

CHAPTER I

THE STRUCTURE AND FINANCES OF THE LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

1.1.1 The Kerala Legislative Assembly passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) in the year 1994. As envisaged in these Acts, the Government transferred (September 1995) to the Local Self Government Institutions (LSGIs) the functions, functionaries, institutions and schemes relating to matters enlisted in the respective Schedules to the Acts with effect from 2 October 1995. Government transferred the assets and liabilities of the transferred institutions also. Though LSGIs were made responsible for the administration of these institutions, they were not empowered to sell, transfer, alienate or pledge the transferred assets. The Government, however, continued to pay the salary of transferred employees.

1.2 Decentralised Planning

1.2.1 As envisaged in the Constitution and the State Acts *ibid* LSGIs were to plan and implement schemes for economic development and social justice. Based on this, Government decided (July 1996) to decentralise the planning process in Kerala during the Ninth Five Year Plan and earmark 35 to 40 *per cent* of the State's annual plan outlay for the projects drawn up by LSGIs. Government designed the decentralised planning process in a campaign mode called People's Plan Campaign with the active participation of all sections of people in the form of Working Groups, Grama/Ward Sabhas and Development Seminars. This initiative of planning from below continued during the Tenth Five Year Plan under a different nomenclature viz. 'Kerala Development Plan'. The grass roots level planning by the LSGIs completed ten years by the end of 2006-07.

1.3 Profile of LSGIs

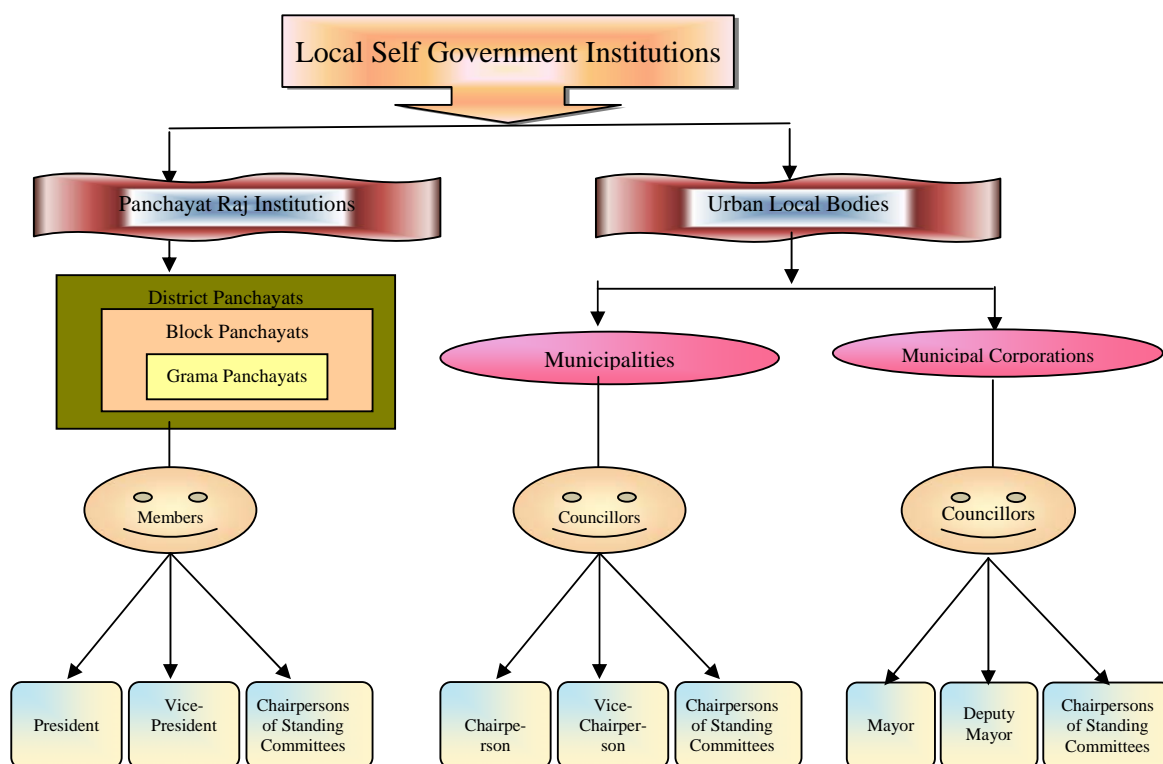
1.3.1 As on 31 March 2007, there were 1223 LSGIs in the state. The details of various categories of LSGIs, their area and population were as follows.

Sl No	Type of LSGIs	Number	Area (Sq Km)	Average area/LSGI (Sq Km)	Population	Average Population per LSGI	Density of Population per Sq Km
1	Corporations	5	477.99	95.60	2456200	491240	5139
2	Municipalities	53	1253.22	23.65	2738170	51664	2185
3	District Panchayats (DPs)	14	37123.79	2651.70	26647004	1903357	718
4	Block Panchayats (BPs)	152	37123.79	244.24	26647004	175309	718
5	Grama Panchayats (GPs)	999	37123.79	37.16	26647004	26674	718
	Total	1223	38855		31841374		819

1.3.2 The election to 1223 LSGIs in Kerala was last held in September 2005 when 20554 representatives were elected.

1.4 Organisational Setup

1.4.1 LSGIs constituted in rural and non-rural areas are referred to as Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. LSGIs in the State were constituted based on a three-tier system as shown in the chart below:



The members of each tier of the Panchayats elect the President, Vice President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/Municipal Corporation elect the Chairperson/Mayor, Vice Chairperson/Deputy Mayor and Chairpersons of the Standing Committees.

1.4.2 The President/Chairperson/Mayor is an ex-officio member of every Standing Committee and the Vice President/Vice Chairperson/Deputy Mayor is an ex-officio member and Chairperson of the Standing Committee for Finance.

1.4.3 Each PRI has a Secretary and supporting staff who are Government servants. The Secretaries of Municipalities and Municipal Corporations are Government servants while the staff belongs to the Municipal Common Service.

1.5 Regulatory Environment

1.5.1 According to Section 9(1) of the Kerala Local Fund Audit Act, 1994, (KLFA Act) the LSGIs were required to submit annual accounts to the Director of Local Fund Audit (DLFA) within four months after completion of

the financial year and the audit was to be completed within six months of the receipt of accounts (Section 10 *ibid*). The audited statements of accounts submitted by all LSGIs were to be consolidated by an authorised officer for submission to Government and for placing before the Legislative Assembly. Contrary to the above provisions, KPR Act and KM Act specified that the Annual Report as certified by DLFA should be submitted to the ‘authorised officer’ not later than by 15 May of the following year. Though Government agreed (July 2007) to make suitable amendments to the KPR and KM Acts to avoid conflicting provisions, based on the comments included in the Reports of CAG for the previous years, necessary amendments were not made in the Act as of December 2007.

