REPORT OF
THE COMPTROLLER AND AUDITOR GENERAL
OF INDIA

FOR THE YEAR ENDED 31 MARCH 2007

(LOCAL SELF GOVERNMENT INSTITUTIONS)

GOVERNMENT OF KERALA

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PREFACE

This report is prepared for submission to the Governor under Article 151 of the Constitution. The findings arising from performance audit and audit of accounts of Local Self Government Institutions (LSGIs) for the years upto 2002-03 were included in the Report (Civil) of the Comptroller and Auditor General of India (CAG). From 2003-04 onwards a separate Report of the CAG on LSGIs is prepared each year for inclusion of audit findings relating to LSGIs.

Chapter I of this Report contains an overview of the structure and finances of the LSGIs and related observations. In Chapter II, comments arising from supplementary audit under the scheme of providing Technical Guidance and Supervision to the Director of Local Fund Audit under Section 20 (1) of the CAG's (DPC) Act, 1971 are included. The remaining chapters contain audit observations arising from performance audit and audit of accounts of all categories of LSGIs viz. District Panchayats, Block Panchayats, Grama Panchayats, Municipal Corporations and Municipalities.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2006-07 as well as those which had come to notice in earlier years but could not be included in previous Reports. Matters relating to the period subsequent to 2006-07 have also been included wherever necessary.

OVERVIEW

This Audit Report includes seven performance reviews of which four are mini reviews and ten audit paragraphs. In addition, it also includes observations on the structure and finances of the Local Self Government Institutions (LSGIs) and the results of supplementary audit under the scheme of Technical Guidance and Supervision. Copies of the draft reviews and paragraphs were forwarded to the Government and the replies wherever received have been duly incorporated in this Report.

I The Structure and Finances of the Local Self Government Institutions

Accounts of LSGIs were in arrears since 1996-97. Cash books were not maintained and closed properly leading to internal control failure.

Though funds of Rs.260.80 crore were available for implementation of seven centrally sponsored schemes, actual utilisation was only Rs.70.63 crore (27.08 per cent).

(Paragraphs 1.1 to 1.18)

II *Technical Guidance and Supervision and the results of supplementary audit*

The Comptroller and Auditor General of India (CAG) provides Technical Guidance and Supervision to Director of Local Fund Audit under section 20 (1) of the CAG's (DPC) Act, 1971. The scheme of TGS comprises audit planning, audit of 10 per cent of institutions and supplementary audit of 10 per cent of institutions audited by DLFA. In 2006-07, supplementary audit of 91 LSGIs was conducted. It revealed improper maintenance of various registers of accounts, lapses in preparation of budgets and Annual Financial Statements and temporary misappropriations.

(Paragraphs 2.1 to2.16)

III Performance Reviews

1 Implementation of National Rural Employment Guarantee Act

National Rural Employment Guarantee Act, 2005 guarantees 100 days of employment to all households whose adult members are willing to do unskilled manual work. The planning process was defective leading to poor performance of the scheme. Unemployment allowance was not paid to any beneficiary.

The process of planning was weakened due to non-preparation of labour budget and District perspective plan.

With grama sabhas not being convened in any test checked GPs in Palakkad district and door to door survey not being conducted at the commencement of the Act, in 13 out of 16 GPs in Palakkad and Wayanad districts, prospective beneficiaries were not made fully aware of the benefits entitled to them.

Majority of the job card holders (108913 out of 213840) in the state did not apply for work due to lack of awareness and restrictions imposed on them from applying for jobs.

Out of 267614 registered households in the state, employment was provided only to 99107 households (37 per cent) and the number of households who got employment for 100 days was 537 (0.54 per cent).

Rate of wages paid in 12 out of 16 Grama Panchayats in the selected districts was less than the minimum wage rate of Rs 125 and there was a delay of upto 56 days for payment of wages in eight selected GPs in Wayanad.

Unemployment allowance was not paid to any household in the State.

(Paragraph 3.1)

2 Implementation of Building Rules in Municipal Corporations

Regulation of building construction in accordance with the provisions of Kerala Municipality Act, 1994, Kerala Municipality Building Rules, 1999, zoning regulations and other related rules and Government orders is one of the functions of Municipal Corporations. Audit noticed numerous unauthorised constructions as a result of issue of permits in violation of the Act and Rules by Municipal Corporations. Short realisation of revenue and unsatisfactory delivery of services to the public were also noticed.

No action was taken on 26.12 per cent of applications seeking for building permit in Thiruvananthapuram and Kozhikode Municipal Corporations.

Short realisation of additional fee of Rs. 36.28 lakh was noticed due to non-application of correct Floor Area Ratio (FAR).

Thiruvananthapuram Municipal Corporation (TMC) issued building permit to a hospital in violation of zoning regulations.

The selected Corporations regularised 11433 unauthorised constructions during 2004-05 to 2006-07.

Though TMC detected unauthorised construction of a temporary shed, no action was taken either to regularise or demolish the construction.

Unauthorised permission granted by TMC to construct residential building resulted in construction of 14 storey building in violation of KMBR and zoning regulations.

Even though incinerators were to be installed in hospitals as per KMBR, 67 hospitals in both the Corporations were running without incinerators for disposing of bio wastes.

(Paragraph 3.2)

3 Internal Controls in Urban Local Bodies in Ernakulam District

A built in internal control mechanism to ensure effectiveness in carrying out the traditional functions and the transferred functions by the Urban Local Bodies (ULBs) is provided in the Kerala Municipalities Act, 1994, rules made thereunder and Government Orders and guidelines. The internal control system in ULBs was very weak as rules regarding various control measures were not complied with. The system could not ensure efficiency and economy of operation and failed to provide reasonable assurance against loss and misappropriation.

Advances amounting to Rs.10.37 crore paid by the selected ULBs during 1975-76 to 2006-07 remained unadjusted as a result of control lapse.

Non-adherence to internal controls prescribed in respect of assessment and collection of tax and non-tax revenue led to non-realisation of revenue.

