

CHAPTER II

FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF- GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 Funds flow to LSGIs

The resources of LSGIs consist of own revenue such as tax and non-tax revenue, funds devolved by State Government, Government of India (GoI) grants, and loans from financial institutions. During 2015-16, out of the total funds available with LSGIs, State grants constituted 73 per cent, GoI grant 19 per cent and own funds including loans constituted eight per cent.

2.1.1.1 Resources: Trends and Composition

The composition of resources¹ of LSGIs for the period 2011-12 to 2015-16 is given in **Table 2.1**.

Table 2.1: Time series data on resources of LSGIs

(₹ in crore)

Resources	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Own Revenue:						
(i) Tax Revenue	561.79	661.01	662.78	842.64	937.46	3665.68
(ii) Non –Tax revenue	376.69	599.60	640.43	263.15	281.02	2160.89
Total Own Revenue	938.48	1260.61	1303.21	1105.79	1218.48	5826.57
State Fund:						
(i) Traditional Functions	644.98	757.89	900.15	1052.68	1119.83	4475.53
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	713.94	1039.45	1386.50	1542.45	1746.22	6428.56
(iii) Expansion and Development	2021.52	2062.61	2701.75	3539.51	3391.88	13717.27
(iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	1358.45	1865.73	2069.48	3070.58	4667.98	13032.22
Total State Fund	4738.89	5725.68	7057.88	9205.22	10925.91	37653.58
GoI grants:						
(i) Centrally Sponsored Schemes	1280.72	1603.36	1607.00	1890.06	1969.62	8350.76
(ii) Development and expansion	622.84	979.41	993.94	1369.15	785.42	4750.76
Total GoI grant	1903.56	2582.77	2600.94	3259.21	2755.04	13101.52
Receipts from loans & other sources:						
Loans	39.16	10.27	17.52	15.48	25.59	108.02
Total Receipts	7620.09	9579.33	10979.55	13585.70	14925.02	56689.69

¹**Source:** Details of Own Revenue furnished by Information Kerala Mission (IKM), Finance Accounts of the State for the respective years, information from Commissioner of Rural Development, Kerala Urban and Rural Development Finance Corporation (KURDFC), Kerala Sustainable Urban Development Project (KSUDP) and Kerala State Poverty Eradication Mission (Kudumbashree)

- During the five year period 2011-12 to 2015-16, the increase in total receipts of the LSGIs was 96 *per cent*. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 67, 23 and 10 respectively.
- The share of GoI grant to total receipts decreased from 25 *per cent* in 2011-12 to 19 *per cent* in 2015-16.
- The share of State grant to total receipts increased from 62 *per cent* in 2011-12 to 73 *per cent* in 2015-16.

Surrender of funds for State Sponsored Schemes/Centrally Sponsored Schemes

Out of ₹4310.13 crore allotted by the State Government to LSGIs during 2015-16 under twelve heads², ₹310.68 crore was surrendered (**Appendix III**). The major surrender was noticed under the major head 2217- Urban Development. Out of ₹110.80 crore allotted under this head, ₹110 crore was surrendered (99.28 *per cent*). In the case of major head 2501 – Special Programmes for Rural Development, out of ₹884.94 crore allotted ₹149.73 crore was surrendered (16.92 *per cent*) and in the case of major head 2515 – Other Rural Development Programmes, out of ₹39.38 crore allotted, ₹12.35 crore was surrendered (31.36 *per cent*). We noticed that more than 50 *per cent* of the fund allotted under Urban Development was being surrendered every year since 2011-12.

We further noticed that the entire funds allotted under 2217-Urban Development for implementation of projects to reduce poverty and vulnerability of the urban poor households viz, National Urban Livelihood Mission (NULM) and Modernisation of Slaughter Houses were surrendered.

In response to audit query regarding reasons for non utilization of funds, Director of Urban Affairs stated that local bodies were facing various constraints such as obtaining approval from Council, tendering, public protest against the construction of gas crematorium, slaughter houses etc., difficulty to find proportionate ULB ratio contribution from their own funds to Central and State funds and unavailability of viable proposals etc.