1.5.2 KLFA Act provided for authorising an officer for consolidating the accounts of all LSGIs. Though Government authorised (December 2004) the Deputy Director of Panchayats (DDPs) and Assistant Development Commissioners (ADCs) to collect and consolidate the accounts of GPs and BPs respectively, no officer was authorised to collect and consolidate the accounts of DPs, Municipalities and Corporations. However, neither the DDPs nor ADCs collect the details even from GPs and BPs.

1.5.3 Government did not frame Rules and Manuals for preparation of budget and accounts in PRIs in tune with the revised accounting formats. This contributed to the poor accounting and financial reporting by PRIs.

1.5.4 Administrative Report of each LSGI was to be prepared every year by 30 September of the succeeding year and forwarded to an officer authorised by the Government for consolidation and submission to the Government and the Legislative Assembly. No officer has been nominated to ensure preparation and consolidation of the Administrative Reports.

1.6 Financial Reporting

1.6.1 The DLFA is the primary auditor of the LSGIs. The CAG provides Technical Guidance and Supervision (TGS) under Section 20(1) of CAG’s (DPC) Act, 1971 for the proper maintenance of accounts and audit of LSGIs. The CAG also conducts audit of LSGIs under the provisions of sections 14 and 15 of the Act *ibid* wherever applicable.

1.6.2 It was mandatory on the part of LSGIs to submit their accounts to DLFA for audit by 31 July every year. As on 31 July 2007, the accounts upto 2006-07 were to be submitted. However, as of December 2007, 3633 accounts pertaining to the period from 1996-97 to 2006-07 were in arrears as shown in the table below.

Year	Accounts received during the period from 1997-98 to 2004-05			Accounts received during 2005-06			Accounts received during 2006-07			Accounts received during 2007-08 (upto December 2007)		
	Due	Received	Arrears	Due	Received	Arrears	Due	Received	Arrears	Due	Received	Arrears
1996-97	1214	1071	143	143	2	141	141	12	129	129	---	129
1997-98	1214	978	236	236	50	186	186	22	164	164	---	164
1998-99	1214	878	336	336	102	234	234	30	204	204	---	204
1999-00	1214	853	361	361	104	257	257	41	216	216	---	216
2000-01	1215	723	492	492	170	322	322	152	170	170	4	166
2001-02	1215	577	638	638	191	447	447	89	358	358	199	159
2002-03	1215	278	937	937	266	671	671	116	555	555	332	223
2003-04	1215	3	1212	1212	320	892	892	171	721	721	446	275
2004-05	----	---	---	1215	109	1106	1106	106	1000	1000	623	377
2005-06	----	----	---	---	---	---	1223	81	1142	1142	645	497
2006-07	----	----	---	---	---	---	---	---	----	1223	---	1223
Total	9716	5361	4355	5570	1314	4256	5479	820	4659	5882	2249	3633

The position of arrears during the previous year was 4659. During the current year, though this was reduced to 3633, the number of accounts received was only 2249 which was 38.24 per cent of accounts receivable (5882). Even though the arrears related to periods as early as from 1996-97, the DLFA did not take any action under Rule 16 of the Kerala Local Fund Audit Rules, 1996 to carry out proceedings in court of law against the secretaries of such LSGIs which heavily defaulted the submission of accounts.

1.6.3 The number of LSGIs which did not submit their accounts within one year and two years after the completion of the financial year were as detailed below:-

Year	No of LSGIs	Due date for submission of accounts	No of LSGIs which did not submit accounts			
			Within one year	Percentage	Within two years	Percentage
2001-02	1215	31-07-2002	Not Available	---	638	52.51
2002-03	1215	31-07-2003	937	77.12	671	55.23
2003-04	1215	31-07-2004	892	73.42	721	59.34
2004-05	1215	31-07-2005	1000	82.30	377	31.03
2005-06	1223	31-07-2006	497	40.64	----	-----

Thus 40.64 to 82.30 per cent of LSGIs did not submit accounts within one year whereas 31.03 to 59.34 per cent did not submit accounts even within two years during the period from 2001-02 to 2005-06. 129 LSGIs could not submit their accounts for the year 1996-97 even within 10 years as shown in the table under paragraph 1.6.2.

1.6.4 Arrears in audit and issue of audit reports

DLFA received 9744 accounts upto December 2007 out of 13377 receivable during the period from 1996-97 to 2006-07. Though 7647 accounts were

audited, DLFA issued only 5936 audit reports as of December 2007 as detailed below:

Year	Number of accounts receivable	Accounts received upto 12/2007	Audited upto 12/2007	Audit Reports issued	Arrears in		
					Receipt of accounts	Audit of accounts	Issue of Audit Reports
1996-97	1214	1085	1077	1058	129	8	19
1997-98	1214	1050	1034	1002	164	16	32
1998-99	1214	1010	996	955	204	14	41
1999-00	1214	998	986	885	216	12	101
2000-01	1215	1049	961	729	166	88	232
2001-02	1215	1056	906	600	159	150	306
2002-03	1215	992	745	405	223	247	340
2003-04	1215	940	544	220	275	396	324
2004-05	1215	838	289	72	377	549	217
2005-06	1223	726	109	10	497	617	99
2006-07	1223	---	---	---	1223	---	---
Total	13377	9744	7647	5936	3633	2097	1711

While the arrears in audit was 2097 (21.52 per cent) the arrears in issue of audit reports was 1711 (22.37 per cent). Out of 2249 accounts received during 2007-08 (upto December 2007), only 950 accounts were audited and 472 audit reports issued.

1.7 Upkeep of accounts

1.7.1 Eleventh Finance Commission (EFC) recommended payment of grant of Rs.4000 per Panchayat per annum on an average for upkeep of accounts of GPs and BPs which did not have exclusive staff for the purpose. Despite serious efforts having been made to update the accounts, a total number of 3633 accounts were in arrears as mentioned in paragraph 1.6.2. On a scrutiny of accounts of 79 LSGIs during the course of local audit conducted from April to December 2007, it was seen that cash transactions were not recorded in the cash book on the date of transactions in nine LSGIs¹. The delay ranged from one to 26 months. Cash books were not closed daily in 41 out of 79 LSGIs as a result of which, cash balance in these LSGIs could not be verified by the head of office or the person authorised to do so. This serious lapse in maintaining the most important basic accounting document led to failure of internal controls resulting in misappropriation/fraud, if any, going undetected. Further irregularities noticed during supplementary audit of the LSGIs are detailed in Chapter II of this report.