Non-maintenance of Personal Register led to lapse in internal controls for ensuring prompt action by the ULBs with respect to the documents received by them.

Inadequate internal controls led to awarding the same work to a contractor as two different works in Municipal Corporation of Kochi (MCK)

There was no provision in the Act and Rules for conducting internal audit to check the efficiency of the internal control system.

(Paragraph 3.3)

4 Death cum retirement benefit scheme in Urban Local Bodies

Receipts and payments under Central Pension Fund (CPF) were not properly accounted by the Director of Urban Affairs (DUA). Fourteen Urban Local Bodies (ULBs) did not remit pension contribution on the due date resulting in arrears. The pension fund was not sufficient to meet the expenditure on pension payments. At the existing rates of contribution, it was not possible to run the scheme successfully. Though administrative expenses of Rs.74.64 lakh were to be met from CPF, it was incurred from Government funds.

(Paragraph 3.4)

5 Implementation of RIDF projects

Out of 617 projects undertaken during 1997-2006, only 369 could be completed. Government did not release Rs.38.07 crore to the Block Panchayats out of Rs.138.66 crore released by NABARD. Two works undertaken by two BPs were abandoned after spending Rs.38.64 lakh due to non-availability of land. It was noticed that three BPs did not account

Rs.98.36 lakh received for implementation of the scheme and the expenditure received therefrom.

(Paragraph 3.5)

6 Management of food grains in Sampoorna Grameen Rozgar Yojana (SGRY) in Block Panchayats and District Panchayats

Instead of issuing foodgrains from authorised retail dealers to the labourers based on actual work done, the foodgrains were issued directly from FCI godown to the convenors in lumpsum resulting in diversion and fraud. The convenors of 403 works derived undue benefit of Rs.5.44 crore by diverting 7666.66 MT of food grains to open market.

While the records of FCI showed that the entire allotment of 2243 MT of rice for the year 2002-03 in respect of District Panchayat (DP) Kollam had been lifted, the DP could not account for 1438.643 MT of rice valuing Rs.2.04 crore.

(Paragraph 3.6)

7 Special Live Stock Breeding Programme

Funds released by Government and LSGIs exceeded the actual requirement with reference to the actual number of calves enrolled resulting in irregular excess release of Rs.11.94 crore. The dropout rate was as high as 24.93 per cent in selected districts. The subsidy amount was not sufficient to issue feeds for the prescribed period due to non-revision of subsidy rates in synchronisation with the increase in price rates of feeds. The calving age of calves could be reduced only in respect of 27.72 per cent of the calves enrolled in selected districts.

(Paragraph 3.7)

IV Transaction Audit

Injudicious decision to advance Rs.3.93 crore to KSEB for implementation of Arippara Hydro Electric Project without executing agreement resulted in loss of interest of Rs.1.97 crore.

(Paragraph 4.1)

Unauthorised closure of Treasury Public account and crediting funds of Rs.49.50 lakh received for implementation of Centrally Sponsored Schemes to Government account resulted in the non-implementation of Centrally Sponsored Scheme by the Block Panchayat, Thaliparambu.

(Paragraph 4.2)

Failure to conduct sub soil test by Block Panchayat, Cherpu resulted in sinkage of road leading to abandonment of the work and expenditure of Rs.43.26 lakh becoming infructuous.

(Paragraph 4.3)

Injudicious decision of the District Panchayat, Thrissur to hand over the construction and working of the rice park to ASIRVAD without ensuring proper monitoring and control mechanism on its working resulted in closing down of the Rice Park and resultant unfruitful expenditure of Rs.2.23 crore.

(Paragraph 4.4)

Allotment of General Purpose Grant to the Corporation of Kochi during 2005-06 without deducting the amount already allotted resulted in release of funds in excess of budget provision leading to irregular diversion of plan funds of Rs.1.29 crore for payment of salary and other non-plan expenditure.

(Paragraph 4.5)

A bridge across Kannadichal constructed in January 2002 in Kumarakom Grama Panchayat could not be used as the approach road sank twice despite technical feasibility study carried out by Government Engineering College, Thiruvananthapuram resulting in unfruitful expenditure of Rs.64.45 lakh..

(Paragraph 4.6)

Embezzlement of food grains costing Rs.34.03 lakh by the staff of Arattupuzha Grama Panchayat in connivance with convenors in arranging works relating to Tsunami relief, detected in audit.

(Paragraph 4.7)

To avoid the laid down tendering procedures, Municipal Corporation of Kochi resorted to splitting the work of supply and installation of sodium vapour lamps. This resulted in adoption of higher market rates in the estimates and excess expenditure of Rs.45.35 lakh.

(Paragraph 4.8)

Non-realisation of value of sand extracted by contractor for 5 ½ months led to undue benefit of Rs.12.72 lakh to the contractor in Aruvappulam Grama Panchayat.

(Paragraph 4.9)

Plan fund of Rs.27.87 lakh meant for providing house plots and houses to purambokku dwellers was diverted by MCK for liquidating loan liability of beneficiaries of housing scheme implemented by Greater Cochin Development Authority.

(Paragraph 4.10)

