Chadayamangalam	August 2005	20.18	100 *per cent*	For want of electricity and water connections
6	Kannur District Panchayat	Veterinary mobile aid unit and staff quarters, Manikkadavu	December 2003	10.49	100 *per cent*	High court had stayed the shifting of the institution from Ulikkal to Manikkadavu even before taking up the construction
7	Muvattupuzha Block Panchayat	Piralimattom lift irrigation scheme	March 2004	4.92	100 *per cent*	1. The pipe laid was having excess diameter. 2. Dispute regarding the ownership of the land where pump house situated.
8	Thripunithura Municipality	Women industrial estate	September 2000	9.83	100 *per cent*	For want of power connection.
9	Thripunithura Municipality	Veterinary hospital	2003-04	4.71	100 *per cent*	For want of power connection.
10	Alayamon Grama Panchayat	Teachers quarters	2000-01	5.60	100 *per cent*	For want of water and power connections.
11	Kollam District Panchayat	Mini industrial estate, Pooyapally	March 2005	29.53	100 *per cent*	For want of power connection.

12	Kollam District Panchayat	Mini industrial estate, Karavaloor	March 2005	31.34	100 *per cent*	For want of power connection.
13	Kollam District Panchayat	Mini industrial estate, Piravanthur	March 2005	24.25	100 *per cent*	For want of power connection.
14	Kollam District Panchayat	Mini industrial estate, Nilamel	March 2005	20.18	100 *per cent*	For want of power connection.
15	Kollam District Panchayat	Godown and fish stall	October 2005	15.61	100 *per cent*	For want of power connection.
16.	Thalassery Municipality	Mini Industrial estate	March 2005	111.22	100 *per cent*	No recorded reasons
		Total		**387.38**		

This indicated that no proper planning was undertaken nor any feasibility study conducted for the actual requirement of assets by the LSGIs before creation/acquisition. Out of 16 buildings/structures given in the table above, nine could not be commissioned for want of power connection. In some cases, though the expenditure incurred on these productive assets was Rs.1.61 crore, there was no priority in providing electric connection to these assets to make them viable.

3.1.8.4 *Idle investment on assets for tourism promotion*

As part of its efforts in promoting tourism, Aluva Municipality purchased (1998-99) four boats of different types and a water scooter at a cost of Rs.9.30 lakh. The Municipality also constructed (March 2000) a boat jetty on the banks of the River Periyar to facilitate boat cruises in the river. Subsequently, carrying out of such an activity for promotion of tourism in the area was not found economically viable and the Municipality disposed of (August 2005) three boats. The other boat and the water scooter costing Rs.6.64 lakh were lying idle. As the project was implemented without proper feasibility study, the investment on these assets turned out to be wasteful.

3.1.8.5 *Non-utilisation of equipment for video centre*

The Kannur District Panchayat during 1999-2000 purchased a video projector, video cassette recorder, generator and accessories at a cost of Rs.3.33 lakh for establishing Video Park in Kannur for exhibiting world classic cinemas. As Video cassettes of such cinemas were not available, the project was abandoned (November 2001). Failure of the DP to ensure availability of the necessary video cassettes before going for purchase of the equipment, resulted in wasteful expenditure of Rs.3.33 lakh.

3.1.8.6 *Idle investment on machine and building*

The District Panchayat, Kannur during November 1998 purchased one 100 MA X-Ray machine for Rs.2.60 lakh for installation in the proposed X-ray cum physiotherapy centre in the Veterinary Centre, Kannur. As there was no building, the machine could not be installed. The Panchayat completed the construction of the building during March 2001 at a cost of Rs.2.58 lakh and approached (June 2001) the Chief Electrical Inspector (CEI) for sanction to install the machine in the building. But CEI insisted on a certificate from the Director of Radiation Safety. The Director did not issue the required certificate as the prescribed basic facilities to install the machine did not exist. During June 2003 and March 2004, the Panchayat spent an additional amount of Rs.1.23 lakh for modifying the machine. Even after the modification, the machine and the building costing Rs.3.83 lakh and Rs.2.58 lakh respectively remained unutilised.

3.1.8.7 *Avoidable investment on lorry*

Thalassery Municipal Council during May 1996, purchased a lorry costing Rs.4.24 lakh for removing garbage. After plying 17,699 kilometres the lorry was off road during October 1998. Instead of repairing it, the Municipality purchased (1999) a new lorry, costing Rs.7 lakh. After keeping the old vehicle unutilised for more than four years, the Municipality disposed it for Rs.0.56 lakh. As the existing lorry had not outlived its normal mileage life (Approx:2 lakh km) purchase of new one was not justified. This resulted in avoidable expenditure of Rs.7 lakh.

3.1.8.8 *Functioning of slaughter houses*

One of the functions of the Urban Local Bodies is the establishment of modern slaughter houses with a hygienic environment. Slaughter houses established by the following two Municipalities had to be closed down for reasons noted against each.

(Rupees in lakh)

Sl No	Municipality	Date of starting of slaughter house	Cost of construction	Period functioned (days)	Reasons for closing down
1	Thripunithura	09.08.2000	26.72	2	Traditional butchers were reluctant to use modern slaughter house.
2	Muvattupuzha	14.10.2003	41.18	3	There was no facility for solid waste processing. Foul smell emitted from the slaughter house. As a result, local people opposed the functioning of slaughter house.

Two slaughter houses costing Rs.67.90 lakh worked for only two to three days.

The slaughter houses remained non-functional as no feasibility study was conducted and statutory requirements were not fulfilled before establishing the slaughter houses resulting in locking up of capital amounting to Rs.67.90 lakh. It is pertinent to note that the two slaughter houses could function for two and three days only.

3.1.8.9 *Unfruitful expenditure on Incinerators*

Anchal Grama Panchayat advanced (September 2003) Rs.10 lakh to a supplier for the purchase of an incinerator costing Rs.22 lakh for installation in the cattle market. The proposal did not materialise as the local people approached the court against its installation. Though the court upheld (2005) installation of the incinerator, the Panchayat did not take any action either to install the incinerator or to get the advance refunded. In another instance, an incinerator installed by Punalur Municipality (2000-01) at a cost of Rs.7 lakh went out of order during April 2002. The Municipality had not taken any action to repair it as of September 2006 and the purpose of installation of the incinerator remained unfulfilled.

3.1.8.10 *Incomplete electric crematorium*

Kannur Municipal Council decided to construct (April 1999) an electric crematorium at an estimated cost of Rs.30 lakh in the building already constructed for the purpose (1998-99) at a cost of Rs.11.25 lakh at Payyambalam beach. Though advances aggregating to Rs.20 lakh were paid during the period between February and June 2000, the company which undertook the work (December 1999) of installation of the furnace, did not complete the construction within the stipulated period of six months. No action was taken against the company. The crematorium remained incomplete for the last six years leading to wasteful expenditure of Rs.31.25 lakh.

3.1.8.11 *Building not used for intended purposes*

The following buildings constructed by five LSGIs for purposes noted against each were either kept unused or were used for different purposes.

(Rupees in lakh)

Sl No	LSGI	Area of Building	Cost and year of construction	Purpose	How utilised
1	Muvattupuzha Block Panchayat	606.38 M^2 (20 rooms)	24.90 (November 2004)	Marketing centres for self help groups	4 rooms used as Village extension office and remaining 16 rooms vacant.
2	Chadayamangalam Block Panchayat	810.00 M^2 (24 rooms)	25.70 (December 2001)	Marketing centres for self help groups	2 rooms used as dispensary and remaining 22 rooms vacant
3	Muvattupuzha Municipality	523.42 M^2 (14 rooms +2 halls)	23.35 (May 2004)	Women Industrial Centre	7 rooms used as shops, one hall used as village office, one hall used as press club and the remaining 7 rooms vacant.
4	Anchal Grama Panchayat	Not available	3.95 (2002-03)	Women Industrial Estate	Akshaya Computer Training and for grocery store.
5	Kannur Municipality	357.5 M^2	8.42 (August 2000)	Mini Industrial Estate	Power loom Service Centre
6	Kannur Municipality	286.65 M^2	Not available	Cultural Centre	Power loom Service Centre
7	Kannur Municipality	68.32 M^2	Not available	Agro Centre	Power loom Service Centre

Non-utilisation of assets for purposes for which they were created was tantamount to diversion of funds and deprivation of due benefits to the targeted beneficiaries.

3.1.8.12 *Pay wards in Taluk Hospital, Muvattupuzha*

Muvattupuzha Municipality constructed (August 2004) a four storied shopping complex-cum-pay wards in the Taluk Hospital premises at a cost of Rs.2.93 crore. The second and third floors with an area of 1757.72 square meters and 62 rooms were intended for accommodating pay wards and the ground and first floors were for the shopping complex. The Municipality has not been able to let out 31 rooms in the third floor so far for want of sufficient number of patients. The revenue realisable but forgone from these rooms would work out to Rs.23.02 lakh from August 2004 to October 2006 (27 months) calculated at the rate of Rs.110 per room, the rate at which rent is levied in pay wards of second floor for an average number of 300 days a year.

3.1.8.13 *Vacant commercial properties*

Out of 477 rooms available for renting out in 21 commercial buildings owned by Kollam Corporation, 56 rooms remained vacant for want of takers for various periods from August 1998. The loss of revenue for the period from August 1998 to October 2006 worked out to Rs.64.38 lakh as detailed below:

Sl No	Building	Rooms vacant	Monthly Rent fixed (Rs)	Vacant from	Rent realisable up to 31.10.2006 (Rs)
1	Andammukku Municipal Building	5 out of 26 rooms	1,100.00	August 1998	1,08,900
2	Municipal Stadium Building	4 out of 43 rooms	8,499.00	January 2005	1,86,978
3	Techno Park Building	All the 23 rooms	24,856.00	December 2000	17,64,776
4	Maharani Market Building	All the 20 rooms	44,000.00	August 2000	33,00,000
5	Mundakkal Shopping Complex	1 room	2,200.00	December 2004	50,600
6	Chinnakkada Shopping Complex	1 hall	38,023.00	August 2004	10,26,621
	Total				**64,37,875**

The Corporation did not take effective action to modify the rooms or make them more suitable for the prospective takers.

3.1.8.14 *Non-realisation of rent of Rs.13.73 lakh due to non-execution of lease agreement*

Kollam Corporation on 20 July 1992 leased out 1429 square feet of office space in the Thankappan Memorial Shopping Complex to the Assistant Director, Resurvey, Kollam for accommodating his office. No lease agreement specifying the period, lease rent and rate of increase to be effected periodically was executed by the tenant. Even though several notices were issued requiring the tenant to remit the rent at rates fixed by the Corporation, he did not pay any amount on the plea that rent at PWD rate alone was payable. Leasing of the building without executing an agreement resulted in non-realisation of rent amounting to Rs.13.73 lakh and penal interest thereon. In the absence of an agreement with the tenant, the Corporation could not also take any penal action for realisation of rent or eviction as per the KM Act and Rules.

3.1.9 Upkeep and maintenance of assets.

Consequent on the transfer of functions and institutions to LSGIs a large number of buildings, roads, bridges and land came under the control of LSGIs. This was in addition to the traditional assets such as ponds, canals, play grounds, etc., owned by them. Maintenance, upkeep and surveillance of these assets is of paramount importance for their long term usefulness, effective delivery of service and protection from encroachment and unauthorised occupation. Mention of non-provision of funds by 25 Grama Panchayats either for construction of retaining walls or for removal of waste from ponds, which are traditional assets of LSGIs, was made in paragraph 3.3.17 of the Report of the CAG (LSGIs) for the year ended 31 March 2005. Further points noticed relating to upkeep and maintenance of assets are discussed below.

3.1.9.1 *Allotment of funds for maintenance*

The State Government provided substantial amounts to the LSGIs for this purpose in the form of maintenance grant and general purpose grant from the year 2004-05 onwards as detailed below:

(Rupees in crore)

Year	Maintenance Grant			General Purpose Grant		
	Budget provision	Funds drawn	Balance lapsed	Budget provision	Funds drawn	Balance lapsed
2004-05	325.79	174.43	151.36	205.32	192.05	13.27
2005-06	396.23	306.62	89.61	255.59	250.35	5.24
Total	**722.02**	**481.05**	**240.97**	**460.91**	**442.40**	18.51

The maintenance grant provided for maintenance of assets could not be utilised in full by the LSGIs. The utilisation was 53.54 *per cent* and 77.38 *per cent* during 2004-05 and 2005-06 respectively resulting in lapse of funds of Rs.240.97 crore to the Government when a large number of assets were awaiting repairs and maintenance.