2.1.1.2 Transfer of funds from Government to LSGIs

(i) The State Government provides three types of funds to LSGIs from the Consolidated Fund viz., grants, funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes (CSSs). Appendix II to the Detailed Budget Estimates of the Government gives the LSGI-wise allocation of funds. The Heads of Account in the Detailed Budget Estimates for drawal of funds from

²General Education, Medical and Public Health, Urban Development, Welfare of SC/ST, Labour and Employment, Social Security and Welfare, Crop Husbandry, Soil and Water Conservation, Special Programme for Rural Development, Village and Small Industries, Animal Husbandry, Other Rural Development Programmes.

the Consolidated Fund, along with the releases made during 2015-16, are given in **Table 2.2**.

Table 2.2: Categories of funds and their allotment to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is allotted	Amount allotted during 2015-16 (₹ in crore)	Allotment mechanism
1	Grants, World Bank aided Performance grant under KSUDP (ADB ³) assistance, fourteenth Finance Commission award	3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	5917.62	1 st installment of 14 th Finance Commission award was routed through Public Account and other grants directly from Consolidated fund based on allotment.
		3054-Roads and Bridges	1171.73	
Total			7089.35	
2	State Sponsored Schemes	12 Major Heads	4310.13	Routed through State Level
3	State share of CSSs	3 Major Heads	357.85	Nodal Agencies ⁴ /CRD
Grand total			11757.33	

The total fund allotted by the State Government for 2015-16 was ₹11757.33 crore as against ₹10574.37 crore released during 2014-15, an increase of 11.19 per cent.

(ii) **Table 2.3** gives the details of funds allotted by the State Government under various categories⁵ during 2015-16.

Table 2.3: Funds allotted by State Government under different categories during 2015-16 (₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Total
Corporations	279.74	135.25	149.81	564.80
Municipalities	323.37	193.88	116.88	634.13
District Panchayats (DPs)	623.58	368.05	32.06	1023.69
Block Panchayats (BPs)	623.58	62.03	45.60	731.21
Grama Panchayats (GPs)	1541.61	987.01	775.48	3304.10
Total	3391.88	1746.22	1119.83	6257.93

³ Asian Development Bank

⁴ Kudumbashree, KSUDP, Commissioner of Rural Development (CRD)

⁵ Excluding funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes

(iii) Based on the Third State Finance Commission recommendations, Government implemented (April 2006) the system of drawal of funds from Consolidated Fund to the State's Public Account and then to the deposit account of individual Local Governments.

Government noticed that as a result of drawing funds from the Consolidated Funds to the Public Account, the revenue deficit of the State was increasing irrespective of the actual utilization of the funds by LSGIs. Hence, Government issued orders (March 2015) stating that from 2015-16 onwards, for drawal of funds the existing system of transfer credit from the Consolidated Fund to the Public Account shall be dispensed with except for Central Finance Commission Grant and World Bank aided KLGSDP⁶ Fund. Further, it was also mentioned that drawal of funds for the year 2015-16 would be allowed only after exhausting the funds available in the Public Account. The fund available in the Public Account as on 31 March 2015 was ₹3288.80 crore.

In September 2015, Central Finance Commission Grant and World Bank aided KLGSDP Fund were also included in the newly introduced system.

In the new system, the individual LSGIs can present fully vouched contingent bill to the treasuries and draw directly from the Head of Account 3604 or 3054 of the Consolidated Fund based on the allotment received from State Finance Commission Cell (SFC Cell).

In March 2016, Government directed to transfer credit the funds available in the Public Accounts of Local Governments to the Head of Account 3604-00-911-99 'Deduct Recoveries of Overpayments'. Accordingly, an amount of ₹260.47 crore was transfer credited in March 2016 from the funds available in the Public Account. But an amount of ₹43.85 crore still remained in the public account as given in **Table 2.4**.

As on 31 March 2016, ₹3165.07 crore including (Finance Commission grant ₹367.92 and KLSGDP ₹67.84 crore) of unspent balance remained in Public Account and Consolidated Fund as shown in **Table 2.4**

Table 2.4: Details of funds available in Public Account and Consolidated Fund during 2015-16

(₹in crore)

Category of fund	Recovery of over payments to 3604-00-911-99 as on 31 March 2016	Unspent Balance as on 31 March 2016	
		Public A/c	Consolidated Fund
General Sector	251.92	29.05	1391.41
Special Component Plan	1.31	2.50	477.29
Tribal Sub Plan	0.14	0.0005	76.47
World Bank aided KLGSDP (Central share)	0.76	1.17	66.67