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

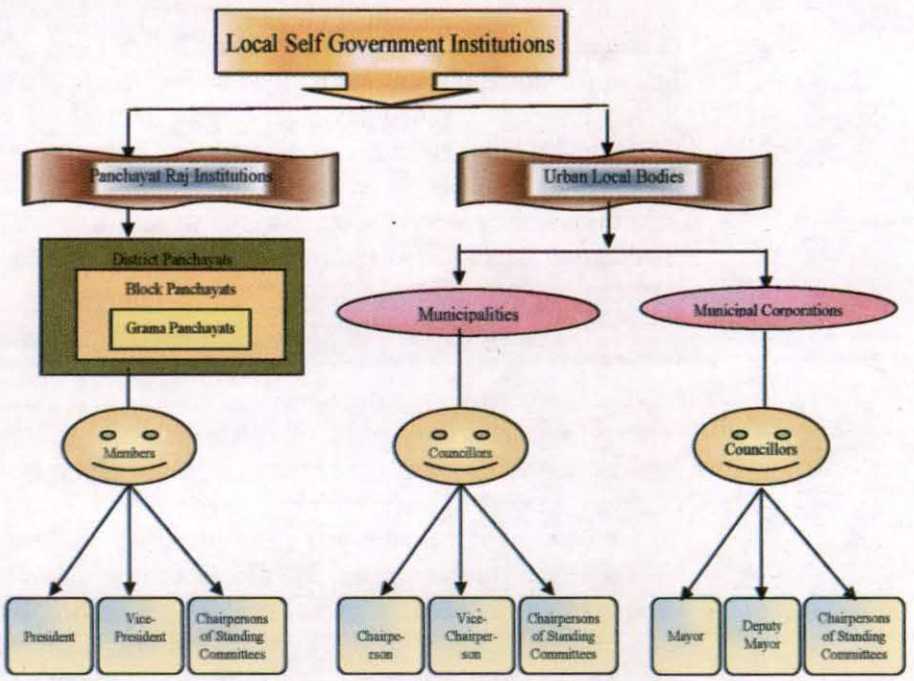
1.3.1 As on 31 March 2007, there were 1223 LSGIs in the state. The details of various categories of LSGIs, their area and population were as follows.

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	Rece-ived	Arrears	Due	Rece-ived	Arrears	Due	Rece-ived	Arrears	Due	Rece-ived	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 LSGIs[1]. 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:-

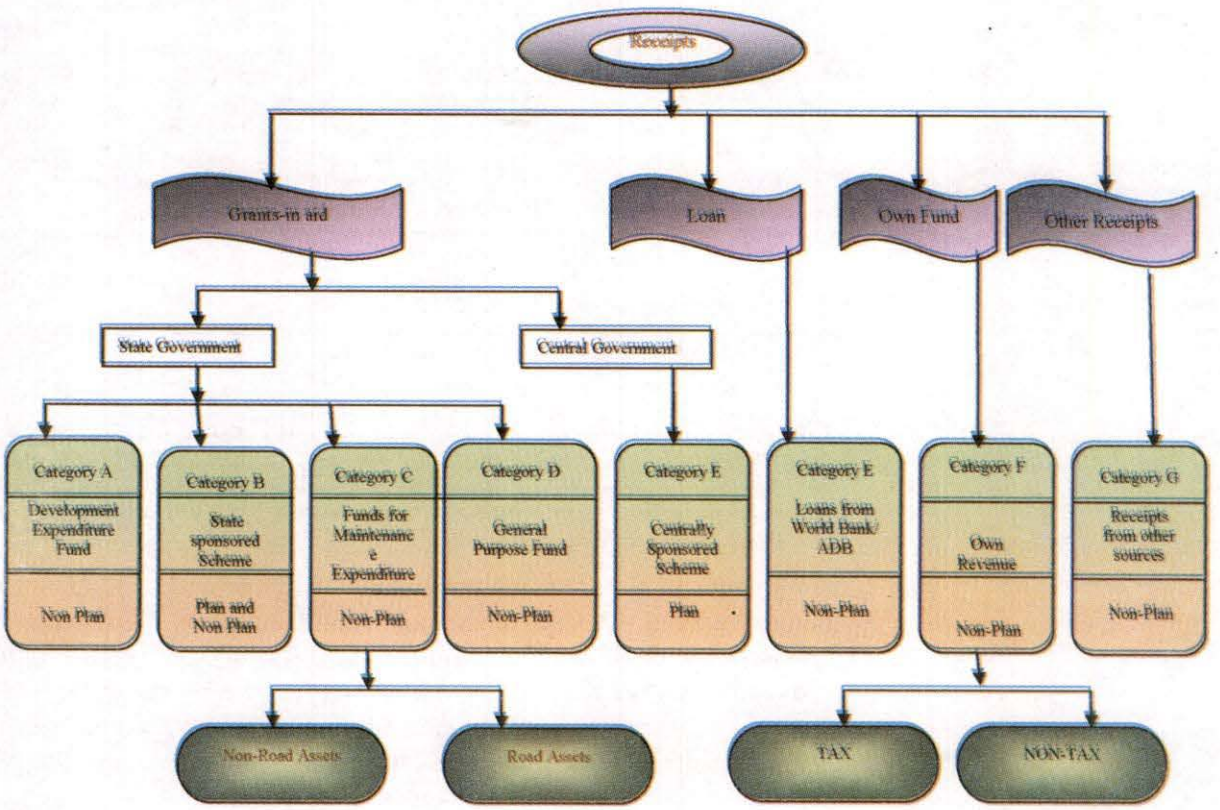
Year	Instalment	Amount received (Rs in crore)	Date of receipt
2005-06	I	113.40	26 August 2005
2005-06	II	113.40	02 February 2006
2006-07	I	113.40	30 August 2006
2006-07	II	113.40	05 March 2007
Total		**453.60**	

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)

Sl No	Major Head	Budget provision			Expenditure			Percentge		
		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			Perce-ntage	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 KURDFC[1], HUDCO[2], KSRDB[3], 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											
		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		Total 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)

Sl 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:

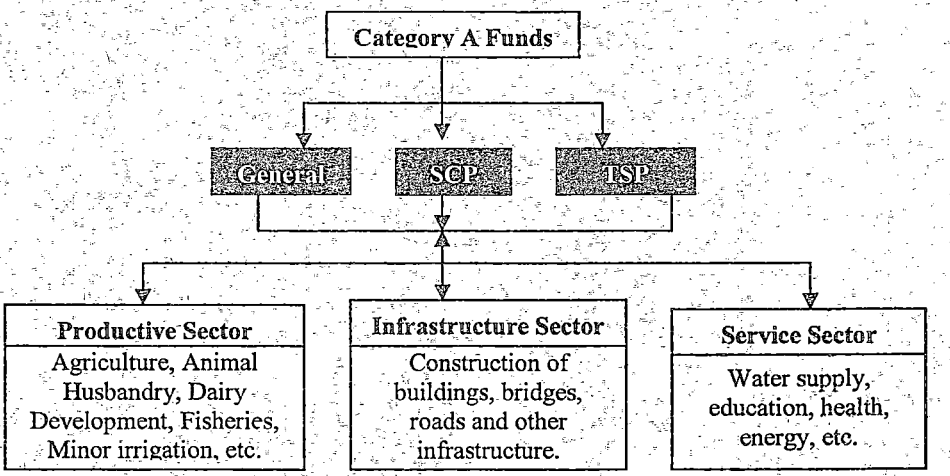
(Rs in crore)

