

PREFACE

This report has been prepared for submission to Governor under Article 151(2) of the constitution.

Eleventh Finance Commission has recommended that Technical Guidance and Supervision over the accounts and audit of local bodies be entrusted to the Comptroller and Auditor General of India (CAG) and the reports of the CAG on such audit be placed before a committee of the State Legislature constituted on the same lines as the Public Accounts Committee.

In October 2002 Government of Kerala entrusted the audit of Local Bodies in the State to the CAG under Section 20 (1) of the CAG's (DPC) Act 1971 for providing technical supervision to the Director of Local Fund Audit. The State Legislature in June 2003 constituted the Committee on Local Fund Accounts.

The comments of the CAG on the audit of the accounts of the Local Self Government Institutions were included in the Report of the Comptroller and Auditor General of India (Civil) up to the year ended 31 March 2003. This is the first report of the Comptroller and Auditor General of India exclusively on the Local Self Government Institutions.

OVERVIEW

This report includes chapters containing the observations of audit on Finances of Local Self Government Institutions (LSGIs) and the results of supplementary audit under the scheme of Technical Guidance and Supervision. It also includes two performance reviews and eight paragraphs on transaction audit including a long paragraph on Kerala Information Network for Local Bodies.

I Finances of the Local Self Government Institutions

Consequent on the 73rd and 74th amendments of the Constitution of India, the State Legislature enacted the Kerala Panchayat Raj Act, 1994 (Act 13 of 1994) and the Kerala Municipality Act, 1994 (Act 20 of 1994). Government transferred responsibilities, institutions and schemes relating to matters enlisted in the Schedules of the respective Acts to the Panchayats and Municipalities with effect from 2 October 1995.

A comprehensive picture of finances of LSGIs is not available as the LSGIs were not submitting abstract of the annual reports showing Receipts and Payments account certified by the auditors by 15th May of each year as prescribed in the Acts.

In spite of receiving Eleventh Finance Commission grant of Rs 1.83 crore for the period 2000-01 to 2003-04 for the maintenance of accounts of Grama Panchayats and Block Panchayats, the accounts were in arrears. As of 31 March 2004, 4578 number of accounts were in arrears.

The main sources of funds of LSGIs are (i) own fund (ii) funds devolved upon them by the State Government for the decentralised planning and State sponsored scheme (iii) centrally sponsored scheme funds (iv) loans and (v) other sources. From the year 1997-98 the State Government distributed 35 to 40 per cent of its annual plan out lay to LSGIs. Against the budget provision of Rs 10207.01 crore, the State Government had disbursed Rs 8741.87 crore during 1997-98 to 2003-04. The release included Rs 6945.39 crore as Plan funds. The Plan funds of Rs 581.20 crore were not utilised by LSGIs mainly due to inadequate capacity and delays in plan formulations.

Though LSGIs had created assets valued at Rs 552.82 crore during the years 2002-03 and 2003-04 out of Plan fund, the details of assets created were not available. The value of assets created during the years 1997-98 to 2001-02 were not accounted by the LSGIs.

The Government have not so far framed the rules and manuals for budget and accounts of Panchayat Raj Institutions and Urban Local Bodies. Consequently, the Kerala Panchayat (Accounts) Rules 1965, Kerala Municipalities (Accounts) Rules 1963 and the Kerala Municipal Corporation (Accounts) Rules 1967, which are at variance with the new formats, continue to be in force.

(Paragraphs 1.1 to 1.19)

II Supplementary audit under the scheme of Technical guidance and Supervision

The Comptroller and Auditor General of India conducts supplementary audit wherever entrusted and comments upon or supplements the report of statutory audit. In supplementary audit, CAG audits the Financial statements and accounts of the LSGIs where the DLFA had conducted audit. Test check of 23 LSGIs revealed non-maintenance or improper maintenance of books of accounts and registers, lapses in preparation of budget, lapses in preparation of annual financial statement and non-compliance of statutory requirement by the DLFA of furnishing audit certificate.

(Paragraphs 2.1 to 2.7)

III Performance Reviews

i) Implementation of Housing Projects for below poverty line families

With the advent of decentralized planning at grass root level from 1997-98, LSGIs implemented various housing projects with the objective of providing houses to Below Poverty Line families. Projects were financed from Plan Funds provided by State Government and also through borrowings from financial institutions. Audit review revealed that neither the nodal agencies nor the implementing agencies had exact data on the actual progress of project implementation and utilization of funds deployed. The nodal agencies, apart from channelising the borrowed funds, did not play a lead role in the execution of the projects and did not monitor the projects.

The LSGIs were implementing various housing schemes such as Joint Housing Projects viz., Thanal Housing, Janakeeya Parpida Padhathi, Janakeeya Bhavana Padhathi, Sampoorna Parpida Padhathi and Other Housing Projects.

Despite making deposit of Rs 12.54 crore with COSTFORD by 90 LSGIs for construction of 12605 houses, COSTFORD could arrange financial assistance for construction of 3667 houses only of which 2058 houses could be completed.

In Thrissur, the interest liability on borrowed finance was passed on to beneficiaries. Arrears of interest payment amounted to Rs. 4.10 crore.

Four Hundred and Six LSGIs deposited Rs.13.62 crore with Kerala State Housing Board (KSHB) without identifying beneficiaries. Further, out of 1.24 lakh beneficiaries identified, 5045 beneficiaries for whom Rs 6.31 crore was deposited with KSHB were ineligible for the assistance. In addition, 2826 eligible beneficiaries for whom Rs 3.53 crore was deposited with KSHB did not claim the assistance. The total excess deposit for which the LSGIs did not take action to get the amount refunded from KSHB worked out to Rs 23.46 crore(Rs 13.62 crore + Rs 6.31 crore + Rs 3.53 crore).

Out of 1.16 lakh beneficiaries only 0.98 lakh beneficiaries completed houses as of March 2004 and 0.18 lakh beneficiaries did not complete their houses despite being provided assistance of Rs.24.70 crore by KSHB.

(Paragraph 3.1)

ii. Solid Waste Management by Municipal Corporations

With rapid urbanisation, the problem of disposal of solid waste has become a matter of prime concern to the Urban Local Bodies.

Under the Kerala Municipality Act 1994, the Urban Local Bodies are responsible for collection, segregation, storage, transportation, processing and disposal of solid waste generated in their areas giving care for environmental aspects. Ministry of Environment and Forests has also brought into effect the Municipal Solid Waste (M & H) Rules 2000 for the management of Solid Waste by Municipal corporations.

None of the Municipal Corporations had evolved adequate system for collection and segregation/removal of waste. In Thiruvananthapuram and Kozhikode Municipal Corporations adequate number of storage bins were not provided.

In Kollam, Kochi and Kozhikode Municipal Corporations, the number of sweepers employed was far below the required norms.

In Thiruvananthapuram, Thrissur and Kozhikode Municipal Corporations, pre-processing and post-processing rejects were allowed to decay in the premises of processing plants due to lack of proper infrastructure facilities for safe containment and disposal of waste.

Thiruvananthapuram Municipal Corporation passed on the Central assistance of Rs 40 lakh to POABS, a private company, though the agreement was on BOOM basis.

Advance of Rs 1.55 crore to KAICO towards running charges of processing plant remained to be settled.

Kozhikode Municipal Corporation had not demanded lease rent of Rs 40 lakh.

As of April 2004, Kozhikode Municipal Corporation claimed only Rs 2.46 lakh as royalty against Rs 43.80 lakh.

In Thrissur Municipal Corporation, 790 tonnes of manure costing Rs 11.85 lakh had not been accounted.

(Paragraph 3.2)

IV Transaction Audit

Kerala Information Network for Local Bodies

With a view to facilitate easy and prompt communication between State Planning Board and the LSGIs for swift plan monitoring, Government launched the project Kerala Information Network for Local Bodies in August 1999. Networking, Plan Monitoring, Service Automation and training were the components of the project.

The Project was not properly conceived at the proposal stage and Government is yet to approve the revised Project proposal.

Due to inconsistencies in procurement policy, computers and other equipment had not yet been installed in the local bodies.

Expenditure of Rs 69.78 lakh incurred towards selection, training & stipend of nearly 1000 trainees had become waste.

Software for plan monitoring had not been installed even in local bodies where computers were available.

Most of the applications for Office Automation were at the development stage. Software already installed did not have adequate data validation controls.

In view of substantial impurities in the database maintained at Vellanad Grama Panchayat and Kochi and Kozhikode Corporations, the data were not reliable.
(Paragraph 4.1)

Payment for earth filling with contractors' own earth at erroneous rates resulted in excess payment of Rs 40 lakh by 11 LSGIs.
(Paragraph 4.2)

Kayamkulam Municipality rejected the lowest offer of a State Government Undertaking for supply and erection of an incinerator and placed orders with a private firm. The firm received Rs 21.50 lakh as advance but failed to supply the incinerator.
(Paragraph 4.3)

Selection of inaccessible site for construction of a slaughter house by Thrissur District Panchayat resulted in unproductive expenditure of Rs 36.49 lakh.
(Paragraph 4.4)

Purchase of equipment and chemicals by District Panchayat, Thrissur before creating infrastructure facilities for clinical laboratories in PHCs rendered the expenditure of Rs 22.64 lakh unfruitful. The objective of providing employment to women in paramedical field and extension of laboratory services at affordable cost to the rural population could not be achieved.
(Paragraph 4.5)

Investment of Rs 20.28 lakh made during 1997-2002 for creation of blood banks in four LSGIs remained unproductive as LSGIs failed to provide infrastructure facilities.

(Paragraph 4.6)

Investment of Rs 2.96 crore made by sixteen LSGIs during 1998-2003 for setting up Mini Industrial Estates remained unfruitful.

(Paragraph 4.7)

Eight LSGIs procured Agro machinery during 1997-2002 at a cost of Rs 30.51 lakh. The machinery was idling/under utilised since their purchase.

(Paragraph 4.8)

CHAPTER I

FINANCES OF THE LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

1.1.1 Consequent on the 73rd and 74th amendments of the Constitution of India, the State Legislature enacted the Kerala Panchayat Raj Act, 1994 (Act 13 of 1994) and the Kerala Municipality Act, 1994 (Act 20 of 1994). Government transferred responsibilities, institutions and schemes relating to matters enlisted in the Schedules of the respective Acts to the Panchayats and Municipalities, with effect from 2 October 1995. The Government also transferred the assets and liabilities along with the officials relating to the transferred institutions, but continued to pay the salary and allowances of the transferred officials.

1.2 Decentralised planning and people's participation

1.2.1 In order to give a meaningful direction to the process of decentralisation, Government decided (1997-98) that the Local Bodies should formulate and implement at least 35 to 40 *per cent* of the State's plan programmes within their areas of responsibilities. Accordingly, 'People's campaign for the formulation of Ninth Five Year Plan' was launched by the Government to identify local development problems and then prioritise and formulate projects for schemes.

1.2.2 The Government also transferred 35 to 40 *per cent* of the State's Annual Plan outlay from the year 1997-98. In 2002-03, the programme was renamed 'Kerala Development Plan'.

1.3 State Finance Commission

Government have not yet placed (December 2004) before the State Legislature the first part of the Report of the Second State Finance Commission (appointed in June 1999), submitted in January 2001. Meanwhile, the Third Finance Commission was constituted in September 2004.

1.4 Recommendations of the Eleventh Finance Commission

As recommended by the Eleventh Finance Commission, the State Government entrusted (October 2002) the audit of Local Bodies to the Comptroller and Auditor General of India under section 20 (1) of the Comptroller and Auditor General's (DPC) Act, 1971 for providing technical supervision of audit to the Director of Local Fund Audit. The State Government accepted (June 2003) the budget and accounts formats for Panchayat Raj Institutions prescribed by the Comptroller and Auditor General of India and they came into force with effect from 1 April 2004. The State Government has also accepted

(September 2003) the formats for Urban Local Bodies prescribed by the Comptroller and Auditor General of India.

1.5 Profile of the Local Self Government Institutions

1.5.1 As on 31 March 2004, there were 1215 Local Self Government Institutions (LSGIs) in the State. Rural and urban population of the State as per Census 2001 was 2.36 crore and 82.67 lakh, respectively. Details of the average area and population were as under:

Type of LSGIs	Number	Average area (Sq.km) *	Average population *
Grama Panchayats	991	37.50	26846
Block Panchayats	152	244.50	175030
District Panchayats	14	2654.68	1900324
Municipalities	53	23.06	51530
Municipal Corporations	5	95.15	500599

* As per census 2001

1.6 Organisational structure

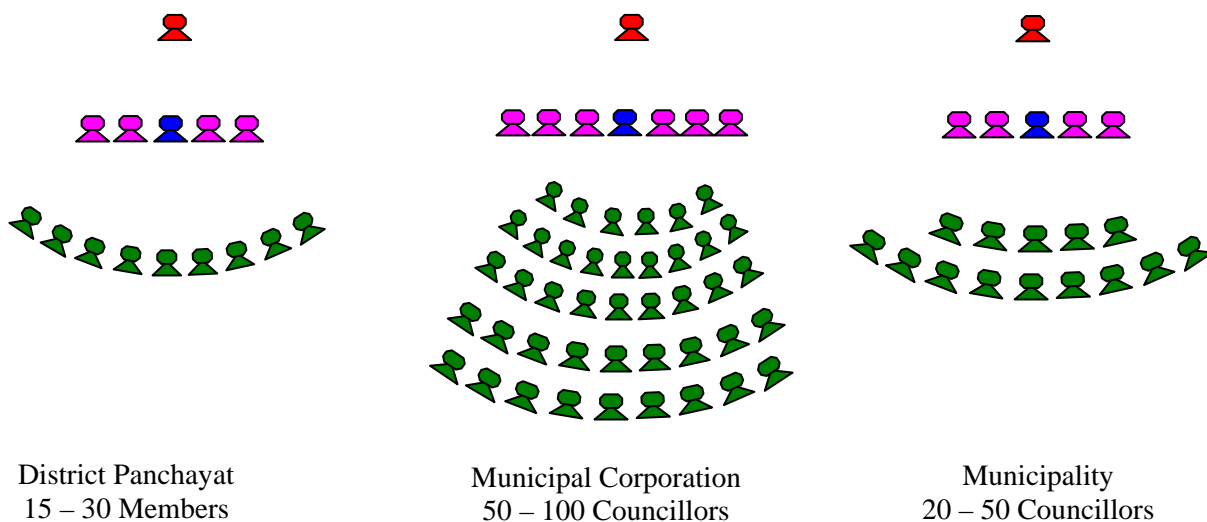
1.6.1 In the three-tier Panchayat Raj system in the State, each tier of Panchayat functions independently of each other.

1.6.2 The members of the Panchayat elect the President, Vice President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipal Council/ Corporation Council elect the Chairperson/ Mayor, Vice Chairperson/ Deputy Mayor and Chairpersons of the Standing Committees.

1.6.3 The President/ Chairperson/ Mayor is the ex-officio member of every Standing Committee and the Vice President/ Vice Chairperson/ Deputy Mayor is the ex-officio member and Chairperson of the Standing Committee for Finance. Each LSGI has a Secretary and supporting staff.