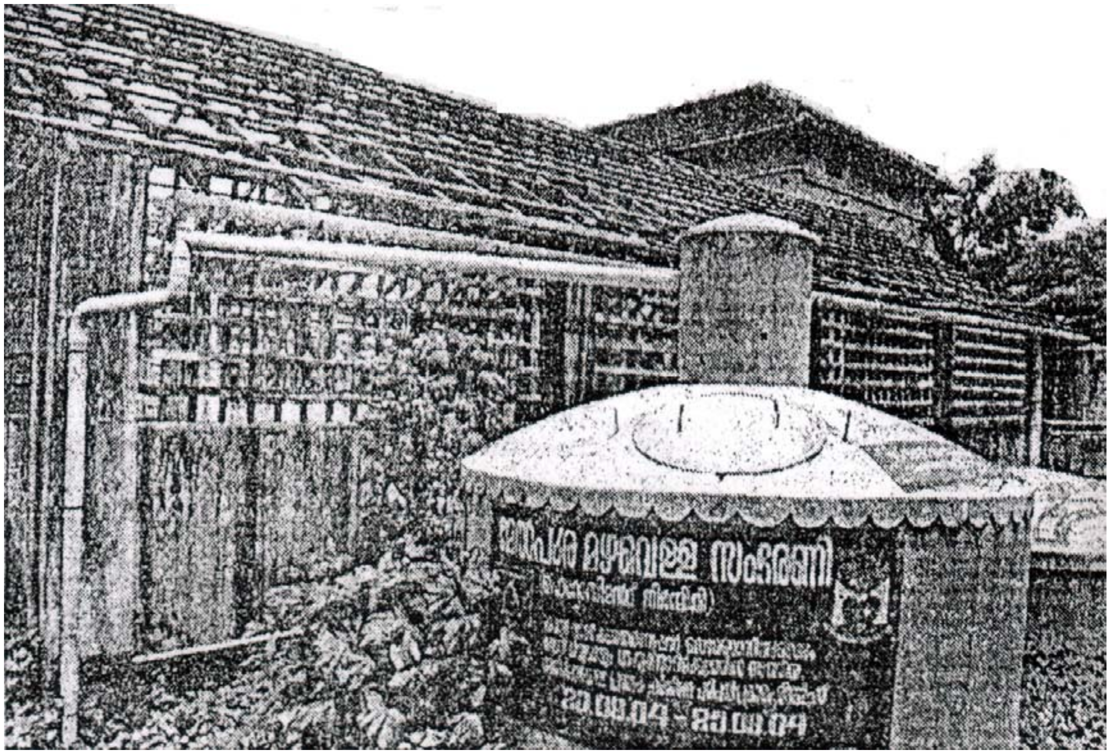
3.1.9.2 *Short utilisation of maintenance grant*

All roads and buildings require proper maintenance at regular intervals in order to maintain their optimum usefulness. The LSGIs carry out repairs and maintenance of their assets using their own fund as well as assistance from the Government in the form of maintenance grant. The allotment and utilisation of grants for maintenance of road and non-road assets during 2004-05 and 2005-06 by the 21 LSGIs test checked were as shown below:

Assets	Maintenance Grant (Rupees in crore)							
	2004-05				2005-06			
	Allotment	Utilisation	Balance lapsed to Govt.	Percentage of utilisation	Allotment	Utilisation	Balance lapsed to Govt	Percentage of utilisation
Road Assets	6.85	3.79	3.06	55.33	13.81	7.67	6.14	55.54
Non Road Assets	12.43	5.93	6.50	47.70	14.65	9.28	5.37	63.34
Total	**19.28**	**9.72**	**9.56**	**50.41**	**28.46**	**16.95**	**11.51**	**59.55**

Maintenance grant of Rs.21.07 crore lapsed in 21 LSGIs test checked

Against the allotment of Rs.19.28 crore and Rs.28.46 crore during 2004-05 and 2005-06 respectively, the utilisation was Rs.9.72 crore and 16.95 crore which was 50.41 *per cent* and 59.56 *per cent*. The unutilised amount of Rs.21.07 crore out of Rs.47.74 crore (44.13 *percent*) lapsed to Government during these years. In 15 LSGIs test checked, 205 buildings (178 schools, 21 hospitals, four veterinary centres and two other buildings) required maintenance and repairs. Of these, roof of one school building was completely destroyed as seen from the photograph below.



Building of Thavakara Government Upper Primary school in Kannur District

There was no justification for leaving such a large number of assets without maintenance when sufficient funds were available for maintenance.

3.1.9.3 *Non-protection of boundaries*

Land measuring 9.63 acres owned by four LSGIs was encroached due to non-protection of boundaries.

LSGIs traditionally had large tracts of land in their possession. Further, they had acquired land for various purposes and Government had also transferred land to them for running various institutions. But the LSGIs often failed to protect those lands by constructing compound walls/fencing, leading to unauthorised occupation/encroachment. Instances in test checked LSGIs are given below:

Sl No	Name of LSGI	Extent of land encroached (acres)	Period of acquisition	Value (Rupees)
1	Aluva Municipality	0.63	June 1997	37.80 lakh
2	Kollam Corporation	0.91	Not available	
3	Thalassery Municipality	3.79	1931	Not available
4	Thalassery Municipality	4.06	October 1995	Not available
5	Kannur Municipality	0.24	1980	Not available
	Total	**9.63**		

No action was taken by the LSGIs for retrieval of the encroached land. It was a serious omission on the part of the above mentioned LSGIs not to protect boundaries of landed property owned by them, which resulted in encroachment. The LSGIs had not also taken any action for eviction of such encroachments.

3.1.10 Disposal of Assets

Immovable assets are acquired for earning revenue or providing civic services and are not intended for sale or disposal. However, movable assets such as machinery, tools and equipment and vehicles have to be maintained by LSGIs, only so long as they support delivery of services economically or generate revenue. Once such assets become unserviceable/obsolete and are no longer capable of yielding further services, they have to be disposed of without delay to fetch maximum resale value and to save the cost of supervision, storage, maintenance and security. It was noticed in audit that the LSGIs test checked did not have a system of review and disposal of unserviceable equipment. Some equipment were never put to use after acquisition, pointing to injudicious purchase decisions. Still they were kept in possession for several years, as mentioned below.

3.1.10.1 *Equipment, machinery and vehicles not used for long periods.*

During the IX and X five year plan period, the LSGIs purchased vehicles, equipment, machinery, etc. for various purposes. It was noticed that the number of movable assets which were lying unutilised or idle in 14 LSGIs was as detailed below:

Sl. No	Name of LSGI	No of Assets having money value		No of Assets lying idle having money value		No. of Assets lying idle for more than 3 years
		Above Rs.10,000	Less than Rs.10,000	Above Rs.10,000	Less than Rs.10,000	
1.	Anchal Block Panchayat.	3	75	1	75	76
2.	Kollam Corporation	19	--	19	--	8
3.	Aluva Municipality	9	5	6	--	1
4.	Kannur District Panchayat	18	19	8	2	--
5.	Ernakulam District Panchayat	15	--	15	--	1
6.	Thalassery Municipality	1	37	1	37	38
7.	Muvattupuzha Municipality	19	50	2	15	17
8.	Anchal Grama Panchayat	5	--	5	--	--
9.	Thrikkakara Grama Panchayat	--	23	--	23	23
10.	Chadayamangalam Block Panchayat,	8	10	1	--	1
11.	Pathanapuram Grama Panchayat	12	--	10	--	10
12.	Kannur Block Panchayat,	4	--	2	--	--
13.	Kollam District Panchayat,	10	2	1	1	--
14.	Alayamon Grama Panchayat	2	--	2	--	1
Total		**125**	**221**	**73**	**153**	**176**

Out of 346 major movable assets owned by 14 LSGIs, 226 were lying idle, of which 176 were kept unutilised for more than three years. Out of the aforesaid assets the following movable assets acquired by various LSGIs at a total cost of Rs.77.37 lakh during 1996-2005 were lying unutilised for reasons indicated against each.

Sl No	Item	Cost (Rs in lakh)	Date of Receipt	Reasons for non-utilisation	Period of utilisation
1.	Winnower – 5 Nos	0.50	5/96 to 3/00	No demand.	Nil
2.	Thrusher – 8 Nos	0.68	3/98 to 3/00	No demand.	Nil
3.	Sprayer – 18 Nos	0.33	4/98 to 7/98	No demand.	Nil
4.	Pump set – 2 Nos	0.36	7/98 to 12/00	No demand.	Nil
5.	Poultry Hatcher -1 No	3.27	12/05	Want of generator	Nil
6.	Generator -1 No	1.87	3/05	Want of acquastic chamber	Nil
7.	Coconut climber -1 No	0.03	07/98	No demand	Nil
8.	Video projector and accessories - 1 No	3.33	1999-2000	Non-availability of cassettes	Nil
9.	X-ray unit - 1 No	3.83	11/98	For want of certificate from Director of Radiation Safety	Nil
10.	Tractor – 8 Nos	4.44	8/91 to 3/2000	Want of repairs	40 to 58 months
11.	Power tiller-7 Nos	3.10	5/96 to 6/03	No demand and for want of repairs	23 to 26 months
12.	Harvesting machine – 15 Nos	18.08	10/98 to 2/03	No demand and for want of repairs	16 to 75 months
13.	Pick up van - 1 No	0.85	2/03	Want of repairs	27 months
14.	Computers – 31 Nos	11.84	8/99 to 3/02	Technical fault	Nil to 24 months
15.	ECG Machine - 1 No	0.48	---	Want of repairs	-
16.	Tar mixing plant -1 No	6.77	6/98	Unsuitable	11 months
17.	Excavator - 1 No	17.61	3/98	Want of repairs	74 months
Total	**103 Nos**	**77.37**			

Thirty eight movable assets purchased at a cost of Rs.14.20 lakh were not put to use.

Of the above assets, 38 assets (cost Rs.14.20 lakh) which are mainly agricultural equipment were not utilised at all since their purchase, whereas 65 assets costing Rs.63.17 lakh were either used sparingly or not utilised for optimum periods. The non-utilisation of these assets was mainly due to absence of demand and/or for want of timely repairs. This indicated inadequate planning and weak internal control and monitoring systems in the LSGIs.

3.1.11 Internal Control System

The internal control system relating to asset management available in the LSGIs was weak and therefore not effective. In none of the LSGIs test checked, was annual physical stock verification done, as a result of which the LSGIs could not ensure whether all the assets accounted for in the Stock Register/Assets Register were physically available and vice versa. Encroachment of landed property, non-maintenance of movable as well as immovable assets, improper utilisation/non-utilisation of assets, etc., were attributable to the weak internal control system. Although the LSGIs maintained the Asset Register as prescribed by the Government (December 2005), all required details of assets were not entered in the register. Incomplete maintenance of Asset Register was again an internal control failure which may lead to loss and non-maintenance of assets.

3.1.12 Monitoring

There was no monitoring system with regard to upkeep and timely maintenance of assets in any of the LSGIs sample checked. As a result, the assets created or transferred could not be maintained properly leading to non utilisation or loss of assets. No registers and records were kept to enable the LSGIs to ensure optimum utilisation of assets. Also no periodical review of the performance of the assets was conducted. In the absence of a system for periodical review of the performance of assets, which was an important factor in asset management, damages to assets and non-utilisation went unnoticed.

3.1.13 Conclusion

- The acquisition and creation of assets was not properly planned and executed leading to abandonment of the action halfway through. This resulted in dead investment of capital which could have been utilised for other productive purposes.
- Though LSGIs incurred large expenditure on construction of productive assets such as mini industrial estates, priority was not accorded to providing power connection to these assets, making them non-functional.
- The documentation and accounting of the assets acquired/created/ transferred from the Government was incomplete, indicating weak internal controls.
- The utilisation of assets was not satisfactory resulting in idle capital investment.
- Non-utilisation of remunerative assets resulted in loss of revenue.
- The maintenance grant allotted by the Government could not be fully utilised and lapsed to Government due to poor planning.
- Improper maintenance of assets resulted in loss of property/damage to assets.
- The internal control system in LSGIs for asset management was weak and ineffective.

3.1.14 Recommendations

- Asset acquisition should be properly planned and implemented.
- A proper system of asset accounting should be developed by LSGIs.
- Consistent efforts on the part of the Government and the LSGIs are required to avoid under/non-utilisation of assets.
- Government should consider entrusting the responsibility of ensuring timely implementation of projects relating to creation/acquisition of assets and their proper utilisation to the District Planning Committee.
- The internal control system in LSGIs should be strengthened.

3.1.15 Response of Government

The Review was discussed with the Principal Secretary (LSGD) on 13 March 2007. The Secretary informed that:

- Government is considering issue of guidelines for preparation of a maintenance plan of non-road assets of LSGIs.
- Government policy is to give power connection to buildings constructed by LSGIs on priority basis. Any lapse in this regard would be looked into.
- KPR/KM Act does not envisage any control or monitoring of the activities of LSGI, by the department. LSGIs being self governing institutions, monitoring and control measures should be built into the system.
- District Planning Committee should be entrusted with looking into the completion and utilisation of assets created during the previous years.

3.2 Assessment and Collection of Profession Tax in Local Self Government Institutions of Thrissur District

Highlights

The Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 empowered the Grama Panchayats, Municipalities and Municipal Corporations to levy profession tax from every company/person who transacts business or exercise profession in their respective areas. Profession tax constituted 42.97 per cent of tax revenue in Grama Panchayats and 23.92 per cent in Urban Local Bodies. There were lapses in issue of notices to the assessees and in recording their details. The Local Self Government Institutions (LSGIs) failed to take timely action against the employers who did not assess and collect tax from their employees. The performance of LSGIs in collection of tax was not satisfactory.