Sl 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	22.3[1]	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)

Sl 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)

Sl 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 districts[1] 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.**

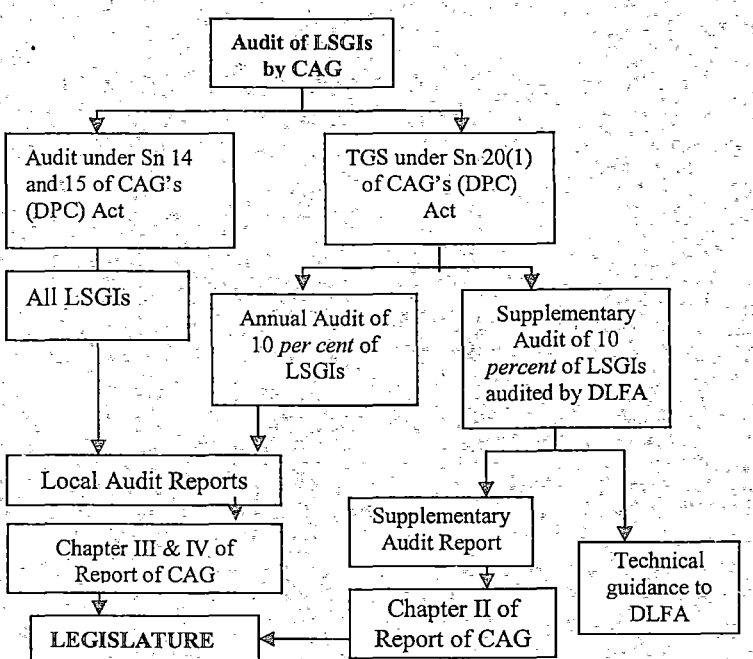
[1] Iddukki, Kannur, Kasargod, Kollam, Kozhikode, Malappuram, Thrissur and Wayanad,

CHAPTER II

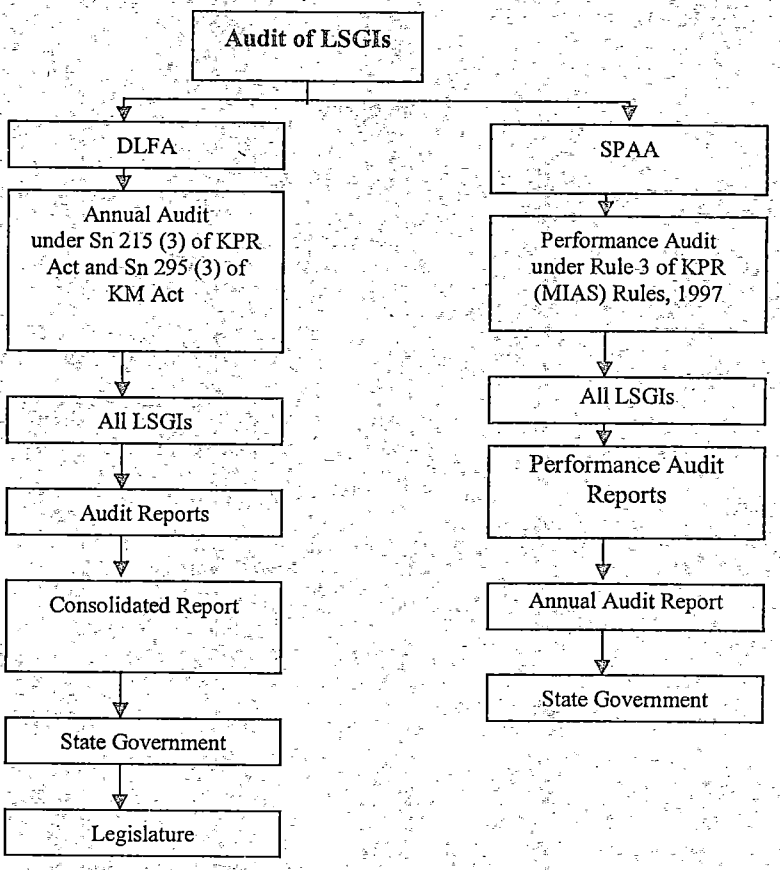
TECHNICAL GUIDANCE AND SUPERVISION AND THE RESULTS OF SUPPLEMENTARY AUDIT

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 12[1] 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. Six[1] LSGIs did not maintain Register of Advances. In 12[2] 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] Edamulakcal,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 Profession Tax	6.00 3.00	4.05 1.90	1.95 1.10	48.15 57.89
2002-03	Vazhakkad GP	Property Tax Profession Tax	9.00 5.00	5.89 3.66	3.11 1.34	52.80 36.61
2002-03	Pampadumpara GP	Property Tax Profession Tax	11.00 4.25	2.97 2.95	8.03 1.30	270.37 44.07
2001-02	Kozhikode Corporation	Property Tax Profession Tax	1100.00 220.00	545.00 176.00	555.00 44.00	101.83 25.00
	Total	Property Tax Profession Tax	1126.00 232.25	557.91 184.51	568.09 47.74	101.82 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 Salary and allowances	10.00 8.00	2.51 3.98	7.49 4.02	298.41 101.01
2002-03	Thevalakara	Road maintenance Salary and allowances	20.00 8.00	0.10 4.82	19.90 3.18	19900.00 65.98
	Total	Road maintenance Salary and allowances	30.00 16.00	2.61 8.80	27.39 7.20	1049.43 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 Pudussery 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 five[1] 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 LSGIs[2] 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 three[1] LSGIs closing balance shown in the cash book and closing balance shown in AFS were different.
- In five[2] 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 eight[3] LSGIs.
- Physical verification of items included in the stock register was not conducted in 10 LSGIs[4].

