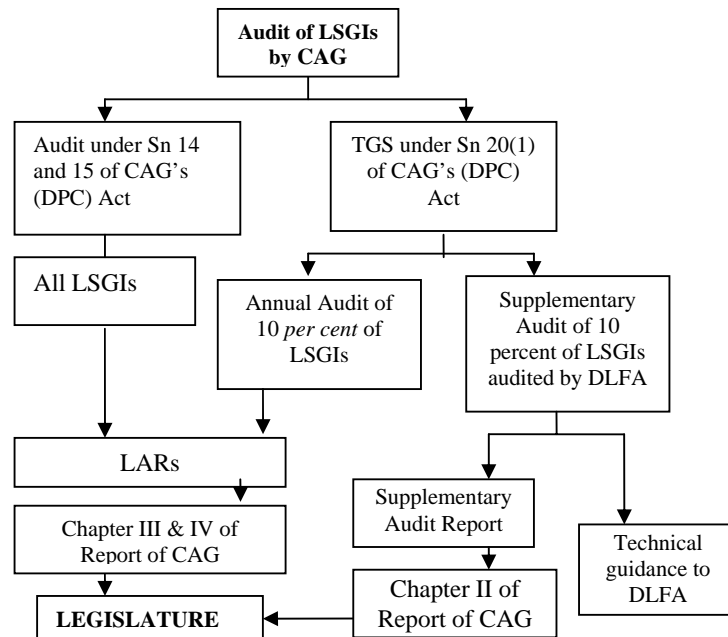


CHAPTER II

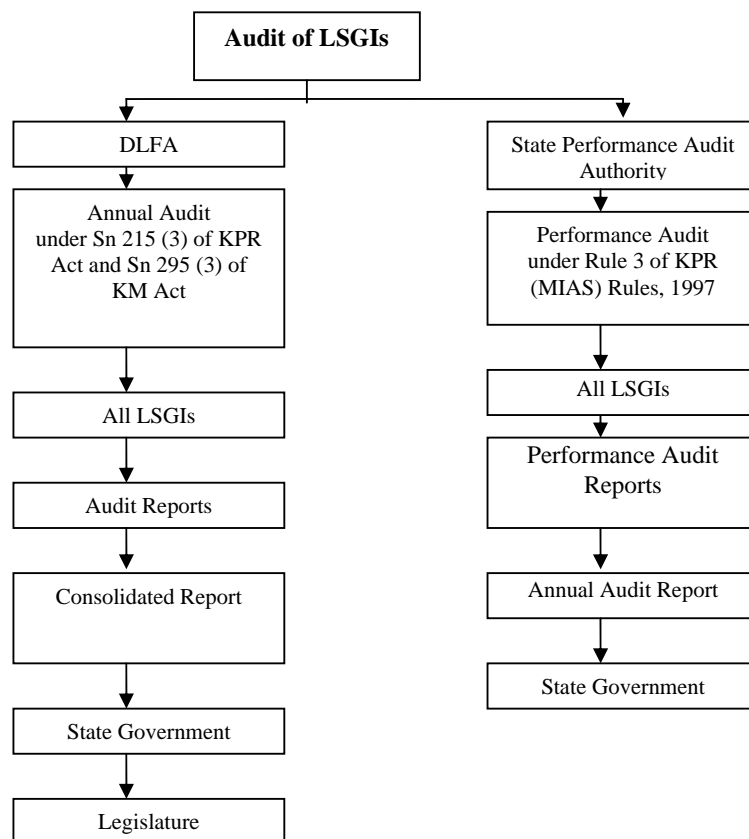
TECHNICAL GUIDANCE AND SUPERVISION AND THE RESULTS OF SUPPLEMENTARY AUDIT

2.1 Introduction

2.1.1 The Comptroller and Auditor General of India (CAG) took up the audit of LSGIs under Section 14 and 15 of CAG's (DPC) Act, 1971 during 1998-99. The CAG provides Technical Guidance and Supervision (TGS) to Director of Local Fund Audit (DLFA) under Section 20(1) of the Act *ibid*. Audit planning, annual audit of 10 per cent of institutions and supplementary audit of 10 per cent of institutions audited by DLFA are carried out under TGS as detailed in the chart below.



2.1.2 DLFA is the Auditor of LSGIs as per Kerala Local Fund Audit Act, 1994, Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994. Apart from LSGIs, other local funds such as Universities, Devaswom Boards, Religious and Charitable institutions are also audited by DLFA. State Performance Audit Authority audits the performance of the LSGIs as per Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 as indicated in the Chart given below.



