

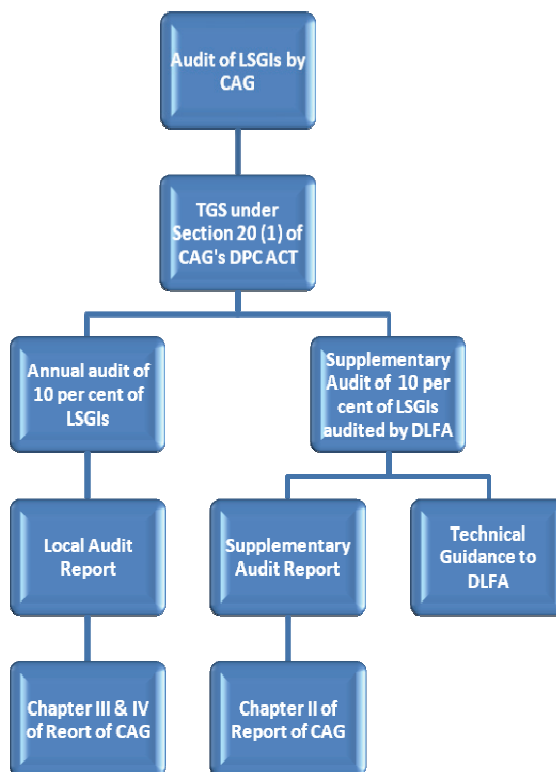
CHAPTER II

SUPPLEMENTARY AUDIT UNDER THE TECHNICAL GUIDANCE AND SUPERVISION ARRANGEMENT

2.1 Introduction

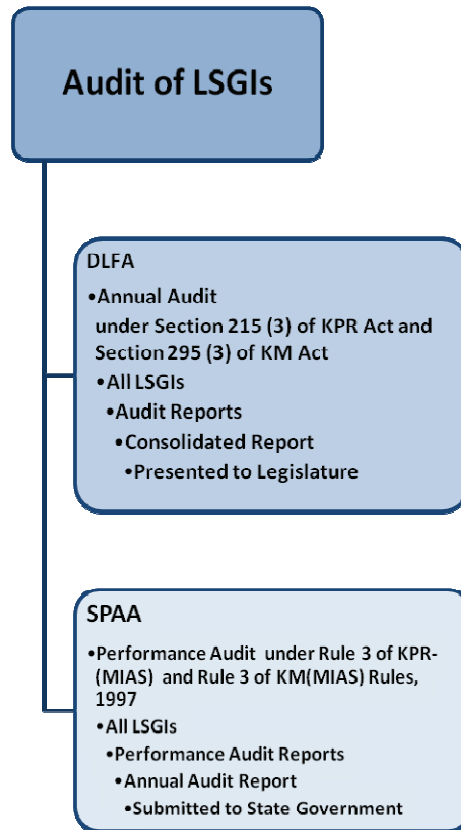
The Comptroller and Auditor General of India (CAG) took up the audit of Local Self Government Institutions (LSGIs) during 1998-99 under Section 14 and 15 of CAG's (Duties, Powers and Conditions of service) Act, 1971. The CAG provides Technical Guidance and Supervision (TGS) to the Director of Local Fund Audit (DLFA) under Section 20(1) of the Act *ibid*. 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 **Chart 2.1**.

Chart 2.1: Audit arrangement of LSGIs under TGS



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 and Kerala Municipality (Manner of Inspection and Audit System) Rules 1997. The different stages of audit by DLFA and SPAA are depicted in **Chart 2.2**.

Chart 2.2: Stages of audit of LSGIs by DLFA and SPAA



2.2 Organisational set up of Department of Local Fund Audit

The Local Fund Audit Department (LFAD) under the State Finance Department is headed by a Director, and has District Offices in all 14 districts headed by Deputy Directors.

Staff strength of Local Fund Audit Department

Details of manpower of LFAD and receipt of funds by LSGIs for the four year period 2005-09 are given in **Table 2.1**.

Table 2.1: Total receipts and manpower position of LSGIs

(₹ in crore)

Year	Total receipt of fund by LSGIs ¹	Sanctioned strength of LFAD	Persons in position
2005-06	2251.82	908	908
2006-07	3119.67	908	877
2007-08	3727.93	906	906
2008-09	4058.10	922	922

Of the sanctioned strength, the manpower deployed for audit of LSGIs during 2008-09 was 581. During the four year period 2005-09, the increase in total

¹ Does not include own fund as the details of own fund of the LSGIs are not collected and consolidated.

receipt of fund by LSGIs was 80.21 per cent and increase in manpower was 1.54 per cent over the same period. The LFAD was working with the full complement of staff sanctioned during 2005-06 to 2008-09 except for 2006-07.