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.

CHAPTER III
PERFORMANCE REVIEWS

3.1 Implementation of National Rural Employment Guarantee Act

Highlights

National Rural Employment Guarantee Act, 2005 guarantees 100 days of employment to all households whose adult members are willing to do unskilled manual work. The planning process was defective leading to poor performance of the scheme. Unemployment allowance was not paid to any beneficiary.

- **The process of planning was weakened due to non-preparation of labour budget and District perspective plan.**

(*Paragraphs* 3.1.8.2 and 3.1.8.4)

- **With grama sabhas not being convened in any test checked GPs in Palakkad district and door-to-door survey not being conducted at the commencement of the Act in 13 out of 16 GPs in Palakkad and Wayanad districts, prospective beneficiaries were not made fully aware of the benefits entitled to them.**

(*Paragraphs* 3.1.10.1 and 3.1.10.2)

- **Majority of the job card holders (108913 out of 213840) in the state did not apply for work due to lack of awareness and restrictions imposed on them from applying for jobs.**

(*Paragraph* 3.1.11.1 and 3.1.11.2)

- **Out of 267614 registered households in the state, employment was provided only to 99107 households (37 per cent). The number of households who got employment for 100 days was 537 (0.54 *per cent*).**

(*Paragraph* 3.1.11.5)

- **Rate of wages paid in 12 out of 16 Grama Panchayats in the selected districts was less than the minimum wage rate of Rs 125 and there was a delay of upto 56 days for payment of wages in eight selected GPs in Wayanad.**

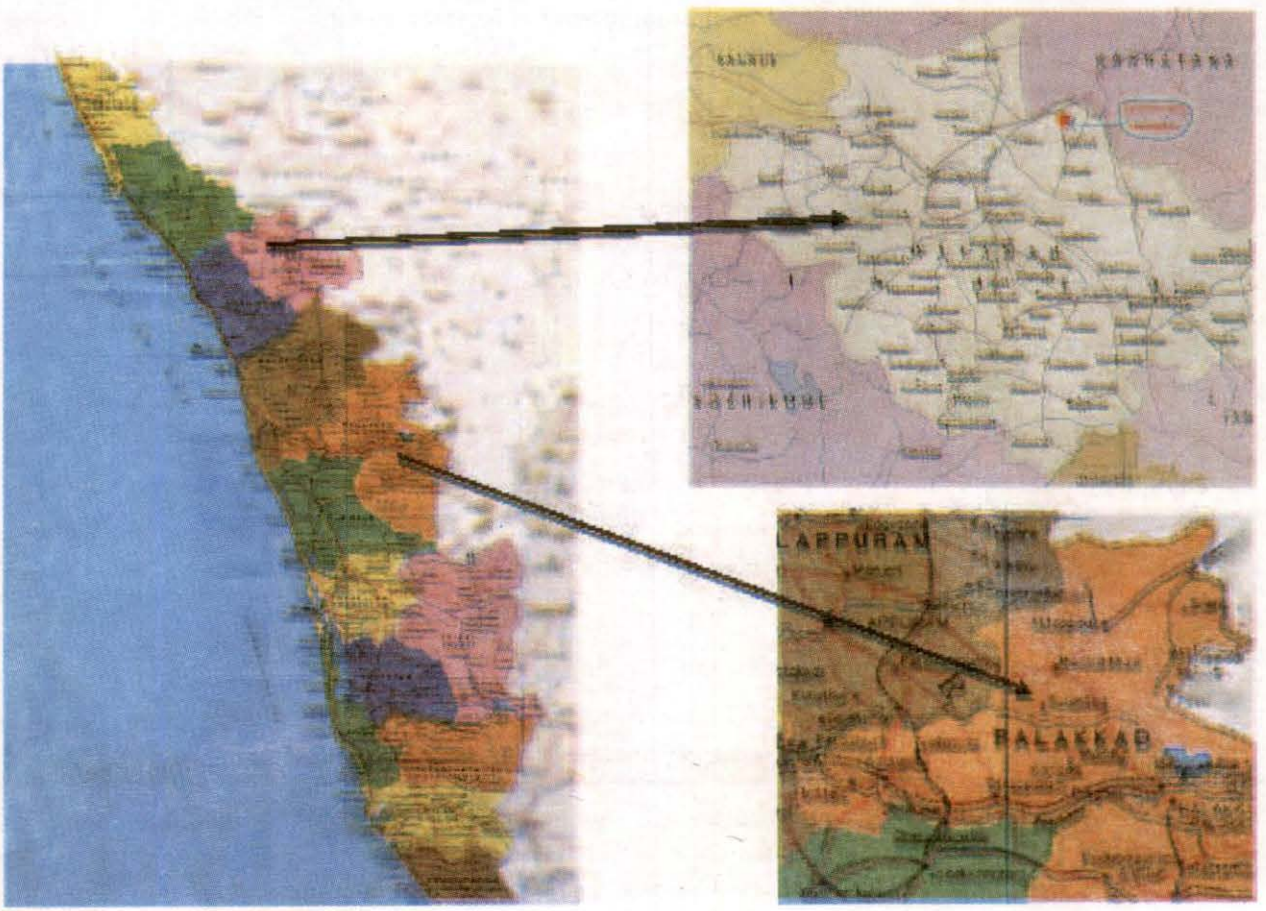
(*Paragraphs* 3.1.12.1 and 3.1.12.3)

- **Unemployment allowance was not paid to any household in the State.**

(*Paragraph* 3.1.13.1)

3.1.1 Introduction

The National Rural Employment Guarantee Act, 2005 (NREGA) promulgated in September 2005 guarantees 100 days of employment in a financial year to any rural household whose adult members are willing to do unskilled manual work. The Act came into force initially with effect from 2 February 2006 in 200 districts, and was subsequently extended to cover the whole country from the year 2008-09. The State Government formulated (June 2006) Kerala Rural Employment Guarantee Scheme (KREGS), conforming to the minimum features specified under the Act. The scheme was implemented in the state from 2006-07 onwards in the backward districts of Palakkad and Wayanad situated in the eastern border of the state.