Diagram No. 1

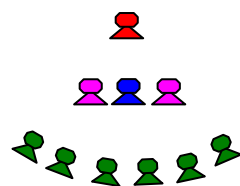
ORGANISATIONAL STRUCTURE OF LOCAL SELF GOVERNMENT INSTITUTIONS



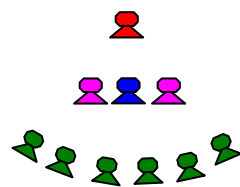
District Panchayat
15 – 30 Members

Municipal Corporation
50 – 100 Councillors

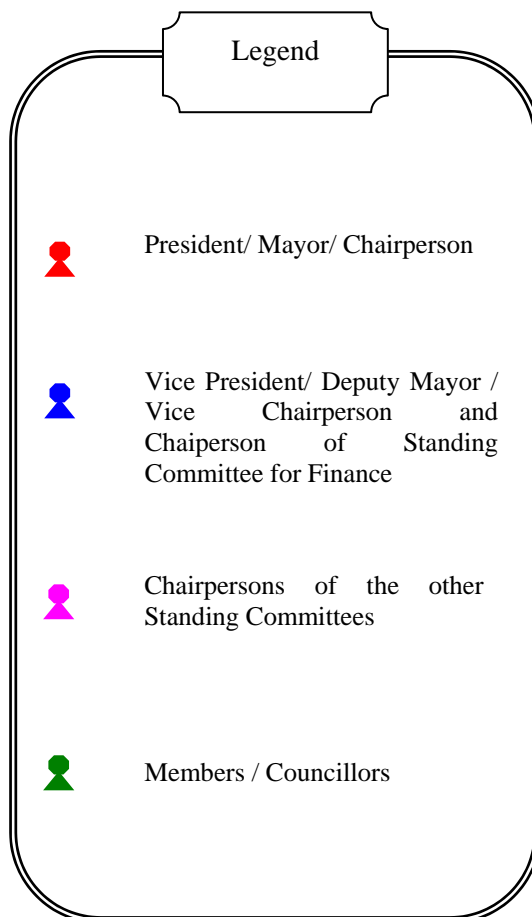
Municipality
20 – 50 Councillors



Block Panchayat
10 – 20 Members



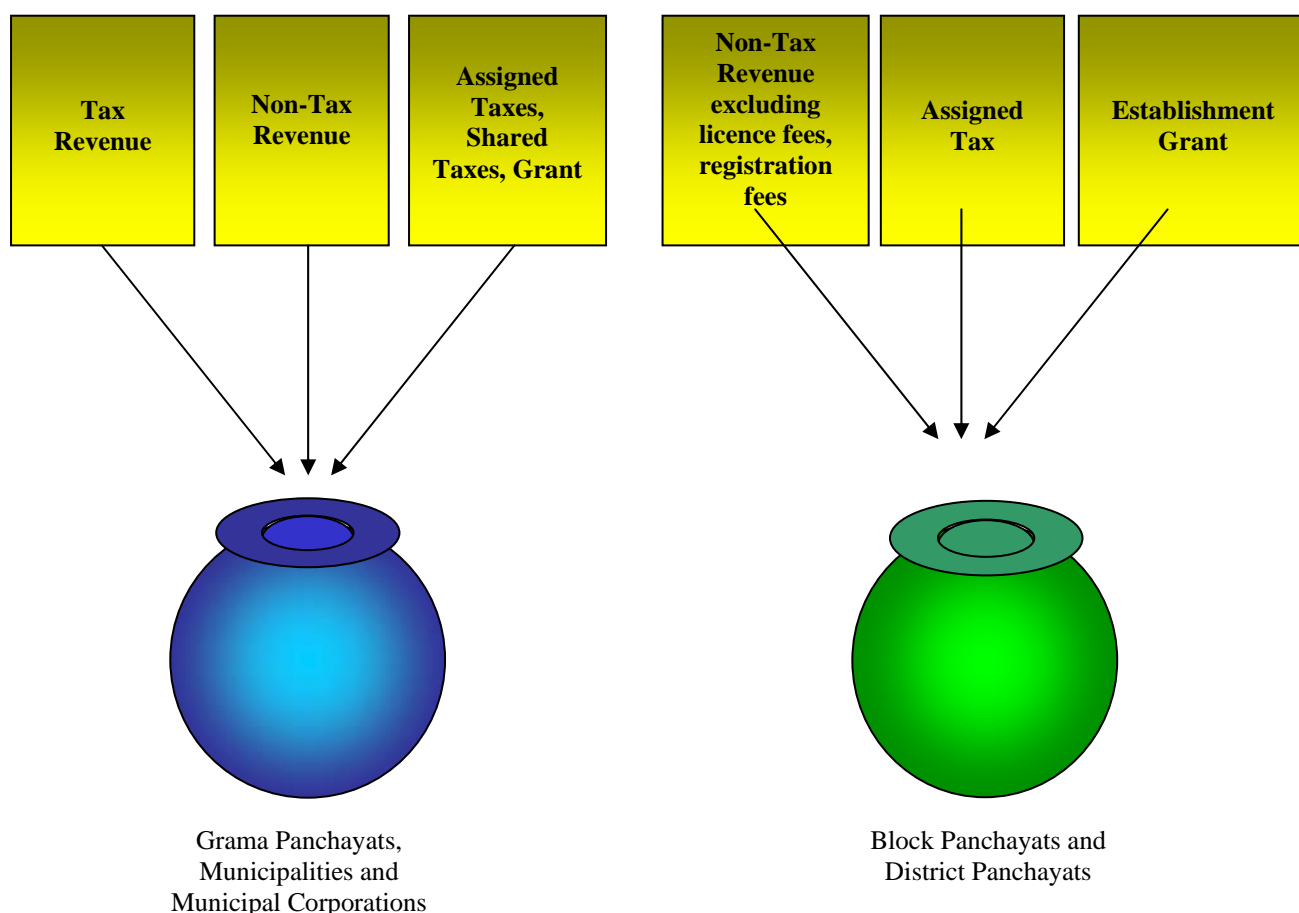
Grama Panchayat
10 – 20 Members



1.7 Sources and utilisation of funds

1.7.1 The five sources of funds of LSGIs are (i) own fund, (ii) funds devolved upon them by the State Government for the decentralised planning and State Sponsored Schemes, (iii) Centrally Sponsored Scheme Funds, (iv) loans and (v) other sources. Flow of funds from the above sources has been shown in Diagrams 2, 3 and 4.

Diagram No.2
Sources of own funds of LSGIs



1.7.2 The tax and non-tax revenue of the Grama Panchayats, Municipalities and Municipal Corporations were as follows:

(Rupees in crore)

Year	Grama Panchayats		Municipalities		Municipal Corporations	
	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax
1997-98	81.46	72.88	47.97	34.13	43.71	12.73
1998-99	88.28	80.20	50.63	37.62	48.27	15.99
1999-00	100.21	138.28	57.20	37.93	65.44	23.19
2000-01	116.01	103.65	68.53	45.33	74.71	20.71
2001-02	114.49	79.25	75.84	51.47	52.53	46.15
2002-03	123.18	102.83	86.17	57.79	93.85	58.09

Source: Figures submitted to the Twelfth Finance Commission by Government of Kerala

The correctness of these figures could not be authenticated in the absence of audited accounts.

1.8 Accounts

Non-presentation of Consolidated Accounts before the Legislative Assembly

1.8.1 A comprehensive picture of the finances of the LSGIs in the State is not available as the consolidated accounts of the LSGIs were not prepared as prescribed in the Acts. Every LSGI is required to submit to an officer authorized by Government in this behalf, an abstract of its annual report, showing receipts and payments under each head of account as certified by the Auditor, not later than the fifteenth day of the second month of the next financial year. The Acts prescribe that the authorised officer shall submit a consolidated report to Government forthwith and the Government shall cause the accounts together with the Audit Report to be laid before the Legislative Assembly.

1.8.2 The Government have not authorised till now an officer to consolidate the accounts of the LSGIs in terms of the provisions of the Acts. Consequently, consolidated annual accounts of the Panchayats and Municipalities have never been prepared and laid before the Legislative Assembly.

1.9 Arrears in submission of accounts

1.9.1 The accounts are in arrears from 1995-96 as shown below:

Year	Total number of LSGIs	Number of LSGIs whose accounts are in arrears *
1995-96	1214	223
1996-97	1214	143 #
1997-98	1214	236
1998-99	1214	336
1999-00	1214	361
2000-01	1215	492
2001-02	1215	638
2002-03	1215	937
2003-04	1215	1212
Total		4578

1.9.2 In spite of receiving the Eleventh Finance Commission grant of Rs 1.83 crore for the period 2000-01 to 2003-04 for maintenance of the accounts of the Grama Panchayats and Block Panchayats, the accounts are still heavily in arrears. Government have stated (December 2004) that they propose to update the accounts with the help of retired hands and performance audit teams.

* As on 31 March 2004

Some LSGIs submitted accounts without submitting accounts for previous years and they were audited by DLFA (Refer: Para 2.7.5 of Chapter II)

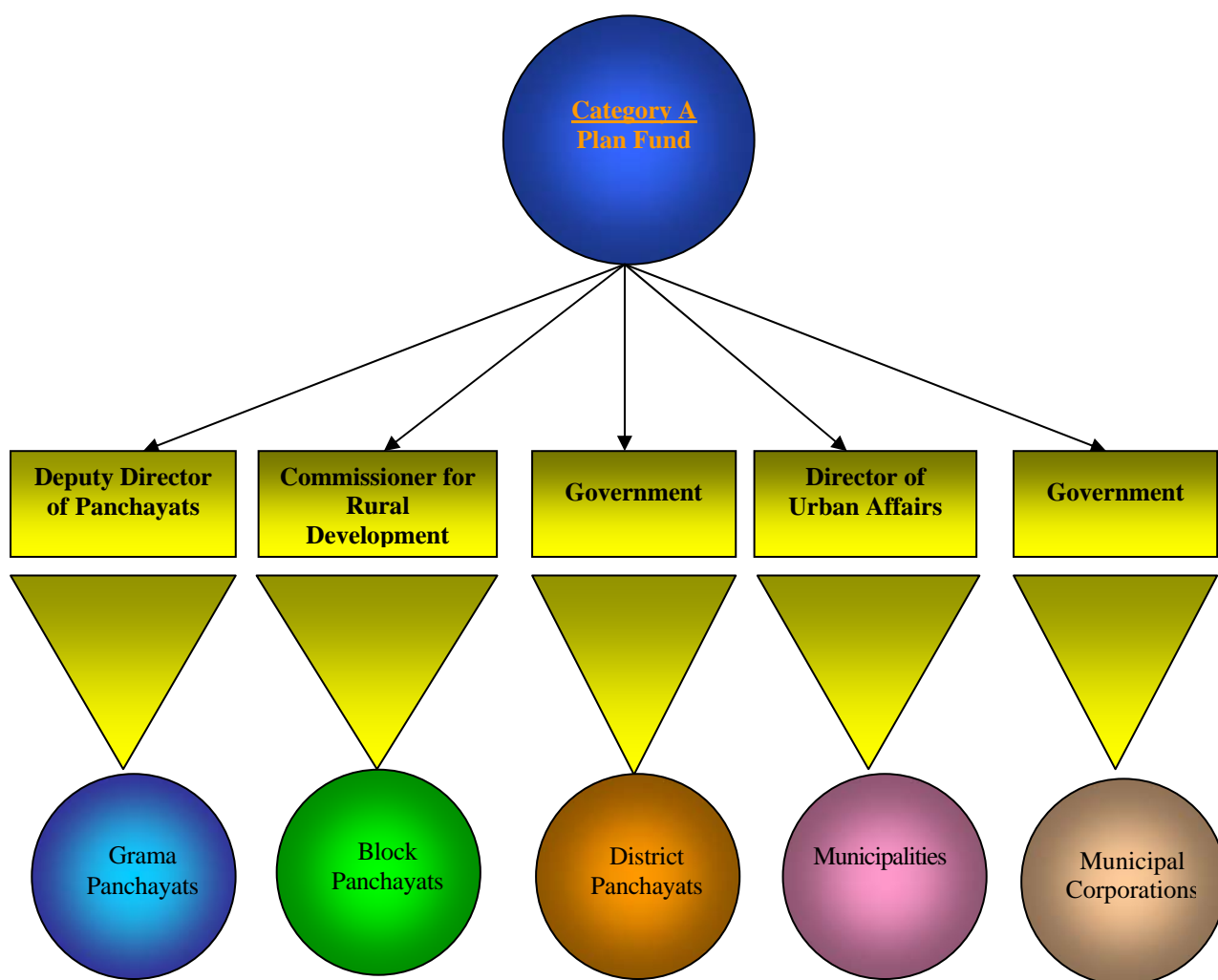
1.9.3 Government have not taken any effective action to support the LSGIs in updating their accounts. As a result, the statutory obligation to place the annual accounts before the Grama Sabha/Ward Sabha is not being observed by most of the LSGIs.

1.10 Funds devolved upon LSGIs for decentralised planning and State sponsored schemes

Category 'A' Funds

1.10.1 These are Plan Grants for schemes formulated by the LSGIs. Government makes allotment direct to the District Panchayats and the Municipal Corporations. The Director of Urban Affairs allots funds to the Municipalities. The Commissioner for Rural Development allots funds to the Block Panchayats while the Deputy Director of Panchayats makes allotments to the Grama Panchayats through the Deputy Director of Panchayats of each District.

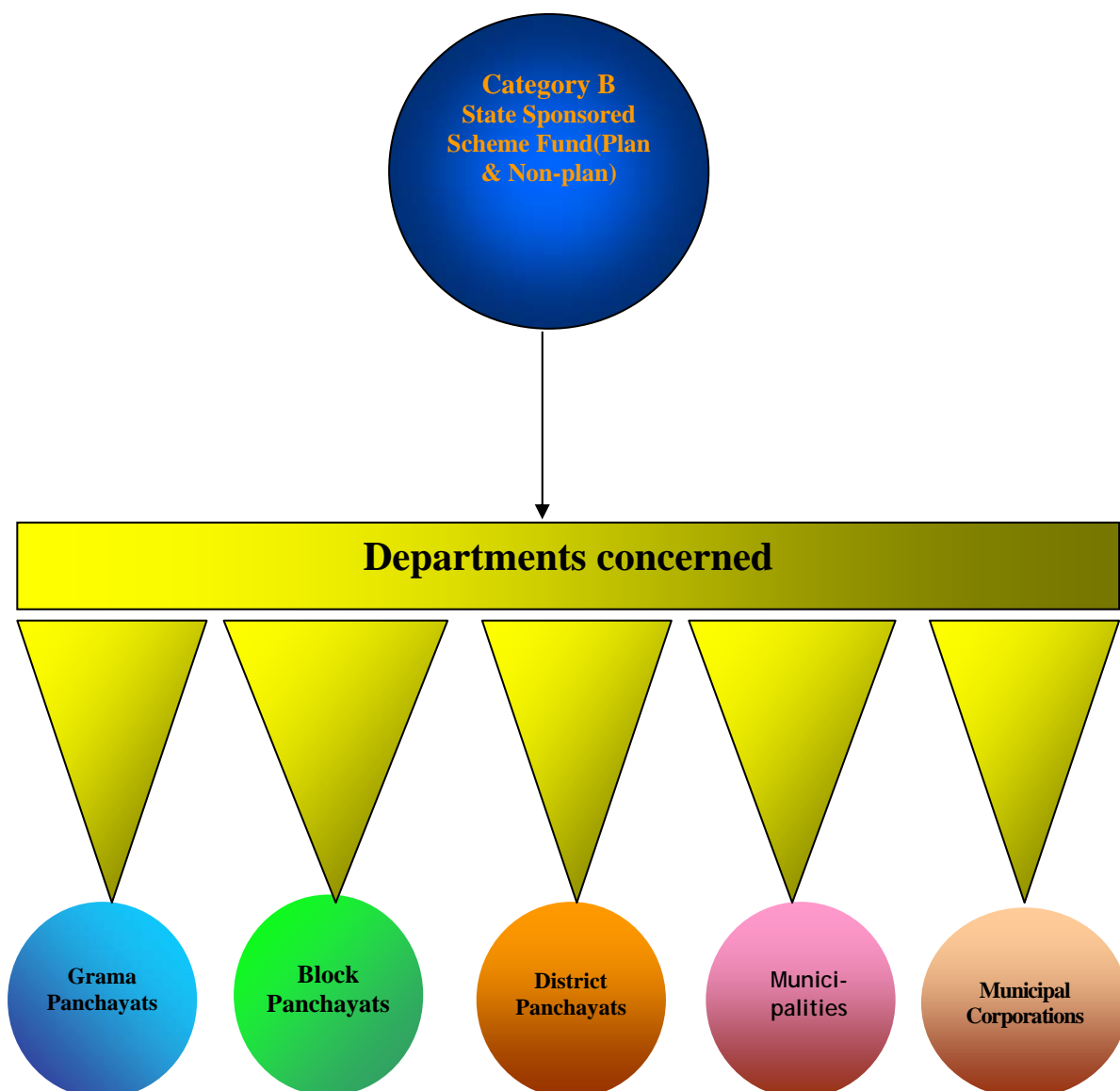
**Diagram No. 3
Devolution of funds upon LSGIs -Category A funds**



Category 'B' Funds

1.10.2 These include Plan Grants for State Sponsored Schemes, Non Plan Grants for the maintenance of the transferred institutions, assets and schemes and budgetary transfer of Centrally Sponsored Schemes. The District Officers of the Departments concerned allot Category 'B' Funds excluding Centrally Sponsored Scheme funds to each LSGI of the District.

Diagram No.4
Devolution of funds upon LSGIs – Category B Funds



1.11 Extent of devolution of funds

1.11.1 During the period 1997-98 to 2003-04, against a budget provision of Rs 10207.01 crore, the State Government devolved upon the LSGIs a total amount of Rs 8741.87 crore as Plan and non-Plan Grants and loans. The Plan

Grants/loans shown in the table consist of Category A Fund and the Plan Component of Category B Fund. Details are given in the *Appendix-I*.

(Rupees in crore)

Type of LSGIs	Budget provisions			Amount disbursed		
	Plan	Non-plan	Total	Plan	Non –plan	Total
Grama Panchayats	4414.76	996.03	5410.79	3792.73	1093.88	4886.61
Block Panchayats	1566.05	113.52	1679.57	1155.49	118.49	1273.98
District Panchayats	1208.96	388.00	1596.96	968.61	358.97	1327.58
Municipalities	710.00	279.76	989.76	628.15	172.72	800.87
Municipal Corporations	458.74	71.19	529.93	400.41	52.42	452.83
Total	8358.51	1848.50	10207.01	6945.39	1796.48	8741.87

1.11.2 In July 2003, Government closed the ‘General/Plan’ Personal Deposit Accounts of the LSGIs and credited back to Government account in reduction of expenditure for the year 2003-04, a total amount of Rs 581.20 crore relating to previous years remaining unutilised in those accounts. The under-utilisation of funds by the LSGIs resulted in the short achievement of the social objectives to that extent.

1.12 Reasons for under-utilisation

1.12.1 The Economic Review, 2003 states (Para 22.6 and 22.7) that the strategy of decentralisation adopted in Kerala was the ‘big bang’ approach – functions, powers and resources being transferred at one go. The Review also states that traditional wisdom calls for capacity building of local Governments and then giving power to them in degrees to match the improvement in capacity. The Review continues to state that Kerala followed the ‘reversals’ – of giving responsibility and then building capacity, of giving powers and then creating procedures and systems, of giving funds and then setting up umpiring systems.

