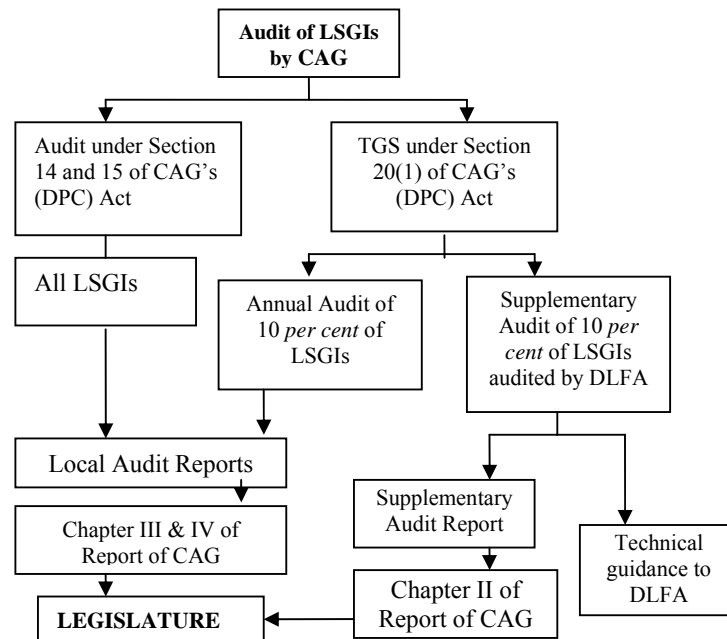


CHAPTER II

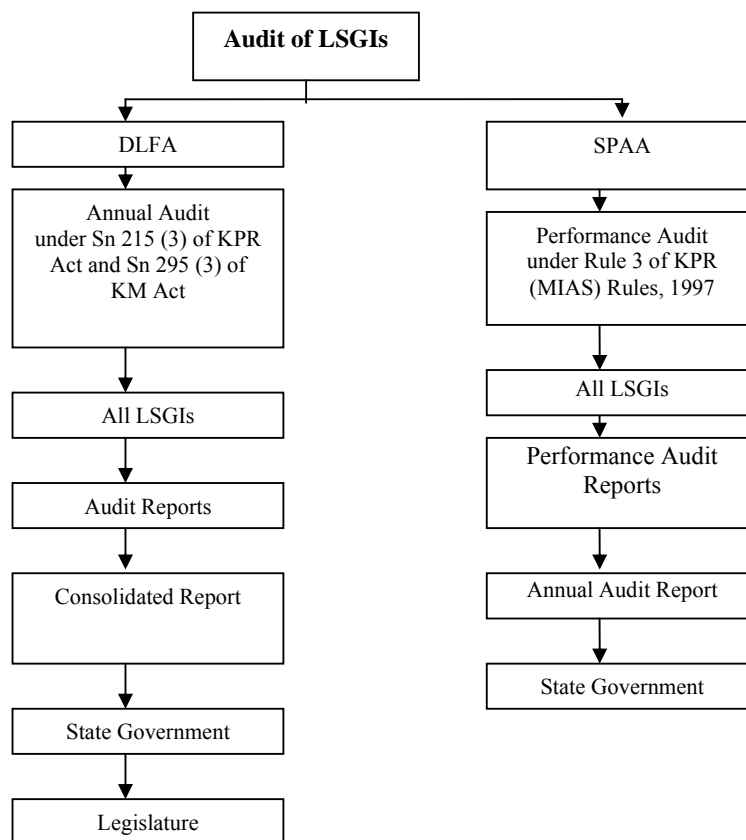
SUPPLEMENTARY AUDIT UNDER THE TECHNICAL GUIDANCE AND SUPERVISION ARRANGEMENT

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*. Government of Kerala extended (December 2007) the scheme of Technical Guidance and Supervision for a further period of five years from April 2008. 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 Statutory 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), Municipal Councils (9), Universities (6) 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 2005-06 to 2007-08 were as follows:

Sl. No.	Post	2005-06		2006-07		2007-08	
		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	40	40
4	Audit Officers	151	151	151	151	150	150
5	Auditors	510	510	510	490	510	510
6	Other ancillary	202	202	202	191	202	202
Total		908	908	908	877	906	906

2.3 Training Programmes in the Department

2.3.1 In the meeting of State Level Committee on implementation of TGS held on 18 July 2008, it was decided to give training to the staff of Local Fund Audit Department every year in capacity building through Kerala Institute of Local Administration (KILA) with the help of Principal Accountant General. Modules for the training will be prepared by the DLFA in consultation with Principal Accountant General and State Performance Audit Officer.