¹ Thaliparamba and Ottappalam BPs, Chittoor-Thathamangalam Municipality and Karthikappally, Alappad, Maravanthauruth, Kattakkada, Ayyampuzha and Kunnamthanam GPs.

1.8 Database on the finances of LSGIs

1.8.1 As recommended by EFC, the CAG prescribed eight standard formats for creation of database on the revenue and expenditure of all LSGIs. These were accepted by the Government in September 2004. Development of database was, however, not started as of March 2007. Though the Government planned for automation and networking of the operations of LSGIs, it did not materialise.

1.9 Grants recommended by Twelfth Finance Commission (TFC)

1.9.1 The share of grant recommended by TFC to Kerala State was Rs.1134 crore (Rs.985 crore for PRIs and Rs.149 crore for ULBs). The average annual share of each GP and ULB would work to Rs.19.72 lakh and Rs.51.38 lakh. The PRIs were to improve the service delivery in respect of water supply and sanitation by taking over assets relating to water supply and sanitation created under Swajaldhara Programme and were to utilise the funds for maintaining them, whereas the ULBs were to utilise at least 50 *per cent* of the grants for solid waste management including collection, segregation and transportation of solid wastes. The State was to assess the funds required for building database and maintenance of accounts of LSGIs and to earmark funds accordingly from the grants.

The State Government, however, was of opinion that there was no necessity to disburse the above grants to the LSGIs as they had been providing every year grants to LSGIs much in excess of the TFC grant released (Rs.2408.51 crore during 2005-06 and 2006-07 as against TFC grant of Rs.453.60 crore) by GoI. Further, the Government took a stand that the TFC grant was to augment the Consolidated Fund of State for enabling it to release funds to the LSGIs in accordance with the recommendations of the State Finance Commissions (SFC) and the TFC grant was not an additionality to what was recommended by SFC to be devolved from the State to the LSGIs. GoI released a total amount of Rs.453.60 crore during the period 2005-06 and 2006-07 as shown below:-

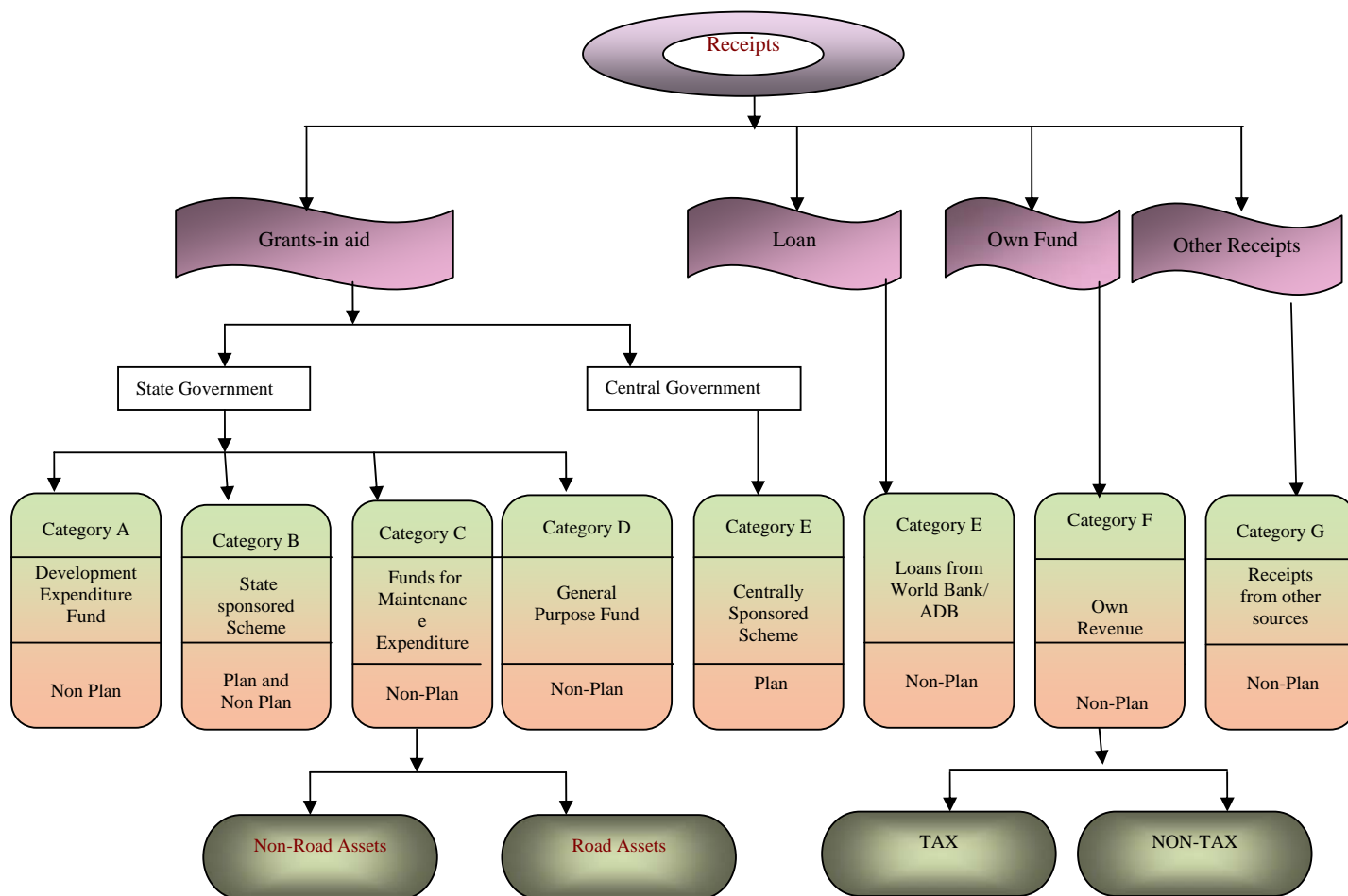
Year	Instalment	Amount received (Rs in crore)	Date of receipt
2005-06	I	113.40	26 August 2005
2005-06	II	113.40	02 February 2006
2006-07	I	113.40	30 August 2006
2006-07	II	113.40	05 March 2007
Total		453.60	

Government stated (December 2007) that they issued (January 2006) a circular to the LSGIs suggesting that at least 50 *per cent* out of the TFC grant should be utilised for solid waste management by ULBs and for rural water supply schemes by PRIs. Government did not fix the allocation of TFC grant due to each LSGI. Therefore it was not possible either for the LSGIs to adhere to the

suggestion of the Government or for the Government to ensure proper utilisation by the LSGIs.