⁶ Kerala Local Government Service Delivery Project (KLGSDP)

Category of fund	Recovery of over payments to 3604-00-911-99 as on 31 March 2016	Unspent Balance as on 31 March 2016	
		Public A/c	Consolidated Fund
World Bank aided KLGSDP(state share)	0.00	0.00	16.98
Central Finance Commission Grant	0.48	1.48	366.44
General Purpose Fund	0.00	2.36	73.78
Maintenance Fund (Road)	4.49	1.04	384.51
Maintenance Fund (Non-Road)	1.37	6.25	267.67
Total	260.47	43.8505	3121.22

We noticed the following deficiencies in the allotment of Government funds:

- **Delayed allotment of funds**

In the newly introduced system, the allotment for a financial year would be issued by the SFC cell in three instalments on or before 25 of March, July and November every year and the LSGIs can utilize the fund from the first working day of the next month. The allotment not drawn up to 31 March of a financial year will lapse automatically. Audit noticed that there was delay ranging from 24 to 141 days in the allotment of funds in 14 cases out of 20 allotments made during 2015-16. Further, it was noticed that out of ₹4176.42 crore of Expansion and Development fund including Finance Commission grant, ₹923.46 crore (22 per cent) was allotted between 21 and 26 March of 2016. Transfer of funds at the fag end of the year causes rush of expenditure and lapse of fund due to non utilisation. The total lapsed fund was ₹3121.22 crore (44 per cent) out of the total allotment of ₹7043.35 crore.

- **Short allotment of funds to the Local Self Government Institutions**

Under the head Expansion and Development of LSGIs for the year 2015-16, the budget provision was ₹4798.73 crore, whereas the amount allotted was only ₹4177.30 crore. Thus there was short-allotment of ₹621.43 crore. The reason for short allotment of funds is awaited from Government (March 2017).

- **Crediting of Central Funds to State Accounts**

As per the details furnished by the Directorate of Treasuries, the unspent balance of Finance Commission Grant and World Bank Aided Performance Grant under KLGSDP as on 31 March 2016 in the Consolidated Fund was ₹433.11 crore (FC Grant ₹366.44 crore and KLGSDP ₹66.67 crore). Even though as per Government order⁷(March 2015) this amount had to be provided to LSGIs as Additional

⁷ GO (P) No 119/2015/Fin dt 21.03.15, para 2(vi)

authorization/Supplementary Demands for Grants in July 2016, the unspent amount has not been authorized to LSGIs so far (March 2017).

- **Deduction from allocation due to short utilisation**

LSGIs were to utilise at least 50 *per cent* of the allocation for 2013-14 under Development Expenditure Fund and Maintenance Expenditure Fund, failing which the unspent amount would be deducted from the budget allocation for 2015-16. We noticed that ₹14.77 crore was deducted (Development Expenditure Fund: ₹1.27 crore; Maintenance Expenditure Fund: ₹13.50 crore) from budget allocation for 2015-16, due to short utilisation of fund during 2013-14.

- **Non authorization of unspent balance**

As per the revised guidelines (March 2015), for the drawal of funds by LSGIs from the Consolidated Fund, the allotment not drawn by 31 March of a particular year shall be provided through additional authorization/Supplementary Demands for Grants based on the consolidated figures furnished by the Directorate of Treasuries which may be allotted to LSGIs along with the second allotment in July of the subsequent year. We noticed that the unspent balance in Consolidated Fund as on 31 March 2016 included ₹2395.26 crore Development Fund, ₹652.18 crore Maintenance Fund and ₹73.78 crore General Purpose Fund. Out of ₹2395.26 crore of unspent balance of Development Fund, Government authorized (July 2016) an amount of ₹2027.85 crore to Local Bodies. Later the authorization was cancelled (July 2016) on the plea that several discrepancies were reported by the Local Governments on the authorization of funds. Thus the total unspent balance of ₹3121.22 crore has not been authorized to Local Bodies so far (January 2017).

- **Lapse of funds due to non utilization**

An amount of ₹300.43 crore excluding FC Grant and KLGSDP got lapsed due to non utilization of the amount within the year. (Unspent balance in Public Account as on 31 March 2016 ₹41.20 crore and ₹259.23 crore recovered as overpayment).

(iv) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2011-12 to 2015-16 are given in **Table 2.5**.