- **Due to non-issue of notices requiring the employers to assess tax of their employees, 26 to 43 institutions did not assess their employees during 2001-02 to 2005-06 in ULBs test checked.**

(Paragraph 3.2.9.2)

- **Failure of six LSGIs to monitor compliance by the employers after issue of notices resulted in non-assessment of tax of employees of 5 to 439 institutions during 2001-02 to 2005-06.**

(Paragraph 3.2.9.3)

- **Fifteen Grama Panchayats out of 19 did not maintain traders lists through which all traders could have been assessed.**

(Paragraph 3.2.10.3)

- **Arrears of profession tax amounting to Rs.48.31 lakh pending collection in Thrissur Corporation up to 2002-03, had become time barred and irrecoverable as no action was initiated within three years as prescribed in the rules.**

(Paragraph 3.2.11.2)

- **Delay of eight years in revision of rates of tax in Urban Local Bodies resulted in short assessment of profession tax in urban areas.**

(Paragraph 3.2.11.3)

- **Accounting records such as assessment books, demand registers and arrear demand registers were not maintained properly resulting in tax arrears and tax becoming time barred and irrecoverable.**

(Paragraphs 3.2.12.2 to 3.2.12.5)

- **Though methods of assessment, levy and collection of profession tax are the same in urban and rural areas, Kerala Panchayat Raj (Profession Tax) Rules, 1996 and Kerala Municipality (Profession Tax) Rules, 2005 differ in respect of several provisions resulting in disparity in taxation.**

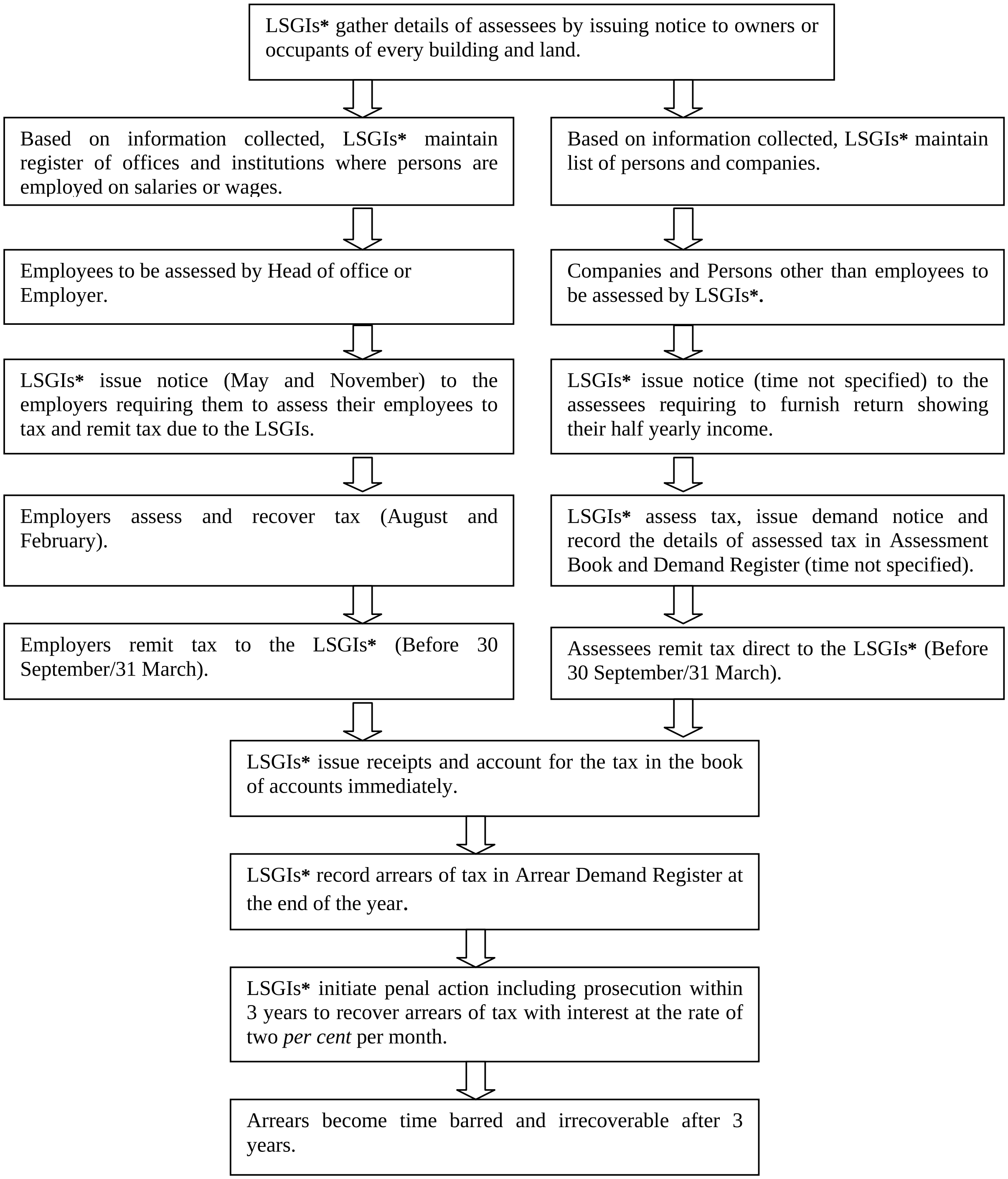
(Paragraph 3.2.13.2)

3.2.1 Introduction

Assessment, levy and collection of profession tax in Grama Panchayats (GPs) is governed by sections 204 and 205 of Kerala Panchayat Raj Act, 1994 (KPR Act) and by sections 245 to 259 of Kerala Municipality Act,1994 (KM Act) and Rules made thereunder in Urban Local Bodies (ULBs). Profession tax is leviable in every half year from every company/person who transacts business or exercises profession generally within the area of the LSGI for not less than sixty days, based on income/turnover as prescribed in the Rules. Physically handicapped persons, blind persons, beedi workers, cashew factory workers, tile brick pottery workers and developers of Special Economic Zones (SEZ) were exempted from payment of profession tax. In the absence of consolidation of accounts of all LSGIs, the State-wide picture of levy and collection of profession tax was not available.

3.2.2 Organisational Set up

The Municipal Corporations (5), Municipalities (53) and Grama Panchayats (999) in the State are empowered to assess and collect profession tax from the assessees in their respective areas of jurisdiction. The employer or head of office is responsible for the assessment, levy and collection of profession tax from employees whereas the profession tax from other assessees is assessed by the Standing Committee in GPs and by the Secretary in ULBs. However, the Standing Committee did not exercise this power in any of the GPs test checked and assessment was made instead by the Secretary. In April 2006 the rule was amended transferring the power of assessment from the Standing Committee to the Secretary. A diagrammatic representation of different stages of assessment, collection and accounting of tax and recovery of arrears is given below:-



A review of the system of assessment and collection of profession tax was conducted by Audit, and is discussed below.

[*] LSGIs except DPs and BPs.

3.2.3 Audit Objectives

The objectives of the review were to:

- evaluate the efficiency of the system existing in Municipal Corporations, Municipalities and GPs for the assessment, demand, collection and accounting of profession tax.
- ascertain whether the rules and procedures for assessment, collection and accounting of revenue provided sufficient assurance that no revenue remained unrealised.
- the manpower requirement was properly assessed and provided.
- verify whether the monitoring and internal control mechanism in the LSGIs are adequate for mitigating the risks in assessment, levy, collection and accounting of profession tax.

3.2.4 Audit Criteria

Audit criteria used for the evaluation of effectiveness of assessment and collection of profession tax by LSGIs were:-

- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 relating to profession tax.
- Provisions of Kerala Panchayat Raj (Taxation, Levy and Appeal) Rules, 1996 relating to profession tax.
- Kerala Municipality (Profession Tax) Rules, 2005
- Kerala Panchayat (Accounts) Rules, 1965
- Orders and guidelines issued by Government relating to profession tax

3.2.5 Audit Methodology and Scope

The review was conducted from May to August 2006 with reference to the records of one Municipal Corporation[1], one Municipality[2], and nineteen Grama Panchayats[3]in Thrissur District. Evidence was gathered from assessment records such as demand notices, collection registers and copies of receipt books, DCB statements, etc., of the concerned LSGIs.

3.2.6 Audit Findings

Important audit findings are discussed below under the following sections:

- Tax Revenue
- Assessment
- Collection
- Accounting
- Lacunae in Acts and Rules
- Internal control and monitoring
- Staff requirement.

[1] Thrissur
[2] Kodungallur
[3] Adat,Annamanada,Cherpu,Choondal,Kadukutty,Kaiparambu,Kodakara,Kolazhy,Koratty, Mala, Mathilakom,Methala,Mulankunnathukavu,Mulloorkara,Nenmanikkara, Parappukkara,Pudukkad, Vallathol Nagar and Wadakkanchery.

3.2.7 Tax Revenue

The trend of collection of tax revenue by the two ULBs and 19 GPs test checked during the period from 2001-02 to 2005-06 was as given in the table below:

(Rupees in crore)

Year	Profession Tax			Other Taxes			Total Taxes		
	ULBs	GPs	Total	ULBs	GPs	Total	ULBs	GPs	Total
2001-02	1.70	1.18	2.88	5.81	1.45	7.26	7.51	2.63	10.14
2002-03	1.90	1.36	3.26	6.54	1.65	8.19	8.44	3.01	11.45
2003-04	2.02	1.42	3.44	7.76	1.99	9.75	9.78	3.41	13.19
2004-05	2.30	1.38	3.68	7.24	1.90	9.14	9.54	3.28	12.82
2005-06	2.83	1.51	4.34	6.84	2.10	8.94	9.67	3.61	13.28
Total	**10.75**	**6.85**	**17.60**	**34.19**	**9.09**	**43.28**	**44.94**	**15.94**	**60.88**
Annual Average/ LSGI	**1.08**	**0.07**	**0.17**	**3.42**	**0.09**	**0.41**	**4.50**	**0.17**	**0.58**

During the period 2001-02 to 2005-06, there was an increase in collection of profession tax in ULBs from Rs.1.70 crore to Rs.2.83 crore and from Rs.1.18 crore to Rs.1.51 crore in GPs. Out of the total tax revenue of Rs.60.88 crore, profession tax collected was Rs.17.60 crore which constituted 28.91 *per cent* of the total tax receipts. Though the percentage of profession tax to the total tax revenue was 42.97 and 23.92 in GPs and ULBs respectively, the annual average profession tax revenue of a ULB at Rs1.08 crore was more than 15 times that of a GP.

3.2.8 Assessment

KPR Act and KM Act, categorise assessees into two classes for assessment purpose as:

(i) Persons employed in offices/institutions

(ii) Persons other than those employed, and Companies/Institutions.

3.2.9 Assessment of employees

3.2.9.1 *Non-maintenance of Register of offices and institutions*

The register containing the names of offices and institutions within the area of jurisdiction of the LSGIs which were liable to recover profession tax from their employees was not maintained in two ULBs[1] and six GPs[2] out of 21 LSGIs test checked. In the absence of the register, it was not possible to ensure whether employees of such offices and institutions were assessed to profession tax.

3.2.9.2 *Non-assessment of employees of institutions due to non issue of notices by ULBs.*

In the ULBs test checked, employers or heads of offices of 26 to 43 institutions did not assess their employees during the period from 2001-02 to 2005-06, as detailed in the table below:

---

[1] Kodungallur Municipality and Thrissur Corporation.

[2] Kodakara,Mala, Mathilakom, Methala, Nenmanikkara and Parappukkara.

Sl No	Name of ULB	Number of institutions that did not assess their employees				
		2001-02	2002-03	2003-04	2004-05	2005-06
1	Thrissur Corporation	36	30	20	33	37
2	Kodungallur Municipality	---	---	6	6	6
	Total	**36**	**30**	**26**	**39**	**43**

In two ULBs, institutions numbering 26 to 43 did not assess their employees during 2001-06

The ULBs did not issue notices to the employers requiring them to furnish names of all employees with a statement of their salary or income and to assess all those employees who were liable to pay tax. As a result, employees of these institutions escaped assessment, though the institutions were assessed to tax. The failure to issue notices in time resulted in the profession tax prior to 2002-03 remaining unassessed, and becoming time barred and hence irrecoverable, according to the provisions of the Acts *ibid*.

3.2.9.3 *Non-assessment of profession tax by heads of office/employers despite issue of notices*

Five to 439 employers did not assess and collect tax during 2001-02 to 2005-06.

The KPR Act as well as the KM Act stipulate that every head of office or employer should assess all employees in his/her institution who are liable to pay profession tax and recover the amount from them and remit to the LSGIs concerned. Though six LSGIs issued notices to heads of offices/employers requiring them to assess and recover profession tax from their employees, 5 to 439 heads of offices/employers did not assess and collect tax from the employees during the period 2001-02 to 2005-06 as detailed below:-

Sl No	Name of LSGI	Number of heads of offices/employers who did not assess their employees									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Thrissur Corporation	257	395	262	331	290	344	NA*	NA	NA	NA
2	Kodungallur Municipality	42	41	21	43	15	16	13	17	NA	NA
3	Nenmanikkara GP	1	2	2	2	1	1	---	2	---	3
4	Parappukara GP	---	---	2	2	4	4	---	---	3	3
5	Annamanada GP	---	1	---	---	1	1	1	3	2	3
6	Cherpu GP	---	---	---	---	---	---	---	32	---	---
	Total	**300**	**439**	**287**	**378**	**311**	**366**	**14**	**54**	**5**	**9**

The institutions which did not assess their employees included Government offices and Banks in Thrissur Corporation and Kodungallur Municipality. The failure of the LSGIs to monitor compliance by the employers after the issue of notices resulted in non-collection of tax by such employers. None of the LSGIs took any penal action provided in the rules to recover the arrear tax from the employers concerned, rendering the arrears prior to the period 2002-03 becoming time barred and irrecoverable.

3.2.9.4 *Non-assessment of employees by Government offices, Banks and other Companies in ULBs*

A detailed scrutiny of institutions which did not assess profession tax of their employees in Thrissur Corporation and Kodungallur Municipality during 2001-02 to 2003-04 revealed that Central Government institutions/offices ranging from 9 to 25 and state Government institutions/offices ranging from 56 to 103 did not assess their employees during 2001-02 to 2003-04 as detailed below:

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* NA=Not available.

Sl No	Category of office	Number of institutions which did not assess employees						Total
		2001-02		2002-03		2003-04		
		Ist half	IInd half	Ist half	IInd half	Ist half	IInd half	
1	Central Government offices and institutions	17	25	9	11	10	14	86
2	State Government offices and institutions	60	97	56	103	68	78	462
3	Banks, Insurance companies and Co-operative societies	57	103	31	41	34	39	305
4	Other establishments	165	211	187	219	193	229	1204
	Total	**299**	**436**	**283**	**374**	**305**	**360**	**2057**

Employees of major institutions such as government offices, banks and insurance companies escaping assessment of profession tax indicated the degree of laxity of the ULBs in monitoring assessment of tax by the heads of offices/employers. No action was taken against the heads of offices/employers for violating the Acts and Rules.

3.2.10 Non-Assessment of companies and persons other than employees

3.2.10.1 *Non-maintenance of data of persons and companies assessable to tax*

None of the GPs test checked kept a list of companies/persons liable to pay profession tax.

Rule 10 A of Kerala Panchayat Raj (Profession Tax) Rules, 1996, stipulated that the GPs should serve notice in form VI on a company or person requiring it/him to furnish return showing the income on which profession tax was leviable. For serving notices, the GPs should have data about such companies/persons. None of the GPs test checked kept a list of such companies/persons liable to pay profession tax. In the absence of data of companies liable to be assessed to profession tax, the GPs could not serve notices to them.

