

CHAPTER II

TECHNICAL GUIDANCE AND SUPERVISION AND THE RESULTS OF SUPPLEMENTARY AUDIT

2.1 Introduction

2.1.1 In October 2002, Government of Kerala entrusted the audit of Local Self Government Institutions (LSGIs) to the Comptroller and Auditor General of India (CAG) for providing Technical Guidance and Supervision (TGS) to the Director of Local Fund Audit (DLFA). The scheme of TGS comprises audit planning, annual transaction audit of 10 *per cent* of institutions by random selection and supplementary audit of 10 *per cent* of the institutions audited by DLFA.

2.1.2 The DLFA conducts the audit of LSGIs and other Local Funds as per the Kerala Local Fund Audit Act, 1994 (Act 14 of 1994) and the Kerala Local Fund Rules, 1996. Besides, the DLFA is the auditor of LSGIs as per Section 215 (3) of the Kerala Panchayat Raj Act, 1994 and Section 295 (3) of the Kerala Municipality Act, 1994. There are 3896 institutions under the audit control of DLFA. These include 1215 LSGIs, six Universities, three Devaswom Boards, 11 Development Authorities, 1373 institutions receiving grant-in-aid and 1288 Hindu Religious and Charitable Institutions.

2.2 Organisational set up of DLFA

2.2.1 The total staff strength of the Local Fund Audit Department is 847, which consists of the following:

Director	: 1
Joint Directors	: 3
Deputy Directors	: 41
Audit Officers	: 135
Auditors	: 458
Other ancillary	: 209

2.2.2 The DLFA functions through 14 District offices and 32 Concurrent Audit Offices situated in five Municipal Corporations, nine Municipal Councils, six Universities and 11 other major institutions.

2.3 Constraints in the functioning of DLFA

2.3.1 The DLFA stated (February 2006) that the work load had increased manifold and the present staff strength was inadequate in relation to its audit responsibilities. This resulted in arrears in conducting audit and in issuing Audit Reports on completion of audit. The functioning of the Department has not been computerised. Adequate training facilities for providing acquaintance with better practices and modern professional trends in accounting and auditing are not available to the staff of the Department. The only training provided in the Department is the statutory training for three months for new recruits. The specific training needs are to be assessed.

2.4 Consolidated Audit Report of the DLFA

2.4.1 According to Section 23 of the Kerala Local Fund Audit Act, 1994 the DLFA shall send to the Government annually a consolidated report of the accounts audited by him and the Government shall, within a period of three months after the receipt of the same, cause it to be laid before the Legislative Assembly. The Committee on Local Fund Accounts constituted by the Legislative Assembly is to consider the report of the DLFA. The report is mainly a compilation of the selected findings in the audit reports issued during the year. The latest report submitted to the Legislative Assembly relates to the year 2002-03. The Director has stated that the report for the year 2003-04 was forwarded to Government in January 2005. The report for 2004-05 was under preparation.

2.5 Surcharge and charge imposed by the DLFA

2.5.1 The Acts empower the DLFA to disallow any illegal payment and surcharge it against the person making or authorising such payment. The DLFA can also charge any person responsible for the loss or deficiency of any sum which ought to have been received. During the period 2002-03 to 2005-06, the DLFA issued 614 surcharge/charge certificates for Rs.2.96 crore*. Details are given below.

Year	Surcharge		Charge		Total	
	No of certificates issued	Amount involved	No of certificates issued	Amount involved	No of certificates issued	Amount involved
2002-03	174	66.81	33	2.88	207	69.69
2003-04	148	80.90	33	5.13	181	86.03
2004-05	109	57.22	8	8.44	117	65.66
2005-06	96	70.52	13	4.53	109	75.05
Total	527	275.45	87	20.98	614	296.43

In the absence of any follow up mechanism to effect recovery, details of action taken on this account was not available with DLFA.

2.6 Recommendations regarding Auditing Standards and the functioning of the Committee for monitoring TGS

2.6.1 The report of CAG for the year ended March 2004 contained a specific recommendation that 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 the CAG of India. These standards and guidelines were intended for quality up-gradation of the functions of DLFA. Government have not issued orders in this respect so far (February 2006). DLFA has stated that the Auditing Standards would be adopted on receipt of Government orders in this matter.

2.6.2 In June 2005, Government constituted a committee consisting of Principal Secretary (Finance), Senior Deputy Accountant General (LBA) and the Director of Local Fund Audit for monitoring the progress of

* Source : Information furnished by DLFA

implementation of the scheme of TGS. The committee was expected to provide oversight in the areas of TGS. The committee has not met so far (January 2006). The committee has to meet regularly for the successful implementation of the scheme of TGS.