2.2 Organisational Set up of DLFA

2.2.1 The department of Local Fund Audit under the State Finance department is headed by a Director, and has District Offices in all districts headed by Deputy Directors (14), Concurrent Audit Offices at all Municipal Corporations (5), nine Municipal Councils, six Universities and other major institutions (10).

Staff strength of DLFA

2.2.2 The sanctioned strength and persons in position of various categories of posts in the department were as shown below:-

Sl No	Post	2003-04		2004-05		2005-06	
		Sanctioned	Persons in position	Sanctioned	Persons in position	Sanctioned	Persons in position
1	Director	1	1	1	1	1	1
2	Joint Directors	3	3	3	3	3	3
3	Deputy Directors	41	41	41	41	41	41
4	Audit Officers	135	135	135	135	151	151
5	Auditors	458	458	458	458	510	510
6	Other ancillary	201	201	201	201	202	202
7	Total	839	839	839	839	908	908

During 2005-06, 69 posts (Audit officers 16, Auditors 52 and others 1) were sanctioned increasing the staff strength from 839 to 908. The DLFA, however,

intimated (December 2006) that the staff available was not commensurate with the quantum of work. It was also stated that the major recommendations contained in the report of work study conducted by the Personnel and Administrative Reforms Department during 1997 were not implemented as of February 2007.

2.3 Training Programmes in the Department

2.3.1 The training facilities available in the department were not adequate to sharpen the skills of staff as it did not cover modern audit techniques and trends in the specified profession of audit and accounts. The DLFA stated (December 2006) that a team of trainers consisting of experts within the department was constituted for imparting training to auditors. As part of TGS, CAG's staff imparted training to 740 staff members of DLFA in auditing standards, certification of accounts and good practices in audit during 2006-07.

2.4 Computerisation

2.4.1 The functions of the department need to be computerised to enhance the quality of service delivery. Automation of the department would facilitate creation of a database of auditee institutions, audit planning, monitoring audit activities and better connectivity. The proposal is under the consideration of the Government.

2.5 Functioning of the Committee for monitoring TGS

2.5.1 The Committee constituted (June 2005) by Government consisting of Principal Secretary (Finance), Senior Deputy Accountant General (LBA) and DLFA for monitoring the progress of implementation of TGS, decided (February 2006) to:

- adopt and implement (through DLFA), the Auditing Standards and Guidelines for Certification Audit of LSGIs prescribed by CAG
- follow the guidelines issued by Principal Accountant General as part of TGS
- prepare the audit plan of DLFA in consultation with the Principal Accountant General.

The DLFA during April 2006 issued directions to his staff requiring them to

- follow auditing standards prescribed by CAG
- audit and certify accounts of LSGIs
- evaluate internal control system of auditee institutions
- issue audit enquiries and obtain acknowledgements
- prepare local audit reports and discuss it at the exit meeting
- avoid deploying persons with direct or indirect interest in the auditee organisation for audit
- not depute the same team continuously for audit of the same institution.

2.6 Consolidated Audit Report of the DLFA for the year 2004-05

2.6.1 The DLFA is required to send to the Government annually a consolidated report of the accounts audited by him and the Government is required to place the report before the Legislative Assembly as per Section 23 of Kerala Local Fund Act, 1994. The consolidated report for the year 2004-05 was submitted by the DLFA in March 2006. Critical comments about the multiplicity of audit,

reorganisation and shortage of manpower in the LFA department, bill system and new accounting formats were included in the report.

Format of consolidated report not prescribed

2.6.2 The consolidated report is a LSGI-wise heterogeneous compilation of objections without classifying them based on their nature and content. No format for preparing the consolidated report is prescribed in Kerala Local Fund Audit Rules, 1996 in order to ensure uniformity and cohesion.

Failure of DLFA to highlight arrears in submission of accounts

2.6.3 As discussed in Chapter I of this report, the submission of accounts by LSGIs to DLFA is in heavy arrears. According to Rule 16 (1) of KLF Rules, the DLFA should carry out proceedings in court of law against the secretary who did not submit the accounts within the specified time limit. Instead of taking action against the secretaries who were responsible for the arrears and highlighting it in the consolidated report, DLFA expressed an opinion in the consolidated report that “keeping of accounts is not the only responsibility of LSGIs”.

