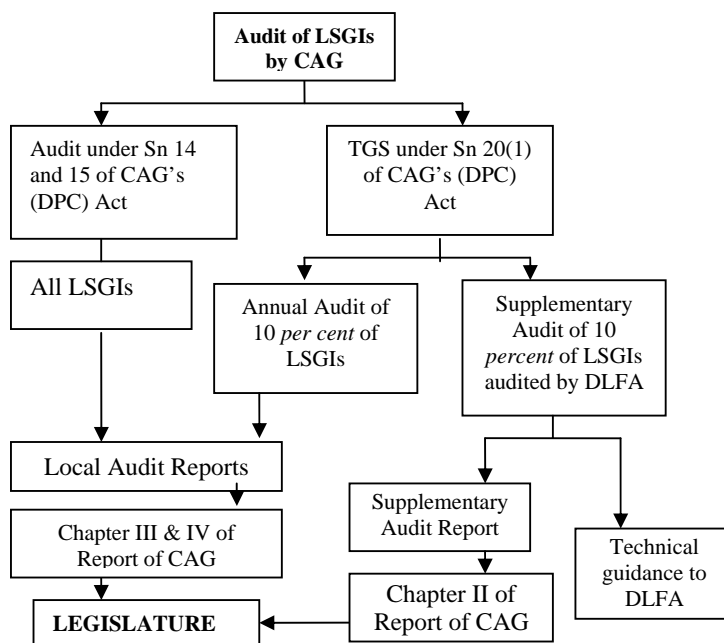


CHAPTER II

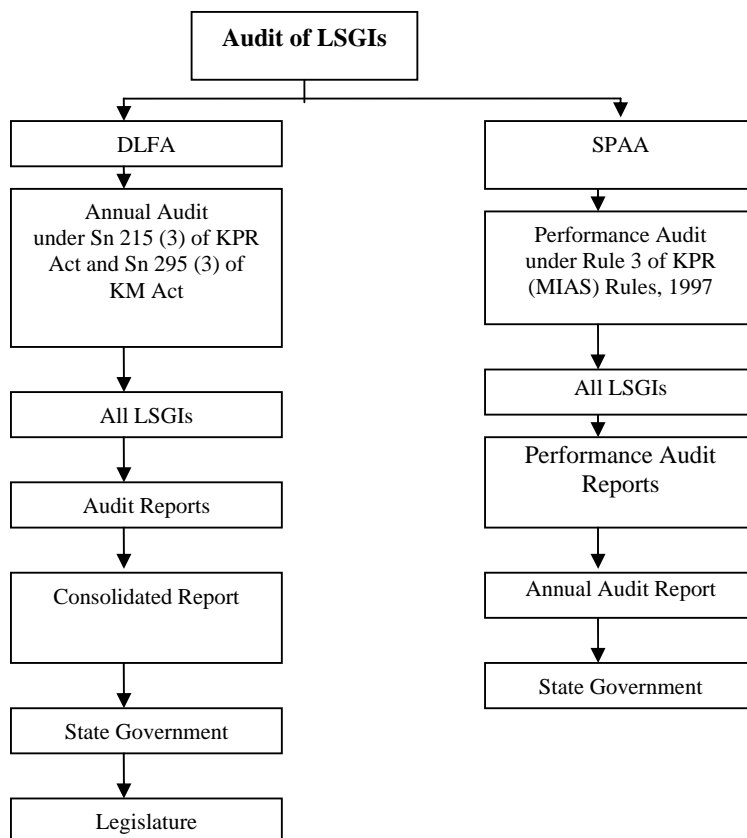
TECHNICAL GUIDANCE AND SUPERVISION AND THE RESULTS OF SUPPLEMENTARY AUDIT

2.1 Introduction

2.1.1 The Comptroller and Auditor General of India (CAG) took up the audit of LSGIs during 1998-99 under Section 14 and 15 of CAG's (DPC) Act, 1971. The CAG provides Technical Guidance and Supervision (TGS) to the 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 the 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 (KPR Act) and Kerala Municipality Act, 1994 (KM Act). Apart from LSGIs, other local funds such as Universities, Devaswom Boards, Religious and Charitable institutions are also audited by DLFA. State Performance Audit Authority (SPAA) audits the performance of the LSGIs as per Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997. The different stages of audit by DLFA and SPAA are depicted in the following chart.