1.12.2 The above statements reveal that the capacity building of the LSGIs was in the rudimentary stages and the LSGIs were not fully equipped to handle the transfer of large scale funds to the extent of thirty five to forty *per cent* of the State’s Annual Plan Outlay. Under-utilisation of funds received was an unavoidable fall out.

1.12.3 There were delays on the part of the Government in issuing the guidelines for plan formulation. Instead of issuing the guidelines well in advance of the beginning of the financial year, the Government issued them between April – November only, except for the year 2003-04. The formulation of Annual Plans and obtaining approval of the District Planning Committee was consequently delayed and the LSGIs did not get one full year for the implementation of Annual Plans except during the year 2003-04.

1.12.4 Delay in release of Plan Grants by Government was another contributing factor for the under-utilisation of funds. The scheduled release was quarterly during the years 1997-98 to 2002-03 and monthly during the year 2003-04. However, during the seven year period from 1997-98 to 2003-2004, the Government adhered to the schedule only during August 2003

to January 2004 resulting in delays ranging from 1 to 6 months in release of plan grants (Appendix II).

1.13 Outstanding advances

1.13.1 Test check of the records of 159 LSGIs revealed that advances paid to various implementing agencies like Kerala State Electricity Board, Kerala State Housing Board and Kerala Water Authority, etc., and mobilisation advances paid to convenors of beneficiary committees during 1997-98 to 2002-03 were treated as expenditure. As of 31 March 2004, Rs 43.99 crore was outstanding towards advances as per details below.

Sl. No	Recipients of advance	Period of advance payment	Amount (Rs in crore)
1.	Kerala State Electricity Board	1997-98 to 2002-03	14.07
2.	Kerala State Housing Board	"	12.46
3.	Kerala Water Authority	"	9.96
4.	Nirmithi Kendra	"	1.36
5.	COSTFORD*	"	0.83
6.	ANERT#	"	0.07
7.	Ground Water Department	1998-99 to 2002-03	0.33
8.	Convenors of beneficiary committees	1997-98 to 2002-03	4.91
Total			43.99

1.13.2 Non adjustment of advances for a long period is fraught with the risks of misutilisation/misappropriation of funds.

1.14 Centrally Sponsored Scheme Funds

1.14.1 District Rural Development Agencies, Director of Urban Affairs and Kudumbasree (the State Poverty Eradication Mission) disbursed funds to LSGIs for implementing Centrally Sponsored Schemes.

1.14.2 The Central and State shares distributed to the LSGIs and their utilisation during the period 1997-98 to 2003-04 in respect of various schemes were as follows:

(Rupees in crore)

Authority / Agency who disbursed the fund	Type of LSGI	Opening Balance	Distribution to LSGIs		Total available fund	Funds utilised by LSGIs	Balance	percentage of utilisation
			Central Share	State Share				
1. District Rural Development Agency	Panchayats	66.55	460.17	137.21	663.93	606.91	57.02	91.41
2. Director of Urban Affairs	Municipal bodies	-	19.42	10.88	30.30	30.30	-	100.00
3. Kudumbashree (The State Poverty Eradication Mission)	Municipal bodies	-	135.33	55.62	190.95	135.42	55.53	70.92
Total		66.55	614.92	203.71	885.18	772.63	112.55	87.29

The details are given in Appendix -III

* Centre of Science and Technology for Rural Development

Agency for Non-conventional Energy and Rural Technology

1.14.3 In the absence of consolidated accounts, it could not be ascertained as to whether these LSGIs incurred any loss of Central assistance and also State share of the prescribed funding ratio.

1.15 Outstanding Loans

1.15.1 As on 31 March 2004, loans of Rs 274.18 crore availed by LSGIs from various sources were outstanding as per details below:

Sl.No.	Source of Loan	Category of LSGI					Total
		GP ¹	BP ²	DP ³	Municipality	Municipal Corporation	
1.	Government	-	-	2.00	25.83	50.85	78.68
2.	Government Guarantee	-	-	-	0.03	0.39	0.42
3.	Financail Institutions	30.33	-	120.15	33.40	11.20	195.08
	Total	30.33	-	122.15	59.26	62.44	274.18

1.15.2 In the absence of detailed accounts proper utilisation of loans, the trend of repayment and the amount of interest paid/payable etc could not be ascertained.

1.16 Other sources

1.16.1 LSGIs also receive donations, voluntary contributions and beneficiary contributions. In the absence of consolidated accounts, the details of receipts from other sources and expenditure therefrom were not available.

1.17 Budgeting

1.17.1 Panchayats are required to incorporate in their budgets, detailed estimates of income and expenditure. Due to non-formulation of annual plan in time, the LSGIs could not incorporate estimates of receipt and expenditure relating to Plan schemes in their budget. This resulted in LSGIs incurring plan expenditure without budget approval which was indicative of poor budgetary control and lack of accountability.

1.18 Asset accounting

1.18.1 With effect from 2 October 1995, the Government had transferred assets and liabilities of the institutions relating to the transferred subjects to the LSGIs in the process of decentralisation. The transferred institutions included Krishi Bhavan, Health Centres, Government Dispensaries, Hospitals, Schools and Agricultural Farms having considerable assets in the form of land, buildings and movable properties. Government had not taken any steps for the identification of the nature and location and for the valuation of assets and liabilities of the transferred institutions. The transferred assets had not been

¹ Grama Panchayat, ² Block Panchayat, ³District Panchayat

incorporated in the asset registers of the LSGIs and formal transfer in the revenue records had not been made. Government have stated that the assets transferred had not been valued so far. Government also stated that the ownership of the assets had not been formally transferred so that the assets could not be alienated by LSGIs.

1.18.2 The LSGIs had spent Rs 552.82 crore during 2002-03 and 2003-04 on creation of capital assets the correctness of which was certified by DLFA. The details of assets created were not available for want of recipient wise details of amount received and expenditure incurred. Test-check of records during supplementary audit revealed other improprieties in the maintenance of the Register of immovable properties.

1.18.3 In the absence of identification and valuation of assets and incomplete maintenance of asset registers, it was difficult for audit to obtain a reasonable assurance regarding the proper maintenance and safeguarding of assets by LSGIs.

1.19 Deficiencies in Acts and Rules

1.19.1 Audit pointed out in March, 2004, the necessity for incorporating amendments to the Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 respectively to bring about greater clarity in the accounting and audit arrangements and procedures. The amendments were intended to prescribe the date of preparation of the Annual Financial Statements and its submission to Audit, to incorporate the Scheme of Technical Guidance and Supervision of the Comptroller and Auditor General of India, to prescribe the issue of Audit Certificate by Auditors on completion of audit, to prescribe the presentation of the Annual Financial Statements in the Grama Sabhas/ Ward Sabhas and to prescribe the due date for submission of accounts to the authorised officer.

1.19.2 The new formats for Budget and Accounts of Panchayat Raj Institutions prescribed by the Comptroller and Auditor General of India have become operational from 1 April 2004. The new formats for Urban Local Bodies prescribed by the Comptroller and Auditor General of India and accepted by Government in September 2003 have not come into force, pending adaptation by the State Government. Government have not framed so far the Rules and Manuals for Budgets and Accounts of the Panchayat Raj Institutions and Urban Local Bodies. Consequently, the Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipalities (Accounts) Rules, 1963 and the Kerala Municipal Corporation (Accounts) Rules, 1967 which are at variance with the new formats continue to be in force.

1.19.3 Government response was awaited (November 2004).

1.20 Recommendations

- ❖ In a situation where 35 to 40 *per cent* of the State's Annual Plan Outlay is being devolved upon the LSGIs, consolidation of financial data based on audited financial statements assumes significance. Government should authorise an officer for this purpose as contemplated in the Act.
- ❖ Government should take adequate steps for the clearance of arrears in the accounts of the Panchayat Raj Institutions.
- ❖ The Government should issue plan formulation guidelines well before the beginning of the financial year to enable the LSGIs to incorporate approved plan expenditure in their budgets.
- ❖ In order to achieve the objectives of decentralised planning, which is a process through which solutions are attempted to be achieved for the problems identified by the Grama Sabhas / Ward Sabhas, full utilisation of plan grants received and other funds earmarked for Plan is necessary. For this purpose, Government have to ensure, prompt release of plan funds and capacity building of the LSGIs.
- ❖ The identification and valuation of the assets transferred by Government to the LSGIs and their proper accountal is a matter which calls for the immediate attention of the Government to ensure proper maintenance and safeguarding of assets.

CHAPTER II

SUPPLEMENTARY AUDIT UNDER THE SCHEME OF TECHNICAL GUIDANCE AND SUPERVISION

2.1 Introduction

2.1.1 The Comptroller and Auditor General of India (CAG) conducts supplementary audit wherever entrusted and comments upon or supplements the reports of the statutory auditors. In supplementary audit, CAG audits the financial statements and accounts records and source data of the Local Self Government Institutions (LSGIs) where the Director of Local Fund Audit (DLFA) had conducted audit and issued Audit Reports.

2.1.2 In 2003-04, supplementary audit of 23 LSGIs in seven districts covering 19 Grama Panchayats, 1 Block Panchayat, one District Panchayat, one Municipality and one Municipal Corporation (MC) was conducted (*Appendix IV*), in addition to transaction audit of 203 LSGIs during the year (MCs – five, Municipalities – 35, District Panchayat -14, Block Panchayats - 40 and Grama Panchayats – 109). The supplementary audit observations are discussed as under:

2.2 Non maintenance or improper maintenance of books of accounts and other records

Cash Book

2.2.1 LSGIs maintained separate cash books for different sources of funds like own fund, Plan/Non-plan funds from State Government and Centrally Sponsored Scheme funds. Effective and coordinated control over various funds could not be ensured as a result of maintenance of more than one cash book.

The following discrepancies were observed in the maintenance of cash book:

- Daily closing of cash book was not carried out in all the 23 LSGIs* test checked
- Monthly closing was not carried out in two LSGIs (Poovar, and Vadanappally Grama Panchayats)
- Physical verification of cash was not conducted in 12 LSGIs[§]

* Mundakayam, Manimala, Erumeli, Budhanoor, Ala, Neendakara, Kottarakkara, Devikulangara, Muthukulam, Krishnapuram, Kattakada, Poovar, Venganoor, Cheriyanad, Thalavadi, Harippad, Koratty, Madakkathara and Vadanappally Grama Panchayats, Veliyanad Block Panchayat, Alappuzha District Panchayat, Shoranur Municipality and Kozhikode Corporation

[§] Devikulangara, Muthukulam, Krishnapuram, Kattakada, Poovar, Cheriyanad, Thalavady, Haripad, Koratty, Madakkathara, Vadanappally Grama Panchayats and Shoranur Municipality

- In four LSGIs authentication of monthly closing was not made (Devikulangara, Venganoor Grama Panchayats, Veliyanad Block Panchayat and Shoranur Municipality)
- Exhibition of unreliable opening balance for the year in the cash book was noticed in Kozhikode Corporation
- Non-reconciliation/improper reconciliation of cash book balance with pass book balance was noticed in 10 LSGIs[^]

Appropriation Register

2.2.2 Five LSGIs[#] did not maintain Appropriation Registers and one LSGI (Shoranur Municipality) maintained the Register improperly due to which effective utilisation of grants and loans received by these LSGIs could not be ascertained.

Register of advances

2.2.3 Eight¹ LSGIs did not maintain Register of Advances and one LSGI (Shoranur Municipality) maintained the register improperly due to which veracity of advances made and adjustment thereof could not be ensured.

Register of Deposits

2.2.4 Veliyanadu Block Panchayat did not maintain Register of Deposits and Erumeli Grama Panchayat maintained the register improperly, due to which a proper watch over the adjustment of deposits was not possible.

Demand Register and Arrear Demand Register

2.2.5 The proper revenue collection is watched through Demand Registers and Arrear Demand Registers. The Demand Register for profession tax maintained by Cheriyanad Grama Panchayat did not contain half yearly income of assesseees. The Panchayat did not maintain Arrear Demand Register for property tax and profession tax - due to which the correctness of demand, collection and balance statement could not be verified.

Register of Receipts and Register of Payments

2.2.6 Veliyanadu Block Panchayat did not maintain both the registers and Alappuzha District Panchayat did not maintain the Register of Payments. Due to non-maintenance of Register of Receipts and Register of Payments, it was not possible to ascertain how these LSGIs ensured correctness of the figures of their Annual Financial Statements.

[^] Manimala, Erumeli, Kottarakkara, Muthukulam, Krishnapuram, Kattakada, Poovar, Madakkathara Grama Panchayats, Veliyanad Block Panchayat and Shoranur Municipality

[#] Kottarakkara, Devikulangara, Muthukulam, Krishnapuram and Madakkathara Grama Panchayats

¹ Erumeli, Devikulangara, Muthukulam, Krishnapuram, Kattakada, Venganoor, Madakkathara Grama Panchayats and Veliyanad Block Panchayat.

2.3 Lapses in preparation of budget

Preparation of incomplete budget

2.3.1 Two LSGIs (Manimala and Budhanoor Grama Panchayats) prepared budgets by incorporating the estimates relating to own fund only. Estimates of Plan and Non-plan funds from Government were not included due to which incurring of expenditure against these funds was unauthorised.

Variations in Estimates

2.3.2 The estimated receipts and expenditure widely varied with the actuals in the case of 10 LSGIs* and detailed illustration in case of three LSGIs is given below:

Receipts

(Rs. in lakh)

Year	Name of Local Body	Head of Account	Estimate	Actuals	Shortfall	Percentage shortfall to the estimate
1998-99	Erumeli Grama Panchayat	Property Tax	10.00	4.35	5.65	56.50
		Revenues from Panchayat Properties	8.50	5.42	3.08	36.23
1999-2000	Cheriyamad Grama Panchayat	Property Tax	13.00	6.73	6.27	48.23
		Rent on land and buildings	1.25	0.64	0.61	48.80
2000-01	Kottarakara Grama Panchayat	Property Tax	30.00	18.86	11.14	37.13
		Rent on land and buildings	10.00	6.11	3.89	38.90

Expenditure

(Rs. in lakh)

Year	Name of Local Body	Head of Account	Estimate	Actuals	Savings	Percentage saving to the estimate
1998-99	Erumeli Grama Panchayat	Public Works	12.40	6.55	5.85	47.18
		Education	2.30	0.83	1.47	63.91
1999-2000	Cheriyamad Grama Panchayat	Maintenance of roads	3.00	1.38	1.62	54.00
		Capital expenditure on education – building	4.50	0.01	4.49	99.78
2000-01	Kottarakara Grama Panchayat	Sitting fee	10.00	2.24	7.76	77.60
		Travelling Allowance to President	3.00	0.16	2.84	94.67

2.4 Lapses in preparation of Annual Financial Statements

2.4.1 The Panchayats and Municipalities are to prepare Annual Financial Statements and Demand, Collection and Balance (DCB) Statements and to forward them to the DLFA after approval by the Panchayat/Municipal Council/Corporation Council by 31 July of the succeeding year. The following lapses were observed.

* Manimala, Erumeli, Budhanoor, Kottarakara, Devikulangara, Krishnapuram, Kattakada, Cheriyamad, Thalavady and Haripad Grama Panchayats.

2.4.2 In two LSGIs[@], the preparation of Annual Financial Statement was delayed by 9 months and 16 months respectively.

2.4.3 One District Panchayat (Alappuzha) and one Municipal Corporation (Kozhikode) forwarded the Annual Financial Statement to the DLFA without obtaining the approval of the Panchayat/Corporation Council.

2.4.4 The Annual Financial Statement of the test checked LSGIs did not incorporate transactions relating to Category A Fund (Plan Fund), Category B Fund (State Sponsored Fund – Plan and Non-Plan) and Centrally Sponsored Scheme Fund. Non incorporation of the transactions relating to the above funds resulted in understatement of receipts and expenditure of the LSGIs due to which no assessment of financial management was possible.

2.4.5 Annual Financial Statement is a document showing abstracts of receipt and expenditure, statement of assets and liabilities and the general financial position of the LSGIs. The figure shown therein should agree with those shown in the primary accounting records and subsidiary registers of LSGIs. The figures shown in the Annual Financial Statements prepared by the LSGIs varied with those of the accounting records and source data as follows:

- between the closing balance as per Annual Financial Statement and as per the Cash Books (Kozhikode Corporation)
- between Annual Financial Statement and DCB statement (Mundakayam, Erumeli Grama Panchayats, Shoranur Municipality and Kozhikode Corporation)
- between Annual Financial Statement and Register of Receipts (Manimala, Neendakara, Muthukulam, Kattakada and Poovar Grama Panchayats)
- between DCB statement and Demand Registers (Manimala, Kottarakkara and Madakkathara Grama Panchayats).

2.5 Non-assurance of the bonafides of receipts issued to tax payers

2.5.1 The Revenue Inspectors of the Municipalities are required to conduct test check of the original receipts with the Memorandum of Collections to ensure the bonafides of the receipts issued to parties by the tax collectors. Particulars of such check are to be entered in a 'Diary of Check of Original Receipts'. The Revenue Officers are to furnish every month a certificate to the Secretary after verification of the 'Diary' of Revenue Inspectors.