Particulars	Palakkad	Wayanad
Area (Sq Km)	4480	2131
Population	2617482	780619
SC Population	432578	33364
ST Population	39665	136062
BPL households	204605	64794

Rural households which had registered themselves with the local Grama Panchayats were entitled for wage employment for 100 days in a year or else unemployment allowance at the prescribed rates would have to be paid. Detailed operational guidelines issued by the Ministry of Rural Development and KREGS prescribed

- the types of works that could be covered under NREGA;
- the minimum entitlements of labour;
- the roles and responsibilities of different functionaries from the State Government to the District, Block and Grama Panchayat level; and
- the detailed procedures for planning, financial management, registration, allocation of employment, execution of works, payment of wages and unemployment allowance; etc.

Primary Objectives of the scheme were:

(i) To provide legal Guarantee of 100 days of employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work at the minimum wage rate prescribed in the State or else pay unemployment allowance.

(ii) To create durable assets for Grama Panchayats and village population.

The following were the Secondary Objectives :

(i) Protecting the environment

(ii) Empowering the rural women and

(iii) Reducing the rural urban migration and fostering social equity.

3.1.2 Organisational set up

The Ministry of Rural Development (MoRD) is the nodal Ministry for implementation of NREGA at national level. A Central Employment Guarantee Council was set up for ensuring timely and adequate resource support to the States. At the State level, State Employment Guarantee Council (SEGC) was constituted (March 2006) with the Minister (RD) as the Chairman to advise the State Government on the implementation of the Scheme and also to evaluate and monitor it. As required under the Act, the State Government designated Commissioner of Rural Development as the

State Rural Employment Guarantee Commissioner responsible for ensuring that all activities required to fulfil the objectives of the Act are carried out. District Collectors were designated as District Programme Coordinators (DPC) and are responsible for implementation of the scheme in the district. Programme Officer (PO) who is not below the rank of a Block Development Officer appointed by the Government is responsible for implementation of the scheme at block level. Grama Panchayats (GPs) are responsible for implementing the scheme at village level. Panchayats at district, block and village levels are the principal authorities for planning and implementation of the scheme. Line Departments, NGOs, Central and State Government undertakings and Self Help Groups were not nominated as implementing agencies (IAs) in the state though as per the Act they could be nominated as IAs.

3.1.3 Audit Objectives

The audit objectives were to see whether:

- effective preparatory steps for planning, implementation and monitoring/evaluation of outcomes had been carried out by the State Government.
- the procedures for preparing perspective and annual plan at different levels for estimating the likely demand for work and preparing shelf of projects were adequate and effective
- funds released for NREGA were accounted for and utilized in compliance with the guidelines
- there was an effective process for registration of households, allotment of job cards, and allocation of employment in compliance with the guidelines
- NREGA works were properly planned, executed and durable assets were created and properly accounted for
- wages and unemployment allowance were paid in accordance with the Act and the guidelines and the intended objective of providing 100 days of annual employment at the specified wage rates was effectively achieved.
- there was adequate and effective mechanism at different levels for monitoring and evaluation of NREGA outcomes.
- there was an adequate and effective mechanism for social audit and grievance redressal.

3.1.4 Audit Criteria

The audit criteria were:

- NREGA Act and notifications issued thereunder
- NREGA Operational Guidelines (2006)
- Circulars and documents issued by the MoRD
- Kerala Rural Employment Guarantee Scheme

- Orders and circulars issued by the State Government and the Commissioner of Rural Development.

3.1.5 Audit Scope and Methodology

Both the districts where NREGA was implemented (Palakkad and Wayanad) were selected for review. In each district, 2 blocks were chosen using Simple Random Sampling Without Replacement. The selected blocks were Alathur and Malampuzha in Palakkad district and Kalpetta and Sulthan Bathery in Wayanad district. Four Grama Panchayats in each block were chosen using Probability Proportionate to Size (PPS) Sampling as detailed below.

Districts	Palakkad		Wayanad	
Blocks	Alathur	Malampuzha	Kalpetta	Sulthan Bathery
Grama Panchayats	Erumayur Kannambra Kizhakkenchery Vandazhy	Elappully Malampuzha Peruvembu Pudussery	Kottathara Meppady Muppainad Vythiri	Meenangadi Nenmeny Poothady Pulpally

In addition to test check of records in the selected PRIs, records of the Commissioner of Rural Development, District Programme Co-ordinators were also test checked. The period of audit coverage was February 2006 to March 2007. The review was conducted during the period from May to October 2007 and the findings are given below.

3.1.6 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.1.7 General

NREG Scheme is unique in the sense that it is a demand driven scheme. As per the Act, Government is bound to provide employment for 100 days a year to any rural household who demands unskilled work. Unlike in other Centrally Sponsored Schemes, State Government was made liable under the Act to pay compensation in the form of unemployment allowance to those households which demanded but were not provided with employment as demanded subject to a maximum of 100 days in a year. The fact that the PRIs are required to apply for funds whenever 60 *per cent* of funds allotted is utilised for providing employment shows that there is no funds constraint for the implementation of the scheme.

3.1.7.1 Delay in formulating KREGS

According to Section 4(1) of the Act, every State Government is required to formulate its own Rural Employment Guarantee Scheme (REGS) in conformity with the provisions of the Act within six months from the date of commencement of the Act. Although the State Government should have formulated the REGS not later than 4 March 2006 since the date of commencement of the Act was 5 September 2005, it was seen that KREGS was formulated on 23 June 2006 after a delay of three months.

3.1.7.2 Rules not framed

The State Government is required to frame necessary rules in line with the provisions of the Act as per Section 32 of the Act. Even after two years from the promulgation of the Act, the State Government did not frame any rule for implementation of the scheme. This lapse on the part of the Government had affected various phases of implementation of the Act such as publicity, door to door survey, registration, issue of job card, providing employment, etc. as pointed out in subsequent paragraphs.