1.10 Funds of LSGIs

1.10.1 The receipts of LSGIs are classified into four groups viz. grants-in-aid, loans, own funds and other receipts. Based on the recommendations of the Third State Finance Commission (TSFC), these groups were further classified into categories ‘A’ to ‘G’ adding one more category as shown in the chart below:



From 2006-07 onwards the unutilised funds at the end of every year under all categories except category ‘B’ would not lapse to Government.

1.10.2 The State and Central Governments provide grants for specific and non-specific purposes. Funds received for specific purposes are called tied funds and those for non-specific purposes untied funds. Grants received under Category ‘A’ are untied whereas those under Category ‘B’ and ‘E’ are tied.

1.11 Different categories of funds

The different categories of funds are as follows:

1.11.1 Category 'A' funds are plan funds provided by the State Government to the LSGIs from the state annual plan outlay to carry out projects formulated by the LSGIs under Peoples Plan Campaign/Kerala Development Plan. From 2006-07, this category of funds were renamed as 'Development Expenditure Fund' and allocated from the Non-plan funds of the State Government. The share of each LSGI is predetermined as indicated in Appendix IV of Detailed Budget Estimate of the State every year. As per the original budget estimate the amount provided during 2006-07 was Rs.1400 crore under three sectors viz. General, Special Component Plan (SCP) and Tribal Sub Plan (TSP) as detailed in the table below:

(Rs in crore)

Sl No	Type of LSGI	No of LSGIs	Category 'A' funds provided in Original Budget Estimate			
			General	SCP	TSP	Total
1	Corporations	5	70.50	21.49	---	91.99
2	Municipalities	53	88.70	25.06	0.69	114.45
3	District Panchayats	14	116.60	71.29	17.94	205.83
4	Block Panchayats	152	116.60	71.29	11.96	199.85
5	Grama Panchayats	999	544.10	213.87	29.91	787.88
	Total	1223	936.50*	403.00	60.50	1400.00

* Includes provision for special incentive of Rs.2.35 crore, Rs.50 lakh and Rs.50 lakh to outstanding GPs, BPs and Municipalities respectively.

An amount of Rs.37.77 lakh was additionally provided in the supplementary budget making the total provision Rs.1400.38 crore. The actual expenditure incurred by the State Government was Rs.1400.36 crore. As the budget provisions for General, SCP and TSP categories were not made under separate heads of accounts, the actual expenditure incurred under these categories were not available indicating the need for classifying and monitoring expenditure especially under the priority sectors of SCP and TSP.

1.11.2 Based on the recommendations of TSFC, funds allocated to the LSGIs for meeting their expenditure on traditional functions, maintenance and development activities were released to the LSGIs by way of transfer credit to Public Account as Deposit of Local Bodies from the Consolidated Fund of the State on instalment basis. Thus the figures of expenditure booked in the State Accounts was actually the amount transferred to the Public Account and not the actual expenditure incurred by the LSGIs. Of the amount of Rs.1400.36 crore transfer credited to the Public Account, there was an unspent balance of Rs.178.99 crore which indicated that only an amount of Rs.1221.37 crore (87.22 per cent) was actually spent by the LSGIs as detailed below.

(Rs in crore)

Sl No	Type of LSGIs	Funds allocated	Funds released	Public Account			Amount actually spent by LSGIs (4-7)
				Amount transferred/ credited	Amount drawn by LSGIs	Balance	
1	2	3	4	5	6	7	8
1	Corporations	91.99	92.03	92.05	72.15	19.90	72.13
2	Municipalities	114.45	114.45	114.83	98.84	15.99	98.46
3	District Panchayats	205.83	205.83	207.89	179.82	28.07	177.76
4	Block Panchayats	199.85	199.85	207.26	186.69	20.57	179.28
5	Grama Panchayats	788.26	788.20	790.77	696.31	94.46	693.74
	Total	1400.38	1400.36	1412.80	1233.81	178.99	1221.37

However, the utilisation of Category ‘A’ funds at Rs.1221.37 crore during 2006-07 was higher when compared to Rs.1008.15 crore of the last year.

1.11.3 The policy statement of 1996 envisaged implementation of 35-40 per cent of State’s plan programmes should consist of schemes formulated and implemented by LSGIs from the year 1997-98 with corresponding devolution of funds to the LSGIs. However, the amount provided to LSGIs in the State Budget was Rs.6731.69 crore during the period from 2002-03 to 2006-07 which was 28.89 per cent. Against this, the amount released was only Rs.5705.21 crore which was 31.79 per cent of total plan expenditure of the State as shown below:

(Rupees in crore)

Year	State Plan Budget	Amount provided to LSGIs under Category A	Percentage	State Plan Expenditure	Release (Category A)	Percentage to State Plan Expenditure
2002-03	3943.99	1251.21	31.72	3730.52	1021.48	27.38
2003-04	3617.64	1425.99	39.42	2999.02	1284.22	42.82
2004-05	3836.79	1288.10	33.57	3755.25	991.00	26.39
2005-06	5357.16	1366.01	25.50	4017.49	1008.15	25.09
2006-07	6540.66	1400.38	21.41	3444.69	1400.36	40.65
Total	23296.24	6731.69	28.90	17946.97	5705.21	31.79

The short release was Rs.576.23* crore during the period 2002-03 to 2006-07.

1.11.4 Category ‘B’ funds consist of plan and non-plan funds for implementation of state schemes transferred to LSGIs. The major State-Sponsored Plan schemes are Special Live Stock Breeding Programme, distribution of house sites to rural landless workers, etc. whereas distribution of unemployment wages, agricultural workers pension, widow pension, etc. are the non-plan schemes. The share of each LSGI is not provided in the budget and is decided by the Head of the Department to which the scheme relates. The allotments of funds are made by the District officers of the Department concerned. Department/Major Head-wise allocation and

* (35 per cent of 17946.97) – 5705.21 = 576.23

utilisation of plan and non-plan funds under category 'B' during 2006-07 were as follows:

(Rs in crore)