2.5.2 There was no evidence to show that the prescribed checks were carried out by the Revenue Inspectors in Shoranur Municipality and Kozhikode Corporation. As such, the control and monitoring mechanism to prevent loss or leakage of revenue was not ensured.

2.6 Lapses in safeguarding of assets

[@] Muthukulam Grama Panchayat and Alapuzha District Panchayat

In the LSGIs safeguarding of assets was deficient as under:

- ★ Improper maintenance of ‘Register of Immovable Properties’ (in 7 LSGIs[&])
- ★ Improper maintenance of Stock Register of Money Value Forms (Shoranur Municipality)
- ★ Non-maintenance of Investment Register (Erumeli Grama Panchayat)
- ★ Non-maintenance of Stock Register of cheque books (Thalavadi, Madakkathara, Vadanappally Grama Panchayats and Alappuzha District Panchayat)
- ★ Absence of control over stock of receipt books. The Record Keeper usually placed orders of printing of receipt books without specific authorization by the Secretary (Kozhikode Corporation). This was fraught with the risks of unauthorized use of the receipt books.

2.7 Non-compliance of statutory requirements by the Director of Local Fund Audit

Non-issue of audit certificate

2.7.1 The DLFA did not issue audit certificates in respect of any of the 23 LSGIs, after conducting audit of financial statements for the period 1997-2001.

Delay in conducting audit and issuing audit reports

2.7.2 The DLFA is required to complete audit within six months of the presentation of the Annual Financial Statement and to issue the audit report within three months from the date of completion of audit. Supplementary audit revealed delay of 2 to 17 months in conducting audit after presentation of accounts by six LSGIs. In respect of 17 LSGIs, there was delay ranging from 2 to 29 months in issuing audit reports after completion of audit.

Conduct of audit without receiving Annual Financial Statement

2.7.3 In one Block Panchayat (Veliyanad), the DLFA conducted audit and issued audit report without receiving the Annual Financial Statement for 2000-01.

Conduct of audit of incomplete accounts

2.7.4 The DLFA generally insists on submission of statements of receipts, payments and balance in respect of Category ‘A’ Fund, Category ‘B’ Fund and Centrally Sponsored Scheme fund along with the Annual Financial Statement for own fund. However, DLFA conducted audit of Kozhikode Municipal Corporation and issued audit report, on receipt of the Annual Financial Statement relating to own fund only for the year 1999-2000.

[&]Devikulangara, Muthukulam, Krishnapuram, Kattakada, Venganoor, Thalavadi Grama Panchayats and Shoranur Municipality

Conduct of audit without receiving and auditing Annual Financial Statement for previous years

2.7.5 The audit of Annual Financial Statement for a year is taken up only on completion of the audit of the Annual Financial Statement for the previous year. This is necessary to ensure the correctness of the opening balance for the current year. However, in four LSGIs, DLFA conducted audit without auditing the Annual Financial Statement for the previous year, as indicated below.

LSGI	Year of audit	Years for which AFS was not received
Mundakkayam Grama Panchayat	1999-2000	1993-94 to 1998-99
Manimala Grama Panchayat	1999-2000	1995-96 to 1998-99
Erumeli Grama Panchayat	1998-99	1993-94 to 1997-98
Ala Grama Panchayat	1998-99	1995-96 to 1997-98

Preparation of parallel accounts and DCB statements by Director of Local Fund Audit

2.7.6 In five LSGIs, the DLFA reported in the audit reports, receipt and payment figures, which were at variance with the figures of the Annual Financial Statement prepared by LSGIs. The DLFA did not point out the specific discrepancies which caused the variance so as to enable the LSGIs to effect rectification. Apparently, the audit report contained a parallel account compiled by DLFA.

2.7.7 DLFA also prepared parallel DCB statements, which did not contain specific suggestions for rectification. Since rectification was neither insisted by the DLFA nor carried out by the LSGIs, the parallel accounts prepared by the DLFA did not help the LSGIs to maintain proper accounts. The details are given in Appendix V.

2.7.8 In his reply (December 2004), the DLFA stated that instead of pointing out deficiencies and defects in the accounts and waiting for correction by the LSGIs, he attempted to show correct accounts. The action of the DLFA, besides being outside the scope of his function, was not tenable as this did not help LSGIs to know specific discrepancies and to rectify their accounts.

2.7.9 The 'Auditing Standards for Panchayat Raj Institutions and Urban Local Bodies' and 'Guidelines for Certification Audit of Accounts of Panchayat Raj Institutions' prescribed by the CAG had been forwarded to Government for adoption and use by DLFA. Maintaining the standards as prescribed in the Auditing Standards and following the guidelines for certification of financial statements would ensure efficient and improved functioning by the DLFA.

2.8 Recommendations

- ❖ **Government may issue formal orders for the adoption of the ‘Auditing Standards for Panchayat Raj Institutions and Urban Local Bodies’ and ‘Guidelines for Certification Audit of Panchayat Raj Institutions’ prescribed by Comptroller and Auditor General of India.**
- ❖ **All audits of financial statements by the DLFA should invariably result in an Audit Certificate expressing an opinion on the financial statements and on the quality of controls over financial reporting.**
- ❖ **Instead of preparing parallel accounts and presenting them through the Audit Reports, the DLFA should point out the specific discrepancies and insist on their rectification before giving his certificate on the Accounts. This would result in the preparation of reliable Annual Financial Statements and DCB statements by the LSGIs and their certification by the DLFA.**
- ❖ **State Government may prescribe additional controls to ensure that discrepancies pointed out by DLFA are rectified by LSGIs in time.**
- ❖ **The LSGIs may give special emphasis on proper procedures for the maintenance of cash book and the safeguarding of assets.**

CHAPTER III

PERFORMANCE REVIEWS

3.1 Implementation of Housing Projects for Below Poverty Line Families

Highlights

With the advent of decentralized planning at grass root level from 1997-98, Local Self Government Institutions implemented various housing projects with the objective of providing houses to Below Poverty Line families. Projects were financed from Plan Funds provided by State Government and also through borrowings from financial institutions. Audit review revealed that neither the nodal agencies nor the implementing agencies had exact data on the actual progress of project implementation and utilization of funds deployed. The nodal agencies, apart from channelising the borrowed funds, did not play a lead role in the implementation and execution of the projects.

1. **Despite making deposit of Rs 12.54 crore with COSTFORD by 90 LSGIs for construction of 12605 houses, COSTFORD could arrange financial assistance for construction of 3667 houses only of which 2058 houses could be completed.**

(Paragraph 3.1.18)

2. **In Thrissur the interest liability on borrowed finance was passed on to beneficiaries. Arrears of interest payment amounted to Rs. 4.10 crore.**

(Paragraphs 3.1.8 & 3.1.19)

3. **Four hundred and six LSGIs deposited Rs.13.62 crore with Kerala State Housing Board (KSHB) without identifying beneficiaries. Further, out of 1.24 lakh beneficiaries identified, 5045 beneficiaries for whom Rs 6.31 crore was deposited with KSHB were ineligible for the assistance. In addition, 2826 eligible beneficiaries for whom Rs 3.53 crore was deposited with KSHB did not claim the assistance. The total excess deposit for which the LSGIs did not take action to get the amount refunded from KSHB worked out to Rs 23.46 crore (Rs 13.62 crore + Rs 6.31 crore + Rs 3.53 crore).**

(Paragraphs 3.1.21, 3.1.22, 3.1.23 & 3.1.24)

4. **Out of 1.16 lakh beneficiaries only 0.98 lakh beneficiaries completed houses as of March 2004 and 0.18 lakh beneficiaries did not complete their houses despite being provided assistance of Rs.24.70 crore by KSHB.**

(Paragraph 3.1.26)

Introduction

3.1.1 On decentralisation of powers by the enactment of the Kerala Panchayat Raj Act, 1994 and the Kerala Municipality Act, 1994, the State Government transferred funds, functions and functionaries to Local Self Government Institutions (LSGIs), to enable them to take up development plans based on local needs and aspirations. One of the major development projects undertaken by LSGIs was providing shelter to Below Poverty Line (BPL) families. According to the survey conducted by Rural Development Department, as of August 2003, the number of BPL families was 17.23 lakh against 18.39 lakh in 1996. Demand for housing in Kerala was assessed to 8.74 lakh in 1991. Even though the LSGIs claimed to have constructed 2.83 lakh houses during 1997-2001, housing demand was assessed as 8.26 lakh in 2001.

Scope of audit

3.1.2 A review of housing projects implemented from 1997 to 2004 by the LSGIs was conducted during April – June 2004 with reference to the records of Kerala State Housing Board (KSHB), three Municipal Corporations, six District Panchayats, three Block Panchayats and 26 Grama Panchayats (Appendix VI). The review covered Joint Housing Projects, viz, Thanal Housing Project, Janakeeya Parpida Padhathi, Janakeeya Bhavana Padhathi, Sampoorana Parpida padhathi implemented by Thiruvananthapuram, Kollam, Ernakulam and Thrissur District Panchayats respectively and other housing projects.

Audit objectives

3.1.3 The review was conducted to ascertain whether:

- (a) the target number of houses could be constructed and whether the shortage, if any, was due to any system lapse;
- (b) identification of beneficiaries was as per the prescribed parameters;
- (c) there was effective financial management in utilization of plan fund, availing institutional finance and loan servicing;
- (d) a suitable mechanism was in place to ensure efficient and economic implementation and monitoring of the projects.

Audit methodology

3.1.4 The data and statistical details were collected directly from selected LSGIs. Joint field visits of house sites were carried out to gather information directly from the beneficiaries. Project-wise information was gathered by circulating questionnaires to LSGIs. Records of KSHB, State Planning Board and Information Kerala Mission were also verified.

Audit findings

Joint Housing Projects

3.1.5 During 1999-2004, four District Panchayats at Thiruvananthapuram, Kollam, Ernakulam and Thrissur undertook separate housing projects jointly with the Municipal Corporations, Municipalities, Block Panchayats and Grama Panchayats in the respective districts as shown below.

Name of the project	District and Year of project	No. of participating LSGIs						Target		No. of houses actually taken up	
		GP ¹	BP ²	DP ³	Mun ⁴	MC ⁵	Total	Phase I	Phase II	Phase I	Phase II
Thanal Housing Project	Thiruvananthapuram 1999-2000	78	12	1	4	1	96	30000	30000	29872	0
Janakeeya Parpida Padhathi	Kollam 1999-2000	67	13	1	2	1	84	25000	45000	25000	0
Janakeeya Bhavana Padhathi	Ernakulam 2003-04	79	14	1	-	-	94	9600	40400	9600	0
Sampoorna Parpida Padhathi	Thrissur 1999-2000	71	15	1	5	-	92	12605	17395	12605	0
	Total	295	54	4	11	2	366	77205	132795	77077	0

3.1.6 The District Panchayats were the nodal agencies except in Thrissur where it was entrusted to COSTFORD*. Against the assistance of Rs 30000/Rs 35000, beneficiary contribution was Rs 7500/Rs 9000. To provide financial assistance to beneficiaries, the District Panchayats raised loans from financial institutions on Government guarantee as shown below.

District	Name of Scheme	Name of financing institution	Amount of loan raised (Rs. in crore)	Rate of interest (Per centage)	Period of repayment (Year)
Thiruvananthapuram	Thanal Housing Project	KSCB [@]	89.62	10.25	13
Kollam	Janakeeya Parpida Padhathi	HUDCO	87.50	10.00	11
Ernakulam	Janakeeya Bhavana Padhathi	HUDCO	33.60	10.00 ^{&}	9
Thrissur	Sampoorna Parpida padhathi	HUDCO	10.75	9.50 to 11.00	14

¹ Grama Panchayat, ²Block Panchayat, ³District Panchayat, ⁴ Municipality. ⁵Municipal Corporation

* Centre for Science and Technology for Rural Development

[@] Kerala State Co-operative Bank

[&] reduced to 8.5 per cent in February 2004

3.1.7 For repayment of the principal portion of loan, the District Panchayats, Thiruvananthapuram and Kollam made deposits with the financial institutions for specified periods and agreed to share interest on loan till the deposits matured to the principal amount. The initial deposit and interest on loan agreed for sharing were as follows.

(Amount in Rupees)

District	Repayment of loan (deposit share of LSGIs per beneficiary)				Annual interest payment to be shared by LSGIs			
	G P	B P	D P	Total	G P	B P	D P	Total
Thiruvananthapuram	5250	1125	1125	7500	2153	461	461	3075
Kollam	7000	1500	1500	10000	2000	750	750	3500

3.1.8 In Thrissur District each LSGI paid the full deposit of Rs 7500 in respect of houses sponsored by them and the beneficiaries themselves were to bear the interest liability. In the case of Ernakulam, the loan was not deposit linked.

Thanal Housing Project

3.1.9 The District Panchayat, Thiruvananthapuram availed a loan of Rs 89.62 crore from the Kerala State Co-operative Bank (KSCB) for the project. The District Panchayat designated the Project Officer, DRDA and Village Extension Officers respectively as the implementing officers of the project at the District and Village levels. Under the project, the LSGIs identified 29872 beneficiaries out of which 919 beneficiaries did not avail assistance. 24413 beneficiaries completed their houses and 4540 houses were at different stages of construction as of June 2004.

3.1.10 The interest payable on the loan of Rs 89.62 crore for the period 1999-2004 was Rs. 35.51 crore. The district panchayat paid Rs 36.14 crore to KSCB resulting in excess payment of Rs 0.63 crore towards interest. The District Panchayat did not take any action to adjust the excess amount against future interest payments.

3.1.11 Out of the loan of Rs 89.62 crore, Rs. 1.01 crore remained unutilised (July 2004) for 3 ½ years as 5459 beneficiaries did not avail the assistance in full or in part. The avoidable interest liability on this unutilised amount worked out to Rs 36.23 lakh.

3.1.12 The agreement (May 2000) with KSCB did not provide for payment of upfront fee to the bank. However, the bank adjusted upfront fee at the rate of one *per cent* of the loan (Rs 0.90 crore) from the loan amount. The Secretary, District Panchayat, Thiruvananthapuram stated (June 2004) that the matter was taken up with KSCB in July 2003. The amount has not been got refunded (December 2004).

Janakeeya Parpida Padhathi

3.1.13 The District Panchayat, Kollam had availed a loan of Rs 87.50 crore during 2000-01 for construction of 25000 houses. Agreement provided for

recovery of 0.25 *per cent* front end fee if documentation was completed within four months and 0.5 *per cent* otherwise. The documentation was completed within four months. Against Rs 21.88 lakh due on front end fee, HUDCO recovered Rs 93 lakh from the loan sanctioned. The District Panchayat did not take any step to get the excess amount refunded by HUDCO.

HUDCO adjusted initial deposit of Rs 15 crore for Phase II refundable to various LSGIs against interest on loan for Phase I

3.1.14 Under phase II of the project, the District Panchayat, Kollam collected Rs 14.83 crore from various LSGIs during 2000-2001 as initial deposit for providing assistance to 17053 beneficiaries. The District Panchayat issued cheques for Rs 15 crore to HUDCO in March and April 2001 for providing financial assistance to 15000 beneficiaries, but the cheques could not be cleared immediately due to treasury restrictions. Meanwhile the validity period (April 2002) of the loan sanctioned by HUDCO expired. On clearance of cheque after 15 months, HUDCO adjusted the amount of Rs 15 crore against interest on loan availed of for phase I. As the implementation of phase II did not materialize, the deposit amount was refundable to the respective LSGIs after getting refund from HUDCO. Thus, due to treasury restrictions and resultant delay in furnishing deposit amount to HUDCO within the validity period of the loan, financial assistance to 15000 beneficiaries could not be provided under Phase II of the project.

Janakeeya Bhavana Padhathi

3.1.15 Ernakulam District Panchayat implemented Janakeeya Bhavana Padhathi with the assistance of HUDCO during 1999-2000. Under the project financial assistance of Rs 35000 was provided to each beneficiary in four instalments. The loan amount with interest was repayable in nine years.

Injudicious deposit of Rs 11.52 crore resulted in blocking of plan funds

3.1.16 The District Panchayat, Ernakulam had collected Rs 11.65 crore as initial deposit at the rate of Rs 12500 in respect of 9320 beneficiaries to avail of the deposit-linked loan from HUDCO. Meanwhile, HUDCO stopped deposit-linked loan. Later, Government had given guarantee in November 2002, for the principal amount and interest. According to the loan agreement executed on 12 November 2002, no amount was to be deposited with HUDCO. After a lapse of more than four months from the date of execution of agreement, HUDCO demanded (26 March 2003) the District panchayat to deposit the amount of Rs 11.65 crore collected from various LSGIs in their public deposit scheme. The District Panchayat deposited Rs 11.52 crore for seven years with HUDCO at an interest rate of 7.75 *per cent* against 10 *per cent* on the amount borrowed (Rs.33.60 crore). Since the Government had given guarantee for the principal, interest and any other incidental expenditure in getting financial assistance for the beneficiaries, no deposit was required to be made with HUDCO by the LSGIs. This resulted in blocking of plan funds which could have been utilized for other development activities.

3.1.17 The beneficiary list prepared by five Grama Panchayats contained names of 149 beneficiaries who did not satisfy the eligibility conditions, which resulted in deprival of assistance to other eligible beneficiaries.