3.2.10.2 *Non assessment of companies and traders in ULBs*

Two ULBs test checked did not assess profession tax in respect of companies/traders/persons who either assessed tax on their employees or were licensees of the ULBs, during 2001-02 to 2005-06, as detailed below:

Sl No	Name of ULB	Number of institutions escaped assessment									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Thrissur Corporation	64	64	31	31	59	59	58	58	67	67
2	Kodungallur Municipality	---	---	---	---	5	5	5	5	6	6
	Total	**64**	**64**	**31**	**31**	**64**	**64**	**63**	**63**	**73**	**73**

This indicated that the list, of companies/traders/persons who were liable to be assessed to profession tax, maintained by the above ULBs was incomplete resulting in non-issue of notice to them. Consequently, demand could not be raised against them leading to the claims prior to 2002-03 becoming time barred and irrecoverable.

3.2.10.3 *Traders in Panchayats not assessed*

Of the 19 GPs test checked, only four GPs[1] maintained a list of traders and institutions. In the remaining GPs profession tax was assessed and levied only on those traders who approached the Panchayats for obtaining/renewing licences. In the absence of a traders list, the number of traders/ institutions which escaped assessment could not be ascertained in audit.

3.2.10.4 *Dangerous and Offensive (D&O) Trade licensees whose details were available escaped assessment*

126 D & O Trade licensees in two[2] GPs were not assessed to profession tax. The failure of the GPs to assess them resulted in loss of revenue of Rs.0.67 lakh. As the details about the assessees and their income were available with the GPs, the non-assessment lacked justification and needs to be investigated for fixation of responisbility.

3.2.10.5 *Non-assessment of companies and institutions*

Profession tax was leviable on all companies which transacted business in the Panchayat area for not less than 60 days in aggregate in a half year. Four out of 19 GPs test checked failed to assess profession tax on companies during the period from 2001-02 to 2005-06 as shown below:

Sl No	Name of GP	Number of companies not assessed									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Kodakara	3	3	4	4	4	4	12	12	11	11
2	Mala	8	8	8	8	7	7	10	10	10	10
3	Mathilakam	2	2	2	2	2	2	2	3	4	4
4	Methala	9	9	9	9	9	9	9	9	10	10
	Total	**22**	**22**	**23**	**23**	**22**	**22**	**33**	**34**	**35**	**35**

The loss of revenue on account of non-assessment of companies works out to Rs.1.86 lakh calculated at the average rate of Rs.685[3] per half year.

3.2.10.6 *Agriculturists not assessed*

Though the GPs were required to maintain a list of persons deriving income from agriculture who were liable to be assessed to profession tax, none of the GPs test checked maintained such a list. In the absence of the list, the number of persons who escaped assessment and the resultant short collection of tax could not be ascertained in audit.

3.2.10.7 *Non assessment of contractors*

All contractors who either execute works within the area of the LSGI for not less than 60 days in aggregate in a half year or who reside within the area of the LSGI for not less than 60 days in aggregate in a half year and execute works outside the area, are liable to be assessed to profession tax. None of the LSGIs test checked assessed even those contractors who undertook the works of the respective LSGIs. The number of such contractors who escaped assessment ranged from 60 to 192 each year during the period of review as detailed below:

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[1] Adat, Choondal, Mulamkunnathukavu and Nenmanikkara.
[2] Kodakara and Methala.
[3] Average of minimum rate of Rs.120 and maximum rate of Rs.1250.

Year	Half year	Number of contractors who escaped assessment		
		Panchayats	ULBs	Total
2001-02	I	26	34	60
	II	28	37	65
2002-03	I	31	47	78
	II	51	42	93
2003-04	I	51	55	106
	II	117	56	173
2004-05	I	47	57	104
	II	122	70	192
2005-06	I	87	84	171
	II	110	74	184
Total		**670**	**556**	**1226**

The profession tax leviable from these contractors was Rs.8.40 lakh calculated at the rate of Rs.685 per half year.

3.2.10.8 *Non-assessment of vehicle owners*

Permit holders plying vehicles on rent/stage carriers/goods carriers were liable to be assessed to profession tax. None of the LSGIs test checked assessed the above category of persons/companies except Thrissur Corporation which assessed a few companies. The number of assessees in this category who escaped assessment and the amount of tax escaped could not be ascertained in audit as no details of these assessees were available with the LSGIs.

3.2.10.9 I*nvestment income not assessed*

None of the GPs maintained a list of persons who derived investment income such as rent on buildings, interest on deposits, etc. and assessed profession tax on such persons. Non-maintenance of an exhaustive list of persons earning income from investments led to non-assessment and non-collection of tax. The number of persons who escaped assessment could not be ascertained in audit as no data of such persons were available.

3.2.11. Collection

3.2.11.1 *Method of collection*

Collection of profession tax from employees is made by their employers by deduction from their salary or wages, whereas self drawing officers, self employed persons and companies remit the tax direct to the LSGIs. On receipt of the tax, the LSGIs issue receipts to the employer or the assessee, as the case may be, and account for the tax in the books of accounts prescribed. The profession tax collected by the selected LSGIs during the period of review was Rs.17.60 crore (see table under paragraph 3.2.7).

3.2.11.2 *Arrears pending collection*

As Thrissur Corporation did not maintain arrear demand register for the period 2004-2005 and 2005-06, details of arrear profession tax pending collection up to 31 March 2004 only was available as detailed below:

(Rupees in lakh)

Year	Arrears pending collection	
	No of assessees	Amount
Up to 98-99	Not available	20.97
1999-2000	Not available	Not available
2000-01	2720	7.32
2001-02	3081	8.55
2002-03	3856	11.47
2003-04	3974	11.67
Total	**13631**	**59.98**

Profession tax from 13631 assessees amounting to Rs.59.98 lakh was pending collection as on 31 March 2004.

The profession tax due from 13631 assessees amounting to Rs.59.98 lakh was pending collection as on 31 March 2004. Out of this, the arrears up to 2002-03, amounting to Rs.48.31 lakh became irrecoverable under Section 539 of KM Act, as no action was initiated within three years of their falling due. The amount of arrears and its recovery during the period 2004-05 and 2005-06 could not be ascertained in audit as the arrear demand register was not maintained during this period.

3.2.11.3 *Delay in revision of rates of profession tax in ULBs*

Delay in revision of tax rates, resulted in short assessment of profession tax in urban areas.

The half yearly rates of profession tax leviable in GPs as prescribed in Rule 3 (1) of KPR (Profession Tax) Rules, 1996 ranged from Rs.10 to Rs.1250 on half yearly income of Rs.2401 and above. Government revised these rates with effect from 1 April 1997. Revised rates ranged from Rs.120 to Rs.1250 on half yearly income of Rs.12000 and above. These rates were made effective in the ULBs only from 25 May 2005. The rates at which the ULBs collected tax ranged from Rs.9 to Rs.1250 on income exceeding Rs.3600. The unjustified delay in framing the Kerala Municipality (Profession Tax) Rules led to short assessment of profession tax in urban areas.

3.2.12 Accounting

3.2.12.1 *Books of accounts*

The Secretary of every GP is required to maintain the following books of accounts for accounting assessment, demand and collection of profession tax.

Sl No	Name of book of accounts	Purpose	Authority
1	Assessment book	Details of assessment in respect of each assessee	Rule 5 of KPR (Taxation, Levy and Appeal) Rule, 1996
2	Demand Register	Details of demands, collection refund/write off and balance	Form VIII of KP (Accounts) Rules, 1965
3	Collection Register	Details of tax remitted including arrears	Form XXXII of KP (Accounts) Rules, 1965
4	Cash Book	Details of tax and arrears remitted	Form XXIX of KP (Accounts) Rules, 1965
5	Register of Receipts	Details of tax remitted, including arrears	Form XXVII of KP (Accounts) Rules, 1965
6	Arrear Demand Register	Details of balance outstanding at the end of each year in the Demand Register	Form XII of KP (Accounts) Rules, 1965

Maintenance of assessment book, demand register and arrear demand register by the GPs was not satisfactory as described below:-

3.2.12.2 *Non-maintenance of Assessment books*

Rule 5 of KPR (Taxation, levy and appeal) Rules, 1996, provides that the Secretary shall maintain assessment books in specified form and such books may contain the names and details of the persons and properties which may be liable to be taxed. Out of 19 GPs test checked only one GP[1] maintained the assessment books indicating details of assessment during 2001-02 to 2005-06.

3.2.12.3 *Demand Registers not maintained in prescribed form*

The GPs were required to maintain demand register as prescribed in form VIII of the Kerala Panchayat (Accounts) Rules, 1965 indicating names of assessees, half yearly income, tax due, tax collected, refund/write off and balance amount of tax. Instead of maintaining the demand register in Form VIII, 16 GPs maintained only a register in Form V during 2001-02 to 2005-06 as prescribed in Rule 18 of KPR (PT) Rules. This register which was intended to watch the progress of demand and levy of tax from the employees alone, did not serve the purpose of the demand register.

3.2.12.4 *Recording figures of collection as demand*

As a result of non-maintenance of assessment books indicating the details of assessment as mentioned in paragraph 3.2.12.2, 10 GPs[2] out of 19 did not record the amount of tax assessed in the Demand Register. Instead, the amount of tax actually collected was shown as demand at the time of noting the collection in Register in Form V. As the figures of demand and collection were the same there was no arrear as per the register at the end of the year. This defeated the purpose of maintaining the demand register.

3.2.12.5 *Non-preparation of DCB Statement in time*

As the LSGIs did not prepare DCB statements, tax arrears of every year was not ascertainable.

Though the LSGIs were required to prepare and submit the Annual Financial Statement (AFS) along with Demand Collection Balance (DCB) statement not later than 31 July of the succeeding year to the DLFA, only 81 LSGIs out of 1223 had submitted the AFS and DCB for the year 2005-06 as of January 2007. As the LSGIs test checked did not prepare DCB statements, the tax arrears of each year was not ascertainable. As tax collected was shown as demand in the demand register as mentioned in the previous paragraph, DCB statements even if prepared would not have indicated the correct position of arrears.

3.2.12.6 *Non-maintenance of Arrear demand register*

According to Rule 12 (1) of the Kerala Panchayat (Accounts) Rules, 1965 the balance outstanding at the end of the year in all demand registers shall be transferred to the respective arrear demand register in Form XII. As demand registers were not maintained in Form VIII as mentioned in paragraph 3.2.12.3, the arrears of tax at the end of each year were not known. Since the arrear demand register was not maintained, the collection of arrears could not be watched in 10 LSGIs. Moreover, when the GPs received arrear tax, that amount had to be shown as supplementary demand in the current demand

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[1] Mulamkunnathukavu.

[2] Annamanada,Cherpu,Choondal,Kadukutty,Kaiparambu,Kolazhy,Koratty, Mulamkunnathukavu, Nenmanikkara, and Pudukkad

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register which jeopardised the internal control mechanism. Due to non-maintenance of arrear demand register, the GPs could not take any action for collection of arrears, which led to arrears of tax becoming time barred and irrecoverable.

3.2.13 Lacunae in Acts and Rules

3.2.13.1 *Disparity in methods of assessment of companies/self employed persons in Panchayat and Municipal areas*

In rural areas the profession tax on every company/self employed person who transacts business is determined in accordance with Kerala Panchayat Raj (Profession Tax) Rules, 1996. However, according to Kerala Municipality (Profession Tax) Rules, 2005, only 11 categories of companies/self employed persons are assessable to profession tax in urban areas. Assessees who do not come under these categories such as hospitals, tutorial colleges, vehicle owners having less number of vehicles than that prescribed in the rules are not liable to be assessed to tax in urban areas even if their income is in the taxable limit.

3.2.13.2 *Variant provisions in Rules for assessment in rural and urban areas.*

The methods of assessment, levy and collection of profession tax in rural and urban areas prescribed in the KPR Act and in the KM Act are the same. However, several provisions of the Kerala Municipality (Profession Tax) Rules, 2005 (KM (PT) Rules) governing assessment of profession tax in urban areas and those in the Kerala Panchayat Raj (Profession Tax) Rules, 1996 (KPR(PT) Rules) differ from each other. The major variant provisions in the two sets of rules are given in the table below:

Sl No	KPR (PT) Rules, 1996	KM (PT) Rules, 2005
1	Grama Panchayat to determine the tax subject to the maximum prescribed in Rule 3 (1)	Tax leviable at rates fixed by the Government as per rules.
2	Percentage of turn over of company or person who transacts business prescribed for determining income for assessing tax.	No method to fix income for assessment prescribed.
3	Assessable Companies/persons are not defined	Assessable Companies/persons are limited to 11 categories
4	Non recovery of profession tax become personal liability of the employer	No such provision.

Non-maintenance of uniformity while framing the above sets of rules resulted in disparity in assessment of profession tax in rural and urban areas.

3.2.13.3 *Disparity in powers given to GPs and ULBs in adopting the rate of profession tax*

Rule 3 of KPR (PT) Rules, empowered the GPs to determine the rates of tax leviable subject to the maximum rates prescribed therein. For the purpose, assessees were classified into eight categories based on their half yearly income. But the KM (PT) Rules did not give the authority for determining the rate of tax to the ULBs and instead fixed the tax rates leviable from the assessees. The GPs though had the power to determine the tax rates did not exercise the power but levied the maximum tax as provided in the Rules. Non-exercise of the powers given to GPs and non-entrustment of the powers to the ULBs to determine the rates of tax leviable are against the spirit of decentralisation.

3.2.14 Other points of interest

The companies functioning in Infopark, Kochi and Special Economic Zone were exempted from paying profession tax. However, it was noticed that such companies did not also assess their employees to profession tax. The details are given below:

3.2.14.1 *Non assessment of employees by IT companies in Infopark.*

IT companies failed to assess and levy profession tax amounting to Rs.27.63 lakh.

