

## **OVERVIEW**

*This Audit Report includes four performance reviews and twelve audit paragraphs in addition to observations on the structure and finances of the Local Self Government Institutions (LSGIs) and the results of supplementary audit under the scheme of Technical Guidance and Supervision. Copies of the draft reviews and paragraphs were forwarded to the Government and the replies wherever received have been duly incorporated in this Report.*

### ***I The Structure and Finances of the Local Self Government Institutions***

*Government did not 'authorise' an officer to consolidate the annual accounts of all LSGIs for its submission to Government and Legislature.*

*The database on revenue and expenditure of all LSGIs, recommended by the Eleventh Finance Commission has not been developed by Government.*

*Against budget provision of Rs.5357.16 crore for the State plan outlay for the year 2005-06, actual disbursement was Rs.4017.49 crore of which transfer to LSGIs was only Rs.1008.15 crore (25.09 per cent).*

*Though funds of Rs.217.43 crore were available for implementation of four centrally sponsored schemes out of 17, actual utilisation was only Rs.107.65 crore (49.51 per cent).*

*(Paragraphs 1.1 to 1.17)*

### ***II Technical Guidance and Supervision and the results of supplementary audit***

*The Comptroller and Auditor General of India (CAG) provides Technical Guidance and Supervision to Director of Local Fund Audit under section 20 (1) of the CAG's (DPC) Act, 1971. The scheme of TGS comprises audit planning, audit of 10 per cent of institutions and supplementary audit of 10 per cent of institutions audited by DLFA. In 2005-06, supplementary audit of 68 LSGIs was conducted. It revealed improper maintenance of various registers of accounts, lapses in preparation of budgets and Annual Financial Statements.*

*The DLFA in its consolidated report failed to highlight arrears in submission of account by LSGIs. There were deficiencies in the audit process followed by DLFA.*

*(Paragraphs 2.1 to 2.16)*

### ***III Performance Reviews***

#### ***1 Asset Management by Local Self Government Institutions***

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

*Six projects for creating immovable assets were abandoned halfway through and forty five others were incomplete due to poor planning, selection of*

unsuitable land and failure on the part of LSGIs in monitoring resulting in unfruitful expenditure of Rs.6.51 crore.

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

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

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

Two hundred and five buildings in 15 LSGIs remained without proper maintenance whereas maintenance grant of Rs.21.07 crore remained unutilised during 2004-05 and 2005-06.

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

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

(Paragraph 3.1)

## **2 Assessment and Collection of Profession Tax in Local Self Government Institutions of Thrissur District**

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

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

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

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

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

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

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

*Though methods of assessment, levy and collection of profession tax are the same in urban and rural areas, Kerala Panchayat Raj (Profession Tax) Rules, 1996 and Kerala Municipality (Profession Tax) Rules, 2005 differ in respect of rates to be levied, fixation of income for assessment and categories of assessable companies/persons etc., resulting in disparity in taxation.*

**(Paragraph 3.2)**

### **3 Transfer of Functions and Functionaries to Local Self Government Institutions**

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

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

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

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

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

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

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

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

**(Paragraph 3.3)**

#### **4 Implementation of Projects on Deposit Work basis by LSGIs**

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

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

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

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

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

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

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

**(Paragraph 3.4)**

#### **IV Transaction Audit**

*Non-accountal of cash drawn from treasury and failure to close cash book daily-misappropriation of Rs.15.49 lakh in Thiruvananthapuram Municipal Corporation was detected in audit.*

**(Paragraph 4.1)**

*Thrissur Municipal Corporation wrote off penal interest of Rs.4.38 crore in violation of rules and without authority.*

**(Paragraph 4.2)**

*Thiruvananthapuram Municipal Corporation incurred a loss of Rs.63.65 lakh due to failure to encash Indira Vikas Patras with face value of Rs.63.65 lakh on the date of maturity and reinvest the same.*

**(Paragraph 4.3)**

*Failure to follow the prescribed internal control system enabled misappropriation of Rs.33.87 lakh in 18 LSGIs.*

**(Paragraph 4.4)**

*Rupees 1.39 crore received by the Thiruvananthapuram Municipal Corporation for implementation of Centrally Sponsored Schemes were kept unutilised in treasury deposits for more than six years.*

**(Paragraph 4.5)**

*Failure of Wayanad District Panchayat to remit water charges in time and to replace defective water meter led to avoidable payment of penal interest and surcharge of Rs.83.78 lakh.*

**(Paragraph 4.6)**

*Thiruvananthapuram Municipal Corporation incurred Rs.63.65 lakh in excess of the admissible amount for constructing 50 houses under VAMBAY, violating the guideline issued by Government.*

**(Paragraph 4.7)**

*Decision of Mananthavady Grama Panchayat to purchase land unsuitable for establishing a solid waste processing plant resulted in unfruitful expenditure of Rs.31.89 lakh.*

**(Paragraph 4.8)**

*Two District Panchayats incurred expenditure of Rs.1.62 crore on providing private water connections to 35453 beneficiaries under the Swajaldhara Scheme in violation of Government guidelines.*

**(Paragraph 4.9)**

*Defective formulation of a project for construction of a weir (check dam) across the River Natukani without the provision for lift irrigation led to unfruitful expenditure of Rs.39.13 lakh in Wayanad District Panchayat.*

**(Paragraph 4.10)**

*Unnecessary hiring of vehicles and irregular tender procedure followed led to undue benefit to the contractor.*

**(Paragraph 4.11)**

*Projects for providing employment to women could not be started as Wadakanchery Grama Panchayat did not procure machinery and raw material rendering Rs.11.70 lakh spent on construction of building unfruitful.*

**(Paragraph 4.12)**