SI No	Major Head	Budget provision			Expenditure			Percentage		
		Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2002-General Education	---	115.77	115.77	---	108.45	108.45	---	93.68	93.68
2	2210-Medical and Public Health	---	20.84	20.84	---	11.47	11.47	---	55.04	55.04
3	2217-Urban Development	14.09	---	14.09	14.09	---	14.09	100	---	100
4	2225-Welfare of SC,ST and Other Backward Classes	22.58	2.29	24.87	18.98	2.27	21.25	84.06	99.13	85.44
5	2230-Labour and Employment	---	50.10	50.10	---	46.94	46.94	---	93.69	93.69
6	2235- Social Security and Welfare	---	258.97	258.97	---	247.91	247.91	---	95.73	95.73
7	2401-Crop Husbandry	---	10.28	10.28	---	10.02	10.02	---	97.47	97.47
8	2402-Soil and Water Conservation	---	0.10	0.10	---	0.09	0.09	---	90.00	90.00
9	2403-Animal Husbandry	---	0.22	0.22	---	0.19	0.19	---	86.36	86.36
10	2415-Agricultural Research and Education	---	0.01	0.01	---	0.01	0.01	---	100	100
11	2501-Special Programme for Rural Development	23.01	---	23.01	14.43	---	14.43	62.71	---	62.71
12	2505-Rural Employment	21.87	---	21.87	22.20	---	22.20	101.51	---	101.51
13	2515-Other Rural Employment Programmes	45.67	---	45.67	34.19	---	34.19	74.86	---	74.86
14	2851-Village and Small Industries		0.04	0.04	---	0.04	0.04	---	100	100
	Total	127.22	458.62	585.84	103.89	427.39	531.28	81.66	93.19	90.69

Out of Rs.585.84 crore allocated under Category 'B', under 14 distinct Major Heads, the expenditure incurred was Rs.531.28 crore which included plan expenditure of Rs.103.89 crore. The financial performance in respect of schemes under Medical and Public Health (55.04 per cent) Special Programme for Rural Development (62.71 per cent), Other Rural Employment Programmes (74.86 per cent) and Welfare of SC,ST and Other Backward Classes (85.44 per cent) were below average. This led to lapse of funds to the tune of Rs.54.56 crore at the end of 2006-07.

During the period from 2002-03 to 2006-07, against the budget provision of Rs.2374.20 crore, the amount released under Category ‘B’ was Rs.2281.25 crore as indicated below:

Year	Budget Provision			Amount released			Percentage of release		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
2002-03	125.38	351.89	477.27	97.23	338.96	436.19	77.54	96.33	91.39
2003-04	8.55	326.55	335.10	100.76	314.01	414.77	1178.48	96.16	123.77
2004-05	113.46	348.06	461.52	101.74	323.93	425.67	89.67	93.07	92.23
2005-06	110.11	404.36	514.47	101.62	371.72	473.34	92.29	91.93	92.01
2006-07	127.22	458.62	585.84	103.89	427.39	531.28	81.66	93.19	90.69
Total	484.72	1889.48	2374.20	505.24	1776.01	2281.25	104.23	93.99	96.08

Percentage of release of plan funds except during 2003-04 and 2005-06 was less than non-plan funds as seen from the above details.

1.11.5 Category ‘C’ funds are non-plan grants provided by the State Government to meet the expenditure on maintenance of assets of LSGIs. Funds were provided separately for the maintenance of road and non-road assets under separate heads of accounts. As per the recommendations of TSFC, the State Government was to release under this category 5.5 per cent of state tax revenue of previous year. During the period from 2004-05 to 2006-07, State Government provided Rs.1053.77 crore in the budgets and released Rs.831.05 crore (56.32 per cent) as against Rs.1475.71 crore due, leading to short release of Rs.644.66 crore (43.68 per cent) as shown below:

(Rupees in crore)

Year	State tax revenue of previous year	MG due (5.5 per cent)	MG provided in the budget	Short provision	MG released	Short release with reference to entitlement	Percentage of short release
2004-05	8089	444.90	307.54	137.36	174.43	270.47	60.79
2005-06	8963	492.97	396.23	96.74	306.62	186.35	37.80
2006-07	9779	537.84	350.00	187.84	350.00	187.84	34.92
Total	26831	1475.71	1053.77	421.94	831.05	644.66	43.68

The short release of maintenance grant during 2006-07 was Rs.187.84 crore, which was in contravention of the recommendations of TSFC.

1.11.6 Category ‘D’ funds are General Purpose Funds (GPF) provided by the State Government for meeting general expenditure including the expenditure on traditional functions of LSGIs. The details of allocation of funds under Category ‘C’ and ‘D’ to each LSGI were provided in Appendix IV of the Detailed State Budget Estimates. According to TSFC recommendations, 3.5 per cent of the state tax revenue of previous year was to be provided as GPF in lieu of Basic Tax Grant, Surcharge on Stamp Duty, Rural Pool Grant, etc. As against Rs.939.09 crore due to the LSGIs, the State Government provided Rs.750.98 crore in the budgets and released Rs.742.36 crore (79.05 per cent) during the period from 2004-05 to 2006-07 as detailed below:

(Rupees in crore)

Year	State tax revenue of previous year	GPF due (3.5 per cent)	GPF provided in the budget	GPF released	Short release with reference to entitlement	Percentage of short release
2004-05	8089	283.12	195.39	192.05	91.07	32.17
2005-06	8963	313.71	255.59	250.35	63.36	20.20
2006-07	9779	342.26	300.00	299.96	42.30	12.36
Total	26831	939.09	750.98	742.36	196.73	20.95

The short release of GPF during the period 2004-05 to 2006-07 was Rs.196.73 crore.

1.11.7 State Government during the period from 2002-03 to 2006-07 released Rs.9559.88 crore to LSGIs vide Category 'A' to 'D' against a budget provision of Rs.10910.64 crore as shown below:

(Rupees in crore)

Sl No	Category of LSGIs	Budget provision			Release			Percentage	Percentage of share of each category of LSGI
		From 2002-03 to 2005-06	2006-07	Total	From 2002-03 to 2005-06	2006-07	Total		
1	Corporations	552.66	173.00	725.66	474.43	171.11	645.54	88.96	6.75
2	Municipalities	758.60	210.77	969.37	601.85	204.83	806.68	83.22	8.44
3	District Panchayats	1001.86	289.09	1290.95	765.72	283.75	1049.47	81.29	10.98
4	Block Panchayats	940.00	316.96	1256.96	839.43	297.97	1137.40	90.49	11.90
5	Grama Panchayats	5021.30	1646.40	6667.70	4296.85	1623.94	5920.79	88.80	61.93
	Total	8274.42	2636.22	10910.64	6978.28	2581.60	9559.88	87.62	100.00

Out of Rs.9559.88 crore released (87.62 per cent) to the LSGIs, the share of Corporations was 6.75 per cent whereas the share of GPs was 61.93 per cent. Fund allocation to ULBs and PRIs was in the ratio of 15:85. During 2006-07, the funds provided and released by the State Government were Rs.2636.22 crore and Rs.2581.60 crore respectively.