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 details of sanctioned strength and persons in position in the department during the period from 2004-05 to 2006-07 were as follows:

Sl No	Post	2004-05		2005-06		2006-07	
		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	151	151	151	151
5	Auditors	458	458	510	510	510	490
6	Other ancillary	201	201	202	202	202	191
7	Total	839	839	908	908	908	877

2.3 Training Programmes in the Department

2.3.1 Short term training programmes were conducted by the State Government for the benefit of staff of DLFA during the year 2006-07 on the following topics.

- (1) Auditing Standards
- (2) Right to Information Act.
- (3) Values in Administration.
- (4) Stress Management for women.
- (5) Team Building and conflict Management.
- (6) Malayalam as Official Language.
- (7) Combating Corruption.

Apart from the above programmes, Statutory Departmental Training to newly recruited auditors with a duration of three months was also conducted. Training programmes except that on Auditing Standards and the Statutory Training, were not related to the main functions of the department. In the absence of sufficient training programmes in the specialised field of Audit and Accounts and related subjects, the department could not sharpen the audit skills of the staff.

2.4 Computerisation-Lapse of funds-Rs.53.32 lakh

2.4.1 During the year 2006-07, Government had allotted Rs.53.32 lakh for computerisation of the Department. However, this amount lapsed as computerisation of the department could not be undertaken due to delay in selection of Technical Service Provider. The non-utilisation of funds was not justifiable.

2.5 Functioning of the Committee for monitoring of 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.

As the committee did not meet after February 2006, it could not monitor implementation of its decisions by the DLFA.

2.6 Consolidated Audit Report of the DLFA for the year 2005-06

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. DLFA submitted in March 2006 the consolidated report for the year 2004-05. The consolidated report for the year 2005-06 has not been placed before the legislature (December 2007). No time frame was prescribed in the Kerala Local Fund Act, 1994 regarding submission of the report to the Government and placing it before the Legislature. In the absence of a definite time frame, prompt and timely submission of report could not be ensured by the Government.

2.7 Delay in submission of accounts by LSGIs

Submission of accounts by LSGIs to DLFA continues to be in heavy arrears as mentioned in Chapter I of this Report. Details of action taken against LSGIs, which did not submit accounts to DLFA were not available with DLFA. Being the statutory auditor, DLFA was responsible for ensuring that all LSGIs submitted their accounts not later than 31 July next year for enforcing which, powers were conferred upon him under Rule 16 (1) of Kerala Local Fund Audit Rules, 1996 (Rules). However, the DLFA could not ensure timely submission of accounts by the LSGIs and thus the accountability of LSGIs could not be ensured. DLFA stated (December 2007) that the information regarding action taken against erring LSGIs would be collected from District offices and intimated.

2.8 Surcharge and charge imposed by the DLFA

2.8.1 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 2002-03 to 2006-07 DLFA had issued 191 charge certificates for an amount of Rs.42.67 lakh and 1168 surcharge certificates for Rs.3.75 crore against which amount realised was Rs.11.68 lakh which was 2.80 *per cent* as shown below:-

(Rs in lakh)

Year	Charge Certificates		Surcharge Certificates		Amount Recovered
	Number	Amount	Number	Amount	
2002-03	67	8.31	257	82.98	1.27
2003-04	42	15.64	283	42.83	2.13
2004-05	32	7.53	201	84.86	0.71
2005-06	15	2.13	153	71.74	4.14
2006-07	35	9.06	274	92.11	3.43
Total	191	42.67	1168	374.52	11.68

The low rate of recovery indicated the weakness of the mechanism for recovery of charge/surcharge.

2.9 Results of supplementary audit

2.9.1 During 2006-07, the CAG audited, 237 LSGIs, including supplementary audit of 91 LSGIs (**Appendix II**). 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 period covered under supplementary audit ranged from 1999-2000 to 2004-05. The supplementary audit of accounts of current years could not be conducted as a result of delay in submission of accounts by LSGIs and in issuing audit reports by DLFA. The findings of supplementary audit are summarised in the following paragraphs.

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

Cash Book

2.10.1 All moneys received and payments made should be entered in the cash book and should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank pass book balance under proper authentication were to be done. Audit review revealed the following discrepancies in maintaining cash book by LSGIs listed in **Appendix III**.