Table 2.5: State Plan outlay vis-à-vis Development Expenditure Fund of LSGIs(*₹ in crore*)

Year	State Plan Outlay	Development Fund of LSGIs	Percentage of Development Fund of LSGIs to State Plan Outlay
2011-12	11030.00	2563.76	23.24
2012-13	14010.00	2942.02	21.00
2013-14	17000.00	3645.69	21.45
2014-15	20000.00	4858.66	24.29
2015-16	20000.00	4177.30	20.89
Total	82040.00	18187.43	22.17

Development Fund devolved to LSGIs constituted 20.89 *per cent* of the State Plan outlay for the year 2015-16 while it was 24.29 *per cent* during 2014-15.

2.1.1.3 Receipts from GoI

The category-wise release of fund by GoI during 2015-16 is given in **Table 2.6**

Table 2.6: Category-wise release of GoI fund

Category	Amount (₹ in crore)
Fourteenth Finance Commission grant	785.42
ADB assisted KSUDP	46.00
Centrally Sponsored Schemes	1969.62
Total	2801.04

Audit noticed a decrease of ₹458.17 crore in release of fund under the above categories when compared to 2014-15.

GoI grant for implementation of CSSs

The GoI provided grants amounting to ₹1969.62 crore to LSGIs for implementation of 11 flagship CSSs. The grants were provided to LSGIs through State Budget/State Level Nodal Agencies (SLNAs)/Poverty Alleviation Units (PAUs), etc. The details of GoI grants transferred to LSGIs for implementation of CSSs during 2015-16 are given in **Table 2.7**.

Table 2.7: Release of GoI grant for CSSs during 2015-16

Sl.No.	Authority/Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
1	State Budget	Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	1.75
		Smart City	2.00
2	Directly to State Level Nodal Agencies	Basic Services to the Urban Poor (BSUP)	3.33
		Rajeev Gandhi Awas Yojana(RAY)	11.49
		National Rural Livelihood Mission(NRLM)/ National Rural Livelihood Project(NRLP)	13.54
		DDU-GKY (Ajeevika Skills)	1.39
		National Resource Organisation (NRO)	12.30

Sl.No.	Authority/Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
3	Directly to Poverty Alleviation unit	Indira Awas Yojana (IAY)	357.17
		Swachh Bharath Mission (Gramin) (SBM)	20.31
		Pradhan Mantri Krishi Sinchai Yojana(PMKSJ)	20.00
	By online transfer to the Joint Bank Account of District Programme Co-ordinator and Joint Programme Co-ordinator	Mahatma Gandhi National Rural Employment Guarantee Act(MGNREGA)	1526.34
		Total	1969.62

In addition to the GoI grants of ₹1969.62 crore, the State Government provided ₹357.85 crore as its share for implementation of CSSs. Thus, the total fund for implementation of CSSs during 2015-16 was ₹2327.47 crore as against ₹2076.38 crore during 2014-15.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax⁸ and non-tax revenue⁹ collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994 (KPR Act)/Kerala Municipality Act, 1994 (KM Act) and allied Acts. This category also includes income derived from assets of LSGIs, beneficiary contributions, Earnest Money Deposits, Retention money, etc. As per the details furnished by Information Kerala Mission(IKM), own revenue of 1200 LSGIs for 2015-16 amounted to ₹1218.48 crore (Tax revenue ₹937.46 crore and Non Tax revenue ₹281.02 crore). Audit observed that during 2015-16, though there was increase in collection of revenue, the collection of Non Tax revenue has to be improved.

Though the fourteenth Finance Commission and fourth State Finance Commission had recommended to augment collection of own revenue, we observed the following deficiencies on the part of Municipalities in improving collection of tax revenue.

(i) Based on the recommendations of the State Finance Commission, the basis for calculation of property tax has been changed from annual value to plinth area of buildings with effect from 1 April 2011 and 1 April 2013 in respect of new buildings and existing buildings respectively. The system was adopted to bring uniformity in property tax assessment and make it more transparent besides increasing own revenue. Of the total 93 ULBs, information received from 46 ULBs showed that 24 ULBs have not implemented the plinth area basis for calculation of property tax so far.

⁸ Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.

⁹ Licence fee, Registration fee, etc.