1.11.8 Category 'E' funds consist of grants received from GoI including State share for implementation of centrally sponsored schemes, funds from World Bank, Asian Development Bank, etc funds received from the District Collectors (for flood/drought relief), Literacy Mission, etc. The funds under this category are disbursed to the LSGIs through agencies such as District Rural Development Agencies (DRDAs) renamed as Poverty Alleviation Units (PAUs), State Poverty Eradication Mission (SPEM), Director of Urban Affairs (DUA), District Collectors, etc. The funds were to be deposited and utilised as specified by the fund provider. The details of funds received and utilised during 2006-07 for 12 Centrally Sponsored Schemes implemented by LSGIs are given below:

(Rupees in crore)

Sl No	Authority / Agency who disbursed the fund	Type of LSGI	Opening Balance	Funds distributed to LSGIs		Total funds available	Funds utilised by LSGIs	Balance	Percentage of utilisation
				Central Share	State Share				
1	DRDA	PRIs	39.41	209.00	61.58	309.99	253.12	56.87	81.65
2	DUA	ULBs	---	104.61	11.40	116.01	9.49	106.52	8.18
3	SPEM	ULBs	63.76	9.48	3.68	76.92	30.36	46.56	39.47
	Total		103.17*	323.09	76.66	502.92	292.97	209.95	58.25

Source: Information collected from CRD, DUA and SPEM.

LSGIs received Rs.323.09 crore as central assistance and Rs.76.66 crore as state share out of which Rs.292.97 crore was utilised. At the end of the year there was an unspent balance of Rs.209.95 crore including the unspent balances of previous years (**Appendix I**).

1.11.9 Category ‘F’ funds consist of tax and non-tax revenue of LSGIs which are also known as ‘Own Funds’. Property tax, profession tax, entertainment tax, advertisement tax and timber tax constituted tax revenue. Non-tax revenue consists of licence fees, registration fees, etc. leviable under the Acts. LSGIs except District Panchayats and Block Panchayats are empowered to collect the above tax and non-tax revenues. This category also includes income derived from assets of LSGIs, beneficiary contribution, earnest money deposit, retention money, etc. However, income from transferred assets and institutions could be utilised only for their maintenance. The details of own funds were not gathered from LSGIs and consolidated State-wide by the Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. However, as per details compiled based on the accounts audited by CAG during 2007-08, own fund receipts during 2006-07 of 79 LSGIs were Rs.19.74 crore as detailed below.

(Rs in crore)

Sl No	Type of LSGIs	No of LSGIs	Tax	Non-Tax	Total
1	Corporations	---	0	0	0
2	Municipalities	8	5.60	3.41	9.01
3	District Panchayats	3	0	0.78	0.78
4	Block Panchayats	19	0	1.15	1.15
5	Grama Panchayats	49	5.54	3.26	8.80
	Total	79	11.14	8.60	19.74

1.11.10 Category ‘G’ consists of all other funds which do not come under any other category. This included loans from KURDFC¹, HUDCO², KSRDB³, etc. utilisation of which was governed by instructions/guidelines issued by the competent authority from time to time.

* This figure does not agree with the closing balance shown in the Report of the previous year as some items are excluded.

¹ Kerala Urban and Rural Development Finance Corporation

² Housing and Urban Development Corporation

³ Kerala State Rural Development Board (defunct)

1.11.11 Loans aggregating Rs.250.04 crore availed by LSGIs from the following sources were outstanding to be repaid as on 31 March 2007.

(Rupees in crore)

Sl. No	Source of Loan	Loan outstanding as on 31 March 2007					Total
		Corporation	Municipality	DP	BP	GP	
1.	State Government	3.84	22.22	---	---	---	26.06
2.	KURDFC	1.86	24.68	---	---	0.94	27.48
3	HUDCO	6.52	0.89	99.47	---	---	106.88
4	Kerala State Co-operative Bank	6.00	7.47	---	76.15	---	89.62
	Total	18.22	55.26	99.47	76.15	0.94	250.04

Of the balance amount of Rs.250.04 crore outstanding, loan amount of Rs.160.42 crore was received by the LSGIs during 2006-07.

1.11.12 Misclassification of assistance to LSGIs under ‘800-Other Expenditure’

Separate minor heads were provided in the budget under relevant major heads to distinguish the grant-in-aid given to each type of LSGIs. However, in the following cases, a total amount of Rs.108.88 crore to be provided to various LSGIs was classified under the minor head ‘800-Other Expenditure’ enabling the departments to draw the money earmarked to LSGIs.

(Rs in crore)

Sl No	Head of account	Scheme	Net Budget Provision	Expenditure
1	2217-05-800-89	Jawaharlal Nehru National Urban Renewal Mission	90.00	9.49
2	2403-00-800-88	Special Live Stock Development Programme	7.00 (P) 2.03 (N.P)	6.99 (P) 1.70 (N.P)
3	2505-01-800-99	National Rural Employment Guarantee Scheme. (State Share 10 per cent)	4.76	4.76
4	2515-00-800-20	Rural Infrastructure Development Fund (RIDF), NABARD assisted scheme	5.00	0.13
5	2515-00-800-24	Recommendation of Second SFC-General Purpose Grant	0.12	0.13
	Total		108.91	23.20

As a result, Rs.23.20 crore drawn during 2006-07 was not actually transferred to the LSGIs as envisaged. This indicated that the concerned departments themselves incurred expenditure on schemes transferred to the LSGIs. The provision of funds to be given to the LSGIs as grant-in-aid under the minor head ‘800-Other Expenditure’ in the budget was against the principles of functional classification of accounts. Had these amounts been included under the relevant minor heads, the figures of provision and release of category ‘B’ funds would actually work out to Rs.694.75 crore and Rs.554.48 crore respectively during 2006-07 as shown below:

(Rs in crore)

Particulars	Budget allocation	Release
Category 'B' funds classified under minor heads '191,192,196,197 and 198'	585.84	531.28
Category 'B' funds classified under minor head '800'	108.91	23.20
Total	694.75	554.48

Thus the total funds provided and released to the LSGIs by the state under categories 'A' to 'D' would work to Rs.2745.13 crore and Rs.2604.80 crore respectively instead of Rs.2636.22 crore and Rs.2581.60 crore as shown under paragraph 1.11.7.