- Fifty LSGIs maintained more than one cash book
- Daily closing of cash book was not carried out in 42 LSGIs.
- Monthly closing was not carried out in 14 LSGIs.
- Physical verification of cash was not done in 22 LSGIs.
- Cash book balance was not reconciled with bank pass book balance in 12¹ LSGIs.
- Erasure and over writing were noticed in cash books maintained by LSGIs. Cash book is the primary accounting record and overwriting is not permitted.

2.10.2 Temporary misappropriation of Rs.2.34 lakh

In Triprangottoor GP, Rs.2.34 lakh received as various receipts on 30 and 31 March 2002 was shown in the cash book as remitted to bank on 31 March 2002. But the amount was actually remitted only on 24 April 2002 evidencing that the entries made in the cash book were fictitious which could have been detected, had physical verification of cash been done. No action was taken against those responsible for the temporary misappropriation of such a large amount for about one month. The most important tool of internal control as regards monetary transactions of an institution is its cash book. Improper maintenance of such an important document as detailed above may lead to misappropriation of public money going undetected. The failure of the DLFA

¹ Edamulackal, Edathua, Kadanad, Kadaplamattom, Kottayi, Makkaraparamba, Marangattupilly, Peralassery and Pudussery GPs, Kollam and Kozhikode DPs, Uzhavoor BP

to bring out in his reports the lapses and deficiencies in maintaining cash book contributed to the continuance of such defective practices by LSGIs.

Register of Advances

2.10.3 All advances paid are to be recorded in the register of advances. Six¹ LSGIs did not maintain Register of Advances. In 12² LSGIs, the Advance Register was incomplete. In Attingal Municipality, advances outstanding to be adjusted were not carried over to the Advance Register of the next year. As a result of the above deficiencies in maintaining Advance Register, monitoring and adjustment of advances could not be ensured.

2.11 Lapses in preparation of budget

2.11.1 Budget is the most important tool for financial planning, accountability 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.

2.11.2 As per KPR Act and KM Act, the Budget proposals containing Detailed Estimate of income and expenditure expected during the ensuing year were to be prepared by the respective Standing Committees after considering the estimates and proposals submitted by the Secretary and the officers dealing with respective subjects, before 15 January every year and submitted to the Standing Committee for Finance (SCF). After considering the proposals, SCF was to prepare the Budget showing the income and expenditure of the Panchayat/Council for the ensuing year and the Chairman of SCF was to place before the LSGI not later than first week of March in a meeting convened specially for approval of the Budget. The Budget was to be passed by the Panchayat/Council before the beginning of the year it related to. The above said procedure highlights the importance attached to the preparation and passing of Budget. Though the LSGIs passed the Budget before the beginning of the year, none of them followed the procedures such as preparation of detailed estimate of income and expenditure expected for next year by the respective standing committee before 15 January every year and presentation of budget before 1st week of March. As a result, the Budget proposals were not discussed adequately and subjected to detailed deliberations in the respective Panchayats/Councils, thus evading detailed scrutiny of the proposals. This led to inaccuracies and defects in the Budgets resulting in failure of budgetary control as detailed below.

Receipt

2.11.3 The estimated receipts and expenditure varied widely with the actuals in the case of 52 LSGIs (**Appendix IV**). A comparison of receipts under property tax and profession tax in four LSGIs revealed that against the actual collection of Rs.742.42 lakh the amount provided in the budget was Rs.1358.25 lakh as shown in the table below.

¹ Bharanickavu, Edakkatuvayal, Makkaraparamba, Peralassery GPs, Pampady BP and Kozhikode DP

² Edamulakal, Edathua, Kadplamattam, Kadanad, Kottayi, Maragattupilly, Peralassery, Pudussery and Vithura GPs, Kollam and Kozhikode DPs and Uzhavoor BP.