(ii) Government issued orders (March 2012) for implementation of Fourth State Finance Commission recommendation for creation of a Geographic Information System (GIS) based database of property tax assessment procedure which is successfully implemented in various Indian cities. This has not been implemented by any of the LSGIs in the state.

2.1.1.5 Loans availed by LSGIs

As per provisions of Kerala Local Authorities Loans Act, 1963, LSGIs raise loans from State Government, KURDFC, Co-operative Banks, HUDCO¹⁰, etc. **Table 2.8** gives the details of loans availed by LSGIs during 2015-16.

Table 2.8: Loans availed by LSGIs during 2015-16

(₹ in crore)

Source of loan	Loan availed during 2015-16	Loan outstanding as on 31 March 2016
State Government	Nil	93.12
KURDFC	23.99	48.70
Co-operative Bank	Nil	2.88
HUDCO	1.60	1.62
Total	25.59	146.32

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure constitutes expenditure on Productive Sector, Infrastructure Sector, Service Sector and other expenditure¹¹. As per the details obtained from the IKM, the total expenditure incurred by LSGIs during 2015-16 amounted to ₹7766.90 crore.

Table 2.9 below shows the composition of application of resources of LSGIs from all sources of funds on these components for the period from 2011-12 to 2015-16.

Table 2.9: Application of resources

(₹ in crore)

Sector	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Productive Sector	595.77	355.82	459.24	493.10	453.78	2357.71
Infrastructure Sector	1343.41	1528.58	2684.02	2619.76	3258.41	11434.18
Service Sector	2306.59	2182.48	2945.85	3022.01	3160.14	13617.07
Total Development Expenditure	4245.77	4066.88	6089.11	6134.87	6872.33	27408.96

¹⁰ Housing and Urban Development Corporation Limited

¹¹ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

Sector	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Other Expenditure	2618.88	2638.35	2062.85	1227.98	894.57	9442.63
Total Expenditure	6864.65	6705.23	8151.96	7362.85	7766.90	36851.59
Percentage of Development Expenditure to Total Expenditure	61.85	60.65	74.70	83.32	88.48	74.38

Source: Details furnished by IKM

- During 2015-16, of the total development expenditure of ₹6872.33 crore from all sources of fund, ₹3258.41 crore i.e., 47.41 per cent was utilised for projects under infrastructure sector.
- Modified guidelines of the 12th Five year plan of LSGIs emphasized the need to give priority to projects under Productive sector, since it was the most neglected sector with a meager expenditure of ₹453.78 crore out of total expenditure of ₹6872.33 crore (6.60 per cent).

2.1.1.7 Public investment in social sector and rural development through major Centrally Sponsored Schemes

Public investment in social sector and rural development through major CSSs are made to LSGIs through agencies such as Poverty Alleviation Units (PAU) and State Level Nodal Agencies (SLNAs) (*viz.*, Kudumbashree, KSUDP, CRD, etc.). The grants for CSSs enjoin upon sanctioning authorities in GoI the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs.

Out of ₹3162.96 crore¹² available for implementation of CSSs, substantial portion of the funds amounting to ₹601.28 crore were lying unspent with agencies *viz.*, PAU (₹331.99 crore), Kudumbashree (₹160.05 crore) and KSUDP (₹109.24 crore), thereby defeating the purpose for which the funds were earmarked and released. Out of ₹2561.68 crore released, the expenditure incurred by LSGIs was ₹1899.46 crore (74.15 per cent). The balance amount of ₹662.22 crore remained unutilised with LSGIs. Thus, out of the total amount of ₹3162.96 crore available for utilisation under CSSs, ₹1263.50 crore remained unutilised with various agencies. Unutilised fund mainly related to IHSDP (₹358.02 crore), IAY (₹234.81 crore), JNNURM (₹185.19 crore), MGNREGS (₹131.57 crore).

¹²The fund retained by the Nodal agencies in 2014-15 was not furnished as the OB during the year 2015-16.

2.1.2 Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 2,30,393 projects with a total outlay of ₹12523.36 crore during 2015-16. Of these, the LSGIs had taken up 1,75,506 projects (76 per cent) for implementation and had spent ₹6872.33 crore on the projects. Of the projects taken up for implementation, only 1,54,868 projects (88 per cent) were completed during 2015-16 at a cost of ₹5662.33 crore. The details are given in **Table 2.10**.