Infopark, Kochi is a software technology park established by the State Government (October 2004) in Thrikkakara Grama Panchayat for providing infrastructure facilities to Information Technology (IT) companies and IT Enabled Service Companies. Twenty nine IT companies such as Tata Consultancy Services, Wipro Technologies, IBS Software services, etc. set up units in the Infopark during 2004-05 and 2005-06, where 3039 software engineers/other staff were employed. Since the GP did not collect the details about the companies from the Infopark authorities and issue notice requiring them to assess their employees to tax, some IT companies failed to assess and collect profession tax from their employees as detailed below:

Sl No	Particulars	2004-05		2005-06	
		Ist half	IInd half	Ist half	IInd half
1	Number of companies who failed to assess tax	6	16	13	13
2	Number of employees not assessed	96	2134	902	902

There was no justification for not initiating penal action under KPR Act against the defaulters, which led to loss of revenue of Rs.27.63 lakh calculated at the average rate of Rs.685 per employee per half year.

3.2.14.2 *Non-assessment of employees by the companies in Cochin Special Economic Zone*

Cochin Special Economic Zone (CSEZ) is an industrial park established by the Central Government in 1986 in Thrikkakara Grama Panchayat area, for housing industrial units which import machinery and raw materials and manufacture products exclusively for export. There were 45 units functioning during 2001-02 which increased to 85 during 2005-06. More than 50 *per cent* of these units did not assess their employees during the period from 2001-02 to 2005-06 as detailed below:

Year	Total number of units		Number of units who assessed their employees		Number of units who did not assess their employees	
	Ist half year	IInd half year	Ist half year	IInd half year	Ist half year	IInd half year
2001-02	45	45	22	21	23	24
2002-03	50	50	20	20	30	30
2003-04	55	55	26	21	29	34
2004-05	74	74	33	18	41	56
2005-06	85	85	21	23	64	62

As the details about the number of persons employed in these units were not available with the GP the exact loss of revenue due to non-assessment of employees by the employers could not be ascertained in audit. The failure of the GP to initiate action under KPR Act resulted in non-assessment.

3.2.15 Internal Control and monitoring

3.2.15.1 *Non-adherence to rules for enforcing internal control*

Weak internal control system resulted in non-assessment of all potential assessees, under assessment, and recovery of arrear tax becoming time barred.

KPR (PT) Rules and KM (PT) Rules contain provisions for internal control and monitoring for proper assessment, levy and collection of profession tax in time from all potential assessees. Issue of notices for collecting details of half yearly income of all assessees, sending demand notices, keeping demand register and arrear demand register, etc. are the internal control measures prescribed in the Rules to mitigate the risk of assessees escaping levy of profession tax and the tax arrears becoming time barred. As discussed in the preceding paragraphs, the internal control system prescribed in the Rules was not followed by the LSGIs resulting in non-assessment of potential assessees, under assessment, time barred arrear tax, etc.

3.2.15.2 *Defective returns*

According to Section 205 F (2) of the KPR Act, each head of office/employer should assess and recover the profession tax due from their employees and remit the amount to GPs with a list of employees containing name, designation, half yearly income and amount of tax recovered. These details were required to be furnished to the GPs in order to enable them to monitor whether the tax collected was correct or not. The statements furnished by 60 heads of offices/employers in three GPs[1] during 2001-02 to 2005-06 were defective as detailed below:-

(i) Bonus/festival allowances were not reckoned for assessment of tax.

(ii) Amount of pay and allowances under each category received by each employee was not given.

(iii) Income of each employee was not mentioned.

As the returns were defective, the GPs were unable to verify the correctness of assessment made by the employers.

3.2.15.3 *Inadequate staff for collection of taxes*

With devolution of functions, the work load of staff of LSGIs increased manifold. As the services of the staff available prior to devolution was also to be utilised for carrying out transferred functions, the available staff strength had become insufficient for performing traditional functions and collection of tax. This also contributed to non-maintenance of vital data about assessees and tax collection including arrears.

3.2.16 Conclusion

- There were lapses on the part of the LSGIs in assessment resulting in loss of potential revenue.
- Maintenance of accounts records relating to demand, collection and balance of profession tax by the LSGIs was not satisfactory.

[1] Kodakara,Mala and Mathilakom.

- Unlike in KPR Act and Rules, arrears of tax due from the employees is not treated as arrears chargeable on the employer under KM Act and Rules, resulting in non-recovery of tax.
- There was no effective system to collect arrears of tax in time and to avoid arrears becoming time barred.

3.2.17 Recommendations

- Government should ensure that the LSGIs maintain an up-to-date database of potential assessees to bring all assessees under the profession tax net.
- Government should give adequate publicity notifying the dates of payment of tax during each half year.
- LSGIs should maintain proper accounting records relating to profession tax.

3.2.18 Response of Government

During discussion made with the Principal Secretary, LSGD on 13 March 2007, he generally agreed with the conclusions and the recommendations.

3.3 Transfer of Functions and Functionaries to Local Self Government Institutions

Highlights

From October 1995, functions relating to matters enlisted in the Schedules to Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 were transferred to the LSGIs. The transfer of functions and functionaries to the LSGIs was un-coordinated resulting in non-transfer of functions as envisaged, inter-tier overlapping of functions and activities, improper functioning of transferred institutions, and funds not being transferred in proportion to the functions transferred.

- **Government continued to provide funds to Scheduled Caste Development Department during 2001-02 to 2005-06 (Rs.181 crore) for construction of houses for SC beneficiaries which was a function transferred to Grama Panchayats. This led to parallel implementation of housing schemes by the LSGIs and by the Government.**

(*Paragraph* 3.3.6.4)

- **Three District Panchayats and five Block Panchayats executed 176 projects costing Rs.9.89 crore not relating to functions transferred to them.**

(*Paragraphs* 3.3.*6.6* & 3.3.6.7)

- **Income of Rupees one crore derived by four transferred institutions was remitted to the Government and not to the concerned LSGIs.**

(*Paragraph* 3.3.7.1)

- **Implementation of all the major schemes relating to the transferred functions continued with the respective departments. In 11 such schemes implemented during 2001-02 to 2005-06, expenditure of Rs.306.47 crore was incurred without involvement of LSGIs.**

(*Paragraph* 3.3.8.2)

- **Rupees 40 crore earmarked as grants-in-aid to LSGIs in the State budget for 2001-02 for implementation of the tribal sub-plan was released to the Tribal Directorate instead of to the LSGIs. As a result the transferred functions under Tribal Development could not be carried out.**

(*Paragraph* 3.3.9.2)

- **In 79 health care institutions transferred to the LSGIs, though in-patient wards were constructed, they could not be made functional for want of doctors and staff and other infrastructure facilities.**

(*Paragraph* 3.3.10.5)

- **The internal control and monitoring system was not effective as the monthly progress reports and quarterly reports from the monitoring committee of LSGIs were not submitted and the Decentralisation Cell was not constituted.**

(*Paragraphs* 3.3.11.2 and 3.3.11.3)

3.3.1 Introduction

Visualising LSGIs as institutions of self government, the 73^{rd} and 74^{th} Amendment Acts left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of functions, functionaries and funds to LSGIs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. In accordance with Article 243G of the Constitution, the State Legislative Assembly enacted the Kerala Panchayat Raj Act, 1994 (KPR Act) and Kerala Municipality Act, 1994 (KM Act). The Acts, *interalia*, envisaged transfer of functions of various departments of the State Government to the LSGIs together with the staff to carry out the functions transferred. Accordingly, the functions relating to matters enumerated in the Third, Fourth and Fifth Schedules of the KPR Act and First Schedule of KM Act were transferred with effect from 2 October 1995 to the Grama Panchayats (GPs), Block Panchayats (BPs), District Panchayats (DPs) and Municipalities/Corporations respectively. The transfer of functions and related activities was reviewed by Audit and is discussed below:

3.3.2 Audit Objectives

The audit objectives were to evaluate whether:

- the functions and functionaries envisaged to be transferred to the LSGIs were actually transferred
- the transfer of functions to the LSGIs was effective
- the functionaries transferred to the LSGIs were adequate/ proportionate to the functions transferred
- the functions transferred were carried out effectively and efficiently
- adequate monitoring and internal control system exists in the LSGIs for effective planning and execution of functions/activities.

3.3.3 Audit criteria

The criteria used to review the effectiveness of transfer of functions and functionaries to LSGIs were:

- Provisions of KPR Act and KM Act relating to transfer of functions
- Third, Fourth and Fifth Schedules of KPR Act and First Schedule of KM Act.
- Government orders transferring functions, institutions, schemes, functionaries, funds, etc.
- Guidelines fixing norms for transfer of functions
- Plan documents of LSGIs

3.3.4 Methodology and Scope

The Review covering the period from 2001-02 to 2005-06 was conducted during the period May to August 2006 with reference to the records of 32

LSGIs (four District Panchayats[1] (DPs), eight Block Panchayats[2] (BPs), 16 Grama Panchayats[3] (GPs) and four Municipalities[4]). Evidence was gathered from plan and implementation documents, files relating to deployment/ sanctioned strength and from government orders/guidelines, etc. In addition, records of Directorates of Agriculture, Animal Husbandry, Scheduled Caste Development, Scheduled Tribe Development and Industries and Commerce also were test checked.

3.3.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.3.6 Transfer of functions

3.3.6.1 *Activity mapping among the LSGIs*

Co-existence of various tiers of Self Governing Institutions pre-supposes balanced distribution of powers and functions among them, the basic criteria for such distribution being that a function should be performed by a tier to which it belongs naturally and there be a mechanism for inter-tier co-ordination in case of overlapping functions. The KPR Act and KM Act as amended in 1999 distributed functions relating 26 subjects among the three tiers/levels of PRIs and ULBs respectively. The details in respect of 19 activities relating to the above subjects are given below.

Sl No	Activity	Number of functions transferred to			
		GPs	BPs	DPs	ULBs
1	Agriculture	13	6	12	14
2	Animal Husbandry and Dairy Farming	9	3	8	12
3.	Minor Irrigation	3	1	3	4
4	Fisheries	6	1	7	8
5.	Social forestry	3	-	-	3
6.	Small Scale Industries	3	3	9	8
7	Housing	3	2	2	7
8	Water supply	2	-	2	2
9	Electricity and Energy	2	1	2	3
10	Education	3	1	7	6
11	Public works	2	2	2	2
12	Public Health & sanitation	5	1	3	6
13	Social Welfare	5	1	2	7
14	Poverty Alleviation	3	2	1	5
15	Scheduled caste/scheduled tribe development.	5	2	2	9
16	Sports and culture	2	-	1	1
17	Public Distribution system	3	-	-	3
18	Natural Calamities Relief	2	-	-	2
19	Cooperation	2	2	2	2
	Total	**76**	**28**	**65**	**104**

The transfer of functions to different tiers of Panchayats was to be done in such a way that none of the functions transferred to a particular tier overlapped

[1] Alappuzha, Kannur, Palakkad and Thiruvananthapuram

[2] Ambalapuzha, Athiyannur, Edakkad, Kanjikuzhy, Kannur, Kilimanoor, Malampuzha and Palakkad.

[3] Athiyannur, Chembilode, Edakkad, Kanjikuzhy, Kanjiramkulam, Malampuzha, Mankara, Parali, Marutha Road, Nagaroor, Pallikunnu, Pazhaya Kunnummel , Punnapra North, Punnapra south, Thanneermukkaom and Valapattanam.

[4] Alappuzha, Kannur, Neyyattinkara and Ottappalam.

with that of another as detailed in the activity mapping chart given in **Appendix VI**

3.3.6.2 *Inadequate transfer of functions*

The functions relating to minor forest produce, distribution of electricity and implementation of land reforms though listed in the XI Schedule of the Constitution and mandated under the KPR Act for transfer to the PRIs were not transferred. Similarly, no function relating to fire services which was among 18 matters to be transferred to ULBs as per Seventy Fourth Constitution Amendment Act was transferred.

3.3.6.3 *Deficiencies noticed in transferred functions relating to housing*

According to the KPR Act and the KM Act, 'providing assistance for construction of houses to individual beneficiaries' is a function transferred to the GPs and ULBs. Review of the 'housing activity' revealed that in spite of the transfer, Government and other tiers of Panchayats carried out the function resulting in parallel implementation, overlapping of functions and poor implementation of housing as described in the succeeding paragraphs.

3.3.6.4 *Parallel implementation*

The Scheduled Caste Development Department during 2001-02 to 2005-06 incurred expenditure of Rs.138.07 crore out of budget provision of Rs.181 crore for construction of houses for SC beneficiaries. During the same period GPs and ULBs also carried out the same function. The rates of assistance per unit available under the State scheme was Rs.70000 as against Rs.35000 under the scheme implemented by LSGIs. This substantial variation in rates of assistance affected the implementation of housing scheme by LSGIs as seen from the housing schemes implemented in Varkala Block Panchayat area. The Government and the Block Panchayat during 2002-03 simultaneously implemented housing schemes in the area. Out of 22 beneficiaries selected by the BP, only three beneficiaries (13.64 *per cent*) completed the construction. However, 63 out of 67 beneficiaries completed construction under the scheme implemented by the Scheduled Caste Development Department. Further, while the selection of beneficiaries of the schemes implemented by LSGIs was made by the Grama Sabha in a transparent manner, the selection of beneficiaries of the Government scheme was made by officers of the department in contravention of the guidelines that beneficiaries for such schemes should be selected by the Grama Sabha.

3.3.6.5 *Irregular implementation by BPs and DPs*

The housing functions transferred to each tier of PRIs are different from each other and the same function should not be carried out by different tiers. Providing houses to individual beneficiaries of all categories is a function exclusively transferred to GPs. Contrary to this, two LSGIs, (Varkala BP and Alappuzha DP) implemented housing projects for individual beneficiaries as detailed below:

Sl No	Name of BP/DP	Housing scheme taken up	Year	No. of units	Outlay (Rupees in lakh)
1.	Varkala BP	Assistance for purchase of land and construction of houses to SC beneficiaries	2002-03	22	11.99
2	Alappuzha DP	Assistance for construction of houses to SC beneficiaries	2005-06	70	35.00

DPs and BPs unauthorisedly carried out the functions of GPs

The implementation of the above projects was on the basis of Government orders and guidelines which indicated that the orders issued by the Government were not in conformity with the provisions of the Act. Though the selected beneficiaries in Alappuzha DP were 70, first instalment of assistance was released to 252 beneficiaries including those not selected by the Grama Sabhas (December 2006).