(Rupees in Lakh)

Year	Name of Grama Panchayat	Head of account	Estimate	Actual	Excess provision	Percentage of excess provision to actual
2000-01	Kanjikuzhi	Property Tax	6.00	4.05	1.95	48.15
		Profession Tax	3.00	1.90	1.10	57.89
2002-03	Vazhakkad GP	Property Tax	9.00	5.89	3.11	52.80
		Profession Tax	5.00	3.66	1.34	36.61
2002-03	Pampadumpara GP	Property Tax	11.00	2.97	8.03	270.37
		Profession Tax	4.25	2.95	1.30	44.07
2001-02	Kozhikode Corporation	Property Tax	1100.00	545.00	555.00	101.83
		Profession Tax	220.00	176.00	44.00	25.00
	Total	Property Tax	1126.00	557.91	568.09	101.82
		Profession Tax	232.25	184.51	47.74	25.87
Grand Total			1358.25	742.42	615.83	82.95

The amounts of collection provided in the Budgets were over estimated by 82.95 per cent. This indicated that the budget was unrealistic. Had the figures in the demand register and the actual collection during previous years been considered for preparation of the budget, it would have been more realistic and accurate. As a result, revenue collection was far less than estimation.

Expenditure

2.11.4 Against the actual expenditure of Rs.11.41 lakh under road maintenance and salary and allowances in two GPs, the amount provided was Rs.46 lakh which was more than four times the actual expenditure as shown below.

(Rupees in lakh)

Year	Name of Grama Panchayat	Function	Estimate	Actual	Excess provision	Percentage of excess provision to actual
2002-03	Vazhakkad GP	Road maintenance	10.00	2.51	7.49	298.41
		Salary and allowances	8.00	3.98	4.02	101.01
2002-03	Thevalakara	Road maintenance	20.00	0.10	19.90	1990.00
		Salary and allowances	8.00	4.82	3.18	65.98
	Total	Road maintenance	30.00	2.61	27.39	1049.43
		Salary and allowances	16.00	8.80	7.20	81.82
Grand Total			46.00	11.41	35.59	311.92

Provision of funds in excess of actual requirement was due to failure of financial planning which defeated the primary objective of budgetary control over expenditure.

2.11.5 The following LSGIs did not pass Budget before 31 March.

Sl No	Name of LSGI	Year	Due date for passing budget	Date of passing budget	Delay
1	Kozhikode DP	2001-02	31 March 2001	Not passed	---
2	Kollam DP	2000-01	31 March 2000	30 December 2000	21 months
3	Uzhavoor BP	2003-04	31 March 2003	6 May 2003	36 days

No action was taken against the LSGIs which failed to pass the Budget before the stipulated date though Government was empowered to even dissolve the LSGIs for this reason. Incurring expenditure without the Budget passed by the

Panchayats/Councils was irregular. Non-reporting of such serious violations to the Government by the DLFA also contributed to the non-initiation of action by the Government against the LSGIs.

2.11.6 The estimated receipts and expenditure as per Budget for the year 1999-2000 in Pudukkottai GP were Rs.386.98 lakh and Rs.396.54 lakh respectively indicating deficit of Rs.9.56 lakh. This was in violation of Rule 214 (2) of KPR Act according to which the Budget prepared by LSGIs should be surplus by five *per cent*.

2.11.7 Preparation of realistic Budgets by adhering to the procedures laid down in KM/KPR Act would enhance the performance of LSGIs in planning and budgetary control enabling optimum utilisation of available resources in the most effective and efficient manner. Due to the deficiencies pointed out above, LSGIs could not achieve the larger objective of financial control.

2.12 Lapses in preparation of Annual Financial Statements

2.12.1 The LSGIs were 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 in preparation and submission of AFS are enumerated below.

2.12.2 The AFS of 43 (**Appendix IV**) LSGIs did not contain details of all transactions of the LSGIs. This led to understatement of receipts and expenditure of the LSGIs. The Kerala Local Fund Audit Rules, 1996 empowers the DLFA to return the defective annual accounts submitted for audit. Even though annual accounts submitted by 43 LSGIs were defective, DLFA did not take any action against the LSGIs. DLFA stated (December 2007) that these cases were reported in the Consolidated Report of DLFA.

2.12.3 In 25 LSGIs there was a delay of more than one year in forwarding the AFS to DLFA as detailed in **Appendix IV**.

2.12.4 In five¹ GPs, opening balance given in the AFS did not agree with figures of closing balance given in the AFS of previous year. This indicated inaccuracy in preparing the accounts which affected the accountability of the GPs.

2.12.5 The cheques for Rs.2.50 lakh and Rs.1.54 lakh issued respectively by Peringammala and Peravoor GPs were later cancelled and the entries regarding cancellation of cheques were not made in the cash book leading to overstatement of expenditure by such amounts. This indicated lack of proper scrutiny of AFS by DLFA.