Table 2.10: Details of projects taken up and expenditure incurred

Type of LSGI	Number of projects			Amount (₹ in crore)			Percentage of expenditure on projects taken up to total outlay of projects formulated
	Formulated	Taken up	Completed	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	
Grama Panchayat	173713	134591	120124	6344.28	3908.70	3281.79	61.61
Block Panchayat	13095	10550	9278	1818.31	709.90	634.94	39.04
District Panchayat	12193	7548	6368	1801.68	975.47	795.17	54.14
Municipality	24774	18285	15468	1571.39	786.61	600.06	50.06
Corporation	6618	4532	3630	987.70	491.65	350.37	49.78
Total	230393	175506	154868	12523.36	6872.33	5662.33	54.88

Source: Details furnished by IKM

With reference to the outlay of projects formulated, the percentage utilisation of funds was only 54.88. The shortfall in implementation of projects was noticed mainly in BPs, followed by Corporations.

2.1.3 Misappropriation, loss, defalcation, etc.

The Kerala Financial Code stipulates that each Drawing and Disbursing Officer should report all cases of loss, theft or fraud to the Principal Accountant General and the Government. The Government is required to recover the loss, fix responsibility and remove systemic deficiency, if any. A consolidated statement of the details of misappropriations, losses, theft and fraud is not available with the Government.

Table 2.11 shows the details of misappropriation/defalcation reported to the Director of Urban Affairs, Commissioner of Rural Development, Project Director of KSUDP and Director of Panchayats.

Table 2.11: Misappropriation, loss, defalcation

Type of LSGIs	Amount (₹in lakh) (Number of cases in bracket)					Total
	2011-12	2012-13	2013-14	2014-15	2015-16	
Corporations	0.82(1)	1.52(3)	--	---	0.40(2)	2.74 (6)
Municipalities	--	--	1.29(2)	1.75(1)	--	3.04(3)
Block Panchayats	22.14(5)	92.36(1)	0.32(2)	324.69(8)	142.86(11)	582.37(27)
Grama Panchayats	1.13(3)	1.57(3)	18.33(8)	2.13(2)	10.17(6)	33.33(22)
KSUDP	13.78(2)	--	--	2.87(2)	--	16.65(4)
Total						638.13(62)

Source: Director of Urban Affairs, Commissioner of Rural Development, Project Director KSUDP and Director of Panchayats

2.2 Financial, Administrative and Reporting Issues

Financial reporting in LSGIs is a key element to ensure accountability by executives. The financial administration of LSGIs including budget preparation, maintenance of accounts, monitoring of expenditure, etc., is governed by the provisions of KPR Act, 1994, KM Act, 1994, Kerala Panchayats (Accounts) Rules, 1965, Kerala Municipal Accounts Manual, Kerala Financial Code, guidelines, standing orders and instructions. Shortcomings in the financial administration of LSGIs are mentioned below:

2.2.1 Budget

As per KPR Act and KM Act, the budget proposals containing detailed estimate of income and expenditure were to be placed by the Standing Committee for Finance before the LSGI not later than the first week of March. Though the LSGIs passed the budget before the beginning of the year, there was delay in presentation of budget by 33 (24 GPs, five BPs, and four Municipalities) out of 82 LSGIs test-checked. The budgets were passed on the day of their presentation itself in 25 GPs, five BPs, and in four Municipalities. Further, expenditure in excess of the budget provision was seen in five GPs, one BP and one DP without passing of supplementary budget. In three GPs and one Municipality, expenditure was incurred on projects that were not included in the budget. (**Appendix IV**).

2.3 Arrears in accounts

According to Kerala Local Fund Audit Act, 1994 (KLFA Act), it was mandatory for LSGIs to submit their accounts to Director of Local Fund Audit (DLFA), since renamed as Director of Kerala State Audit Department (KSAD), for audit by 31 July every year. Further, Rule 16 of KLFA Rules empowers KSAD to carry out proceedings in a Court of Law against the Secretaries of LSGIs who

default in the submission of accounts. As on 31 July 2016, seventeen accounts pertaining to the period from 1997-98 to 2005-06 were in arrears.

2.4 Arrears in audit and issue of audit reports

As per KLFA Act, KSAD is to complete the audit of accounts submitted by LSGIs within six months of receipt of accounts and issue Audit Report within three months from the date of completion of audit.