2.7 Surcharge and charge imposed by the DLFA

2.7.1 The Acts empower the DLFA to disallow any illegal payment and surcharge 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 from 2002-03 to 2005-06, 527 surcharge certificates involving Rs.2.75 crore and 87 charge certificates involving Rs.0.21 crore against persons responsible for illegal payments/loss were issued. The DLFA stated (February 2007) that during 2002-03 to 2005-06, Rs.8.25 lakh was recovered as surcharge/charge.

2.8 Results of supplementary audit

2.8.1 During 2005-06, the CAG audited 238 LSGIs, including supplementary audit of 68 LSGIs (**Appendix-III**). During supplementary audit, the CAG comments upon or supplements the reports of DLFA. The CAG audited the accounts of the LSGIs where the DLFA had conducted audit and issued Audit Reports. The latest period covered under supplementary audit was 2002-03. 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 All moneys received and payments made should be entered in the cash book which should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with pass book balance under proper authentication were to be done. Audit review revealed the following discrepancies in maintaining cash book by LSGIs.

- Twenty four¹ LSGIs maintained more than one cash book
- Daily closing of cash book was not carried out in 24 LSGIs (**Appendix-IV**).
- Monthly closing was not carried out in 16² LSGIs.
- Physical verification of cash was not done in 10³ LSGIs.
- In six⁴ LSGIs authentication of monthly closing was not done.
- Non- reconciliation of cash book balance with pass book balance was noticed in 17⁵ LSGIs.

Register of Advances

2.9.2 All advances paid are to be recorded in the register of advances. Eleven⁶ LSGIs did not maintain register of advances. In two LSGIs (Mokeri GP and Edavanakad GP) register of advances contained only figures relating to advances given to staff members. In the absence/improper maintenance of the register of advances the monitoring of advances given and adjustment thereof could not be assured.

Arrear Demand Register

2.9.3 Uncollected demand at the end of each year is carried over from the demand register to the arrear demand register for watching collection of arrears of previous years. Puthige and Chempakulam GPs did not maintain the arrear demand register. Arrear demand registers of three⁷ GPs were incomplete. In the absence of arrear demand register, the arrears in respect of various items of receipts pertaining to previous years were not ascertainable. As a result the LSGIs may not be able to take action to realise the arrears before they become time barred.

2.10 Lapses in preparation of budget

2.10.1 Budget is the most important tool for financial planning and control. The LSGIs did not exercise due care and diligence in the preparation of budget. Major lapses noticed in the preparation of budget are given below.

2.10.2 The estimated receipts and expenditure varied widely with the actuals in the case of 29 LSGIs (**Appendix V**).

Receipt

2.10.3 A comparison of receipts under property tax and profession tax in four GPs as shown in the table below revealed that against the actual collection of

¹ Aikkaranadu, Amballur, Chathannur, Chempakulam, Cherthala (south), Dharmadam, Edavanakkad, Elamad, Ezhukone, Kadappuram, Kanjiramkulam, Kavalangad, Koodali, Koothattukulam, Kootickal, Kottopadam, Krishnapuram, Kundara, Maneed, Mararikulam, Palakkuzha, Valavannur, Vettoor G.Ps and Chengannur B.P

² Chathannur, Chempakulam, Cherthala (south), Chirayinkeezhu, Edavanakad, Ezhukone, Kadampanad, Kadappuram, Koodali, Krishnapuram, Kundara, Mokeri, Nilamel, Parasala, Puthige G.Ps and Chengannur B.P.

³ Dharmadom, Ezhukone, Kottopadam, Krishnapuram, Kuzhoor, Mokeri, Nagaroor, Nilamel, Punnayurkulam GPs and Anchal BP.

⁴ Kadakarapally, Koothattukulam, Maneed, Mangalapuram, Nagaroor and Puthige G.Ps.

⁵ Chathannur, Chempakulam, Cherthala (south), Dharmadom, Ezhukone, Kadampanad, Kootickal, Krishnapuram, Kundara, Kuttoor, Mangalapuram, Mokeri, Nagaroor, Nediyruppu, Othukkungal, Parasala G.Ps and ChengannurBP

⁶ Aikkaranad, Chempakulam, Cherthala (south), Edapatta, Kadampanad, Kadappuram, Kainakari, Mararikulam (North), Nediyruppu, Othukkungal G.Ps and Chengannur B.P

⁷ Ezhukone, Kunnathur and Mangalapuram G.Ps

Rs.20.81 lakh, the amount provided in the budget was Rs.46 lakh which indicated that the budget was either inflated or the collection was poor. Had the figures in the demand register and the actual collection during previous years been considered for preparing the budget, it would have been more realistic and accurate.

