OVERVIEW

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This report comprises five chapters of which Chapter I and II contain an overview of organisation, devolution, accountability, finances and financial reporting issues of Local Self-Government Institutions (LSGIs) and comments arising from supplementary audit under the scheme for providing Technical Guidance and Supervision by the Comptroller and Auditor General of India. Chapter III, IV and V contains one performance audit, one subject-specific compliance audit and six compliance audit paragraphs. Copies of draft performance and compliance audits and other compliance audit paragraphs were forwarded to the Government and replies, wherever received, are duly incorporated in this report.

Accountability framework, finances and financial reporting issues of LSGIs

The amount spent on productive sector ranged from 9.55 *per cent* to 12.12 *per cent* during 2017-18 to 2021-22, indicating that the LSGIs assigned low priority to productive sector. Out of ₹3,443.60 crore available for implementation of Centrally Sponsored Schemes, substantial portion of the funds amounting to ₹1,424.66 crore (41.37 *per cent*) was lying unspent with State Level Nodal Agency/Poverty Alleviation Units, thereby defeating the purpose for which the funds were earmarked and released by Government of India/Government of Kerala. Out of ₹3,023.90 crore released towards Central Finance Commission grant during 2021-22, ₹1,678.43 crore (55.51 *per cent*) remained unutilised.

(Chapters I and II)

Performance Audit on Assessment, levy, collection and accounting of property tax in Urban Local Bodies

Sections 230 to 233 of the Kerala Municipality Act, 1994 empowered the Urban Local Bodies (ULBs) to levy property tax on all buildings, including the land appurtenant thereto, situated within the jurisdictional area of Corporations and Municipalities. Property tax is a major source of revenue of the Corporations and Municipalities in the State and constitutes about 48.28 *per cent* of their own revenue. In test-checked ULBs, the share of property tax in own revenue ranged from 23.32 *per cent* to 69.18 *per cent* from 2017-18 to 2021-22. A Performance Audit on the assessment, levy, collection and accounting of Property tax in ULBs revealed shortcomings in assessment, levy, collection and accounting of property tax.

The Municipal Act/Rules did not have clear provisions mandating regular enumeration of properties, resulting in the ULBs not possessing a list of entire buildings that could be assessed to property tax. Undue delay in completing digitisation of the database denied the ULBs of opportunity to reap full benefits of technological advancements. Serviced apartments were treated as residential buildings, resulting in short collection of tax. Property tax was not being collected from Self-financing colleges. Similarly, many GOI/BSNL buildings were not being assessed to service charge/property tax by several ULBs. Though ULBs were eligible to collect service cess since they were providing services, certain ULBs did not avail of this option to increase their revenue. Substantial amount of tax remained uncollected in the test checked ULBs. On an average only 43 *per cent* and 69 *per cent* of property tax demanded was collected by Municipal Corporations and Municipalities respectively. Audit noticed failure/delay on the part of GoK and ULBs in timely revision and adoption of rates of property tax. Inadequacy of input control in sanchaya software resulted in short demand of property tax by ULBs. There was failure on the part of ULBs in detecting unassessed and unauthorised constructions.

(Chapter III)

Subject-Specific Compliance Audit

Audit identified a compliance issue based on risk factors and topical importance for conduct of regularity audit in addition to conduct of regular propriety audit. Significant deficiencies noticed during audit are detailed below:

Implementation of Deen Dayal Upadhyaya Grameen Kaushalya Yojana

The Ministry of Rural Development (MoRD) of Government of India (GoI) introduced (September 2014) a youth employment scheme, Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) with an aim to impart skills to rural youth aged 15 to 35 from poor families and provide them with jobs earning regular monthly wages. Government of India provides 60 *per cent* of the project cost and the remaining 40 *per cent* is borne by the State Government. Kudumbashree implemented DDU-GKY in September 2014. During 2014-2022, Kudumbashree trained and placed 61,459 and 35,741 candidates respectively.

On checking the records related to placement and other aspects, audit found that 32 *per cent* of the placement claimed by Kudumbashree was false and fabricated. Audit could not draw any assurance regarding the satisfactory achievement of training and placement, as multiple suspected frauds were observed in the course of audit. The Project Implementing Agencies (PIAs) manipulated the weakness in the system, resulting in extension of undue financial benefits to private players.

Various instances of fraud like forged bank statements, round tripping of money, presenting own staff as trainee candidates, etc. revealed ineffectiveness of internal controls in Kudumbashree. The PIAs involved in fraudulent practices were found to be awarded projects worth ₹28.23 crore.

Audit noticed awarding of projects worth ₹23.99 crore to ineligible PIAs and sanctioning of projects worth ₹12.26 crore in excess of eligibility, resulting in undue pecuniary benefits to PIAs.

(Chapter IV)

Other Compliance Audit Paragraphs

Audit of financial transactions subjected to test check in various LSGIs revealed instances of misappropriation/fraud, unfruitful expenditure, non/short realisation and other irregularities as mentioned below:

Misappropriation/fraud

Lack of exercise of due care in ascertaining the genuineness of beneficiaries and in overseeing the mode of implementation of a loan-linked project by Thiruvananthapuram Municipal Corporation resulted in misappropriation of ₹5.79 crore through release of subsidy amount to persons who had not availed any loans.

(Paragraph 5.1)

Unfruitful expenditure

Defective planning and lack of feasibility study by District Panchayat, Kasaragod and the Project Officer, District Khadi and Village Industries Office, rendered expenditure of ₹44.01 lakh incurred on the purchase of 45 new looms for installation in Khadi weaving centres in the district infructuous.

(Paragraph 5.2)

Non/short realisation

Failure in adopting maximum permissible Floor Area Ratio of the most restrictive occupancy while calculating permit fee of a multiple occupancy building led to short realisation of ₹39.57 lakh by Thrissur Municipal Corporation.

(Paragraph 5.3)

Regularity issues

Non-compliance to eligibility conditions stipulated in Guidelines for release of Technology Fund by Kudumbashree Mission resulted in selection of ineligible micro enterprises to whom Technology Fund amounting to ₹1.07 crore was released. Failure in adhering to prescribed financial limit for sanctioning of projects by the District Mission Coordinators in Malappuram and Thiruvananthapuram resulted in ineligible release of ₹11.50 lakh to three Self Help Groups.

(Paragraph 5.4)

Irregular inclusion of components in the unit price of RO water purifiers purchased by a micro enterprise unit of Kudumbashree resulted in loss of ₹41.85 lakh from the own funds of Thiruvananthapuram Corporation. Further, idling/non-installation of water purifiers supplied to schools led to unfruitful expenditure of ₹4.28 lakh in 14 test-checked schools.

(Paragraph 5.5)

The Executive Director, Kudumbashree released ₹95 lakh to Marari Marketing Limited from ₹one crore of Corporate Social Responsibility (CSR) Fund received from Kerala State Financial Enterprises, which was utilised for purchase of raw materials, as against ₹10 lakh permissible as per Kudumbashree's proposal for CSR fund. Further, an interest free loan of ₹40 lakh released subsequently by Kudumbashree, to help the company overcome its adverse financial situation remains to be repaid.

(Paragraph 5.6)