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

The State Level Committee for monitoring the implementation of TGS was reconstituted in December 2007 and it met twice (May 2009 and December 2009) during 2009. In the meetings, it was decided *inter alia* that

- DLFA would submit to Government a road map/time table for audit and complete the certification of accounts of LSGIs by 31 October 2009;
- Monthly meeting of the officials of the Office of the Principal Accountant General and the LFAD would be held for co-ordinating the audit work of the LFAD;
- Training of staff of LFAD through KILA with the help of resource persons from the Office of the Principal Accountant General would continue;
- DLFA would forward major draft paragraphs relating to LSGIs to Government in the Local Self Government Department (LSGD) before inclusion in the audit report of DLFA;
- DLFA would complete certification of annual accounts of LSGIs for the year 2008-09 and report the latest position to LSGD;
- DLFA would submit the pending Consolidated Audit Report of LFAD to Government before close of the financial year 2009-10;
- DLFA would submit report on the prosecution steps taken against Secretaries of LSGIs for not submitting accounts before 31 July every year.

Government stated (April 2010) that the DLFA had not submitted road map/timetable for audit and certification of accounts of LSGIs and the latest position of certification of annual accounts of LSGIs for the year 2008-09. DLFA stated (July 2010) that prosecution action had been initiated against nine² LSGIs for non-submission of accounts within the stipulated time and that steps were being taken for the circulation of major draft paragraphs to LSGD before inclusion in the Consolidated Audit Report.

2.4 Training Programmes in LFAD

The State Level Committee on implementation of TGS, in its meeting held in May 2009/December 2009 decided to continue the training of the staff of LFAD through Kerala Institute of Local Administration (KILA) with the help of resource persons from the Office of the Principal Accountant General. The State Government conducted (July 2008 – March 2009) short term training

² Badiyadka, Balal, Karimpuzha, Marakkara, West Eleri and Vallappuzha GPs, Adoor and Vadakara Municipalities and Manjeswaram BP

programmes on capacity building programme on Human Rights - the Gender dimensions, empowerment training for women, practical approach on Kerala State Subordinate Service Rules, consumer protection, time management for women executive and training need analysis for the benefit of staff of the LFAD. In addition to this, KILA conducted (December 2008 – March 2009) intensive in-service training which included management skills, attitude towards audit, drafting of report, double entry accounting etc., for five days to 318 personnel of LFAD.

DLFA stated (April 2010) that staff of LFAD required training in the field of IT audit, financial audit, double entry accounting and drafting skills. DLFA has not taken any steps to impart training to staff in these fields.

2.5 Consolidated Audit Report of DLFA

As per section 23 of Kerala Local Fund Audit Act, 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.

Rule 25 of the Kerala Local Fund Audit Rules, 1996, stipulates that the DLFA shall, not later than 30 September every year, send to the Government a consolidated report of the accounts, audited by him during the previous financial year, containing such particulars which he intends to bring to the notice of the Government. As of February 2010, the DLFA had submitted the Consolidated Audit Report to Government only up to 2005-06. The delay in preparation and submission of the Report causes delay in bringing the major audit objections to the notice of legislature.

In paragraph 2.6.1 of the Report of the CAG for the year ended 31 March 2008 (LSGIs), it was mentioned that Government might consider specifying a suitable format for the Consolidated Audit Report to ensure clarity and to make it reader-friendly. Action taken by Government in the matter is still awaited (November 2010).

2.6 Surcharge and charge imposed by the DLFA

The Kerala Local Fund Audit Act empowers the DLFA to disallow any illegal payment and impose surcharge on 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. Any amount certified due from any person by the auditor shall be payable within one month after intimation unless such person has filed an application in the district court against the decision of the Director. The amount if not paid shall be recovered under the provision of the Kerala Revenue Recovery Act, 1968 for the time being in force, as if it were an arrear of public revenue on land.

During the period 2004-05 to 2008-09, DLFA had issued 103 charge certificates for ₹ 39.81 lakh and 799 surcharge certificates for ₹ 3.24 crore. Against the total charged/surcharged amount of ₹ 3.63 crore, only ₹ 10.22 lakh was realised (2.81 per cent) as shown in **Table 2.2**.

Table 2.2: Realisation of charged/surcharged amount

Year	Charge certificates		Surcharge certificates		Amount recovered (₹ in lakh)
	Number	Amount (₹ in lakh)	Number	Amount (₹ in lakh)	
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
2008-09	18	20.83	111	54.06	1.59
Total	103	39.81	799	323.65	10.22

Source: DLFA

Director, LFAD stated that the entire amount recovered was not intimated to the Directorate and hence not exhaustive. He added that there was a delay in issue of charge/surcharge certificate and hence surcharge certificates issued became time barred.