(Rupees in lakh)

Year	Name of Grama Panchayat	Head of account	Estimate	Actual	Excess provision	Percentage of excess provision
1998-99	Cherthala (South)	Property tax	3.50	1.97	1.53	77.66
		Profession tax	4.00	2.67	1.33	49.81
2000-01	Nagaroor	Property tax	12.00	2.63	9.37	356.27
		Profession tax	5.50	2.04	3.51	172.06
2001-02	Kadappuram	Property tax	8.00	4.93	3.07	62.27
		Profession tax	2.50	1.52	0.98	64.47
2001-02	Vettoor	Property tax	7.00	3.14	3.86	122.93
		Profession tax	3.50	1.91	1.59	83.25
	Total	Property tax	30.50	12.67	17.83	140.73
		Profession tax	15.50	8.14	7.41	91.03
	Grand Total		46.00	20.81	25.24	121.29

The budget provisions were inflated by 121.29 per cent.

Expenditure

2.10.4 Against the actual expenditure of Rs.6.55 lakh under public works and public health in two GPs, the amount provided was Rs.47.34 lakh which was more than seven times the actual expenditure as shown below.

(Rupees in lakh)

Year	Name of Grama Panchayat	Function	Estimate	Actual	Excess estimate	Percentage of excess estimate
1999-00	Elamad	Public works	27.37	3.66	23.71	748
		Public health	9.75	2.20	7.55	443
2001-02	Vettoor	Public works	3.98	0.08	3.90	4975
		Public health	6.24	0.61	5.63	1023
	Total		47.34	6.55	40.79	723

Provision of funds in excess of actual requirement was due to failure of financial planning.

2.10.5 While preparing the budget estimates for receipts, the actual collection during previous years should have been taken into account. The following figures of budget provision and actuals of previous year showed that the LSGIs did not consider the receipts of the previous year for preparing the budget estimates of the current year.

(Rupees in lakh)

Year	Name of Grama Panchayat	Head of account	Budget Provision	Actuals of		Excess provision with respect to actuals of previous year	Percentage of excess provision
				Previous year	Current year		
2001-02	Kundara	Property tax	8.00	3.72	3.58	4.28	115.05
2001-02	Ezhukone	Property tax	10.00	3.22	1.78	6.78	210.56
2002-03	Mylom	Property tax	26.00	3.53	3.87	22.47	636.54
	Total		44.00	10.47	9.23	33.53	320.24

The collection estimated under property tax by the three GPs was Rs.44 lakh whereas the actual collection during previous year was only Rs.10.47 lakh. Such unrealistic estimates defeat the purpose of budgeting.

2.10.6 The above lapses point to the absence of a serious and professional approach in preparation of budgets in LSGIs.

2.11 Lapses in preparation of Annual Financial Statements

2.11.1 The LSGIs are to prepare Annual Financial Statements (AFS) containing all receipts and payments and Demand, Collection and Balance (DCB) Statements and forward them to the DLFA after approval by the Panchayat/Municipal Council/Corporation Council not later than 31 July of the succeeding year. The lapses noticed are enumerated below.

2.11.2 The AFS of 23¹ LSGIs did not contain transactions relating to Category A and B Funds. Non-incorporation of the transactions relating to the above funds resulted in understatement of receipts and expenditure of the LSGIs.

2.11.3 In 10² LSGIs there was a delay of more than one year in forwarding the AFS to DLFA.

2.11.4 Unclaimed money orders amounting to Rs.52,643 received back by Elamad GP were shown as receipts in the AFS for the year 1999-2000 instead of showing it as reduction in expenditure. This resulted in inflation of receipt and payment figures by such amounts in the AFS.

2.11.5 An amount of Rs.1.04 lakh lying deposited in the District Co-operative Bank, Kottarakara was withdrawn and deposited in another bank account by Mylom GP, during 2002-03. The GP wrongly showed this transfer of money from one bank account to another as expenditure in the AFS.