1.12 Drawal of Funds

1.12.1 The total receipts of LSGIs under all categories as per available details were Rs.3663.68 crore during 2006-07 as detailed in the table below:-

(Rupees in crore)

Sl No	Type of LSGI	Funds received during 2006-07											Total receipts
		Category A Funds for schemes formulated by LSGIs	Category B Funds for state sponsored schemes	Category C/ Funds for maintenance		Category D General Purpose Fund	Category E funds for Centrally Sponsored schemes		Category 'F' ¹ Own Fund		Category 'G' Other receipts		
				Road assets	Non-road assets		Central share	State share	Tax	Non-tax	Loan	Others	
1	Corporations	92.03	15.96	11.26	15.51	36.35	-	-	93.85	58.09	12.22	-	-
2	Municipalities	114.45	31.23	15.71	19.68	23.77	-	-	86.17	57.79	47.79	-	-
3	Total ULBs	206.48	47.19	26.97	35.19	60.11	114.09	15.08	180.02	115.88	60.01	-	861.02
4	DPs	205.83	24.47	11.53	33.74	8.18	-	-	-	-	99.47	-	-
5	BPs	199.85	62.50	-	23.43	12.19	-	-	-	-	-	-	-
6	GPs	788.20	397.12	100.46	118.68	219.48	-	-	123.18	102.83	0.94	-	-
7	Total PRIs	1193.88	484.09	111.99	175.85	239.85	209.00	61.58	123.18	102.83	100.41	-	2802.66
8	Total LSGIs	1400.36	531.28	138.96	211.04	299.96	323.09	76.66	303.20	218.71	160.42	-	3663.68

The receipts increased from Rs3002.49 crore in 2005-06 to Rs.3663.68 crore in 2006-07.

1.13 Sectoral Allocation of Funds

1.13.1 Category 'A' funds for implementation of projects formulated by LSGIs are provided under three distinct sectors viz. General, SCP and TSP as mentioned in paragraph 1.11.1. A comparison of details of amounts provided under these sectors during the period from 2003-04 to 2006-07 showed that provision of funds under SCP and TSP increased from 19.99 and 3.38 per cent during 2003-04 to 28.79 and 4.32 per cent during 2006-07 as detailed below:

¹ The figures submitted to the Twelfth Finance Commission by the Government of Kerala. In the absence of figures for the year 2006-07, the figures for 2002-03 are adopted.

(Rupees in crore)

SI No	Sectors	2003-04		2004-05		2005-06		2006-07		Total	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1	General	1009.23 ¹	76.63	1016.67	75.30	990.36	72.03	936.50	66.87	3952.76	72.64
2	SCP	263.33	19.99	285.20	21.13	334.47	24.32	403.00	28.79	1286.00	23.63
3	TSP	44.44	3.38	48.13	3.57	50.17	3.65	60.50	4.32	203.24	3.73
	Total	1317.00	100.00	1350.00	100.00	1375.00	100.00	1400.00	100.00	5442.00	100.00

The LSGIs were prohibited from diverting funds earmarked for one sector to another. However, Government could not ensure that funds earmarked for a particular sector were not diverted to another sector as details of expenditure under each sector were not ascertainable from the Government Accounts.

1.13.2 Scrutiny of accounts of 60 LSGIs audited by CAG during the year 2007-08 revealed that the utilisation of funds under SCP and TSP sectors was fairly good as compared to that in general sector as shown below:

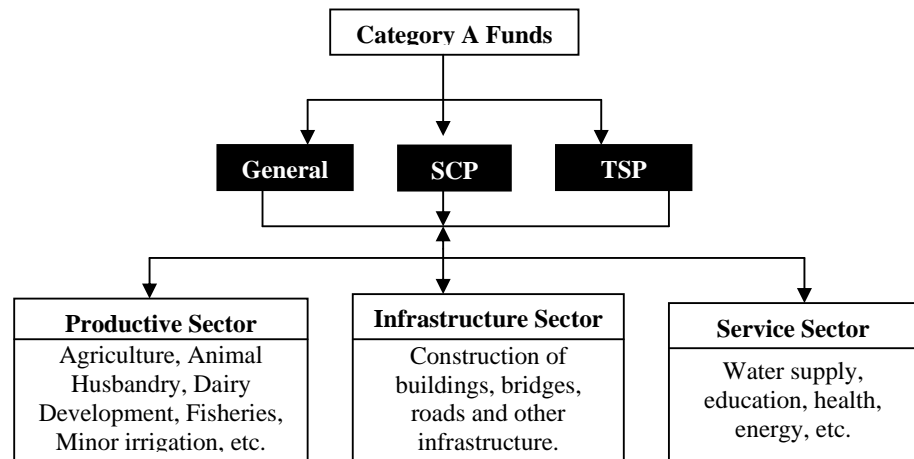
(Rs in crore)

SI No	Category of LSGI	Total No of LSGIs	No of LSGIs test checked	General		SCP		TSP		Total	
				Recpt	Exp	Recpt	Exp	Recpt	Exp	Recpt	Exp
1	Corporations	5	-	-	-	-	-	-	-	-	-
2	Municipalities	53	5	5.68	5.30	2.74	2.38	-	-	8.42	7.68
3	District Panchayats	14	3	28.72	17.50	12.87	13.85	4.66	3.75	46.25	35.10
4	Block Panchayats	152	16	12.71	11.18	8.95	7.74	0.73	0.58	22.39	19.50
5	Grama Panchayats	999	36	16.96	15.06	6.16	4.93	0.28	0.26	23.40	20.25
	Total	1223	60	64.07	49.04 (76.54%)	30.72	28.90 (94.08%)	5.67	4.59 (80.95%)	100.46	82.53

The utilisation of funds by all LSGIs under these sectors could not be ascertained as no head of account was provided separately for each sector. As per the available details the percentage of utilisation under SCP and TSP sectors was 94.08 and 80.95 respectively as against 76.54 in general sector.

1.13.3 The LSGIs were to provide funds received under the above sectors again under three major sectors viz. productive sector, infrastructure development sector and service sector. The functions included under each such sector are indicated in the following chart.

¹ Includes EFC grant of Rs.80.98 crore.



Government prescribed the following ceilings for the utilisation of funds under each sector.

Sl No	Sector	IX Five Year Plan Period		X Five Year Plan Period	
		PRIs	ULBs	PRIs	ULBs
1	Productive Sector	40 per cent (minimum)	20 per cent (minimum)	30 per cent (GPs & BPs) 25 per cent (DPs)	10 per cent (minimum)
2	Infrastructure Development Sector	30 per cent (maximum)	30 per cent (maximum)	30 per cent (maximum)	50 per cent (maximum)
3	Service Sector	Not prescribed	Not prescribed	Not prescribed	Not prescribed

However, the percentage of utilisation under each sector during the period from 2003-04 to 2005-06 was as shown below:

Sl. No	Type of LSGI	Percentages of expenditure under											
		Productive Sector			Infrastructure Dev. Sector			Service Sector			Projects not classified		
		2003-04	2004-05	2005-06	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
1	Corporations	2.60	7.51	12.02	48.22	42.26	35.10	46.25	38.02	48.22	2.33	12.21	4.66
2	Municipalities	6.69	7.58	9.77	48.65	40.11	31.10	40.16	44.38	54.74	4.50	7.94	4.38
3	DPs	23.59	13.95	12.44	25.07	26.91	30.47	50.76	57.66	54.62	0.59	1.48	2.47
4	BPs	17.69	10.35	12.34	27.44	19.11	25.09	45.11	49.80	52.95	9.76	20.75	9.62
5	GPs	19.58	21.78	19.29	27.69	19.03	19.43	45.97	45.41	54.91	6.76	13.75	6.37
	Total	17.68	17.18	16.47	46.47	46.77	23.47	30.33	23.24	54.23	6.53	12.82	6.06

Source : Economic Review 2006.