Sampoorna Parpida Padhathi

Poor achievement due to spreading the assistance disproportionately to large number of beneficiaries

3.1.18 The District Panchayat, Thrissur entrusted the implementation of the project to COSTFORD in September 1999. Ninety LSGIs paid (1999-2000) Rs 12.54 crore to COSTFORD to deposit with HUDCO to obtain loan for construction of 12605 houses. Even though COSTFORD did not deposit the requisite initial deposit, HUDCO sanctioned (April – October 2000) loan of Rs.10.75 crore to COSTFORD for providing assistance to 3667 beneficiaries and released Rupees eight crore adjusting the initial deposit of Rs 2.75 crore from the loan amount. Out of Rs 20.54 crore available, COSTFORD distributed Rs 20.48 crore to 86 LSGIs. Four LSGIs did not get any assistance though Rs 23.20 lakh was deposited. Out of 86 LSGIs, only two LSGIs (Pazhayannur Block Panchayat and Perinjanam Grama Panchayat) got full assistance as envisaged in the project. Despite getting loan for construction of 3667 houses against the targeted 12605 houses, the LSGIs distributed assistance to 9682 beneficiaries in the first instalment at the rate of Rs.12000 to each beneficiary. Second instalment of Rs 15000 was restricted to 5751 beneficiaries and the third instalment of Rs 3000 was paid to 2058 beneficiaries. Thus, physical achievement was only 2058 houses against 12605 planned under the scheme. Had the assistance been restricted to 3667 beneficiaries, 1609 more houses could have been completed.

3.1.19 The interest payable to HUDCO was Rs 4.40 crore as on 31 March 2004 against which payment of Rs.0.30 crore was made. The arrears in payment of interest amounted to Rs 4.10 crore, which was attributable to non-remittance of interest by the respective LSGIs. The LSGIs could not collect the interest from the beneficiaries to whom assistance could not be disbursed in full.

Participation of LSGIs in Mythri Housing Scheme

3.1.20 Audit had mentioned in Paragraph 7.12 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001(Civil) about the participation of LSGIs in Mythri Housing Scheme implemented by the KSHB and irregular utilization of funds deposited by LSGIs. Further scrutiny of the records of LSGIs revealed that LSGIs failed to select the eligible beneficiaries and monitor the implementation of the scheme. The details are given below.

3.1.21 Four hundred and six LSGIs deposited Rs 13.62 crore with KSHB without identifying 10894 beneficiaries. Of these, five LSGIs failed to identify even a single beneficiary although they deposited Rs 19.15 lakh.

3.1.22 Further, out of 1.24 lakh beneficiaries identified, 5045 beneficiaries selected by LSGIs were not eligible to receive the assistance. Wrong selection of beneficiaries by LSGIs resulted in avoidable deposit and blockage of Plan fund of Rs 6.31 crore.

3.1.23 Two thousand eight hundred and twenty six beneficiaries on whose behalf LSGIs deposited an amount of Rs 3.53 crore did not turn up to receive the assistance sanctioned by KSHB.

3.1.24 The LSGIs did not initiate action (July 2004) to get Rs 23.46[^] crore refunded from KSHB as 18765^{^^} beneficiaries did not receive any assistance.

3.1.25 Apart from making deposits, failure on the part of LSGIs to actively involve themselves in the construction of houses /monitoring the projects, resulted in the following irregularities:

17524 beneficiaries to whom assistance of Rs 24.70 crore was disbursed did not complete construction

3.1.26 Of the 116203 beneficiaries who received assistance from KSHB, only 98679 beneficiaries could complete construction of houses. 17524 beneficiaries did not complete the construction even after a lapse of seven years although they received assistance totalling Rs 24.70 crore.

3.1.27 KSHB disbursed assistance in instalments based on stage certificates* issued by MP/MLA/Authorised Officer of KSHB/ President/ Secretary and members of Grama/Block/District Panchayats, Councillors of Municipalities and Corporations/ KSHB members/ Presidents of Co-operative banks and Agricultural Rural Development bank. Due to multiplicity of persons authorised to issue stage completion certificates, it was not difficult to obtain the certificate without proper verification of stage of construction and get the assistance released. In Pathanamthitta District, 3 members of the same family availed of the assistance without constructing any house. In Palakkad District, one beneficiary availed assistance while having habitable house with air conditioned room.

3.1.28 KSHB had detected 576 cases of malpractices, misappropriation, fraud etc. to the tune of Rs 1.61 crore in 11 districts. The cases were referred to Government for vigilance enquiry in November 2003, the results of which were awaited (July 2004).

Other Housing Projects

3.1.29 The Municipal Corporation, District Panchayat, three Block Panchayats and four Grama Panchayats in Kozhikode District incurred an expenditure of Rs 14.99 crore for construction of houses during 1997-2004. Of the targeted 5785 houses, 1998 were completed and 3787 houses on which Rs 9.18 crore was spent remained incomplete. The LSGIs did not take any step to encourage the beneficiaries to complete the houses.

3.1.30 Kozhikode Municipal Corporation implemented 14 projects for providing houses to 722 SC beneficiaries during 1997-2004. The implementing officer did not release any amount to 349 (48 *per cent*) beneficiaries out of 722 selected by the Corporation as they were not eligible for assistance. Some of the beneficiaries did not belong to SC category. Of the remaining 373 houses, it could construct 180 houses (25 *per cent*) and 193 houses were at different stages of construction as of June 2004. This resulted not only in lapse of funds but also deprivation of assistance to other eligible SC

[^] Total excess deposit with KSHB (Rs 13.62 crore + Rs 6.31 crore + Rs 3.53 crore = Rs 23.46 crore)

^{^^} Beneficiaries who did not receive any assistance (10894 + 5045 + 2826 = 18765)

* Certificates of completion at different stages of construction

beneficiaries. The Corporation could offer no justification for including ineligible beneficiaries in the list.

Other points of interest

3.1.31 In the housing projects mentioned above, one of the general conditions for giving assistance to a beneficiary was that he should possess at least two cents of land (1 ½ cent in municipal area) and that he should not alienate the building constructed, within 10 years. It was noticed that in three LSGIs six beneficiaries alienated the houses in violation of the conditions for grant of assistance. In Kochi Corporation, one beneficiary who constructed the house during March 2003, disposed of his house and the new owner demolished it and started construction of a new building there. Had a suitable provision regarding hypothecation of property been there, such violation could have been avoided.

3.1.32 In Thiruvananthapuram, Kollam, Ernakulam and Thrissur Districts, where joint projects involving 366 LSGIs were implemented, the system of monitoring was far from satisfactory. The nodal agencies did not maintain proper records to monitor the progress of completion of the houses and did not insist upon regular feed back from the Grama Panchayats/Block Panchayats. The information available with the LSGIs was scanty or not reliable.

3.1.33 In the case of houses constructed under MHS also the monitoring was poor. Though LSGIs were primarily responsible for monitoring their housing projects implemented through KSHB, no LSGI had maintained proper records to show beneficiary-wise progress of construction of houses.

3.1.34 Ineligible persons were included in the beneficiary list indicating defective system of identification.

3.1.35 Financial management of LSGIs in mobilising funds and its utilization was not efficient, resulting in excess/avoidable expenditure.

3.1.36 There is no mechanism to prevent alienation of houses constructed under the housing schemes and obtaining assistance from another LSGI on subsequent occasion.

3.1.37 Recommendations

- ❖ **Government may consider issuing guidelines regarding unit cost, cost sharing and parameters for availing assistance from financial institutions so as to ensure a uniform pattern throughout the State and in the interest of availing cost effective financial assistance.**
- ❖ **Financial management of District Panchayats may be strengthened to enable them to play a lead role in project execution.**
- ❖ **In the case of schemes implemented throughout the State, it is advisable to have a centralized monitoring agency.**
- ❖ **Adequate controls may be installed in the system of beneficiary identification to eliminate ineligible persons.**
- ❖ **Adequate controls may be evolved to ensure prevention of alienation of houses by beneficiaries and to restrain them from availing further assistance.**

LSGIs did not maintain proper records to show progress of construction of house

Response of Government

3.1.38 The points were discussed with the secretary to Government, Local Self Government Department on 18 October 2004. The Secretary agreed with the recommendations of Audit.

3.1.39 The Government agreed (December 2004) to consider the recommendation of audit (i) by constituting a committee to evolve a common strategy for cost sharing and assistance from financial institutions (ii) constitution of a committee for monitoring the implementation of housing at District level and (iii) consider modalities for prevention of alienation of houses by beneficiaries. The Government also stated that the post of the Finance Officer in each District Panchayat for finance management had been created and operated.

3.2 Solid Waste Management by Municipal Corporations

Highlights

Under the Kerala Municipality Act 1994, the Urban Local Bodies are responsible for collection, segregation, storage, transportation, processing and disposal of solid waste generated in their areas giving care for environmental aspects. Ministry of Environment and Forests has also brought into effect the MSW (M & H) Rules 2000 for the management of Solid Waste by Municipal corporations.

1. *None of the Municipal Corporations had evolved adequate system for collection/segregation/removal of waste. In Thiruvananthapuram and Kozhikode Municipal Corporations, adequate number of storage bins were not provided.*

[Paragraph 3.2.6 & 3.2.7]

2. *In Kollam, Kochi and Kozhikode Municipal Corporations, the number of sweepers employed was far below the required norms.*

[Paragraph 3.2.8]

3. *In Thiruvananthapuram, Thrissur and Kozhikode Municipal Corporations, pre- processing and post-processing rejects were allowed to decay in the premises of processing plants due to lack of proper infrastructure facilities for safe containment and disposal of waste.*

[Paragraph 3.2.11]

4. *Thiruvananthapuram Municipal Corporation passed on the Central assistance of Rs 40 lakh to POABS, a private company, though the agreement was on BOOM basis.*

[Paragraph 3.2.14]

5. *Advance of Rs 1.55 crore to KAICO towards running charges of processing plant remained to be settled.*

[Paragraph 3.2.15]

6. *Kozhikode Municipal Corporation had not demanded lease rent of Rs 40 lakh.*

[Paragraph 3.2.17]

7. *As of April 2004, Kozhikode Municipal Corporation claimed only Rs 2.46 lakh as royalty against Rs 43.80 lakh.*

[Paragraph 3.2.18.]

8. *In Thrissur Municipal Corporation, 790 tonnes of manure costing Rs 11.85 lakh had not been accounted.*

[Paragraph 3.2.20]

Introduction

3.2.1 With rapid urbanisation, the problem of disposal of solid waste has become a matter of prime concern to the Urban Local Bodies (ULBs). Ministry

of Environment and Forests has brought into effect the MSW (M&H) Rules, 2000¹ for the management of solid waste by Municipal Corporations.

Audit objective

3.2.2 The review was conducted during April-June 2004 to evaluate the effectiveness of Solid Waste Management measures taken by the five Municipal Corporations² (MCs) of the State.

Audit methodology

3.2.3 The data and statistical details were collected directly from the five Municipal Corporations. Records of Pollution Control Board (PCB) were also verified.

Audit findings

Financial outlay

3.2.4 The details of budget provision and expenditure incurred by the five MCs during the period covered by the review were as follows.

Name of Corporation	1999-2000		2000-2001		2001-2002		2002-2003		2003-2004	
	Budget provision	Expenditure	Budget provision	Expenditure	Budget provision	Expenditure	Budget provision	Expenditure	Budget provision	Expenditure
	(Rupees in crore)									
Thiruvananthapuram	5.91	4.85	6.29	6.11	7.04	6.30	10.64	6.24	13.63	7.35
Kollam	1.37	1.36	1.57	1.44	1.82	1.63	2.20	2.19	2.51	1.77
Kochi	7.00	6.77	8.17	7.97	13.45	4.05	13.16	7.63	7.72	7.54
Thrissur	2.79	1.86	2.34	1.77	2.89	2.69	3.00	2.06	2.92	2.85
Kozhikode	6.04	4.74	5.72	5.35	5.56	4.68	8.34	6.85	6.32	4.48

Under utilisation of budget provision was mainly due to non finalisation of project for modern treatment plant at Kochi and delay in land acquisition at Thiruvananthapuram.

Collection and segregation of solid waste

3.2.5 MSW (M&H) Rules, 2000 stipulate that MCs, after assessing quantities of waste generated and the population density in a given area, have to create storage facility easily accessible to the users of that area. Quantity of waste generated as assessed by the five MCs and the density of population are given below.

¹ Municipal Solid Waste (Management and Handling) Rules 2000

² Kozhikode, Thrissur, Kochi, Kollam and Thiruvananthapuram

Name of Municipal Corporation	Area (Sq. KM)	Population*	Density	Waste generated Tonne/Day
Thiruvananthapuram	141.74	744739	5254	300
Kollam	57.34	361441	6303	80-100
Kochi	94.88	596473	6287	350-420
Thrissur	101.42	317474	3130	25-35
Kozhikode	84.29	436527	5178	300

3.2.6 PCB recommended to have 200 dual loaders of 2.5 m³ capacity and 80 containers of 7 m³ capacity (in addition to litter bins) for collection of 350 tonnes of solid waste. Number of bins provided by the MCs during the period 1997-2004 for handling waste generated *viz-a-viz* the norms prescribed was as follows:

Name of Municipal Corporation	Quantity of waste generated (in tonnes per day)	No. of bins as per PCB norms	Number of bins provided			Shortage
			Dumper bins	RCC/Metallic bins	Total bins	
Thiruvananthapuram	300	240	4	20	24	216
Kollam	80-100	80	-	200	200	-
Kochi	350-420	336	58	564	622	-
Thrissur	25-35	28	-	400	400	-
Kozhikode	300	240	9	20	29	211

* Source: Census 2001

Disorganised collection of primary waste in Kozhikode Corporation



Absence of dumper bins for collection of primary waste



Waste strewn around by the road side enabling easy access to stray dogs, pigs, rodents, etc



Dumper bins in dilapidated condition

Inadequate number of storage facilities

3.2.7 The number of storage/litter bins provided in Kozhikode and Thiruvananthapuram Corporations was inadequate when compared to the large quantity of waste generated daily in those corporations. The inadequacy of bins had resulted in open throwing, overflowing of bins and thereby providing easy access to rag pickers, stray dogs, rodents, etc. None of the MCs had segregated at source the waste into biodegradable, recyclable, hazardous etc. and stored them in different coloured bins for proper disposal.

Road sweeping

Number of sweepers was far below the norms

3.2.8 According to a study conducted by PCB, one sweeper was required for every one km of road length. In Thiruvananthapuram, Kochi and Thrissur MCs, number of sweepers employed was far below the required norms as shown below.

Name of Corporation	Total length of road (in kms)	No. of road sweepers	Shortage against norms	No. of sweeper carts
Thiruvananthapuram	1809	1004	805	150
Kollam	334	271	63	150
Kochi	1665	199	1466	120
Thrissur	718	242	476	-
Kozhikode	800	732	68	174

Deficiency in sweepers had contributed to the shortfall in primary collection of waste generated in their jurisdictions

Transportation of waste

Inadequacy of vehicles was a major constraint

3.2.9 As per the study report of PCB, 39 vehicles (Dumper Placer: 8, Dual Loader: 8, Tractor: 23) were required for Kozhikode MC for removal of 350 tonnes of solid waste. The number of vehicles available for transportation of waste in Kozhikode MC was inadequate, which adversely affected the removal of garbage. But in Thiruvananthapuram MC, removal of garbage was only 50 per cent of waste generated even though sufficient number of vehicles were available as detailed below:

Name of Municipal corporation	Quantity of waste to be transported daily	Quantity of waste actually transported daily	No. of vehicles provided (including hired)			
			Tractors	Tippers/Dumper	Lorries	Total
	in tonnes per day					
Thiruvananthapuram	300	150-170	5	43	-	48
Kollam	80-100	60-80	10	8	2	20
Kochi	350-420	350-420	6	9	25	40
Thrissur	25-35	20-30	4	-	17	21
Kozhikode	300	220	23	2	5	30

Processing and disposal of waste

3.2.10 Rules stipulate that when waste is stored in an open area, it shall be provided with an impermeable base with facility for collection of leachate and surface water run off into lined drains leading to leachate treatment and disposal facility. However, pre-processing and post-processing rejects were allowed to decay in the premises of the processing plants. During breakdown periods, storage was done in open area, without taking adequate precautions to minimise pollution of air, water etc.

3.2.11 Thiruvananthapuram, Thrissur and Kozhikode Municipal Corporations had adopted different technologies for processing biodegradable wastes by composting, anaerobic digestion or any other appropriate biological processing for stabilisation of wastes. There were inadequate infrastructure facilities for safe containment and disposal in those plant sites. The solid waste plants installed in these cities were not working regularly.

Solid waste processing plant

3.2.12 Thiruvananthapuram, Thrissur and Kozhikode MCs had installed processing plants at Vilappilsala, Laloor and Njeliamparamba respectively. A study of the projects implemented by these three MCs disclosed the following.

Irregular grant of assistance

3.2.13 Mention was made in paragraph 3.1.9 (iii) (a) of the Report of the Comptroller and Auditor General of India for the year ended March 2001(Civil) about the establishment of Waste Disposal Plant at Vilappilsala by M/s Poabs Enviro Tech (P) Ltd (POABS) under Build-Own-Operate-Maintain (BOOM) basis. Eventhough there were sufficient number of vehicles, the Thiruvananthapuram MC could deliver to the plant only 150-170 tonnes out of 300 tonnes of solid waste generated daily.