Short term training programmes were conducted by the State Government for the benefit of staff of DLFA during the year 2007-08 on Standardising service, Right to Information Act, Special coaching programme for departmental test for employees belonging to SC/ST category, Malayalam as official language and combating corruption.

Apart from the above programmes, Statutory Departmental Training to newly recruited auditors having duration of three months was also conducted. However, training in the field of audit and accounts and related subjects were not conducted despite being highlighted in the previous Report of C&AG (LSGIs), Government of Kerala. Sufficient training relating to audit and accounts are necessary for enhancing the work skills of the staff.

2.4 Computerisation

2.4.1 During the year 2006-07, Government had allotted Rs.53.32 lakh for computerisation of the Department. However, the amount lapsed as computerisation of the department could not be undertaken due to delay in selection of Technical Service Provider. During 2007-08, no fund was provided in the budget for computerisation of the Department. Computerisation and its proper utilisation are essential for effective functioning of the department and optimum utilisation of its available resources. Failure of the department to utilise the funds when provided and subsequent failure of the department to obtain funds hampered the computerisation process of the department.

2.5 Functioning of the State Level Committee on implementation of Technical Guidance and Supervision

2.5.1 Government of Kerala extended (December 2007) the scheme of Technical Guidance and Supervision for another five years with effect from April 2008. The State Level Committee for monitoring the implementation of TGS was also reconstituted with Additional Chief Secretary (Finance), Principal Secretary (LSGD), Senior Deputy Accountant General (LBA), Director of Local Fund Audit and State Performance Audit Officer (SPA0) as members.

The first meeting of the reconstituted committee was held in July 2008. In the meeting, it was decided *inter alia* that

1. the annual accounts of LSGIs will be audited and certified by Director of Local Fund Audit by the 30th of September of every year. Ten *per cent* of such institutions will be subjected to supplementary audit by Accountant General under the TGS scheme. Transaction Audit of LSGIs will be planned by DLFA in consultation with Principal Accountant General and SPAO so as to prioritise the units and also to cover all the units in a time bound manner.
2. auditing Standards for PRIs issued by Comptroller and Auditor General of India and adopted by the State Government will be followed by DLFA and strictly monitored.
3. it was also decided to conduct the meeting of the committee every six months.

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

2.6.1 The DLFA is required to send to 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 Audit Act, 1994. The Consolidated Audit Report for the year 2005-06 had been prepared and submitted to State Government. The Report was a compilation of objections from the Local Audit Reports. The objections were arranged district wise. Topic wise analysis of deficiencies would have been given a comprehensive picture and served as a tool for rectification of flaws in the implementation of schemes by LSGIs. Government may consider specifying a suitable format for the Report to ensure clarity and to make it reader-friendly.

2.7 Delay in submission of accounts by LSGIs

2.7.1 Section 9 of Kerala Local Fund Audit Act, 1994 states that “The accounts of a local authority or local fund included in the schedule relating to a financial year shall be prepared or caused to be prepared by the executive authority, in such form and in such manner as may be prescribed and presented for audit within four months of the close of that financial year. Where an executive authority makes default in the preparation and presentation of accounts for audit within the period specified under sub section (1), he shall be punishable on conviction with fine ranging from one thousand to three thousand rupees”.

However, out of the 1223 accounts for year 2007-08 receivable by 31 July 2008, DLFA received only 237 accounts as shown in the table given below:

Sl. No.	Type of Institution	Number of Accounts for the year 2007-08 received as of July 2008	Balance
1	Corporations	1	4
2	Municipalities	17	36
3	District Panchayats	4	10
4	Block Panchayats	40	112
5	Grama Panchayats	175	824
Total		237	986

(Source: DLFA)

Though powers were conferred upon DLFA to take action against defaulting LSGIs to ensure timely submission of accounts, the arrears on this account was 80.62 per cent.

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 2003-04 to 2007-08 DLFA had issued 127 charge certificates for an amount of Rs.34.62 lakh and 971 surcharge certificates for Rs.3.12 crore. Against the total charged/surcharged amount of Rs.3.47 crore, Rs. 10.76 lakh was realised (3.10 per cent) as shown below:

(Rs. in lakh)

Year	Charge Certificates		Surcharge Certificates		Amount Recovered
	Number	Amount	Number	Amount	
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
2007-08	3	0.26	60	20.88	0.35
Total	127	34.62	971	312.42	10.76

(Source: DLFA)

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 2007-08, the CAG audited, 227 LSGIs, including supplementary audit of 86 LSGIs (**Appendix-III**). During supplementary audit,

the CAG comments upon or supplements the reports of DLFA on the accounts of LSGIs. The period covered under supplementary audit ranged from 2000-01 to 2006-07. The supplementary audit of accounts of the current year was not conducted due to non submission of accounts by LSGIs and non-issue of audit reports by DLFA as highlighted in Para 2.14.5 of this report. 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 it 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-IV**.