3.1.8 Planning

Planning is critical to the successful implementation of a scheme. A key indicator of success is the timely and adequate generation of employment while ensuring that the design and selection of works are such that good quality assets are created. The basic aim of the planning process is to ensure that each District is prepared well in advance to offer productive employment on demand.

3.1.8.1 District Perspective Plan

The District Perspective Plan (DPP) was to be prepared having a developmental perspective for the districts and linkages between the types of REGS works and long term employment generation and sustained development. Further, demand for employment in each district was to be drawn up based on decisions taken in the Grama Sabha meetings. It was observed that though DPP was prepared in Palakkad district by Centre for Management Development (February 2007), it was not approved by the District Panchayat and was also not forwarded to the MoRD. Specification of physical assets to be created such as length of road, size of tank, etc. and enduring outcomes such as villages connected by newly constructed roads, area irrigated by newly constructed tank, etc. were not specified in the DPP. Of the total outlay of Rs.394.29 crore provided in the DPP of Palakkad district, Rs.236.76 crore (60.05 *per cent*) was earmarked for micro irrigation works and priority was next given to renovation of traditional water bodies with an outlay of Rs.63.31 crore (16.06 *per cent*) as shown in the table below:

Sl No	Permissible Works	Provision as per DPP	
		Amount in (Rs. lakh)	As percentage of total outlay
1	Water conservation and water harvesting	3161	8.01
2	Drought proofing	1549	3.93
3	Micro Irrigation works	23676	60.05
4	Provision for irrigation works to land owned by SC/ST and beneficiaries of IAY	52	0.13
5	Renovation of traditional water bodies	6331	16.06
6	Land development	1710	4.34
7	Flood control and protection works	1328	3.37
8	Rural connectivity	1622	4.11
	Total	**39429**	**100.00**

3.1.8.2 DPP not prepared in Wayanad District

The process of planning was defective

In Wayanad district, DPP was not prepared. In the absence of DPP, long term advance planning and a developmental perspective for the district could not be provided resulting in inclusion of such projects in the annual plans of PRIs which were not envisaged in DPP.

3.1.8.3 Annual plan

Annual Plan is the working plan which identifies the activities to be taken up on priority in a year. For ensuring people's participation in the planning process, Grama Sabha should be convened in advance to estimate demand for labour and propose the number and priority of works to be taken up in the following year. Participation of likely beneficiaries in the Grama Sabha was to be ensured so that their priorities and needs could be adopted in the Annual Plan. The annual plans of GPs were to be forwarded to the PO who would scrutinise and consolidate them into a block plan. The block plan which also identifies works involving more than one GP was to be then forwarded to the DPC for scrutiny and consolidation into a district plan. The DPC would examine and approve the district plan.

The timings of Grama Sabha meetings were to be decided taking into consideration working season to ensure maximum participation of beneficiaries. This was not adhered to in three[*] out of eight GPs test checked in Palakkad. As a result, Grama Sabhas convened for preparation of annual plans had very low attendance. The recommendations formulated in Grama Sabhas were to be forwarded to the GPs for preparing an annual plan indicating clearly the existing demand for work. In none of the 16 selected GPs, the demand for work was worked out in the annual plans. Audit scrutiny revealed that the estimated person days of employment was provided only in four[*] out of eight selected GPs in Wayanad and one[*] GP out of eight selected in Palakkad. However, the specification of physical assets and enduring outcomes were not given in the annual plan of any of the test checked GPs. Thus the annual plan did not fully serve the purpose for which it was made. It was seen that annual plans of GPs were not consolidated into a block plan and the block plans into a district plan in either of the districts.

3.1.8.4 Labour Budget

GPs should forward proposals to the PO who in turn should consolidate the proposals of GPs and match the demand for work in the block with the employment opportunities arising from the proposed projects. After approval by the Block Panchayat, the block plan should be forwarded to the DPC. The DPC should prepare a 'labour budget' containing details of anticipated demand for work in the district and the plan for engaging labourers in the works which should ultimately be submitted to the District Panchayat for approval. Though POs, Alathur and Palakkad forwarded the proposals to DPC, Palakkad (October 2006), he could not prepare the labour budget due to non-receipt of similar proposals from other Blocks. Similarly, labour budget was

[*] Erumayur, Malampuzha and Pudussery GPs
[*] Kottathara, Meppady, Nenmeny and Vythiri
[*] Malampuzha

also not prepared in Wayanad in the absence of proposals from the Blocks. As a result there was hardly any effective planning for implementation of the scheme.

3.1.9 Funding

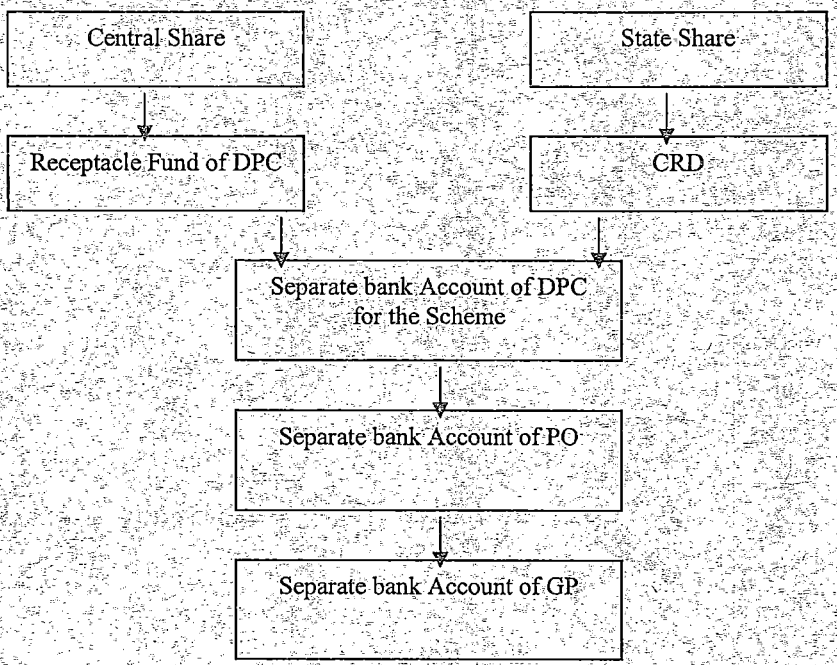
Funds required for implementation of the scheme are provided by the Central and State Governments in the following manner.