2.12.6 Four LSGIs² submitted AFS to DLFA without the approval of Panchayat/Council in violation of the provisions of the Acts.

2.12.7 The figures shown in the AFS should agree with those shown in the primary accounting records and subsidiary registers. The figures shown in the

¹ Elikulam, Kottayi, Marangattupilly, Pallivasal and Pampadumpara GPs

² Kozhikode and Kollam DPs, Kadaplamattom GP and Attingal Municipality

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 three¹ LSGIs closing balance shown in the cash book and closing balance shown in AFS were different.
- In five² LSGIs receipts of the LSGIs as shown in the Register of Receipts did not agree with the receipts figures in the AFS. Lapses in checking of the figures in the primary accounting records with those in the AFS by the DLFA led to non-detection of such errors.

In view of this, the AFS could not be considered as an accurate and reliable record of transactions of the LSGIs.

2.13 Lapses in safeguarding assets

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

- Asset register was not maintained in eight³ LSGIs.
- Physical verification of items included in the stock register was not conducted in 10 LSGIs⁴.

These lapses were indicative of the deficiencies in the audit by DLFA.

2.14 Deficiencies in the DLFA's audit process

Non-issue of audit certificates

2.14.1 Mention was made in the Reports (LSGIs) of the CAG for the years ended 31 March 2005 and 31 March 2006 about non-issue of audit certificate by DLFA on completion of audit, in terms of Section 215 (15) of KPR Act 1994. Though DLFA stated (December 2007) that necessary instructions were issued to the District Officers in this regard, there was no improvement in issuing the audit certificates.

Delay in issuing Audit Report by DLFA

2.14.2 According to Rules (Rule 18 (1)), DLFA was to send to the head of the LSGI concerned and the controlling authorities/Government, a report on the accounts audited and examined by him not later than three months after the completion of audit. However there was delay ranging from six to 24 months in forwarding Audit Reports by DLFA to LSGIs in 12 cases (**Appendix IV**) for which there was no justification. This resulted in delay in rectification of defects, by LSGIs, pointed out in audit.

Director, Local Fund Audit stated (December 2007) that the period of three months was not sufficient for issuing Audit Report and reasons like shortage

¹ Bison Valley and Neezhoor GPs and Kollam DP

² Ayyankunnu, Edathua, Pampadumpara and Paralam GPs and Attingal Municipality.

³ Anchuthengu, Athirampuzha, Edamulakkal, Pangode, Vellore GPs, Uzhavoor BP and Kollam and Kozhikode DPs.

⁴ Arakulam, Kaduthurty, Kuzhupilly, Mathoor, Neezhoor, Pallikunnu, Pangode, Vazhakkad, Veliamcode GPs and Kozhikode DP.

of man power, insufficient infrastructure and delay in computerisation contributed to further delay.

The reply is not tenable as there was no considerable reduction in manpower in the functional side and sufficient funds were made available for computerisation as stated in paragraph 2.2.2 and 2.4.1.

Non-preparation of Audit Plan by DLFA

2.14.3 As decided by the Committee for monitoring TGS, Audit Plans were to be prepared by the DLFA in consultation with the Principal Accountant General from the year 2006-07 onwards. However, Audit Plans were not prepared for the year 2006-07 and 2007-08 in the absence of which planning of audit to be conducted during the ensuing year utilising the available time and manpower at the optimum level could not be done. This led to non monitoring of audit targets/achievements by DLFA.

2.15 Conclusion

No action was taken against those LSGIs which did not submit AFS in time. The maintenance of basic accounting record was defective and hence could not be checked properly by DLFA. Budgets prepared by LSGIs were not realistic leading to budgetary controls not being exercised. Audit Plan was not prepared by DLFA. Training programmes for staff of DLFA were not sufficient. There was delay on the part of DLFA to issue audit reports.

2.16 Recommendations

- Effective training programmes for the benefit of staff of DLFA should be organised to sharpen their skills.
- DLFA should prepare Audit Plan in advance.
- DLFA should take action against those LSGIs which did not submit the accounts in time.
- DLFA and Government should ensure that procedure prescribed for preparation of Budget is followed by the LSGIs.
- DLFA should avoid delay in issuing audit reports.