3.2.14 Government of India (GOI) launched a scheme of extending financial assistance under Centrally Sponsored Scheme ‘Balance and Integrated use of Fertilizers’. The scheme provided for assistance at 25 *per cent* of the estimated cost of plant of minimum 100 Tonnes Per Day capacity subject to a maximum of Rs 40 lakh. GOI released (May 2003) financial assistance of Rs 80 lakh to the State Government for setting up mechanical compost making plants in Thiruvananthapuram and Kozhikode. The State Government allotted the assistance to the two MCs at Rs 40 lakh each. Even though the plant installed at Vilappilsala was under BOOM scheme, the agreement with the company contained a clause ‘ POABS shall apply for utilities, fiscal incentives, financial assistance grant-in-aid etc to concerned authority, institutions shall render all help by way of providing necessary NOC, permission, sanctions, certification, endorsement and recommendation as may be required from time to time. Accordingly Thiruvananthapuram Corporation extended the fiscal incentive of Rs 40 lakh to the firm. It was irregular since the agreement was under BOOM

**Irregular assistance
of Rs 40 lakh to
POABS**

basis, which enable the investing company to recover full investment with suitable interest and profit. In Kozhikode Corporation no incentive was extended to the firm.

Advance of Rs 1.55
crore remained
unsettled

3.2.15 As per agreement for installation and running of the treatment plant, Thrissur MC had to pay Rs 4.17 lakh per month to Kerala Agro Industries Corporation (KAICO), the contractors, for the first three months as advance towards running charges to be adjusted on actual operating cost. In all, Rs 1.55 crore had been paid as advance between December 2001 to June 2003 and KAICO had not calculated the actual operating cost and settled the advance.

Failure to demand lease rent/royalty

3.2.16 The Kozhikode MC proposed (January 1997) a project for conversion of solid waste into bio-organic manure using the 'Celrich technology'. The MC entered (November 2000) into an agreement with M/s.Excel Industries, Mumbai for installation of plant having treatment capacity of 300 tonnes per day. The firm installed the plant and machinery at Njelianparamba. The MC had incurred an expenditure of Rs 4.77 crore on the project including the cost of Rs 1.22 crore on the plant and machinery till June 2002.

3.2.17 As per the agreement, M/s Excel or its franchisee could hold possession of the plant and machinery and manage the project for a period of five years and had to pay the MC, in advance, annual lease rent of Rs 20 lakh in two equal half yearly instalments. Further, they had to pay royalty of Rs 200 per tonne of the organic manure produced and despatched from the project site. The MC, in turn, had to make available all solid waste including waste from vegetable market, slaughter house, fish market etc., regularly at the project site, free of cost. The MC approved Wynsum Agritech Limited as the franchisee and they started operation of the plant from 1 December 2000. Neither the franchisee remitted nor the MC demanded the lease rent of Rs 40 lakh for the two years.

Shortage in claim of
royalty

3.2.18 The report of the Technical Committee placed (April 2003) before the MC, Kozikode showed that the plant had operated to a capacity of 100 to 150 tonnes per day. Taking the average quantity of waste treated per day as 100 tonnes, the manure produced during December 2000 to November 2002 would work out 21900 tonnes (minimum 30 per cent of 73000 tonnes of treated waste), for which the MC was eligible to get royalty of Rs 43.80 lakh. However, the Secretary of MC had recorded production of only 1228 tonnes of manure during the above period. The MC had claimed only Rs 2.46 lakh towards royalty.

Unjustifiable fixation of royalty

3.2.19 As per the agreement executed with Thrissur MC, KAICO had to undertake the sale of manure for a minimum value of Rs 1500 per tonne. But the price of the organic manure produced in Kozhikode under the brand name 'Celrich' by M/s Excel Industries was Rs 20,000 per tonne in the open market.

Thrissur MC could not produce any basic data justifying the comparatively low price for their manure.

Shortage of manure

Shortage of manure worth Rs 11.85 lakh

3.2.20 Though the Thrissur MC had transported 20-30 tonnes of waste daily from the primary collection point to the processing site the quantity of waste treated was only 6.8 TPD. During 2002-03, 136 tonnes of manure was reported as sold after processing 3088 tonnes of waste. Considering a minimum yield of 30 per cent manure there was shortage of 790 tonnes of manure worth Rs 11.85 lakh.

Landfill Projects

Land fill sites were used without adhering to rules

3.2.21 As per the specifications given in Schedule II of the MSW (M&H) Rules 2000, land filling was to be restricted to non-biodegradable, inert waste and other wastes which were not suitable either for recycling or for biological processing. Land filling of mixed waste was to be avoided unless the same was found unsuitable for processing. Kollam and Kochi MC resorted to 'Land filling' with the entire quantity of waste collected.

3.2.22 As per specification number 19 of Schedule III of MSW (M & H) Rules 2000, the minimum thickness of soil to cover the waste was 10 cms. But, the landfill works executed in Kochi MC during the period from March 1997 to March 2004 revealed that the minimum thickness of soil used for covering the waste was 15 cm for no reason on record. The extra expenditure incurred on the excess quantity of red earth used worked out to Rs 91.56 lakh.

3.2.23 In spite of audit pointing out (Paragraph 3.1.9 (iii)(b)) in the Report of the Comptroller and Auditor General of India for the year 2001(Civil) the directions of the PCB to shift the dumping yard of Kureepuzha in Kollam MC, it could not be shifted, causing pollution of ground water thereby increasing health hazards to the population.

Training

Investment of Rs 12 lakh for imparting training to officials did not fructify

3.2.24 Though the Kozhikode MC had paid (1998) Rs 12 lakhs to M/s Excel Industries for imparting training to the officials, training programme was not initiated till April 2004.

Internal control

3.2.25 Adequate internal control did not exist in the MCs for efficient management of solid waste. Separate establishment having sufficient number of Health Inspectors and cleaning staff exclusively for Solid Waste Management had not been formed. Secretaries of the Corporations had not issued separate orders specifying work responsibilities of Health Inspectors and cleaning staff in relation to Solid Waste Management.

Conclusions

3.2.26 The review revealed that sufficient number of bins were not provided for primary segregation and collection and resultantly solid waste generated was not completely removed. Even the waste removed was not fully treated. The quantity of bio-manure produced was not properly assessed. Internal controls were not commensurate with the scale of operations.

3.2.27 Recommendations

The Municipal Corporations should:

- ❖ **Evolve adequate system for primary collection and clearance of waste daily.**
- ❖ **Provide coloured bins to ensure segregation of the waste at source into bio-degradable, recyclable, hazardous etc.**
- ❖ **Create awareness for disposal of waste with the participation of Residents Associations.**
- ❖ **Replace open storages by covered storages.**
- ❖ **Establish modern solid waste treatment plants in all Municipal Corporations.**

Response of Government

3.2.28 The points were discussed with the Secretary to Government, Local Self Government Department on 18 October 2004. The Secretary agreed with the recommendations of Audit.

3.2.29 The above points were referred to Government in August 2004; reply is awaited. (December 2004).

CHAPTER IV

TRANSACTION AUDIT

4.1 Kerala Information Network for Local Bodies

4.1.1 Introduction

With a view to facilitate easy and prompt communication between State Planning Board (SPB) and 1215 local bodies¹ for swift plan monitoring, Government launched a Project 'Kerala Information Network for local bodies' in August 1999. Networking, plan monitoring, service automation and training were the components of the project. The SPB initially implemented the project through Information Kerala Mission (IKM), constituted with inter-alia a group drawn from Centre for Development of Information Technology(C-DIT). IKM was headed by Executive Mission Director with Headquarters at Thiruvananthapuram. The administrative control of IKM was transferred from SPB to the Local Self Government Department (LSGD) in July 2001.

A review of the implementation of the project was conducted by Audit during February – July 2003 with reference to records in IKM headquarters, one Grama Panchayat² and two Municipal Corporations³. The bilingual data base in SQL⁴ Server in MS Access format was analysed using Computer Assisted Audit Technique and sample test method.

4.1.2 Absence of well-conceived Project Report

Project was not properly conceived at implementation stage

SPB submitted the proposal (estimated cost: Rs 47.25 crore) for the project to the Central Planning Commission in December 1998. Government sanctioned the Project for Rs 19.75 crore in August 1999 which was revised to Rs 26.59 crore in October 2000. The revised sanction did not reckon the costs for administration, training, and maintenance included in the earlier sanction. In July 2001, Government entrusted the purchase of hardware and software to local bodies and directed to limit the cost to the Central assistance of Rs 31 crore. In December 2002, Government decided to implement the project on a Public Private Participation (PPP) / Build Operate, Lease and Transfer (BOLT) mode. Though the decision would drastically reduce the cost of procurement of hardware and the off-the shelf software, the project cost was not revised suitably by excluding the cost of hardware, software and activities to be outsourced. In the absence of a well-conceived project report with component-wise cost, Government released funds on the basis of *ad hoc* proposals submitted by the Executive Mission

¹ Corporations: 5; Municipalities: 53; District Panchayat: 14, Block Panchayat: 152; Grama Panchayat: 991

² Vellanad

³ Kochi and Kozhikode

⁴ Structured Query Language

Director from time to time.

Government admitted (January 2004) that there were some ambiguities in completely demarcating all contours of the project at the start. It was stated (November 2004) that the final cost estimate of Rs 205.04 crore, including the components to be met through local bodies, was in the process of approval by Government.

4.1.3 Inconsistent procurement policy

Computers as a vital component of the project were not provided

Though the Project started in August 1999, there was delay in taking decision on procurement and also inconsistency regarding the mode of procurement of computers. It was only in December 2002 Government finally decided to provide computers to Local Bodies under BOLT mode. Though the notification inviting tenders for the supply of computers under BOLT mode was issued in July 2004, the final decision on purchase has not been taken by Government (February 2005). The computers, which are the vital component of the project, could not be provided for the last four years.

4.1.4 Non-utilisation of Central assistance

Release of Central assistance of Rs 24.33 crore lacked justification

Special Central assistance of Rs 33 crore (Grant: 30 per cent; Loan: 70 per cent) was received for the project during 1998-2001. The expenditure on the project upto March 2004 was only Rs 8.36 crore, which was less than the Central grant. While the entire loan amount remained unutilized, Government had to pay Rs 10.99 crore (up to March 2004) towards interest for the loan amount. Unutilised portion of the Central assistance of Rs 25.72 crore was released to IKM in March 2003 based on a proposal, which contained justification for activities for Rs 1.39 crore only. In view of the Government decision to provide computers under BOLT mode, there were no approved activities justifying immediate release of Rs 24.33 crore in March 2003 through Supplementary Grant.

Government stated (July 2004) that the unutilised Central assistance of Rs 25.72 crore released during March 2003, according to ways and means position, had been deposited in the PD account of the Director of Panchayats. As IKM had utilised only Rs 2.37 crore during 2003-04, there was no justification to release funds of that magnitude to them.

4.1.5 Wasteful expenditure on technical persons

Wasteful expenditure of Rs 69.78 lakh to train technical persons

For rendering technical support for implementation of the project, IKM appointed (between September 2000 and March 2001) 1353 selected persons as apprentice trainees for a period of one year from 1 April 2001. In June 2001, IKM retrenched them due to non-availability of computers in local bodies. As Government had already decided to implement the project on BOLT basis, the services of the trainees were no longer required. The expenditure of Rs 69.78 lakh incurred on selection, training and stipend to the apprentice trainees had become a waste.

The Government stated (November 2004) that the expenditure incurred on training of technical persons was insignificant compared to substantial cost benefits that would accrue from BOLT mode. The reply is not tenable as the wasteful expenditure represented 22% of funds earmarked for training (Rs 3.15 crore)

4.1.6 Absence of agreement with LSGD

Though the administrative control of IKM was transferred from the SPB to LSGD in July 2001, no fresh agreement was executed between C-DIT and LSGD for continuation of the project after 31 March 2001.

Government stated (November 2004) that steps were taken to sign the MoU between C-DIT and LSGD with effect from April 2001. Such agreement with retrospective effect will not serve the desired purpose.

4.1.7 Lack of supervision

Government constituted (August 1999) an Implementation Committee comprising of 16 members headed by the Minister for Local Bodies to oversee the implementation of the project and a Technical Committee comprising of 16 members to prepare the specification for equipment, documents for software and to decide on technology choice. The Implementation Committee met only four times between September 1999 and November 2000 and in April 2003 thereafter. The Technical Committee met only once in November 1999. The few number of meetings held by these Committees indicated that their working were not effective.

Government stated (September 2003) that the Implementation Committee, which met on 23 April 2003, had ratified all activities and expenditure for the period from 2001-02 to 2002-03. As the primary purpose of constitution of the Committee was to monitor and supervise the activities of the project, such ratification would not substitute supervision and prior approval.

On this being pointed out, Government stated (November 2004) that all major decisions during the period April 2001 to April 2003 had been taken at the Government level and the IKM Implementation Committee approved the other activities earlier. Evidently, there was a delay of more than two years in carrying out the activities due to inadequate supervision.

4.1.8 Delay in installation of software for Plan monitoring

A software *Sulekha* was developed in SQL Server for monitoring Plan schemes implemented through local bodies. LB Module of *Sulekha* intended for District/Block/Grama Panchayats, Municipalities and Corporations had not been installed even in the 214 local bodies where computers procured for other purposes were available.

New version of LB Module modified to suit tenth Plan schemes was not tested as of April 2004. The DPO Module meant for installation in District Planning

**Working of
Implementation and
Technical committees
was ineffective**

New versions of LB, DPO and SPB modules were not tested and installed

Offices (DPO) and SPB Module for installation in SPB were also to be tested and installed. In view of the delay in procuring hardware, the Government did not have any reliable information regarding the utilization of plan funds released to local bodies during IX Plan period even two years thereafter.

No attempt was made to compile the monthly progress report of Plan expenditure of local bodies at district level utilizing the computers at DPO and Block Development Office till the required network was in place in local bodies. The Government stated (November 2004) that a new mechanism for aggregating the Plan data using block level hardware and web based application would be operationalised shortly

4.1.9 Delay in development of software for Office Automation

Besides development of software for Plan monitoring, IKM was required to develop separate applications for (i) delivery of services such as issue of birth/death/marriage certificates and disbursement of destitute pension/unemployment wages (Sevana), (ii) demand & collection of about 80 sources of revenue (Sanchaya), (iii) administration of purchase and works (Sugama), (iv) preparing accounts (Samkhya), (v) automation of establishment functions (Sthapana) and (vi) work flow automation (Soochika). It was seen in audit that the applications Sevana, Sanchaya and Soochika had been installed in one Grama panchayat and the certificate module of Sevana in four Municipal Corporations. Though 24 programmers were engaged for software development for the past four years, the other applications were not in implementation stage as of April 2004. Government stated (January 2004) that staggered development was due to complexities involved in handling legacy, building up internal database and the learning curve of staff. But it was a fact that absence of specific time frame for implementation of the Project and inadequate supervision also contributed to the delay.

4.1.10 Inadequacies in software “Sevana” and “Sanchaya”

Birth/death/marriage registration module in “Sevana”

Absence of provision for data validation at higher level

Under the manual system, the Registrar authenticated each registration of birth/death/marriage. Under the Computerised system, the primary data entered by the staff at the lowest level or back data got entered by outsourced agency was not validated at an upper level before finally saving the data. In the absence of suitable provision for validation of data at an upper level, there was a risk of issuing incorrect certificates, as the integrity of the data input cannot be vouchsafed.

Absence of provision to prevent blanks in mandatory fields and duplicate records

Input/validation controls in the software were not adequate to ensure the entry of valid data and to eliminate the risk of accepting duplicate records. As a result, there were records in which dates of birth/death/marriage etc were blank or subsequent to the registration date and even the current date.

The Government stated (November 2004) that validation controls provided in the package had to be removed following widespread problems in data and plans to improve the existing databases in Corporations and Vellanad Grama Panchayat have been prepared.

Disbursement module in “Sevana”

Absence of provision to prevent selection of ineligible applicants

The Disbursement module was intended to select beneficiaries and disburse pension under different schemes and the unemployment dole. Minimum age and income of the applicant were the parameters for deciding the eligibility for certain pensions such as Old Age Pension, Agriculture Workers Pension etc. Test data entry made by audit to assess the performance of the application revealed that applicants with age of 22 years and the family income exceeding Rs 50,000 were allowed to be saved to the database for Old Age Pension.

Age and the documents submitted in support of age were unavoidable information without which an application for pension could not be processed. The record was saved even if the field ‘documents submitted in support of age’ was blank. Other important fields such as Pension No., Date of disbursement etc., were also blank in many records due to absence of validation control.

The Government stated(November 2004) that it was not possible to provide validation control for pension module as pension schemes were originally handled by various Departments and steps have been taken to overcome the limitations of the legacy data. As the objective of office automation was to eliminate such irregularities and to ensure transparency and accuracy, it was essential to provide validation controls to prevent selection of ineligible beneficiaries.

The Profession tax module in “Sanchaya”

No provision to capture date of service of demand notice

The profession tax module had no provision for (i) initiating penal action under Section 205 K of Kerala Panchayat Raj Act 1994 for non-payment of tax by Employer/Head of Office, (ii) capturing the date of service of demand notice, due date of remittance etc., which were essential for taking further action on demand not remitted (iii) follow up action on LPC in the case of transfer of employees (iv) accounting of penalty/fine recovered for belated payment (v) watching/initiating revenue recovery steps for collection of arrears in demand. Government stated (January 2004) that necessary provision would be incorporated while integrating Sanchaya with Sookhika in the next version of the software.