2.7 Audit conducted by the CAG

2.7.1 CAG conducts transaction audit of LSGIs under the scheme of TGS as well as under sections 14/15 of the Comptroller and Auditor General's (DPC) Act 1971. Supplementary audit is conducted under the scheme of TGS. During the year 2004-05, transaction audit of 196 LSGIs (Grama Panchayats – 91, Block Panchayats – 39, District Panchayats – 14, Municipalities – 47, Municipal Corporations – 5) and supplementary audit of 74 LSGIs (Grama Panchayats -65, Block Panchayats -5, District Panchayats -1, Municipalities – 2, Municipal Corporation – 1) were conducted (**Appendix III**). The results of transaction audit are presented in Chapter IV.

2.8 Results of supplementary audit

2.8.1 The CAG conducts supplementary audit wherever entrusted and comments upon or supplements the reports of the statutory auditors. In supplementary audit of LSGIs, CAG audits the financial statements and accounts records and source data of the LSGIs where the DLFA had conducted audit and issued Audit Reports. The main findings of supplementary audit are given below:

2.9 Non- maintenance or improper maintenance of books of accounts and other records

Cash Book

2.9.1 The following discrepancies were observed in the maintenance of cash book.

- Seventeen LSGIs¹ maintained more than one cash book.
- Daily closing of cash book was not carried out in 18 LSGIs².
- Monthly closing was not carried out in 12 LSGIs³.
- Physical verification of cash was not done in 15 LSGIs⁴.
- In nine LSGIs authentication of monthly closing was not done⁵.
- Non- reconciliation of cash book balance with pass book balance was noticed in 14 LSGIs⁶.

¹ Azhoor, Beypore, Edayur, Edvilangu, Karthikapally, Kazhakuttom , Kidangoor, Manampoor ,Mavoor, Nagaroor, Nattika, Padiyoor, Thuneri, and Veeyapuram Grama Panchayats, Nemom Block Panchayat, Kothamangalam Municipality, Idukki Dist Panchayat.

²Beypore, Edayur, Edvilangu, Karthikapally, Kidangoor, Kazhakuttom, Manampur, Mavoor, Mundathikodu, Nagarur, Nattika, Padiyoor, Pappinisseri ,Thalayazhom,Thavanoor,Thrikadavur Grama Panchayats, Kollam Corporation and Idukki District Panchayat.

³Chemmaruthi, Enadimangalam, Ezhamkulam, Kallara , Kazhakuttom, Nattika, Peringara ,Thalayazham,Thuneri and Veeyapuram Grama Panchayats, Nemom Block Panchayat and Idukki District Panchayat.

⁴Beypore, Edayoor, Karthikapally, Kazhakuttom, Manamboor, Mavoor, Nagaroor , Pappinisseri, Sasthamkotta, Thalayazham, Thavanoor,Thrikadavu and Thuneri Grama Panchayats, Nemom Block Panchayat and Idukki District Panchayat.

⁵ Azhoor, Edavilangu, Kallara, Karthikapally, Kidangoor, Manamboor, Nattika, Sasthamkotta and Thrikkadavoor Grama Panchayats

⁶Amboori, Andoorakonam,Azhoor, Chemmuruthi, Edavilangu,Edayoor, Ezhamkulam, Kallara , Manjaloor, Mavoor , Nattika,Padiyoor, Pappinisseri and Veeyapuram Grama Panchayats.

- In Karukachal Grama Panchayat and Mundathicode Grama Panchayat closing balance given in Plan Cash Book differed from the closing balance given in Annual Financial Statement.
- In Thrikkadavoor Grama Panchayat cheques were not entered in cash book on the day of receipt, but only on the date of realisation.
- In Nagaroor Grama Panchayat an amount of Rs.580903 credited to bank on 31.03.99 was brought to cash book only on 31.10.99.
- In Nemom Block Panchayat the closing balance as per Plan PD cash book for the period 2000-01 was (-) Rs.3534654.
- In Kollam Corporation only receipt side of cash book was written and payment side left blank.

Appropriation Register

2.9.2 Nineteen LSGIs did not maintain Appropriation Registers and seven LSGIs maintained the Register improperly (**Appendix IV**) due to which effective utilisation of grants and loans received by these LSGIs could not be ascertained.

Register of Advances

2.9.3 Six LSGIs¹ did not maintain Register of Advances. In two LSGIs (Edavilangu Grama Panchayat and Mavoor Grama Panchayat) Register of Advance contained only figures relating to advances given to staff members. In the absence of Register of Advances and due to improper maintenance of the Register of Advances the correctness of advances given and adjustment thereof could not be ensured.