2.11.6 AFS is a document showing receipts and disbursements. The figures shown therein should agree with those shown in the primary accounting records and subsidiary registers. The figures shown in the AFS prepared by the LSGIs were found to vary from those of the accounting records and source data pointing towards the non-reliability of financial statements prepared by LSGIs. Two examples are given below:

- In Kundara GP the entries in respect of D & O licence fee in the AFS (2001-02) was different from those shown in the register of receipts.
- As against Rs.4.67 lakh recorded in the cash book as receipts under duty on transfer of property, Rs.2.16 lakh only was shown in the AFS by the Ezhukone GP for the year 2001-02, the difference being Rs.2.51 lakh.

In view of occurrence of such errors, the AFS cannot be considered as an accurate and reliable record of transactions of the LSGIs.

2.12 Wrong classification of expenditure/receipt in AFS

2.12.1 Duty on transfer of property amounting to Rs.1.23 lakh and Rs.0.67 lakh received by Puthige GP (2000-01) and Mokeri GP (1999-00) was misclassified as other grants and basic grant respectively in the respective AFSs.

¹ Aikkaranadu, Alagappa Nagar, Amballur, Chempakulam, Cherthala(south), Chirayinkeezhu, Edapatta, Kadampanad, Kadappuram, Kainakari, Kanjiramkulam, Kavalangad, Kottakkal, Kottopadam, Kunnathur, Maneed, Mangalapuram, Mokeri, Nagaroor, Nilamel, Parasala, Puthige and Vettoor G.Ps.

² Chempakulam, Elamad, Kadampanad, Kadappuram, Mulamkunnathukavu, Nagaroor, Nediyruppu, Nilamel, Valavannur G.Ps and Chalakkudy B.P.

2.12.2 In Kodumon GP, receipt of Rs.8.47 lakh (2002-03) under vehicle tax compensation was wrongly classified as General Purpose Grant.

2.12.3 Expenditure of Rs.0.11 lakh incurred towards printing charges by Mylom GP (2002-03) was wrongly classified as election charges in the AFS.

2.13 Lapses in safeguarding assets

2.13.1 For safeguarding and maintenance of assets, proper documentation of assets with periodical stock verification is essential. Audit review revealed that:

- asset register was not maintained in 16¹ LSGIs
- physical stock verification was not conducted in six² LSGIs.

2.14 Deficiencies in the DLFA's audit process

Non-issue of audit certificates

2.14.1 Mention was made about non-issue of audit certificate by DLFA on completion of audit, in the Report (LSGIs) of the CAG for the year ended 31 March 2005 in terms of Section 215 (15) of KPR Act 1994. However, there was no improvement in issuing the audit certificates. DLFA stated (December 2006) that necessary instructions were issued to the District Officers in this regard.

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

2.14.2 Audit of the accounts of a particular year should be taken up only after completing the audit of previous years. DLFA audited accounts of three LSGIs, (Vechoor G.P 1999-2000, Edappatta G.P 2001 – 2002, Pampady GP 2000 - 01) without conducting audit for the previous year. As a result, the accuracy of figures of opening balance could not be ensured.

Preparation of parallel accounts and DCB statements by DLFA

2.14.3 According to Kerala Local Fund Audit Act, 1994 and Kerala Local Fund Audit Rules, 1996 the DLFA is empowered to audit the accounts of the LSGIs and not to prepare the accounts. Audit review revealed that in five³ GPs, DLFA prepared parallel accounts and DCB statements during audit, which were different from that prepared by the LSGIs. This irregular practice led to the existence of two sets of accounts.

2.15 Conclusion

2.15.1 Maintenance of cash book and other account books in LSGIs was defective. Budgets of LSGIs were not realistic.

¹ Chelakkara, Cherthala (south), Kadappuram, Kainakari, Kanjiramkulam, Kanjirapally, Kattur, Kavalangad, Kootickal, Kundara, Maneed, Mararikulam (North), Mokeri, Muriyad, Vechoor G.Ps and Chalakudy B.P.

² Kajiramkulam, Krishnapuram, Mokeri, Puthige, Vechoor and Vettoor G.Ps.

³ Chempakulam, Kadappuram, Kunnathur, Pathanapuram and PunnayurkulamGPs.

2.16 Recommendations

- Government should ensure preparation of realistic budgets in LSGIs.
- Government should consider issue of guidelines for preparation of consolidated report of accounts by DLFA.
- DLFA should consider initiating action against executive authorities who fail to submit accounts in time as provided in Kerala Local Fund Audit Rules, 1996.