No provision to follow up demand

4.1.11 Absence of online transaction in Vellanad Grama Panchayat

Online transaction not implemented

Vellanad Grama Panchayat was one of the 5 Panchayats selected for Pilot-roll out of Plan Monitoring System. IKM installed one computer at the Panchayat on 24 November 2000 for the purpose. Five computers and one server provided by one local entrepreneur were installed on 13 January 2003. The Panchayat was declared as the first fully computerized Grama Panchayat on 25 January 2003.

Though the software Sevana, Sulekha, Soochika, and Sanchaya, were installed in the server, no transaction was done through computers online.

The Government stated (November 2004) that online operation of Soochika and Sevana had commenced. But online operation of Sulekha, Sanchaya and Samkhya is yet to start.

4.1.12 Non-involvement of staff and inadequate security controls

The software-Soochika installed for workflow automation, included a module for marking attendance by staff by logging in and logging out of the System. The staff were, however, not regular in marking attendance. As per the database different persons had logged on to the system 683 times between 12 August 2002 and 18 June 2003. But log out details were missing in 415 records. While user ID was not allotted to two persons currently working, five non-employees had logged on to the system. Data entry relating to Profession tax, collection of licence fees, pension disbursement was not current. IKM had been periodically updating the database on back data entry mode by engaging daily wage staff instead of utilising the services of Panchayat staff for current data entry.

Missing log off details of system access

Due to inadequate controls for authorizing and capturing system access logs, the security of the system cannot be vouchsafed.

The Government stated (November 2004) that Panchayat has taken steps to resolve inadequacies in marking of attendance by staff. It was also stated that the responsibility for updating data had been entrusted to Panchayat staff.

4.1.13 Defective maintenance of database

Analysis of electronic data kept in the server at Janasevanakendram at Vellanad revealed that the database contained several impurities as discussed below.

(i) Many fields such as date, name, place etc vital for generation of birth and death certificates were blank.

(ii) The Building Master table relating to property tax included 1423 houses under non-existent ward No.15, for which neither house numbers were assigned nor assessment particulars were available. The table containing 84809 records of Building tax assessment from 1993-94, first half onwards, included 58448 uncollected demands amounting to Rs 19,36,076 whereas the uncollected demand as per details furnished by the Secretary was Rs 4,89,545 only. Thus the database relating to assessee and demand was not accurate and reliable.

(iii) Employee Master table relating to Profession tax assessment contained 2117 records of which the vital fields such as transfer in date, transfer out date, date of relief and date of joining were blank in most of the cases. Due to omission to capture these vital data, any demand raised or demand collection and balance (DCB) prepared may not be accurate. Rs 8.5 lakh spent on data entry remained unfruitful due to non-completion of validation process even after one year.

The Government stated (November 2004) that the Panchayat had been requested to initiate a process for correction of the data.

4.1.14 Ineffective computerisation in Urban Local bodies

Computerisation of Municipal corporations behind schedule

Computerisation of Kozhikode Corporation estimated to cost Rs 70.71 lakh was entrusted to IKM in March 2001 stipulating the period of completion as nine months. Though *Janasevanakendram*[^] comprising of eight counters started functioning from January 2003, only the cash collection other than fee was computerised.

Software applications yet to be installed

The Kochi Corporation entrusted (June 2002) the computerisation of all functional areas to IKM. The project costing Rs 1.33 crore was to be completed within one year. But apart from the setting up of *Janasevanakendram* in January 2003 for issue of birth/death and marriage certificates using *Sevana*, no other software had been installed for online transaction. IKM did not fulfill its obligation to supply software relating to Plan Monitoring (*Sulekha*), Revenue Module (*Sanchaya*) to the Corporations. The software for disbursement of services - *Sevana* did not include the module for Pension disbursement. The birth and death registration at Kochi covered only four out of seven Zones of the Corporation. Certificates were issued on the same day, only if the data in computer matched the details in manual record. In Kozhikode Corporation, there was delay of three days in issuing birth and death certificates as the certificates were to be verified with the original records. Thus in both the Corporations, the databases were not reliable.

Certificates issued after verification of manual records

In Kozhikode, Property tax and other taxes were collected at the counter using software supplied by IKM. In the absence of database relating to assessee under the different sources of Revenue, the details of collection could not be updated in the ledger. Revenue collection by Bill Collectors was remitted in bulk at the counter but the details of assessees were not captured. The present system would only help to compile the collection of revenue on a particular day as IKM had not installed the software *Sanchaya* for revenue collection till date (April 2004).

The Government stated (November 2004) that *Sulekha* software has been supplied to all Corporations and the system of maintenance of stock of preprinted stationery had been put in place. But obligation on the part of IKM to install *Sanchaya* and *Sevana* (Pension Module) has not been fulfilled so far.

4.1.15 Improper maintenance of database on birth/death/marriage

Analysis of the electronic data kept in the server at *Janasevanakendrams*, Kochi and Kozhikode Corporations revealed the following:

In the data relating to birth at Kozhikode (306464 cases) and Kochi (196756 cases) Corporations, the vital fields such as date of birth (128 cases), reporting

[^] Public service centre

date (303 cases), sex of child (312 cases), registration date (188 cases) and child's mother's name (158 cases) were blank. The fields-date of birth and reporting date included future dates in 70 cases. There were 1723 pairs of duplicate records. In 2808 cases the date of registration was before the date of birth.

In the data relating to death in Kozhikode (67058 cases) and Kochi (67166 cases) Corporations the fields such as date of death (294 cases), registration date (359 cases), reporting date (359 cases), name of dead person (538 cases) etc were blank. The date of death included future dates in 64 cases and date of registration was before the date of death in 1008 cases. There were 125 pairs of duplicate records.

In respect of marriage data in Kozhikode (4651 cases) and Kochi (3310 cases) Corporations the vital fields such as registration date (115 cases), marriage reporting date (3111 cases), name of bride and bride groom (193 cases) place of marriage (682 cases) were blank. Date of marriage was after date of registration in 540 cases.

The Government stated (November 2004) that the improper maintenance of database was due to poor verification of records by Corporation staff and the process of verification by IKM was in an advance stage. The process of 100 *per cent* verification which was to be completed before commencement of Janasevanakendram in January 2003 is yet to be completed and hence the Corporation had resorted to manual verification of registration data defeating the very purpose of computerization.

4.2 Erroneous computation of rate for earth filling

Payment for earth filling with contractors' own earth at erroneous rates resulted in excess payment of Rs 40 lakh.

The Kerala Panchayat Raj (Execution of Public Works) Rules 1997 and the Kerala Municipality (Execution of Public Works and purchase of materials) Rules 1997 prescribe the procedures for execution of public works by Local Self Government Institutions (LSGIs). The Rules provide that LSGIs shall follow procedures applicable to the Public Works Department (PWD) in the case of matters not specified in these rules.

The rate for 'earth work filling with contractors' own earth' is arrived at by clubbing the rate for two components, namely, earth work excavation in ordinary soil and conveyance of the earth by lorry as provided in the Standard Data Book and Schedule of Rate respectively. The rate for earthwork excavation in ordinary soil, includes one lead and one lift. The rate for conveyance of earth by lorry also includes one lead and one lift at loading and unloading points. The Chief Technical Examiner Finance Inspection Wing, had instructed (April 1986/May 2004) that when the item 'earth work excavation' was clubbed in the item 'conveyance by lorry', the labour for one lead and one lift should be deducted

from the combined rate for arriving at the rate for ‘ earth work filling with contractors own earth’. While clubbing the two rates for computing the rate for ‘earth work filling with contractor’s own earth’, rate for one lead and one lift which stood included in both the components was to be deducted.

Test check of 124 earth works executed by 11 LSGIs (Appendix VII) during 1999-2004 revealed that in works involving earth filling, the rate was erroneously computed without deducting one lead and one lift included in both the components. Besides, in certain cases, cost of earth instead of rate for excavation in ordinary soil was also reckoned. The erroneous computation of rate for earth filling over a period of years indicated that the technical scrutiny of the estimate by the expert committees of the LSGIs was inadequate, leading to excess payment of Rs 40 lakh during February 1998 to February 2004.

The matter was referred to Government in June 2004; reply had not been received (November 2004).

4.3 Irregularity in purchase of an incinerator

Kayamkulam Municipality rejected the lowest offer of a State Government Undertaking for supply and erection of an incinerator and placed orders with a private firm. The firm received Rs 21.50 lakh as advance but failed to supply the incinerator.

In response to a tender (January 2003) for the supply and erection of an incinerator, Kayamkulam Municipality received four offers. Of these, the lowest was from a State Government Undertaking for Rs 25 lakh excluding sales tax. The Municipality considered the second lowest offer of Rs 48 lakh including sales tax from a private firm ‘A’ and accepted their negotiated offer of Rs 43 lakh against the project cost of Rs 30 lakh approved by the District Planning Committee. The Municipality paid (March 2003) as advance Rs 21.50 lakh to firm ‘A’. The firm had not supplied the plant as of October 2004 even though the stipulated time for completion of supply and erection expired in June 2003.

The Municipality stated (July 2003) that the matter was investigated by the Joint Director of Urban affairs who submitted his report in August 2003 and the results were awaited (November 2004).

The matter was referred to Government in June 2004; reply had not been received (November 2004).

4.4 Unproductive expenditure on a slaughter house

Selection of inaccessible site for construction of a slaughter house resulted in unproductive expenditure of Rs 36.49 lakh.

The Thrissur District Panchayat decided (September 1997) to construct a slaughter house at Vellangalloor at an estimated cost of Rs 40.82 lakh to make available clean and hygienic meat at reasonable rates to the public with the co-operation of the Vellangalloor Grama Panchayat. The District Panchayat was to construct the slaughter house (Rs 33.19 lakh) and the Grama Panchayat to purchase the land (Rs 7.63 lakh). The Grama Panchayat was to run the slaughter house after its commissioning.

Government issued (October 1998) orders for the transfer of 66 cents of *Poramboke** land at the specified site to the Grama Panchayat with effect from the date of remittance of the cost of land. The Vellangalloor Grama Panchayat remitted (December 1998) Rs 3.30 lakh from Own Fund and took possession (January 1999) of the site. There was, however, no proper access from the road to the site. The District Panchayat paid (June 1998) Rs 33.19 lakh from Plan fund to M/s Steel Industrials Limited, Kerala (SILK), a Public sector Company for construction of the slaughter house on turnkey basis stipulating the period of completion as nine months from the date of handing over of the site. The SILK transported the materials for construction through a private land. On completion of the slaughter house in September 2000, when the Grama Panchayat applied for electric connection, the Kerala State Electricity Board expressed their inability to provide power connection as the over head cable lines to be drawn had to cross private property. The attempts of the Grama Panchayat to purchase unencumbered land for an approach road to the slaughter house had not materialised as of May 2004.

Failure of the Grama Panchayat and of the District Panchayat to assess the suitability of land before acquisition resulted in non-completion of the project even after seven years of its commencement and in unproductive expenditure of Rs 36.49 lakh.

The matter was referred to Government in July 2004; reply had not been received (November 2004).

4.5 Unfruitful expenditure on clinical laboratories

Purchase of equipment and chemicals without creating infrastructure facilities rendered the expenditure of Rs 22.64 lakh unfruitful.

The Thrissur District Panchayat approved (August 2001) the project 'Employment for Women in Paramedical Field' with the objective of providing

* Unassessed lands which are the property of Government or used/reserved for public purposes.

laboratory services at affordable cost and generating employment for women. The project envisaged setting up of clinical laboratories in Primary Health Centres (PHCs) in 52 Grama Panchayats at a total cost of Rs 31.20 lakh. This includes Rs 26 lakh for purchase of equipments and chemicals and Rs 5.20 lakh for creating infrastructure facilities. The laboratories were to start functioning in December 2001.

The Implementing Officer placed (August 2002) orders for supply of equipments and chemicals for 46 laboratories with a local firm without ensuring provision of infrastructure facilities at the PHCs. He obtained an invoice from the supplier, certified receipt of the materials in good condition, recorded entries in the stock registers and made payment of Rs 22.64 lakh (between January – March 2003) but kept the items in the premises of the supplier. The Implementing Officer started lifting the goods for delivery to PHCs after the expiry of 14 months from the date of supply. He made distribution (between March – July 2004) of equipment and chemicals to 19 PHCs even though infrastructure was not ready in 11 PHCs.

The guarantee period of two years on equipments and chemicals expired in December 2004 even though 27 PHCs (out of which infrastructure was not ready in 22) were yet to receive the supply. The District Panchayat did not appoint laboratory technicians in any of the PHCs.

Failure to synchronize purchase of equipments and chemicals with completion of the infrastructure facilities rendered expenditure of Rs 22.64 lakh unfruitful. As a result, the objective of providing employment to women in paramedical field and extension of laboratory services at affordable costs to rural population remained illusory.

The matter was referred to Government in June 2004; reply has not been received(December 2004).

4.6 Idle investment on establishment of blood banks

Investment of Rs 20.28 lakh made during 1997-2002 for creation of blood banks remained unproductive as Local Self Government Institutions failed to provide requisite infrastructure for the blood banks.

Local Self Government Institutions (LSGIs) formulated projects for establishment of blood banks during 1997-2001. As per the project report, the LSGIs were to construct buildings, procure necessary equipment, secure mandatory licences from Drugs Controller, appoint required staff and provide other infrastructure facilities like water supply, electricity etc. Test-check of the accounts of four LSGIs disclosed that Rs 20.28 lakh spent during 1997-2002 on construction of buildings to house the blood banks remained unfruitful for reasons given in the following table:

Name of LSGI	Name of hospital	Implementing agency	Year of project	Month/Year of completion of building	Expenditure (Rs in lakh)	Inhibiting problem/major constraint
Vazhoor Block Panchayat	Taluk Hospital, Kanjirappally	Superintendent, Taluk Hospital	1997-98	July 2000	9.54	i) Facilities as per the guidelines issued by the Ministry of Health and Family Welfare were not provided. ii) Non-receipt of blood bank licence (July 2004).
Changanassery Municipality	Taluk Headquarters Hospital, Changanassery	Hospital Development Committee	1998-99	May 2002	5.06	Delay in getting Electricity and water supply (July 2004).
Vadakara Municipality	Government Hospital, Vadakara	Superintendent, Government Hospital	1997-98	August 1999	2.42	i) Equipments were not supplied ii) Blood bank licence not received (July 2004).
Nedumangad Municipality	Taluk Headquarters Hospital, Nedumangad	Superintendent, Taluk Hospital	2000-01	March 2001	3.26	Government's approval for required staff was not obtained (July 2004).
Total					20.28	

Thus, Plan funds totaling Rs 20.28 lakh spent by four LSGIs during 1997-2002 for setting up blood banks and related activities remained unproductive.

The matter was referred to Government in June 2004; reply had not been received (November 2004).

4.7 Incomplete/vacant Mini Industrial Estates

Rupees 2.96 crore invested by 16 Local Self Government Institutions during 1998-2003 for setting up mini industrial units remained unfruitful.

A number of Local Self Government Institutions (LSGIs) had taken up schemes for setting up industrial units/estates in their respective localities during Ninth and Tenth Plan periods. The scheme intended to provide infrastructure such as land, building, electricity, water connection etc to attract potential industrial entrepreneurs and to facilitate setting up of new industrial ventures. Test-check of 16 LSGIs disclosed that Rs 2.96 crore invested on them remained unfruitful as of March 2004.

Of these 11 LSGIs had invested Rs 2.06 crore on setting up of Mini Industrial Estates which remained incomplete as detailed below.