- Fifty LSGIs (58.14 *per cent*) maintained more than one cash book
- Daily closing of cash book was not carried out in 49 LSGIs (56.98 *per cent*).
- Monthly closing was not carried out in 38 LSGIs (44.19 *per cent*).
- Physical verification of cash was not done in 53 LSGIs (61.63 *per cent*).
- Cash book balance was not reconciled with bank pass book balance in 25 LSGIs (29.10 *per cent*).
- Erasure and over writing were noticed in cash books maintained by 23* LSGIs (26.74 *per cent*). Cash book is the primary accounting record and overwriting is not permitted.

Register of Advances

2.10.2 All advances paid are to be recorded in the Register of Advances. Nine^Σ LSGIs did not maintain Register of Advances. In 19 LSGIs (22.10 *per cent*), the Advance Register was incomplete (**Appendix-V**). As a result of the above deficiencies, monitoring and adjustment of advances could not be ensured.

* Vathikudy, Mariyapuram, Vandenmedu, Ramamangalam, Poomangalam, Uzhamalackal, Pallassana, Eruvessy, Punnapra North, Arpookara, Upputhara, Rajakkad, Pattancherry, Karivellurperalam, Kanakkary, Varandarapilly, Panavoor, Athirapally, Valakom, Thuravoor, New Mahe and Eranholi GPs, Vypin BP.

^Σ Arpookara, Upputhara, Chavara, Kulasekharapuram, Niranam, Thaneermukkom, Poyya, Pathiyoor and Panavoor GPs.

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 it 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 abovesaid 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 committees 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 Supplementary audit of 40 LSGIs (46.51 *per cent*) revealed that the budget prepared by them were unrealistic due to wide variation of estimated receipts and expenditure with the actuals (**Appendix-V**). A comparison of receipts under property tax and profession tax in four LSGIs revealed that against the actual collection of Rs.33.42 lakh the amount provided in the budget was Rs.90.50 lakh as shown in the table below:

(Rs. in Lakh)

Year	Name of Grama Panchayat	Head of account	Estimate	Actual	Excess provision	Percentage of excess provision to actual
2003-04	Kanjikuzhi (Idukki)	Property Tax	15.00	4.01	10.99	274.06
		Profession Tax	6.50	4.32	2.18	50.46
2003-04	Vandanmedu	Property Tax	18.00	4.10	13.90	339.02
		Profession Tax	12.00	5.05	6.95	137.62
2003-04	New mahe	Property Tax	10.00	4.50	5.50	122.22
		Profession Tax	7.00	3.13	3.87	123.64
2003-04	Vembayam	Property Tax	15.00	4.88	10.12	207.38
		Profession Tax	7.00	3.43	3.57	104.08
Total		Property Tax	58.00	17.49	40.51	231.62
		Profession Tax	32.50	15.93	16.57	104.02
Grand Total			90.50	33.42	57.08	170.80

The amounts of collection provided in the Budgets were over estimated by 170.80 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.64.82 lakh under unemployment wages and agricultural workers pension, only Rs.28.00 lakh was provided in the budget of two LSGIs as detailed below:

(Rs. in lakh)

Year	Name of Grama Panchayat	Function	Estimate	Actual	Deficit provision	Percentage of deficit provision to actual
2004-05	Kadakkal	Unemployment wages	6.00	23.30	17.30	74.25
		Agricultural workers pension	6.00	19.40	13.40	69.07
2005-06	Poothakulam	Unemployment wages	10.00	14.80	4.80	32.43
		Agricultural workers pension	6.00	7.32	1.32	18.03
Total		Unemployment wages	16.00	38.10	22.10	58.01
		Agricultural workers pension	12.00	26.72	14.72	55.09
Grand Total			28.00	64.82	36.82	56.80

Though the two GPs incurred expenditure in excess of budget provision, supplementary budgets were not prepared and forwarded to Panchayat for approval.

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 Section 10 of the Kerala Local Fund Audit Act, 1994 lays down that the audit of the accounts prepared and presented shall be completed by the auditor within six months of the date of its presentation. However audit of 30 LSGIs (34.88 *per cent*) were delayed by more than six months (**Appendix-VI**).

2.12.3 The AFS of 20 LSGIs (23.26 *per cent*) did not contain details of all transactions (**Appendix-VI**). This led to understatement of receipts and expenditure of the LSGIs. Though the Kerala Local Fund Audit Rules, 1996 empowers the DLFA to return the defective annual accounts submitted for audit, DLFA did not get the defects rectified.