Register of Deposits

2.9.4 Four LSGIs² did not maintain Register of Deposits. In Andoorkonam Grama Panchayat the Register showed an opening balance of Rs.25358 and closing balance of Rs.5906, whereas according to the Audit Report of DLFA the above balances were Rs.28944 and Rs.9492 respectively. Due to non maintenance/improper maintenance of Register of Deposits, the veracity of the deposits received by LSGIs and their adjustment could not be ascertained.

Demand Register

2.9.5 Three Grama Panchayats maintained Demand Register improperly. In Edavilangu and Kazhakuttom Grama Panchayats, the total amount collected was shown as demand. In Thuner Grama Panchayat, the opening balance did not agree with the closing balance of previous year.

Register of Receipts and Register of Payments

2.9.6 Pathanapuram Block Panchayat and Vatakara Block Panchayat did not maintain Register of Receipts and Register of Payments.

2.9.7 The sitting fee of Rs.21600/- paid to the President and Members of Mavoor Grama Panchayat was wrongly recorded as Rs.4000/- in the Abstract when copied down from the Register of Payments.

¹ Andoorkonam, Azhoor, Cheranalloor, Thavanoor and Veeyapuram Grama Panchayats and Nemom Block Panchayat.

² Enaadimangalam, Thavanoor and Veeyapuram Grama Panchayats and Nemom Block Panchayat.

2.9.8 Due to improper maintenance of Register of Receipts and Register of Payments the correctness of figures in the Annual Financial Statement could not be ensured.

2.10 Lapses in preparation of budget

Non- incorporation of details of Budget in Minutes

2.10.1 Three LSGIs¹ did not incorporate the details of budget in minutes. In Kazhakuttom Grama Panchayat the President did not approve the minutes of budget meeting held on 31 March 2000.

Variations in Estimates

2.10.2 The estimated receipts and expenditure widely varied with the actuals in the case of 23 LSGIs². Illustration in the case of five LSGIs is given below:

(Rs in lakh)

Year	Name of Local Body	Total Receipt/ Expenditure	Estimate	Actual	Shortfall	Per cent of shortfall/
1998-99	Nattika G.P	Receipt	116.89	43.70	73.19	62.61
		Expenditure	107.04	27.44	79.60	74.36
2001-02	Kidangoor G.P	Receipt	268.97	106.97	162.00	60.23
		Expenditure	306.02	94.16	211.86	69.23
2001-02	Enadimangalam G.P	Receipt	174.19	44.90	129.29	74.22
		Expenditure	186.00	33.56	152.44	81.96
1998-99	Kollam Corporation	Receipt	2150.28	1338.27	812.01	37.76
		Expenditure	2082.00	1393.11	688.89	33.09
2001-02	Idukki District Panchayat	Receipt	3200.00	1089.00	2111.00	65.97
		Expenditure	3045.00	693.00	2352.00	77.24

2.10.3 The budget prepared by the five LSGIs was highly unrealistic. The inflated provision of receipt and expenditure shows lack of proper financial planning by the LSGIs.

2.11 Lapses in preparation of Annual Financial Statements

2.11.1 The Panchayats and Municipalities are to prepare Annual Financial Statements (AFS) and Demand, Collection and Balance (DCB) Statements and 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.

2.11.2 In six LSGIs³, there was a delay of 12 to 24 months in forwarding the AFS to DLFA.

2.11.3 Vatakara Block Panchayat forwarded AFS and DCB to DLFA without obtaining the approval of the Panchayat.

2.11.4 The Annual Financial Statement of 15 LSGIs⁴ did not incorporate

¹ Beypoor, Mavoor and Thuneri Grama Panchayats.

² Adichnalloor, Amboori, Andoorkonam, Chemmurthy, Cheranellur, Edavilangu, Elavancheri, Enadimangalam, Ezhamkulam, Kallara, Karukachal, Kidangoor, Kottanad, Kumaramangalam, Manjalloor, Nagaroor, Nattika Sreekrishnapuram, Thavanoor, Thrikadavur and Veeyapuram Grama Panchayats, Kollam Corporation and Idukki District Panchayat.

³ Adichanellur, Beypore, Karthikappally and Thuneri Grama Panchayats, Kothamangalam Municipality and Kollam Corporation.

⁴ Amboori, Andoorkonam, Azhoor, Chemmurthy, Cheranallur, Edavilanga, Elavancherry, Kallara, Mavoor, Mundathikodu, Nagaroor, Sasthamkotta, Thenkurssi and Thrikkadavoor Grama Panchayats and Kothamanagalam Municipality.

transactions relating to Category A Fund (Plan Fund) and Category B Fund (State Sponsored Fund – Plan and Non Plan). 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.