The financial performance under productive sector was much below the targets fixed during the whole period of 3 years. The expenditure under service sector increased upto 54.23 per cent during 2005-06, whereas that under infrastructure development sector marked a decrease from 46.77 per cent to 23.47 per cent during 2005-06.

1.14 Expenditure of LSGIs

1.14.1 The expenditure details of funds received by LSGIs were available only in respect of 'A' to 'D' as detailed below.

(Rs in crore)

SI No	Category of funds	Funds allocated	Funds released	Balance allocation	Funds utilised	Balance funds with LSGIs
1	A	1400.38	1400.36	0.02	1221.37	178.99
2	B	585.81	531.28	54.53	531.28	0
3	C	350.00	350.00	0	281.67	68.33
4	D	300.00	299.96	0.04	36.42	263.54
	Total	2636.19	2581.60	54.59	2070.74	510.86

As the above funds were deposited in separate deposit accounts under Public Accounts (8448-Deposits of Local Funds), the credit balance in these accounts indicated the unutilised funds with the LSGIs based on which the figures of actual utilisation were arrived at. Against the allocation of Rs.2636.19 crore made in the state budget, the amounts released and utilised were Rs.2581.60 crore and Rs.2070.74 crore respectively. The details of utilisation of funds under category 'E' to 'G' were not available as the details of expenditure under these categories were not consolidated state-wide.

1.15 Short utilisation of funds for Centrally Sponsored Schemes

1.15.1 The financial achievement in respect of the following Centrally Sponsored Schemes by LSGIs during 2006-07 was tardy as shown below:-

(Rupees in crore)

SI No	Name of Scheme	Opening Balance	Fund Received	Total	Fund utilised	Balance	Percentage of utilisation
1	SJSRY ¹	13.46	8.52	21.98	9.52	12.46	43.31
2	NSDP ²	11.93	0	11.93	5.25	6.68	44.01
3	VAMBAY ³	38.37	4.64	43.01	15.59	27.42	36.25
4	NREGS ⁴	8.38	48.64	57.02	28.03	28.99	49.16
5	IWDP ⁵	8.21	2.64	10.85	2.75	8.10	25.35
6	IDSMT ⁶	0	5.16	5.16	1.93	3.23	37.40
7	JNNURM ⁷	0	110.85	110.85	7.56	103.29	6.82
	Total	80.35	180.45	260.80	70.63	190.17	27.08

Out of Rs.260.80 crore available, the utilisation was only Rs.70.63 crore (27.08 per cent). While percentage of utilisation ranged between 25.35 and 49.16 in respect of 6 out of 7 schemes, it was 6.82 per cent in respect of JNNURM.

1.16 Pendency in clearing objections raised by the CAG

1.16.1 The CAG conducted the audit of LSGIs under Sections 14,15 and 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective LSGIs in the form of Local Audit Reports (LARs) with a copy to the Government. Though the replies to the objections were to be furnished within four weeks of receipt of LARs, 1100 LARs (98.92 per cent) out of 1112 issued and 13510 paragraphs (80.57 per cent) out

¹ Swarna Jayanthi Shahari Rozgar Yojana

² National Slum Development Programme

³ Valmiki Ambedkar Awas Yojana

⁴ National Rural Employment Guarantee Scheme

⁵ Integrated Wasteland Development Programme

⁶ Integrated Development of Small and Medium Towns

⁷ Jawaharlal Nehru National Urban Renewal Mission

of 16766 were pending to be settled as on 30 November 2007 for want of satisfactory replies from LSGIs concerned as detailed below:-

Year	Issued		Clearance		Outstanding	
	No of LARs	No of Paras	No of LARs	No of Paras	No of LARs	No of Paras
1998-99 to 2002-03	370	7175	09	2714	361	4461
2003-04	218	3861	---	222	218	3639
2004-05	205	2951	01	145	204	2806
2005-06	152	1502	02	117	150	1385
2006-07	167	1277	---	58	167	1219
Total	1112	16766	12	3256	1100	13510

Government constituted (August 2007), Audit Monitoring Committees (AMCs) at district and state levels for different categories of LSGIs for timely settlement and clearance of audit paragraphs. The District level AMC (DLAMC) was to settle audit paragraphs in respect of GPs, BPs and Municipalities in the respective districts whereas the State Level AMC (SLAMC) was responsible for settlement of audit paragraphs in respect of DPs and Corporations. As of January 2008, DLAMCs of eight districts¹ met and settled 323 audit paragraphs whereas the SLAMC did not even meet.

1.17 Conclusion

1.17.1 LSGIs were lagging behind in preparation and submission of annual accounts. Cash books were not maintained and closed properly indicating internal control failure. Utilisation of funds allotted by Government under SCP and TSP sectors could not be monitored as no separate heads of accounts for accounting the expenditure under these sectors were prescribed. There was no database on the revenue and expenditure of LSGIs. Government is yet to frame Budget and Accounts Rules to give effect to the revised accounting formats. Clearance of audit objections was very slow.

1.18 Recommendations

- **Government should take effective steps to make the LSGIs update their accounts/accounts records and ensure proper financial reporting. Responsibilities should be fixed clearly for preparation of accounts so that lapses in this regard can be dealt with.**
- **Necessary arrangements may be made to ensure proper maintenance of cash book and its daily closure.**
- **Government should prescribe separate heads of account for accounting the expenditure under SCP and TSP sectors.**
- **Government should consider appointing an authorised officer to consolidate the audited accounts of DPs and ULBs so that a clear picture of finances of all LSGIs is available.**
- **Government should take initiatives for creation of a financial database of LSGIs.**
- **Government should prepare and put to use revised Budget/Account Rules for PRIs.**

¹ Iddukki, Kannur, Kasargod, Kollam, Kozhikode, Malappuram, Thrissur and Wayanad.