3.3.6.6 *Overlapping of functions*

The cardinal principle behind devolution of functions to different tiers is that what is appropriate for a given tier should be done by that tier and not by a higher level. Separate and exclusive functions were transferred to each tier of PRIs with exclusive power to administer them as per Third, Fourth and Fifth Schedules of KPR Act. In three DPs test checked 101 projects were implemented during 2001-02 to 2005-06 relating to functions transferred to BPs and GPs for which an expenditure of Rs.8.99 crore was incurred as detailed below:-

Sl. No.	Name of DPs	No. of projects relating to functions of			Expenditure (Rupees in crore)
		BPs	GPs	Total	
1	Alappuzha	2	18	20	1.41
2	Palakkad	7	35	42	6.40
3	Kannur	-	39	39	1.18
	Total	**9**	**92**	**101**	**8.99**

3.3.6.7 The following five BPs implemented 75 projects relating to functions transferred to GPs for which an expenditure of Rs.0.90 crore was incurred.

Sl. No.	Name of BPs	No. of projects relating to functions of GPs	Expenditure (Rupees in crore)
1	Ambalappuzha	13	0.04
2	Kanjikuzhi	19	0.35
3	Palakkad Rural	33	0.35
4	Malampuzha	1	0.01
5	Edakkad	9	0.15
	Total	**75**	**0.90**

Instead of spending Rs.9.89 crore for carrying out functions assigned to lower tiers of PRIs, the above DPs and BPs could have utilised the amount for implementing projects relating to functions devolved upon them.

3.3.6.8 *Implementation of projects relating to Co-operation*

Organising and strengthening of co-operative societies was an important function transferred to the LSGIs. However three DPs[1] and three Municipalities[2] did not include any project relating to this function during the period 2001-02 to 2005-06 in their annual plans. Of these LSGIs, Alappuzha DP had implemented these projects up to 2002-03. These LSGIs failed to intervene in a vital area of social importance and capacity building at the grass roots level.

3.3.6.9 *PDS activities not performed*

Examining complaints against the Public Distribution System (PDS) and implementing remedial measures, organising campaigns against offences relating to weights and measures and general supervision and guidance of ration shops, etc. are the activities with regard to PDS transferred to the GPs and ULBs. Ten test checked GPs did not carry out these devolved activities. This led to a situation where a large number of cases requiring intervention at GP level went unnoticed. These were subsequently detected during inspection by the Taluk level officers. Prompt intervention by the LSGIs, duly invoking the powers entrusted to them by the Acts, would have had a greater impact on the protection of interest of local consumers and instilled confidence in the public on the benefits of decentralisation.

3.3.6.10 *Activities not executed by LSGIs*

Two DPs and three BPs test checked did not carry out the activities and sub-activities transferred to them under Animal Husbandry, Soil Conservation, Dairy Development and Agriculture sectors as detailed below:

Sl. No.	Name of Panchayat	Function	Activities/sub-activities not carried out	Period
1	Alappuzha DP	Animal Husbandry	Disease prevention programme, propagating new methods of field trials and pilot project, local research work	2001-02 to 2005-06
2	Palakkad DP	Soil Conservation	Soil testing	2001-02 to 2005-06
3	Palakkad DP	Dairy Development	Running of dairy, extension units, promotion of milk co-operative societies	2001-02 to 2005-06
4	Ambalapuzha BP	Agriculture	Farmers training, Agricultural inputs for schemes of village level, Agricultural exhibition, Arranging agricultural loans, encouraging sericulture	2004-05 and 2005-06
5	Athiyannur BP	Agriculture	All sub functions[3]	2001-02 to 2005-06
6	Palakkad BP	Agriculture	All sub functions[3]	2001-02 to 2005-06

[1] Alappuzha, Kannur and Palakkad.
[2] Alappuzha, Kannur and Ottappalam.
[3] Farmers training, arranging agricultural inputs, conducting exhibitions, management of watersheds, mobilizing agricultural loans and encouraging sericulture.

Avoidance of such core sectors which have a direct impact on the development of the rural population indicated lack of appreciation on the part of the LSGIs of the importance of these activities in the rural scenario or set up. Reasons for not including any projects under the above functions called for are awaited. (March 2007).

3.3.7 Transfer of Institutions

Government Orders (September 1995) transferring functions and functionaries to LSGIs also envisaged transfer of institutions relating to the transferred functions. Thus, schools, primary health centres and hospitals, farms, post matric hostels, veterinary hospitals, etc., were to be transferred to the respective LSGIs. The income accruing from these institutions is to be treated as own income of the LSGIs concerned. The details of institutions transferred to each tier/level of Panchayats and ULBs are given in **Appendix VII**.

3.3.7.1 *Income from transferred institutions not remitted to the LSGIs*

Income of Rupees one crore derived by four transferred institutions was not transferred to the LSGIs.

Government issued (February 2003) orders that income derived by transferred institutions should be treated as own income of the LSGIs concerned and utilised for their development. A test check of accounts of two DPs revealed that income of Rupees one crore derived by the following transferred institutions during the period from 2003-04 to 2005-06 was not transferred to the respective DPs.

(Rupees in lakh)

Sl No	Name of DP	Name of the transferred institutions	Income not transferred			
			2003-04	2004-05	2005-06	Total
1.	Kannur	1.State seed farm, Kankol	6.49	4.56	5.90	16.95
		2.District Agricultural farm, Thaliparamba	21.95	17.39	23.94	63.28
		3. Coconut nursery, Palayad	3.42	2.05	Nil	5.47
2.	Alappuzha	Seed Development centre Veeyapuram	Nil	14.44	Nil	14.44
	Total		**31.86**	**38.44**	**29.84**	**100.14**

Out of this, Rs.87.70 lakh was remitted to the Government account. The amount of Rs.14.44 lakh shown against Seed Development Centre, Veeyapuram was the cost of seeds supplied to the State Seed Development Authority which was not collected (March 2007). This was attributable to the fact that LSGIs did not monitor the income generated by transferred institutions.

3.3.7.2 *Post-Matric Hostels not transferred*

None of the post-matric hostels was transferred to LSGIs.

Post-matric hostels intended for accommodating SC students and controlled and managed by the SC Development Department were ordered to be transferred to the respective DPs and ULBs with effect from 2 October 1995. Even after 11 years of the orders, none of the 15 hostels was transferred to the LSGIs (December 2006). During the period from 2001-02 to 2005-06, Government provided Rs.14.34 crore in the State Budgets for running these hostels against which the Department incurred an expenditure of Rs.9.36 crore. There was no role of the LSGIs either in selection of inmates of the hostels or in their management which was against the spirit of decentralisation.

3.3.7.3 *Construction without ascertaining user requirement*

Numerous buildings were constructed under MP/MLA Local Area Development Scheme in transferred institutions. The District Collectors who were the implementing officers of the scheme did not ascertain the user-requirement before constructing these buildings. As a result, basic requirements were not provided due to which they were either remaining idle or functioning improperly besides blocking of scarce resources.

3.3.8 Transfer of Schemes

Along with functions and institutions, Government had also transferred schemes relating to matters specified in KPR Act and KM Act. Plan schemes which were being implemented by the State Government were transferred to the LSGIs as State Sponsored Schemes (SSSs) for which, funds were provided in the State Budget annually. The funds earmarked for SSSs were allotted to the respective LSGIs for effective utilisation in implementation of the schemes.

3.3.8.1 *Schemes relating to functions of LSGIs not transferred*

The departments of Agriculture, Industries and Commerce, SC Development and ST Development continued to implement schemes relating to functions transferred to the LSGIs utilising funds provided in the State Budget as detailed below:

(**Rupees in crore)**

Year	Details of amount utilised for functions transferred									
	Agriculture		SC Development		ST Development		Industries and commerce		Total	
	Budget	Expr.	Budget	Expr.	Budget	Expr.	Budget	Expr.	Budget	Expr.
2001-02	3.20	1.84	27.49	22.31	3.11	2.95	N.A	NA	33.80	27.10
2002-03	3.20	2.30	159.88	123.41	8.46	4.07	20.17	20.17	191.71	149.95
2003-04	2.30	2.09	42.81	78.94	3.73	3.00	24.25	23.59	73.09	107.62
2004-05	3.20	2.80	83.63	66.81	2.76	1.76	19.42	19.13	109.01	90.50
2005-06	4.76	4.58	125.89	98.17	2.48	2.11	16.32	15.33	149.45	120.19
Total	**16.66**	**13.61**	**439.70**	**389.64**	**20.54**	**13.89**	**80.16**	**78.22**	**557.06**	**495.36**
Average per year	3.33	2.72	87.94	77.93	4.11	2.78	20.04	19.56	111.41	99.07

NA : Not Available

The State Government provided Rs.557.06 crore to these departments during 2001-02 to 2005-06 for implementation of 25 schemes relating to transferred functions. The departments incurred expenditure of Rs.495.36 crore out of this provision. This included Rs.138.07 crore spent on housing as mentioned in paragraph 3.3.6.4 of this report. Provision of such funds to the Government departments instead of the LSGIs to whom the functions were transferred was violative of statutory provisions.

Four departments though the functions of which were transferred to LSGIs, continued to implement 25 schemes relating to transferred functions. An expenditure of Rs.306.47 crore was incurred for implementation of 11 such schemes.

3.3.8.2 *Major Schemes retained by the Government*

Out of 25 schemes implemented by the departments during 2001-02 to 2005-06, 11 schemes involving an expenditure of Rs.306.47 crore were significant, the details of which are given in the table below:-

(Rupees in crore)

Sl. No	Department	Scheme	Purpose	LSGI to which scheme was transferable	Budget provision	Expenditure
1	Agriculture	Modernisation of Agricultural Farms	Transforming farms as centres of demonstration of advanced agricultural technology	DP	6.20	5.93
		Integrated Pest management	Establishing full fledged system of pest surveillance covering major crops	DP	3.96	2.89
		Small Farm Mechanisation	Adopting appropriate mechanisation practices to reduce cost of cultivation	GP	3.50	2.13
2	SC Development	Pre-matric studies	Providing lump sum grant to pre-matric SC students	GP	5.63	5.06
		Post-matric studies	Providing lump sum grant, monthly stipend, tuition fees, mess fees, etc. to post-matric SC students	GP	197.42	201.61
3	ST Development	Tutorial scheme	Providing special coaching to school going students and failed students of X and XII standards for increasing percentage of pass.	GP	7.40	2.51
		Housing	Providing assistance to ST beneficiaries for construction of houses up to a maximum of Rs. 75000 per unit	GP	8.33	8.17
		Special incentive to Brilliant students	Providing special incentive to ST students and cash awards to those who score high marks	GP	0.80	0.69
4	Industries and Commerce	State Investment subsidy	Providing subsidy on fixed capital investment of SSI units, loan linked rural industrial development projects, pollution control devices etc.	DP	75.83	75.10
		Strengthening of Industrial Estates	Modernisation of existing common facility service centres to enable rubber and plastic waste industries for improving their quality	DP	0.97	0.65
		Enterprenual Assistance to handicrafts artisan sector	Meeting 10 *per cent* share for availing term loan and margin money loan by artisans not belonging to backward classes or minorities below poverty line.	DP	1.80	1.73
			Total		**311.84**	**306.47**

Retention of such transferred schemes by the departments and expenditure incurred thereon were irregular.

3.3.8.3 *Non-implementation of Women Industries Programme by DPs*

None of the DPs implemented the scheme of WIP due to non-provision of funds by the Government.

Women Industries Programme (WIP) is a scheme for providing building and machinery grant, rent subsidy, managerial grant and stipend to trainees of Women Industrial Units in order to minimise the difficulties experienced by women in the field of industry and to attract more women to participate in the industrial ventures. Though the Government transferred (December 1997) this scheme to the DPs covering urban areas also, it did not provide specific funds for implementation of the scheme. As a result none of the DPs had implemented this scheme. Thus, transfer of schemes without providing funds resulted in their non-implementation for eight years from 1997-98 to 2005-06, and also deprived due benefits to the women of industrial units.

3.3.9 Inadequate transfer of funds in respect of transferred functions

Devolution of funds to LSGIs should be a natural corollary to implement the transferred functions. In order to enable the LSGIs to carry out the transferred functions, the State Government began providing grants-in-aid to the LSGIs from 1995-96 as plan and non-plan assistance. With the introduction of decentralised planning during 1997-98, LSGIs were permitted to formulate and implement projects. Consequently, the grants-in-aid provided to the LSGIs increased many fold from 1997-98. The plan and non-plan funds devolved upon the LSGIs by the State Government during 2001-02 to 2005-06 amounted to Rs.7888.62 crore as shown in the table below:

(Rupees in crore)

Year	Budget provision			Amount disbursed					
	Plan	Non-plan	Total	Plan	percentage	Non-Plan	percentage	Total	Percentage
2001-02	971.65	265.86	1237.51	676.03	69.58	234.31	88.13	910.34	73.56
2002-03	1376.59	351.89	1728.48	1118.71	81.27	338.96	96.33	1457.67	84.33
2003-04	1434.54	326.55	1761.09	1384.98	96.54	314.01	96.16	1698.99	96.47
2004-05	1401.56	850.99	2252.55	1092.74	77.97	690.41	81.13	1783.15	79.16
2005-06	1476.12	1056.18	2532.30	1109.77	75.18	928.70	87.93	2038.47	80.50
Total	**6660.46**	**2851.47**	**9511.93**	**5382.23**	**80.81**	**2506.39**	**87.90**	**7888.62**	**82.93**

LSGIs received 80.81 *per cent* of plan fund provision and 87.90 *per cent* of non-plan funds. From 2003-04, there was declining trend in release of plan funds to LSGIs. Though provision of plan funds increased from Rs.1434.54 crore in 2003-04 to Rs.1476.12 crore in 2005-06, the disbursement declined from Rs.1384.98 crore to Rs.1109.77 crore. Against this, provision and disbursement of non-plan funds showed increase during these years. The disbursement of the total grants however increased from Rs.1698.99 crore in 2003-04 to Rs.2038.47 crore in 2005-06.