Sl. No.	Name of Local Self Government	Investment (Rs. in lakh)	Stage of implementation
1	Chalakkudy Municipality	16.00	Municipality purchased two acres of land during 1998-99 for Rs 16 lakh. No other work was done (September 2004).
2	Payyannur Municipality	19.60	In April 1999, 8.90 acres of land was transferred to the local body by the Revenue Department. An amount of Rs 5.34 lakh was paid to the Revenue Department during 1999-2000. Rs 9.70 lakh was spent during 2001 for formation of approach road. An amount of Rs 4.56 lakh was deposited with Kerala State Electricity Board during 1999-2000 for extension of power lines. Even though land was purchased as early as 1999-2000, the boundary was not demarcated and title deed is yet to be obtained. No action was initiated for the construction of building.
3	Kodungalloor Municipality	23.34	During 1999-2000 Municipality purchased 80 cents of land at a cost of Rs 20 lakh. But the Municipality obtained the ownership of land only in February 2003. The Municipality constructed compound wall in May 2003 for Rs 3.34 lakh. Construction of building has not been started(August 2004).
4	Irinjalakuda Municipality	44.51	The Municipality purchased 5.65 acres of land during 1998-2000 at a total cost of Rs 37.72 lakh. During 2001-03 an amount of Rs 6.79 lakh was spent for the construction of compound wall. The Municipality did not take up other works till date.
5	Kayamkulam Municipality	11.06	The Municipality purchased 82.75 cents of land during 2000-01 at a total cost of Rs 11.06 lakh. It was reported that the width of the public path leading to the plot was narrow and that heavy vehicles cannot pass through it. No construction was started (April 2004).
6	Kunnummel Grama Panchayat	6.12	The Grama Panchayat incurred expenditure from 1997-98 to 2002-03 towards cost of land(Rs.3.08 lakh),compound wall (Rs.1.12 lakh),advance for construction (Rs.1.00 lakh), preparation of estimates(Rs. 0.02 lakh) and deposit with Kerala State Electricity Board (Rs.0.90 lakh). The construction work could not be started as site leveling work was incomplete (August 2004).
7	Thalassery Block Panchayat	27.54	An amount of Rs 27. 54 lakh was paid to District Nirmithi Kendra for construction of 15 sheds at Kundoormala. However the site for construction of sheds was not handed over to Nirmithi Kendra. It was stated that the proposal to construct shed at Kundoormala was dropped by Block Panchayat and it was decided to construct sheds in Eruvatty Amsom. The Secretary, Thalassery Block Panchayat stated (July 2004) that the construction of five sheds had been commenced in the new plot.
8	Athirappally Grama Panchayat	3.38	The Grama Panchayat had purchased the land in May 1999 at a cost of Rs 3.38 lakh. The establishment of Mini Industrial Estate was yet to be started(September 2004).
9	Nattika Grama Panchayat	3.25	The work for the construction of six rooms for giving employment to 50 members of Scheduled Caste community had reached only upto structural level. Work was stopped by convenors since October 2002 after receiving Rs 3. 25 lakh.
10	Nedumangad Municipality	31.63	The Municipality spent Rs 13.02 lakh for the purchase of 87 cents of land in 1998-99. An advance of Rs 18 lakh was made to SIDCO for construction of units and Rs 0.61 lakh was deposited with Kerala State Electricity Board (1998-99) for extension of Electric lines. It was reported(July 2004) that construction of the units have been completed but no mention was made of their leasing out

11	Puzhakkal Block Panchayat Thrissur District	19.28	Mulakunnathukavu Grama Panchayat purchased 67 cents of land at Mulakunathukavu for Rs 3.76 lakh during 1997-98 and also remitted Rs 3.92 lakh to Kerala State Electricity Board in January 1999 for power supply for the Industrial Estate. The Block Panchayat, Puzhakkal approved the project for construction of the building at a cost of Rs 23.21 lakh and the work was entrusted to the beneficiary committee in March 2000. The convenor stopped the work in March 2001 when it reached roof level. Expenditure incurred (March 2000 to March 2002) was Rs 11.60 lakh.
	Total	205.71	

In five LSGIs, the Mini Industrial Estates constructed at a cost of Rs 90.58 lakh remained vacant for the reasons detailed below.

Sl.No.	Name of Local Self Government	Investment (Rs in lakh)	Stage of implementation
1	Mattannur Municipality	32.40	The work was completed in January 2001. The entire plot was divided into 18 plots and was put to auction. Only one plot was let out as of July 2004.
2	Punalur Municipality	7.47	The Municipality spent Rs 6.02 lakh for construction of two small scale units at Kalayanadu, and Rs 1.45 lakh for one unit at Maniyar which were completed in March 1999 and July 1999 respectively. Only one unit was let out in July 2000 and other units were idling due to non-provision of electric connection(August 2004).
3	Kallara (Vaikom) Grama Panchayat	5.80	The construction of building was completed in July 2000. No plot could be allotted till date(August, 2004).
4	Lalam Grama Panchayat	19.50	Out of the two acres of land purchased in 1997-98, 1.02 acres of land only have been allotted(December, 2004)
5	District Panchayat, Kollam	25.41	The scheme envisaged construction of 10 sheds in the 50 cents of land owned by Thalavoor Grama Panchayat. The work was completed in February 2004. No unit was started as of August 2004.
	Total	90.58	

The matter was referred to Government in June 2004; reply had not been received (November 2004).

4.8 Idling machinery

Eight Local Self Government Institutions procured Agro machinery during 1997-2002 at a cost of Rs 30.51 lakh. The machinery was idling/under-utilised.

As part of improving the economic well being of farmers and creating employment potential, the Local Self Government Institutions (LSGIs) planned to mechanise agricultural operations and introduce scientific practices. Test check of

the records of eight LSGIs disclosed that the LSGIs purchased agro machinery, viz., three tractors, five tractor-trailers, three power tillers and two trailers at a cost of Rs 30.51 lakh (Appendix VIII) during 1997-2002. The machinery was lying idle reportedly due to decrease in the area of cultivation, lack of interest among farmers and scarcity of agricultural labourers and tractor drivers. Thus procurement of agro-machinery without proper survey meant waste of public funds of Rs 30.51 lakh.

The matter was referred to Government in June 2004; reply had not been received (November 2004).

Thiruvananthapuram,
The

(ARVIND K. AWASTHI)
Principal Accountant General (Audit), Kerala

Countersigned

New Delhi,
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

Appendix – I

Extent of devolution of Funds

(Reference: Paragraph 1.11.1)

(1) Grama Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	506.86	53.77	560.63	486.21	68.65	554.86
1998-99	614.61	71.86	686.47	597.84	90.10	687.94
1999-00	639.25	72.22	711.47	530.90	140.11	671.01
2000-01	636.37	173.25	809.62	437.66	188.47	626.13
2001-02	523.43	179.05	702.48	367.91	158.08	525.99
2002-03	735.34	225.45	960.79	605.63	239.90	845.53
2003-04	758.90	220.43	979.33	766.58	208.57	975.15
Total	4414.76	996.03	5410.79	3792.73	1093.88	4886.61

(2) Block Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	387.16	15.10	402.26	161.78	17.45	179.23
1998-99	232.54	15.86	248.40	183.01	25.79	208.80
1999-00	200.49	15.92	216.41	162.49	15.70	178.19
2000-01	184.60	16.16	200.76	126.79	14.13	140.92
2001-02	153.02	15.07	168.09	105.62	16.34	121.96
2002-03	196.74	19.67	216.41	169.40	14.05	183.45
2003-04	211.50	15.74	227.24	246.40	15.03	261.43
Total	1566.05	113.52	1679.57	1155.49	118.49	1273.98

(3) District Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	188.86	55.44	244.30	138.99	76.80	215.79
1998-99	170.62	69.96	240.58	166.79	66.23	233.02
1999-00	169.73	73.18	242.91	127.56	31.13	158.69
2000-01	166.67	34.96	201.63	131.34	37.20	168.54
2001-02	139.93	42.61	182.54	94.22	36.60	130.82
2002-03	180.25	55.31	235.56	134.97	54.25	189.22
2003-04	192.90	56.54	249.44	174.74	56.76	231.50
Total	1208.96	388.00	1596.96	968.61	358.97	1327.58

(4) Municipalities

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	15.25	47.05	62.30	77.09	40.81	117.90
1998-99	101.74	62.53	164.27	78.19	28.94	107.13
1999-00	89.53	72.00	161.53	84.76	18.79	103.55
2000-01	98.03	22.16	120.19	76.60	22.44	99.04
2001-02	82.91	23.00	105.91	75.47	17.62	93.09
2002-03	154.60	27.11	181.71	114.74	21.41	136.15
2003-04	167.94	25.91	193.85	121.30	22.71	144.01
Total	710.00	279.76	989.76	628.15	172.72	800.87

(5) Municipal Corporations

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	13.85	6.59	20.44	37.22	9.60	46.82
1998-99	58.48	9.02	67.50	61.63	5.51	67.14
1999-00	44.35	10.07	54.42	57.33	5.06	62.39
2000-01	56.74	7.10	63.84	41.49	6.29	47.78
2001-02	72.36	6.13	78.49	32.81	5.67	38.48
2002-03	109.66	24.35	134.01	93.97	9.35	103.32
2003-04	103.30	7.93	111.23	75.96	10.94	86.90
Total	458.74	71.19	529.93	400.41	52.42	452.83

(6) Total of all Local Self Government Institutions (1 to 5)

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
1997-98	1111.98	177.95	1289.93	901.29	213.31	1114.60
1998-99	1177.99	229.23	1407.22	1087.46	216.57	1304.03
1999-00	1143.35	243.39	1386.74	963.04	210.79	1173.83
2000-01	1142.41	253.63	1396.04	813.88	268.53	1082.41
2001-02	971.65	265.86	1237.51	676.03	234.31	910.34
2002-03	1376.59	351.89	1728.48	1118.71	338.96	1457.67
2003-04	1434.54	326.55	1761.09	1384.98	314.01	1698.99
Grand Total	8358.51	1848.50	10207.01	6945.39	1796.48	8741.87

Appendix II

Allotment/ release of Plan Funds to Grama Panchayats by the Director of Panchayats

(Reference: Paragraph 1.12.4)

Year	Month in which allotted / released							
	Instalment 1		Instalment 2		Instalment 3		Instalment 4	
	Due	Release	Due	Release	Due	Release	Due	Release
1997-98	April	July	July	December	October	February	January	March
1998-99	April	September	July	January	October	February	January	February
1999-2000	April	June	July	October	October	January	January	February
2000-01	April	June	July	October	October	March	January	-
2001-02	April	September	July	December	October	February	January	-
2002-03	April	October	July	January	October	February	January	-
2003-04	1		2		3		4	
	April	August	May	August	June	August	July	August
	5		6		7		8	
	August	August	September	Sept	October	October	November	November
	9		10		11		12	
	December	December	January	January	February	March	March	-

Appendix - III

Utilisation of Centrally Sponsored Scheme Funds

(Reference: Paragraph 1.14.2)

(Rupees in crore)

Name of Scheme	Opening balance	Distribution to LSGIs			Total available fund	Funds utilised by LSGIs	Balance	% age of utilisation
		Central Share	State share	Total				
<u>Funds distributed by District Rural Development Agencies</u>								
Swarnajayanthi Grama Swarozgar Yojana (SGSY)	31.93	67.44	22.48	89.92	121.85	121.12	0.73	99.40
Indira Awaz Yojana (IAY)	7.00	219.56	67.76	287.32	294.32	291.85	2.47	99.16
Sampoorna Grameen Rozgar Yojana-I (SGRY-I)	6.11	85.87	22.79	108.66	114.77	96.79	17.98	84.33
Sampoorna Grameen Rozgar Yojana-II (SGRY-II)	12.64	78.38	20.22	98.60	111.24	82.28	28.96	73.97
Total Sanitation Campaign(TSC)	8.87	8.92	3.96	12.88	21.75	14.87	6.88	68.37
<u>Total</u>	66.55	460.17	137.21	597.38	663.93	606.91	57.02	91.41
<u>Funds distributed by Director of Urban Affairs</u>								
IDSMT	-	18.10	9.43	27.53	27.53	27.53	-	100.00
MSH	-	1.32	1.45	2.77	2.77	2.77	-	100.00
<u>Total</u>	-	19.42	10.88	30.30	30.30	30.30	-	100.00
<u>Funds distributed by Kudumbasree – the State Poverty Eradication Mission</u>								
Swarnajayanthi Sahari Rozgar Yojana (SJSRY)		28.17	16.05	44.22	44.22	35.60	8.62	80.51
National Slum Development Programme (NSDP)		67.59	-	67.59	67.59	57.99	9.60	85.80
Valmiki Ambedkar Awas Yojana (VAMBAY)		39.57	39.57	79.14	79.14	41.83	37.31	52.86
Total		135.33	55.62	190.95	190.95	135.42	55.53	70.92
<u>Grand Total</u>	66.55	614.92	203.71	818.63	885.18	772.63	112.55	87.29

Appendix IV
Details of Supplementary Audit conducted
(Reference: Paragraph 2.1.2)

Sl. No	Type of LSGI	Total number	No. of LSGIs where supplementary audit was conducted	Name of LSGIs	Year	Name of District to which the LSGIs belong	
1.	Grama Panchayats	991	19	1	Kattakada Grama Panchayat	1999-2000	Thiruvananthapuram
				2	Poovar Grama Panchayat	1999-2000	
				3	Venganoor Grama Panchayat	1998-1999	
				4	Neendakara Grama Panchayat	2000-01	Kollam
				5	Kottarakara Grama Panchayat	2000-01	
				6	Budhanoor Grama Panchayat	1999-2000	Alappuzha
				7	Ala Grama Panchayat	1998-99	
				8	Devikulangara Grama Panchayat	1999-2000	
				9	Muthukulam Grama Panchayat	2000-2001	
				10	Krishnapuram Grama Panchayat	1999-2000	
				11	Thalavady Grama Panchayat	1997-1998	
				12	Harippad Grama Panchayat	1999-2000	
				13	Cheriyamad Grama Panchayat	1999-2000	
				14	Mundakayam Grama Panchayat	1999-2000	Kottayam
				15	Manimala Grama Panchayat	1999-2000	
				16	Erumeli Grama Panchayat	1998-1999	Thrissur
				17	Koratty Grama Panchayat	1998-1999	
				18	Madakkathara Grama Panchayat	1997-1998	
2.	Block Panchayats	152	1	20	Veliyanada Block Panchayat	2000-01	Alappuzha
3.	District Panchayats	14	1	21	Alappuzha	1999-2000	Alappuzha
4.	Municipalities	53	1	22	Shornur	1999-2000	Palakkad
5.	Municipal Corporations	5	1	23	Kozhikode	1999-2000	Kozhikode

Appendix – V
Non-compliance of statutory requirements by Director of Local Fund Audit
(Reference: Paragraph 2.7)

Nature of omission/inadequacy in the Report of Director of Local Fund Audit	Name of institutions in Annexure II
Non-issue of Audit Certificate	All institutions as per Appendix IV
Delay in conducting audit	Devikulangara (17 months), Muthukulam (2 months), Cheriyanad (13 months), Thalavadi (2 months), Kottarakkara (5 months) Grama Panchayats and Shoranur Municipality (12 months)
Delay in issuing Audit Reports	Mundakayam(13 months), Erumeli (2 months), Budhanoor(6 months), Ala (7 months), Kottarakkara(5 months), Devikulangara (3 months), Muthukulam (7 months), Krishnapuram(5 months), Kattakada(29 months), Poovar(4 months), Cheriyanad(7 months), Thalavadi(4 months), Harippad(8 months) and Madakkathara(2 months) Grama Panchayats, Alappuzha District Panchayat(5 months), Shoranur Municipality(2 months) and Kozhikode Corporation(4 months)
Conduct of audit without getting Annual Financial Statement	Veliyanad Block Panchayat
Audit of incomplete Annual Financial Statement	Kozhikode Corporation
Conducting audit without receiving Annual Financial Statement for the previous year	Mundakayam, Manimala, Erumeli and Ala Grama Panchayats
Preparation of parallel accounts and DCB statements by Director of Local Fund Audit	Ala, Kattakada, Poovar Grama Panchayats, Alappuzha District Panchayat and Kozhikode Corporation

Appendix VI
List of LSGIs test checked
(Reference: Paragraph 3.1.2)

Municipal Corporations	
1	Thiruvananthapuram
2	Kochi
3	Kozhikode
District Panchayats	
1	Thiruvananthapuram
2	Kollam
3	Alappuzha
4	Ernakulam
5	Thrissur
6	Kozhikode
Block Panchayats	
1	Kozhikode
2	Kunnamkulam
3	Chelannur
Grama Panchayats	
1	Kottarakkara
2	Thrikkadavoor
3	Panayam
4	Kundara
5	Chelannur
6	Olavanna
7	Kunnamangalam
8	Thaneermukkom
9	Aroor
10	Aryad
11	Cherthala South
12	Kadungallur
13	Thrikkakara
14	Thiruvankulam
15	Mattathur
16	Varandarappally
17	Pallippuram
18	Thalikulam
19	Vellarada
20	Perinad
21	Eloor
22	Engandiyoor
23	Valappad
24	Vattiyoorkavu
25	Adat
26	Arimpur

Appendix VII

**Details of excess expenditure for earth filling works
(Reference: Paragraph 4.2)**

Sl.No.	Name of Institutions	Excess payment (Rs)
1.	Tirur Municipality	421167
2.	District Panchayat, Alappuzha	1558301
3.	Koilandy Municipality	315381
4.	District Panchayat, Kozhikode	4399
5.	Muthukulam Grama Panchayat	32465
6.	Ala Grama Panchayat	41156
7.	Valikunnam Grama Panchayat	134652
8.	Thiruvananthapuram Corporation	299150
9.	District Panchayat, Kollam	89453
10.	Veliyanad Block Panchayat	1084542
11.	Madai Grama Panchayat	19232
	Total	3999898

Appendix – VIII

**Details of Idling/under utilised machinery purchased
(Reference: Paragraph 4.8)**

Sl. No	Name of Local Self Government Institution	Machinery purchased	Cost (Rs.in lakh)	Year of purchase
1	Pattambi Grama Panchayat	Tractor-1	2.86	2000-01
2	Aymanam Grama Panchayat	Power tiller-1	1.00	1999-2000
3	Nilambur Grama Panchayat	Tractor trailer-1	3.85	1998-99
		Power tillers-2 and Trailers-2	2.60	1999-2000
4	Malappuram Municipality	Tractor –trailer-1	2.03	1997-98
5.	Velinalloor Grama Panchayat	Tractor –trailer-1	3.60	1998-99
6	Thirunavaya Grama Panchayat	Tractor -trailers-2	7.56	1999-2000 2001-02
7	Anikkad Grama Panchayat	Tractor - 1	2.84	1997-98
8	Senapathy Grama Panchayat	Tractor-1	4.17	1999-2000
	Grand Total		30.51	