Out of the total 21,862 accounts received by KSAD pertaining to the period from 1997-1998 to 2014-15, Audit Reports were issued in respect of 21,817 accounts (January 2017) and 45 (0.2 *per cent*) Audit Reports were not issued.

2.4.1 Surcharge and Charge imposed by the KSAD

Section 16(1) of KLFA Act, 1994 empowers the KSAD to disallow any illegal payment and surcharge the person making or authorizing such illegal payment. KSAD can also charge any person responsible for the loss or deficiency of any sum which ought to have been recovered.

During the period 2009-10 to 2015-16, KSAD had issued 100 charge certificates for ₹120.99 lakh and 508 surcharge certificates for ₹373.15 lakh. Against the total charge/surcharge amount of ₹494.14 lakh, only ₹19.86 lakh were realised (4.02 *per cent*). Responsibility may be fixed upon person accountable for making such loss to LSGIs.

2.5 Results of Supplementary Audit

The Comptroller and Auditor General of India conducted supplementary audits under Section 20(1) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971 in respect of the accounts of 57 GPs, 13 BPs, two DPs and ten Municipalities during the year 2015-16. The findings of such audit are given in subsequent paragraphs.

2.5.1 Quality of Annual Financial Statements

The KPR Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the KM Act, 1994 read with Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the PRIs/ULBs shall prepare Annual Financial Statements (AFS) containing all receipts and payments, Balance sheet, Income and Expenditure statement and forward them to Director, Kerala State Audit Department (KSAD) after approval by the Panchayat/Municipal Council/Corporation Council not later than 31 July/31 May/31 May respectively of the succeeding year. Deficiencies noticed in the AFS submitted to KSAD are mentioned below.

The AFS of 30 GPs, five BPs, two DPs and seven Municipalities did not contain all the transactions. In three GPs, closing balance of AFS of previous years did not match with the opening balance of next year's AFS. In the Cash book/Pass

book of one Municipality, two BPs and three GPs, the closing balance/opening balance did not agree with AFS. Appending statements of AFS were not prepared/submitted by six Municipalities, two DPs, two BPs and 25 GPs (**Appendix V**).

2.5.2 Preparation of Monthly Accounts

As per Government order about the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare accounts for every month and place the same before the Panchayat Committee/Council at its first meeting held after the tenth day of the succeeding month. Monthly Accounts were not prepared in six GPs and two BPs (**Appendix VI**).

2.5.3 Stock verification

Physical verification of stock was not done by six GPs, two BPs and one Municipality (**Appendix VII**).

2.5.4 Maintenance of primary financial records

(a) Deposit Register

As per paragraph 3.37 of the Government order of June 2003, which prescribed the Accounting Format of Panchayats, each institution has to maintain Deposit Register to watch the receipts as well as adjustment of deposits. The procedures prescribed for the maintenance of Advance Registers were to be followed in the maintenance of Deposit Register. Maintenance of Deposit Register was incomplete in one BP and two GPs (**Appendix VIII**).

(b) Asset Register

Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipal Accounts Manuals and Government Order (December 2005) stipulate that each LSGI should maintain records of assets owned by it. The Asset Register maintained by 12 GPs, two BPs and two Municipalities was incomplete. Improper maintenance of Asset Register would have adverse impact on physical verification and proper inventorisation of the assets (**Appendix VIII**).

2.6 Conclusion

- During the five year period 2011-16, there was 96 *per cent* increase in total receipts of the LSGIs. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 67, 23 and 10 respectively. The LSGIs need to make serious efforts to augment revenue collection.

- The amount spent on Productive sector accounted for only 6.60 *per cent* of the total Development Expenditure during 2015-16 and 8.60 *per cent* during the last five years 2011-12 to 2015-16, indicating that the LSGIs had given low

priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries etc. The Government should analyse the reasons for low expenditure to enable the LSGIs to utilise the fund productively. The Government should also fix a target for expenditure in the productive sector.

- Out of ₹3162.96 crore available for implementation of Centrally sponsored scheme, an amount of ₹662.22 crore was retained by SLNA/PAUs/KSUDP thereby defeating the purpose for which the funds were earmarked and released by GOI/State Govt.

- A total number of 62 cases of misappropriation/defalcation involving ₹6.38 crore pertaining to LSGIs for the period 2011-12 to 2015-16 was reported to heads of department, which were pending disposal.

The matter was referred to Government in February 2017; reply is awaited.