2.7 Results of supplementary audit

During 2008-09, CAG audited 196 LSGIs including supplementary audit of 62 LSGIs (**Appendix V**). 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. Due to delay in completion of audit by DLFA, majority of the accounts taken up for supplementary audit pertained to periods from 2000-01 to 2004-05 (56 accounts). Hence audit of accounts of current year was not conducted due to non-submission of accounts by LSGIs and non-issue of audit reports by DLFA. The findings of supplementary audit are summarised in the following paragraphs.

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

Cash Book

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 VI**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 13³ LSGIs (20.97 per cent).
- Twenty four LSGIs (38.71 per cent) maintained more than one cash book.

³ Adat, Ayarkunnam, Ayiloor, Edava, Kanthalloor, Kuttampuzha, Mazhuvannoor, Pookkodu, Purapuzha, Valappad, Vazhathope GPs, Thodupuzha BP and Paravur Municipality.

- Daily closing of cash book was not carried out in 26 LSGIs (41.94 per cent).
- Monthly closing was not carried out in 19 LSGIs (30.65 per cent).
- Physical verification of cash was not done in 32 LSGIs (51.61 per cent).
- Cash book balance was not reconciled with bank pass book balance in 20 LSGIs (32.26 per cent).

Register of Advances

All advances paid are to be recorded in the Register of Advances. Eleven⁴ LSGIs did not maintain Register of Advances. In 23 LSGIs (37.10 per cent), the Advance Register (**Appendix VII**) did not contain details of advances given to all implementing agencies/convenors/contractors etc. As a result of the above deficiencies, monitoring and adjustment of advances could not be ensured.

Deposits

As per Rule 37(7A) of Kerala Panchayats (Accounts) Rules, 1965, at the end of every financial year, any deposit in cash or balance thereof shall be lapsed and credited to the General Account (Own fund) of the Panchayats, if it remained unclaimed for a period of three years from the date on which the deposit became repayable consequent on its release or on the expiry of the term of the deposit. Ten⁵ LSGIs did not credit the lapsed deposit to the General Account of the LSGIs. The lapsed deposit of seven⁶ out of the above 10 LSGIs amounting to ₹ 25.51 lakh pertained to the period 1997-98 to 2004-05.

Lapses in safeguarding assets

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 nine⁷ LSGIs and maintenance was improper in 14 LSGIs (22.58 per cent) (**Appendix VII**)
- Stock Register was not maintained in seven⁸ LSGIs and improperly maintained in 15 LSGIs (24.19 per cent) (**Appendix VII**)

⁴ Avanoor, Kaviyoor, Kunnathunad, Mannarkkad, Marayoor, Mathur, Mavelikkarathamarakulam GPs, Kanjikuzhi, Parassala, Thodupuzha BPs and Malappuram District Panchayat.

⁵ Adat, Adimali, Ayilur, Edava, Kanthalloor, Kunnathunad, Marayoor, Mazhuvannoor, Vaniyamkulam GPs and Paravur Municipality

⁶ Adimali, Ayilur, Edava, Kanthalloor, Marayoor, Mazhuvannoor, Vaniyamkulam GPs.

⁷ Ananganadi, Kappur, Madappally, Mannarkkad, Mavelikkarathamarakulam, Valappad, Vaniyamkulam GPs, Parassala BP and Malappuram District Panchayat.

⁸ Akalakkunnam, Eriyad, Mulakulam, Valappad GPs, Kanjikuzhi, Parassala BPs and Malappuram District Panchayat.

2.9 Lapses in preparation of Budget

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.

As per KPR Act and KM Act, the Budget proposals containing Detailed Estimates 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 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 Committees before 15 January every year and presentation of Budget before first 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.

Out of the 62 LSGIs test checked, the budgets prepared by 48 LSGIs (77.42 per cent) were unrealistic due to wide variation of estimated receipts and expenditure with the actuals (**Appendix VIII**). A comparison of receipts under property tax and profession tax in 13 LSGIs revealed that the percentage of variation of estimated receipts and actual ranged between 102 and 184 under property tax in seven LSGIs and between 105 and 151 under profession tax in three LSGIs as shown in **Appendix IX**.

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.

2.10 Lapses in preparation of Annual Financial Statements

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:

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 14 LSGIs⁹ (22.58 *per cent*) was delayed by more than six months.

The AFS of 31 LSGIs (50 *per cent*) did not contain details of all transactions (**Appendix VIII**). This led to understatement of receipts and expenditure of the LSGIs. The Kerala Local Fund Audit Rules, 1996 empower the DLFA to return the defective annual accounts submitted for audit. DLFA stated that in cases of defective AFSs, showcause notices were issued to Secretaries of LSGIs concerned to rectify defects.

⁹ Ananganadi, Asamannoor, Cheriyanad, Edava, Ezhupunna, Kannamangalam, Kunnathunad, Mannarkad, Mathur, Munnar, Vaniyamkulam, Vazhathope GPs, Parassala BP and Paravur Municipality.