3.3.9.1 *Non-utilisation/lapse of Plan funds*

Up to 2002-03, the LSGIs were permitted to draw Plan fund allotments in lump by transfer credit to their Personal Deposit (PD) accounts. The unspent balance in the PD accounts at the end of each year was allowed to be carried over to the succeeding year. During 2003-04, the Government introduced the bill system in LSGIs whereby the drawal of funds was restricted to the actual requirement and the system of depositing Plan funds in the PD accounts was stopped. At the end of the year 2003-04, all the LSGIs in the State had an accumulated unspent balance of Rs.581.20 crore in their PD accounts. This unspent balance was against Rs.1794.74 crore transfer credited during the previous two years (2001-02 and 2002-03). As directed by the Government, the unspent balance of Rs.581.20 crore held in the PD account was refunded to the Consolidated Fund of the State in March 2004. On account of under utilisation due to poor planning in implementation of transferred functions, each LSGI had to surrender Rs.47.84 lakh on an average. The underutilisation continued during subsequent years also, and was Rs.308.82[1] crore during 2004-05 and Rs.366.35[2] crore during 2005-06. As these amounts were not drawn, they lapsed to Government automatically.

[1] 1401.56-1092.74=308.82
[2] 1476.12-1109.77=366.35

3.3.9.2 *LSGIs' funds diverted to Directorate of Tribal Development*

The State Government during 2001-02 earmarked Rs.58 crore for implementation of the Tribal Sub Plan (TSP). Of this, Rs.40 crore was provided for implementation of transferred functions under TSP by LSGIs as detailed below:

(Rupees in crore)

Sl. No.	LSGIs to which funds were provided	Head of Account	Amount provided
1	Grama Panchayats	2515-00-191-45-03	19.86
2	Block Panchayats	2515-00-191-45-02	7.94
3	District Panchayats	2515-00-191-45-01	11.91
4	Municipalities	2217-80-191-45-04	0.29
	Total		**40.00**

However, Government did not release any amount to the LSGIs. Against legislative intent, the Government placed the entire amount at the disposal of the Director of Scheduled Tribe Development. This resulted in the LSGIs being deprived of their legitimate right to implement transferred functions under TSP during 2001-02.

3.3.10 Transfer of Functionaries

Devolution of powers and functions on the LSGIs requires availability of qualified and trained personnel at all levels for efficient discharge of those functions. The LSGIs should have administrative control over the staff to command loyalty and directions of purpose in the new scenario. A review of the system of transfer of functionaries to LSGIs revealed the following deficiencies.

3.3.10.1 *Shortfall in deployment of staff from Departments of Public Works and Irrigation*

During September 2003, Government ordered deployment of 2474 technical staff and 1363 ministerial staff additionally to the LSGIs against which 2040 and 572 respectively were actually deployed resulting in short deployment as detailed below:

Category of Staff	Number of Staff		
	Proposed to be transferred	Actually transferred	Shortfall
Technical Staff			
Engineers	692	626	66
Overseers	1782	1414	368
Total	**2474**	**2040**	**434**
Ministerial Staff			
Administrative Assistant/Divisional Accountant	15	12	03
Jr.Superintendent/Clerks/Typist/Confidential assistant.	928	433	495
Part Time Sweepers/Peons/Driver	420	127	293
Total	**1363**	**572**	**791**
Grand Total	**3837**	**2612**	**1225**

There was a short deployment of 1225 staff members in LSGIs.

The short deployment of technical and ministerial staff was 434 and 791 respectively. Government did not take any steps to implement its orders.

3.3.10.2 *Inadequate administrative control over functionaries*.

Government transferred (September 1995) the services of officers along with the posts to the LSGIs as detailed in **Appendix VIII**. Even though these functionaries were transferred to the LSGIs, their pay and allowances were drawn from the Departments concerned. Though the administrative control over transferred functionaries was vested with the LSGIs, the power to impose major penalty under the disciplinary rules for serious misconduct/irregularity was retained by the government. Thus, for all purposes, these functionaries continued to perform as government servants, subject to control by higher levels of government and not by the LSGIs, thereby negating one of the basic objectives of decentralisation.

3.3.10.3 *Inadequate discharge of assigned responsibilities by Implementing officers*

Implementing officers were not discharging their functions and were not furnishing monthly reports of progress.

Government through various orders assigned responsibilities to Implementing Officers (IOs) for implementation of transferred functions and for active participation in conduct of the business of the LSGIs. According to the replies furnished by the heads of 21 LSGIs in response to a questionnaire, the IOs did not discharge the responsibilities assigned to them as detailed in the table below:-

Sl. No.	Responsibility assigned	No. of LSGIs where IOs		No. of Heads of LSGIs who did not respond to the survey
		discharged the responsibility	did not discharge the responsibility	
1	Participate actively in review meetings, training programmes etc.	15	5	1
2	Present in the Grama Sabha	9	10	2
3	Recording minutes of Grama Sabha and take follow up action	4	13	4
4	Ensure people's participation	8	8	5
5	Work unitedly with elected representatives and campaigners	7	9	5
6	Give monthly review reports to the LSGIs	5	14	2
7	Intimate in advance the particulars of leave to the LSGI	8	10	3
	Average	8	10	3

IOs in 5 to 14 LSGIs out of 21 did not discharge their functions and responsibilities properly. It was also significant that 67 *per cent* of IOs were not giving monthly review report of projects entrusted to them. There is thus a strong need to empower the LSGIs with effective administrative control over the transferred functionaries.

3.3.10.4 *Implementing officers did not execute/failed to implement projects*

Owing to laxity of the IOs, two LSGIs could not implement 14 projects with a total outlay of Rs.1.36 crore as detailed in table below.

(Rupees in lakh)

Sl. No.	Name of IO	Name of LSGI	Year	No. of projects not implemented	Outlay
1	Asst. Director of Agriculture(ADA), Neyyattinkara	Athiyannur B.P	2005-06	3	10.50
2	Secretary, DP	Kannur D.P	2001-02	1	14.00
3	Deputy Director of Agriculture (Horticulture)		2001-02 & 2004-05	2	15.00
4	HMs of schools		2001-02, 2002-03 & 2005-06	3	37.06
5	District SC Development officer		2002-03	3	45.00
6	Deputy Director of Agriculture (Horticulture)		2004-05	1	4.75
7	District Medical Officer (Health)		2005-06	1	10.00
Total				**14**	**136.31**

Though as supervisory officers, the respective heads of departments had disciplinary powers over the IOs, none the above cases except one was referred to them. The ADA Neyyattinkara (Sl No 1) did not implement the projects on the pretext that the subsidy norms were violated in the projects. This was reported to the Government (April 2006) for initiating disciplinary action, results of which were awaited (March 2007).

3.3.10.5 *Lack of staff/infrastructure in transferred institutions*

Though inpatient wards were constructed in 79 health centres, they could not be made functional for want of doctors and staff.

Primary Health Centres, Community Health Centres and Taluk Head Quarters Hospitals were among the transferred institutions and the responsibility of running these institutions rested with the LSGIs. Large number of buildings and wards attached to these institutions remained idle for want of manpower and for other reasons. These buildings/wards were constructed by utilising funds of LSGIs and MP/ MLA Local Area Development fund. Based on recommendations of the Director of Health Services, Government sanctioned (July 2004) creation of 1200 posts under various categories in such institutions. However a test check of these institutions revealed that in 79 institutions, in-patient wards attached to them could not be made functional (November 2006) for want of supporting staff and other infrastructure facilities as detailed below:-

Sl. No	District	No. of institutions		
		where inpatient wards were constructed	where inpatient wards were functioning	where inpatient wards were not functioning
1	Kannur	29	3	26
2	Palakkad	30	4	26
3	Thiruvananthapuram	30	3	27
	Total	**89**	**10**	**79**

Thus due to shortage of staff and infrastructure in the transferred institutions, LSGIs failed to ensure proper health care facilities to the poor people.

3.3.*10.6* *Basic statutory functions affected due to insufficient transfer of staff*

In response to a questionnaire issued by Audit, 14 out of 21 heads of LSGIs replied that the number of functionaries transferred from the Government departments to the LSGIs was not sufficient to handle the additional workload in the LSGIs consequent on transfer of functions. For the efficient discharge of the transferred function of disbursement of various pensions and unemployment wages and keeping connected accounts, the existing number of staff deployed from Government departments was not sufficient. The State Planning Board also confirmed (January 2006) that the staff in LSGIs was insufficient. This affected even the basic and statutory accounting functions such as maintenance of various registers and timely preparation and submission of annual financial statements with demand collection balance statement as discussed in Chapter 2 of this report. A staff study was conducted in LSGIs by the Centre for Management Studies, on which the report was awaited (March 2007).

3.3.11 Internal control and monitoring

A strong internal control mechanism facilitates smooth functioning of an institution. For better delivery of services, periodical review and monitoring of activities, functionaries and a prescribed control mechanism are important. The performance of the LSGIs in relation to their functions in general was not effective due to the weak internal control system resulting in improper planning, deficient fund management and ineffective execution of activities. A strong monitoring mechanism is also essential for the efficient discharge of transferred functions. The implementation of transfer of functions and staff were to be monitored at Government level. Due to the failure of monitoring, the inefficiency of staff in the LSGIs persisted. Apart from this the following deficiencies were also noticed.

3.3.11.1 F*unctioning of District Planning Committee*

The LSGIs could implement the transferred functions only after undergoing several stages of planning and scrutiny by different agencies/bodies such as Grama Sabha, Technical Committee, Technical Advisory Committee, District Planning Committee (DPC), etc., in accordance with the orders and guidelines issued by the Government from time to time. Even though the DPC was to ensure that the projects submitted by the LSGIs were in conformity with the guidelines issued by the Government, several unauthorized projects escaped its notice and inter-tier functions/activities overlapped. This indicated the need to strengthen the functioning of DPCs for monitoring the planning and the implementation of transferred functions.

3.3.11.2 *Release of funds to LSGIs without obtaining monthly progress reports*

The IOs were required to send monthly progress reports of implementation of schemes to the secretaries of the respective LSGIs, which were to be forwarded to the Government after consolidation through the District level officers designated for the purpose. In addition to the monthly progress report, the Monitoring Committee of each LSGI had to present a quarterly report showing the physical and financial progress and quality of implementation to the Government. The funds were to be released to the LSGIs and allowed to be utilised by the IOs only after review of the monitoring reports. Monthly progress reports were not sent by the IOs of 21 LSGIs out of 22 test checked. Similarly the monitoring committees in none of the LSGIs submitted the quarterly report. However, funds were released to the LSGIs, and IOs were allowed to utilise the funds, indicating weakness of the internal control mechanism.

3.3.11.3 *Decentralisation Cell not constituted*

Due to non-constitution of decentralisation cell, the monitoring system was not effective.

Government issued orders (June 2004) for the constitution of a Decentralisation Cell in each district for the review of the progress of implementation of schemes under transferred functions by the LSGIs. Decentralisation cells were not constituted in the departments of Agriculture, Animal Husbandry, Social Welfare, SC Development and ST Development in Kannur District. The monitoring system designed for proper implementation of transferred functions by the LSGIs was weakened because of the non-constitution of Decentralisation Cells.

3.3.11.4 *Rules for implementation of transferred functions not framed.*

Planning and implementation of transferred functions by LSGIs are governed by various Government orders issued from time to time. Government did not frame any rules for the proper and effective implementation of transferred functions. In the absence of rules, there was no well designed internal control system for implementation of transferred functions.

3.3.12 Conclusion

- Activities under Agriculture, SC and ST Development and Industries and Commerce Departments were not transferred as envisaged in the Acts.
- Funds and functionaries were not transferred to LSGIs in proportion to the transferred functions.
- Inter-tier overlapping of functions resulted in parallel implementation of the same functions by more than one agency, in the same area.
- No rules governing the implementation of transferred functions were framed leading to defective implementation.
- The monitoring and internal control mechanism was ineffective.

3.3.13 Recommendations

- Government should consider transfer of functions to the LSGIs as envisaged in the Acts.
- Government should make realistic assessment of funds and functionaries required by the LSGIs for carrying out the transferred functions.
- Government should take action to avoid inter-tier overlapping of same functions
- Government should consider framing rules governing planning and implementation of transferred functions.

3.3.14 Response of Government

The Principal Secretary (LSGD) generally agreed (March 2007) to the recommendations, at the time of discussion of the audit findings.

3.4 Implementation of Projects on Deposit Work basis by LSGIs

Highlights

The LSGIs implemented a large number of projects through authorised agencies on deposit work basis. Though the works involved sizeable amounts, they were not monitored by the LSGIs leading to non-completion and abandonment. Lack of proper planning contributed to the defective implementation and deposit of amounts in excess of actual requirement.

- **Entrustment of works without proper planning led to abandonment of works**

(Paragraph 3.4.6)

- **Amounts transferred for execution of deposit works were treated by LSGIs as actual expenditure and included in their figures of financial achievement.**

(Paragraph 3.4.7.2)

- **An amount of Rs.2.90 crore transferred to authorised agencies in excess in respect of 1234 completed works remained unrecovered.**

(Paragraph 3.4.7.3)

- **The irregular decision of Kerala Water Authority to recover centage charges from LSGIs made them liable to pay Rs.5.61 crore during 2002-06.**

(Paragraph 3.4.7.4)

- **Implementation of a beach beautification project in Kozhikode without obtaining sanction for construction in the Costal Regulation Zone had to be abandoned resulting in wasteful expenditure of Rs.15 lakh.**

(Paragraph 3.4.8.2)

- **Construction of an indoor stadium at Kollam undertaken on deposit work basis was abandoned as a result of faulty design of pile foundation, leading to wasteful expenditure of Rs.8.06 lakh.**

(Paragraph 3.4.8.4)

3.4.1 Introduction

With the introduction of decentralised planning in the State, LSGIs were permitted to formulate and implement projects relating to functions transferred to them from 1997-98 onwards. The LSGIs implemented the projects through implementing officers and other agencies. Implementing agencies such as Kerala Water Authority (KWA), Kerala State Electricity Board (KSEB), Kerala State Housing Board (KSHB), etc. are called 'authorised agencies' and the works entrusted to them 'deposit works'. The implementation of projects on deposit work basis by LSGIs was reviewed by Audit and is discussed in the succeeding paragraphs.