2.12.4 In 26 LSGIs (30.23 *per cent*), opening balance given in the AFS did not agree with figures of closing balance given in the AFS of previous year (**Appendix-VI**). This indicated that the accuracy of the accounts of these LSGIs is questionable.

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 six* LSGIs and maintenance was improper in 20 LSGIs (23.26 *per cent*) (**Appendix-V**).
- Stock Register was not maintained in seven^Σ LSGIs and improperly maintained in 25 LSGIs (29.07 *per cent*) (**Appendix-V**).

* Elamkunnappuzha, Kooropada, Poyya, Perumvemba, Puthenchira and Varadarappilly GPs

Σ Vathikudy, Poomangalam, Pallassana, Elamkunnappuzha, Kooroppada, Kulasekharapuram and Poyya GPs.

2.14 Deficiencies in the DLFA's audit process

Issue of audit certificates

2.14.1 Mention was made in the Reports (LSGIs) of the CAG, Government of Kerala for the years ended March 2005, March 2006 and March 2007 about non-issue of Audit Certificates by DLFA on completion of audit in terms of Section 215 (15) of KPR Act, 1994. DLFA stated (September 2008) that a format for certification has been prepared and forwarded to all sub-offices in February 2008. During the year, DLFA had issued Audit Certificates to 36 Grama Panchayats only.

Delay in issuing Audit Report by DLFA

2.14.2 According to Rule 18 (1) of Kerala Local Fund Audit Rules, DLFA is required to send to the Heads of LSGIs 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, delay in forwarding Audit Reports by DLFA to LSGIs was noticed in 41 cases (47.67 per cent) (**Appendix-VI**) for which there was no justification. This resulted in delay in rectification of defects pointed out in audit.

Non-preparation of Audit Plan by DLFA

2.14.3 The need for preparation of Audit Plan and adhering to it was emphasised in the previous Reports of CAG (LSGIs), Government of Kerala. DLFA stated (September 2008) that audit was being conducted as per a tentative Audit Plan. A proper Audit Plan is essential for optimum utilisation of available man power resources.

Preparation of parallel accounts and DCB statements by DLFA

2.14.4 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 but not to prepare the accounts. Audit revealed that in 28 LSGIs (32.55 per cent) (**Appendix-VI**), DLFA prepared parallel accounts and DCB statements during audit, in violation of Act and Rules. Those accounts were different from those prepared by the LSGIs. Preparation of accounts of the auditee institution by the auditor is highly irregular and resulted in the existence of two sets of accounts.

Belated audit of accounts by DLFA

2.14.5 The selection of LSGIs for supplementary audit is made from the list of LSGIs forwarded by the Director of Local Fund Audit every quarter. The list contains the names of LSGIs whose audit has been conducted and Audit

Reports issued by DLFA during preceding quarter. It was noticed that the period of Accounts of several LSGIs included in the list was as back as 1991-92. A few illustrations from the list of LSGIs audited and Audit Report issued by DLFA during the quarter July to September 2007 are shown below

Sl. No.	Name of LSGI	Year of accounts	Date of issue of Audit Report
1	Anchalumoodu BP	1998-99 to 2005-06	11.09.2007
2	Mannanchery GP	1997-98 to 2000-01	04.07.2007 & 11.07.2007
3	Kallara GP	1996-97 to 2003-04	03.07.2007
4	Nattakam GP	1991-92 to 1995-96	05.09.2007
5	Pamanchery GP	1996-97 to 1997-98	04.08.2007
6	Karakurissi GP	1993-94 to 1994-95	13.09.2007
7	Payyannur Municipality	1994-95, 1995-96 & 2001-02	21.07.2007 & 17.09.2007

(Source: DLFA)

Auditing the accounts and issue of Audit Reports after the lapse of five to 15 years defeats the very purpose of Audit.

2.15 Conclusion

There was delay in submission of AFS by LSGIs to DLFA. The recovery rate of charge/surcharge imposed by DLFA was low. The maintenance of basic accounting records by LSGIs was defective. There were lapses in preparation of Budget and AFS by LSGIs. Instead of auditing the accounts prepared by LSGIs, DLFA prepared their own accounts for LSGIs and audited. Training in Audit and Accounts was not imparted to the staffs.

2.16 Recommendations

- DLFA should ensure that the basic accounting records are maintained properly by LSGIs.
- DLFA should ensure timely receipt and audit of AFS
- DLFA should issue directions to LSGIs for observing the prescribed procedures in the preparation of annual budgets.
- Training should be imparted to the staff of DLFA in the field of accounts and audit to enhance their audit skills.
- Government may consider prescribing a reader friendly format for the consolidated Audit Report.