2.11.5 Annual Financial Statement is a document showing receipts and disbursements. 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 were found to vary from those of the accounting records and source data as follows:

- In Sasthamcotta Grama Panchayat, the expenditure shown in Annual Financial Statement differed from the expenditure shown in Register of Payments.
- In Beypore Grama Panchayat, the expenditure shown under Provident Fund was different from the figure given in Register of Payments.
- In Karunagapally Block Panchayat, cash book balance differed from balance shown in the AFS.
- In three¹ LSGIs the closing balance of AFS for the previous year and the opening balance for the succeeding years were different.

2.12 Wrong classification of expenditure/receipt in AFS

2.12.1 In Nagaroor Grama Panchayat an expenditure of Rs.61544 under pulse polio (Health service) was wrongly classified under maintenance of bridges (Public work).

2.12.2 In Chemmaruthy Grama Panchayat receipt under profession tax was Rs.293765/- and Rs.6000/- under 'Keralotsavam'. The Grama Panchayat booked the entire receipt of Rs.299765/- under the head profession tax.

2.12.3 In Kothamangalam Municipality an amount of Rs.266787 received towards cost of bitumen was booked as receipt in the AFS and Register of Receipts. The amount should have been booked as minus expenditure.

2.13 Lapses in safeguarding of assets

2.13.1 In the LSGIs safeguarding of assets was deficient as under:

- Asset Register was not maintained in five LSGIs².
- Register of cheques issued was not maintained in four LSGIs³.
- Periodical physical verification of furniture/equipments/library books was not conducted in 12 LSGIs⁴.
- Stock Register of priced forms was not maintained in five LSGIs⁵.
- In Kazhakuttom Grama Panchayat there was no system for accounting un-disbursed cash.

¹ Chemmaruthy and Mavoor Grama Panchayats and Karunagapally Block Panchayat.

² Beypore, Kidanagoor, Mundathikodu, Nattika and Thrikadavur Grama Panchayats.

³ Enandimangalam, Ezhamkulam, Mundathikodu and Nattika Grama Panchayats.

⁴ Adichanalloor, Andoorkonam, Azhoor, Chemmaruthy, Enadimangalam, Karthikappally, Kozhencheri, Pappinisseri, Sasthamkotta, Thunneri and Veeyapuram Grama Panchayat and Idukki District Panchayat.

⁵ Azhoor, Kandallloor, Karthikappally, Kozhenchery and Veeyapuram Grama Panchayats.

2.14 Non-compliance of statutory requirements by the DLFA

Non-issue of audit certificate

2.14.1 The DLFA did not issue audit certificates in respect of 74 LSGIs (**Appendix III**), after conducting audit of financial statements. DLFA stated (February 2006) that the omission was due to non-inclusion of a provision for the certificate in the existing format of Audit Report.

Delay in conducting audit and issuing audit reports

2.14.2 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. There was inordinate delay in conducting audit and issuing audit report. DLFA, in the meeting held on 31 August 2005 stated that the delay was due to shortage of staff.

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

2.14.3 DLFA conducted Audit of two LSGIs, (Karukachal G.P 1999-2000, Panachikadu G.P 1999-2000) without receiving AFS and without conducting audit for the previous year. To ensure the correctness of opening balance it is necessary that Audit of AFS of a year is done only after completing the audit of AFS of previous year.

Preparation of parallel accounts and DCB statements by DLFA

2.14.4 In Kumaramagalam Grama Panchayat (2001-02), DLFA prepared parallel accounts during audit. Preparation of statements by the auditor for bringing the specific defects to the notice of the auditee institution, in order to have them rectified in their accounts, is a normal process. However, there was no indication that the DLFA pursued the matter to its logical end by getting the proposed rectifications incorporated in the accounts of the LSGI. The Report of CAG for the year ended 31 March 2004 also contained a reference to the practice of preparation of parallel accounts; yet the practice continues.

2.15 Reply of the DLFA

2.15.1 In reply to the observations under supplementary audit, DLFA stated (February 2006) that the Auditing Standards would be adopted on receipt of Government orders in the matter. He also stated that all the recommendations would be considered for future guidance.

2.16 Recommendations

- The report for the year ended 31 March 2004 contained a recommendation that the Government may issue formal orders to the effect that the audit of LSGIs by DLFA should be guided by the instructions contained under the 'Auditing Standards for Panchayat Raj Institutions and Urban Local Bodies' and 'Guidelines for Certification Audit of Panchayat Raj Institutions' prescribed by CAG of India. The recommendation is reiterated.
- Government may oversee that the committee for monitoring the progress of implementation of TGS, functions effectively.