3.4.2 Audit Objectives

The audit objectives were to examine whether:

- sufficient planning was done before entrusting deposit works
- funds transferred were adequate
- unutilised funds, if any, were refunded
- implementation of deposit works was monitored effectively
- the internal control and monitoring system was effective.

3.4.3 Audit criteria

The following criteria were used for the review

- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 relating to deposit works.
- Kerala Panchayat Raj (Execution of Public Works) Rules, 1997 and Kerala Municipality (Execution of Public Works and Purchase of Materials) Rules, 1997 relating to execution of works.
- Provisions of Kerala Public Works Account Code relating to deposit works.
- Government orders and guidelines issued in 1997-98 regarding deposit works.
- Project reports, design and estimate of deposit works.

3.4.4 Audit methodology and scope

The review covering the period from 2001-02 to 2005-06 was conducted during June and July 2006 with reference to the records of three Municipal Corporations[1], two District Panchayats[2], KWA office, Thiruvananthapuram, four Divisional offices[3] each of KWA and KSEB and the District office of the Nirmithi Kendra, Thiruvananthapuram. In respect of KWA, records relating to the period from 1997-98 were also test checked. Evidence in support of audit findings/observations were gathered from the plan documents, expenditure statements, utilisation certificates, data furnished by the authorised agencies and files of the above institutions.

3.4.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.4.6 Planning

Before entrusting a project to an authorised agency, proper planning of activities is to be carried out. This includes feasibility study, resource mobilisation, preparation of design and estimates, allocation of funds, identification of beneficiaries, etc. Mention was made in the Report (LSGIs) of CAG for the year ended 31 March 2004 about the irregular entrustment of

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[1] Kollam, Kozhikode and Thiruvananthapuram

[2] Kollam and Pathanamthitta.

[3] Kollam, Kozhikode, Pathanamthitta and Thiruvananthapuram.

construction of houses to KSHB by LSGIs without identifying the beneficiaries. Audit analysis revealed that 75 works entrusted to KWA were abandoned due to non-viability and 579 works could not be completed due to short provision of funds, non-provision of power supply and delay in supply of materials to KWA. Inadequate planning before entrusting works to authorised agencies resulted in the abandonment and non-completion of works leading to wasteful expenditure.

3.4.7 Fund Transfer

Government guidelines issued in August 1997 govern the transfer of funds to the authorised agencies for executing deposit works under People's Plan Campaign. The funds are transferred by issuing cheques only after executing an agreement with the agencies in the form prescribed by the Government. The funds transferred and expenditure therefrom are to be accounted for by the LSGIs properly. Audit scrutiny revealed the following:

3.4.7.1 *Records showing details of deposit works not maintained*

The LSGIs test checked did not maintain records showing complete details of deposit works including funds transferred to the authorised agencies. Though LSGIs were required to enter the details of amounts advanced in the Advance Ledger as per Kerala Panchayat (Accounts) Rules, 1965, this was not done. The LSGIs also did not maintain a register of deposit works. As proper records were not maintained by LSGIs, Audit had to verify the records of authorised agencies to gather data about deposit works entrusted to them.

3.4.7.2 *Amount deposited shown as final expenditure*

The Government set (1997) separate financial target for each LSGI for implementing projects annually. It was also stipulated that LSGIs which did not achieve the targets were liable to lose from the allotment of Plan funds for the following year, by the amount which fell short of the target. Government also ordered that the funds transferred for executing deposit works should be deemed to be the actual expenditure by the LSGIs. This enabled the LSGIs to exhibit such amounts as expenditure although no actual expenditure was incurred on implementation of the projects. Those LSGIs which did not achieve the financial targets, transferred funds to the authorised agencies without proper planning and working out the details of works, with the intention of achieving the target. Thus, the Government order treating amounts deposited as final expenditure was contrary to the provisions of Accounts Rules regarding payment of advances. As the funds were treated as final expenditure, no monitoring of deposit works was done by the LSGIs resulting in avoidable locking up of funds as detailed below:-

3.4.7.3 *Deposit works entrusted to KWA not monitored*

As per the records of KWA, LSGIs entrusted 4009 deposit works to KWA during 1997-98 to 2005-06. As of July 2006, KWA had completed 3387 works as shown in the table below:-

Year	Projects					Amount (Rupees in crore)				
	Entrusted	Completed	Percentage	Abandoned	Incomplete	Deposited	Utilised	Percentage	Balance	Percentage
Up to 2000-01	1667	1540	92.38	54	73	40.74	34.00	83.46	6.74	16.54
2001-02	305	281	92.13	1	23	6.60	6.41	97.12	0.19	2.88
2002-03	486	394	81.06	6	86	10.03	6.82	68.00	3.21	32.00
2003-04	710	589	82.96	12	109	21.56	13.72	63.64	7.84	36.36
2004-05	577	454	78.68	2	121	11.75	7.73	65.79	4.02	34.21
2005-06	264	79	29.92	-	185	7.15	2.11	29.51	5.04	70.49
Total	**4009**	**3337**	**83.24**	**75**	**597**	**97.83**	**70.79**	**72.36**	**27.04**	**27.64**

Out of Rs.97.83 crore transferred for execution of the works, KWA utilised Rs.70.79 crore (including expenditure on incomplete projects). No monitoring of implementation of the deposit works was done and the balance amount of Rs.27.04 crore pertaining to the period from 1997-98 onwards was not claimed by the LSGIs. It was noticed during audit that the deposit amounts were taken as actual expenditure which led to non-monitoring of utilisation of funds by KWA. It was also seen that out of 3337 works completed, actual expenditure in respect of 1045 works was less than the deposit amount whereas actual expenditure was more in respect of 189 works resulting in retention of a net amount of Rs.2.90 crore by KWA. The LSGIs also did not take any action to recover the advanced amount in respect of 75 works abandoned by KWA. The details of actual amount deposited on abandoned works was not available with KWA.

3.4.7.4 *Irregular decision of KWA to recover Centage Charges*

Execution of deposit works by KWA is governed by Kerala Public Works Account Code (KPWA code), Government Orders[1] and Guidelines[2]. As per the provisions contained therein, no centage charge (charges for meeting the administrative cost of deposit works) is recoverable from LSGIs, for undertaking deposit works. Paragraph 16.2.6 of KPWA code also prohibits recovery of centage charges from LSGIs. The Government guidelines reiterated that while undertaking such works under decentralised planning, KWA should follow the procedure prescribed in the work rules governing LSGIs. The State Planning Board clarified (September 2002) that no centage charges should be recovered from LSGIs for undertaking deposit works. KSEB had also exempted (September 1998) the LSGIs from payment of centage charges. KWA, however decided (April 2002) to recover centage charges at 12.50 *per cent* on all deposit works undertaken by them. The centage charge thus payable by LSGIs from 2002-03 to 2005-06 would work to Rs.5.61 crore. The decision of KWA to recover centage charges from LSGIs was against codal provisions and Government Orders.

3.4.7.5 *Non-recovery of unutilised amount from authorised agencies.*

The LSGIs executed several projects through authorised agencies such as Trivandrum Development Authority, KSEB and Niirmithi Kendra for which they deposited Rs.2.71 crore during the period from 1997-98 to 2004-05. As

[1] G.O (P) 676/97/Fin dated 6 August 1997.
[2] GO (MS) 29/98/Ird dated 19 March 1998.

the amounts utilised by the agencies were less than that deposited, there was an unspent balance of Rs.31.53 lakh with them as shown below:-

(Rupees in lakh)

Sl No.	Name of LSGI	No of projects	Authorised agency which undertook the work	Amount			Period of deposit
				Deposited	utilised	unspent balance	
1	Trivandrum Corporation	2	Trivandrum Development Authority	57.00	40.71	16.29	March 2000
2	Kozhikode Corporation	27	KSEB	175.54	169.67	5.87	1997-98 to 2002-03
3	Five LSGIs[1]	7	Nirmithi Kendra	38.25	28.88	9.37	1997-98 to 2004-05
Total		**36**		**270.79**	**239.26**	**31.53**	

Since the LSGIs did not monitor the implementation of projects and utilisation of funds by the authorised agencies, there was accumulation of unspent balances. No action was taken by the LSGIs to recover the amount.

3.4.8 Defective implementation of deposit works

A review of deposit works implemented by various authorised agencies revealed that the works were not completed in time and hence the intended benefits could not be derived resulting in deprivation of benefits to economically weaker sections of the society. Further there were deficiencies in execution. LSGIs did not take any action against the agencies though there were conditions in the agreement enabling them to ensure timely execution of works.

3.4.8.1 *Delay in completion of Thrikkannapuram Water Supply Scheme*

Thrikannapuram Water Supply Scheme is a project for constructing intake well, pump house, transmission main and treatment plant, distribution line, etc. with an outlay of Rs.5.93 crore, formulated by Thiruvananthapuram Municipal Corporation (TMC) during 1997-98 under decentralised planning with the objective of providing water supply to 25000 people of the locality. TMC deposited Rs.4.15 crore in nine instalments with KWA during the period from June 1998 to March 2006 out of which Rs.2.20 crore was deposited much ahead of commencement of work by KWA in October 2000. Even though several items of work such as treatment plant, distribution lines, wash water tanks, etc. costing Rs.1.76 crore were to be completed, TMC partly commissioned the scheme on 24 August 2005 after spending Rs.3.57 crore. The delay of more than eight years after releasing funds was unjustified especially in the context of transfer of sufficient funds by TMC much in advance of the requirement.

[1] Kottayam and Pathanamthitta DPs, Mavelikkara Municipality, Kumarakom and Thalayolaparambu GPs.

3.4.8.2 *Wasteful implementation of projects through Kozhikode Development Authority*

Kozhikode Municipal Corporation (KMC) entrusted three city beautification projects with a total outlay of Rs.1.40 crore to Kozhikode Development Authority (KDA) on deposit work basis during 1999-2000. Though KMC deposited the whole amount of Rs.1.40 crore on 30 March 2000 with KDA, only one project was completed, one project remained incomplete and the work on the third project was abandoned in view of protest by fishermen. The details of the incomplete works are given below:-

(Rupees in lakh)

Sl. No	Name of Project	outlay	Amount deposited with KDA	Amount utilised by KDA	Unspent balance	Date of Commencement
1	Beach Beautification at Bhatt Road Junction	50.00	50.00	15.00	35.00	27.12.2001
2	Beach Beautification at Gandhi Road	50.00	50.00	-	50.00	Not started
	Total	**100**	**100**	**15.00**	**85.00**	

As no sanction was obtained for construction in the Costal Regulation Zone (CRZ), work at Sl.No.1 had to be stopped after spending Rs.15 lakh. Thus inadequate planning before entrusting works to authorised agencies resulted in expenditure of Rs.15 lakh becoming wasteful. No action was taken by KMC to get the unutilised amount of Rs.85 lakh refunded.

3.4.8.3 *Conditions of agreement not enforced*

Authorised agencies are required to enter into agreements with LSGIs before the LSGIs deposit the amount with them. The form of agreement prescribed by Government contained clauses stipulating completion of projects as prescribed by the LSGIs within due dates subject to conditions specified by the LSGIs. However, LSGIs failed to enforce conditions of the agreements leading to delay in execution of works and rendering accounts.

3.4.8.4 *Construction of Indoor Stadium by Kollam District Panchayat*

Kollam District Panchayat (KDP) decided (1997-98) to construct an indoor stadium at Kollam at an estimated cost of Rs.2.18 crore with the participation of all LSGIs in the district. KDP entrusted the implementation of the project to the District Collector, Kollam. The design and estimate of the work was got prepared by a private architect during September 2000 and technical sanction was accorded in December 2000. As per the design 70 piles having a total length of 690 meters were to be driven. The work was entrusted to a contractor in April 2002. He commenced the work and completed the pile foundation as per approved design. However, the load test conducted on the pile foundation proved that it was very weak. A reinvestigation conducted by LBS Centre for Science and Technology revealed that in order to have a strong foundation, the required length of piles was 1779 meters instead of 690 meters. As the contractor was not willing to execute the additional quantity of piling work at the existing rate, the work was stopped in January 2003. The expenditure of Rs.8.06 lakh incurred on the work so far, became wasteful. KDP had deposited Rs.54.46 lakh with the District Collector during 2002-03 and 2003-04 of which Rs.44.46 lakh was contributed by the Kollam Corporation. Though the envisaged share of all the ULBs was only Rs.24 lakh, Kollam Corporation alone had contributed Rs.44.46 lakh. It was seen in audit that the Corporation paid Rs.34.46 lakh out of Rs.44.46 lakh after the stoppage of work in 2003-04. The unutilised balance of Rs.46.40 lakh remained with the District Collector as of March 2007. The faulty design prepared by the private architect and the failure to scrutinise the design properly resulted in abandonment of the project.

3.4.9 Internal control and monitoring

There was no effective monitoring system in the LSGIs enabling them to get the deposit works executed by the authorised agencies effectively and efficiently and in time. The Internal control system relating to deposit works was also not effectively enforced. The stipulation that the preparation of design, detailed estimate and plan should be completed before implementing any work was not complied with resulting in delay in execution. Since utilisation of the amount deposited, was not watched, the LSGIs were not aware of how much amount was utilised. In the absence of monitoring of implementation by LSGIs, works were abandoned or remained incomplete.

3.4.10 Conclusion

- Planning of deposit works was defective
- As the amount deposited was treated as final expenditure, the LSGIs did not monitor deposit works properly leading to retention of large unutilised amounts by the authorised agencies
- The internal control and monitoring system was weak leading to non-completion of projects.

3.4.11 Recommendations

- LSGIs should ensure that before entrusting a deposit work to an authorised agency, all parameters of planning are completed.
- LSGIs should ensure that the deposit amounts are watched through the Register of Advances and unutilised balances are recovered.
- Government should consider issuing orders for strengthening the internal control and monitoring system for implementation of deposit works so that the works are executed in time.