Government of India	State Government
Entire wages of unskilled workers	Unemployment allowance
75% of cost of materials and wages of semi-skilled/skilled workers	25% of cost of materials and wages of semi-skilled/skilled workers
Administrative expenses of Central Employment Guarantee Council, Programme Officers and their staff	Administrative expenses of State Employment Guarantee Council

Barring unemployment allowance and administrative expenses of State Employment Guarantee Council (SEGC), State Government has to bear only a maximum of 10 *per cent* of the expenditure if the wage material ratio of 60:40 is maintained. In cases where the material/skilled labour used were less than 40 *per cent*, the state share would be even less than 10 *per cent*. In the test checked GPs in Wayanad district where no material was used for the works executed under the scheme, the State share was only on the administrative cost of SEGC.

3.1.9.1 State Employment Guarantee Fund

The State Government, by notification was to establish a fund called State Employment Guarantee Fund (SEGF) which was to be expended and administered as a Revolving Fund (RF). It should also simultaneously frame Rules that would govern and ensure its utilisation according to the purposes of the Act. However, no such fund was established and no rules therefore were framed. Similarly, RFs which were to be set up at District, Block and GP levels were also not constituted. In the absence of RFs, the transactions of money made for implementation of the scheme were outside the purview of RFs. Central share of funds was credited direct by MoRD to the bank accounts of DPCs maintained for the purpose whereas state share was passed on to them through CRD. The amount required for implementation was to be provided to the GPs and other implementing agencies as shown in the following flow chart.



In Palakkad district the amount was not transferred in advance to the PO or GP. As per the arrangements made with 15 different banks in Palakkad, the DPC deposited the share of GPs in the accounts maintained by the DPC at the district level in such banks and the GPs were allowed to draw money from these accounts. Thus all the unspent balances were held in the bank accounts of the DPC. Unspent balance as per the accounts of DPC was Rs.9.08 crore whereas the balance as per the bank accounts was Rs.11.26 crore including interest of Rs.51 lakh. Thus there was a difference of Rs.2.18 crore which was not reconciled. As the DPC was maintaining accounts in so many banks, the risk of misappropriation could be mitigated by effective reconciliation.

3.1.9.2 Accounts maintained in non-public sector banks

Rs.99 lakh deposited in non-public sector banks and non-operative

As per the guidelines separate accounts in Public sector banks alone should be opened for keeping funds of the scheme. Out of 15 bank accounts opened by the DPC and GPs in Palakkad district, four were non-operative accounts and four were in non-public sector banks. The details of amounts deposited in such accounts and the balance amounts were as follows:

(Rupees in lakh)

Sl No	Name of Bank	Whether nationalised	Amount Deposited	Interest credited	Amount Withdrawn	Balance Amount	Whether account is operative
1	Federal Bank	No	36.00	0.85	17.05	19.80	Yes
2	South Indian Bank	No	27.00	0.63	20.00*	7.63	No
3	Catholic Syrian Bank	No	18.00	0.42	15.00*	3.42	No
4	Dhana Lakshmy Bank	No	9.00	0.36	---	9.36	No
5	Corporation Bank	Yes	9.00	0.18	---	9.18	No
	Total		99.00	2.44	52.05	49.39	No

* These are amounts transferred to other banks and not the real expenditure

Out of Rs.99 lakh deposited in these banks, Rs.49.39 lakh was outstanding as balance (March 2007) including interest accrued. Keeping money unnecessarily in non-operative bank accounts and in non-public sector banks was not in conformity with the guidelines.

3.1.9.3 Receipt and utilisation of funds

Out of Rs.48.36 crore available the utilisation was Rs.27.90 crore.

Out of Rs.48.36 crore received upto March 2007, the amount utilised was Rs.27.90 crore leaving an unspent balance of Rs.20.46 crore as detailed below:-

(Rupees in crore)

District	Opening Balance (Central Share)	Receipts			Total Recepts			Total	Utilisation	Unspent Balance
		Central Share	State Share	Misc Receipts	Central Share	State Share	Misc Share			
Palakkad	5.35	17.44	2.49	---	22.79	2.49	---	25.28	16.20	9.08
Wayanad	6.27	14.37	2.27	0.17	20.64	2.27	0.17	23.08	11.70	11.38
Total	**11.62**	**31.81**	**4.76**	**0.17**	**43.43**	**4.76**	**0.17**	**48.36**	**27.90**	**20.46**

Source : Progress Report submitted by State Government to GoI.

The percentage of utilisation was 57.69 per cent. Of the unspent balance of Rs.20.46 crore, Rs.2.22 crore was with the GPs and the balance of Rs.18.24 crore was with the DPCs. The utilisation of fund received from various sources was unsatisfactory.

3.1.10 Registration and issue of Job Cards

The scheme is open to all rural households willing to undertake unskilled manual work. The entitlement of 100 days of guaranteed employment in a year is in terms of household which can be shared within the household. Those who register and apply for work are entitled to be provided with employment. The details of households registered under the scheme and provided employment were as given below:

District	No of rural households	No of households				Provided with job for 100 days	Maximum person days entitled	Person days provided	Expedniture (Rs in crore)
		Registered	Issued job cards	Demanded job	Provided with job				
Palakkad	455911	166200	139684	56919	55150	255	5691900	1156675	16.20
Wayanad	160398	101414	74156	48008	43957	282	4800800	893400	11.70
Total	616309	267614	213840	104927	99107	537	10492700	2050075	27.90

As against 104.93 lakh person days of employment entitled to 104927 households which demanded employment, 20.50 lakh person days (19.54 *per cent*) of employment could be provided in the state.

Against the envisaged execution of eight categories of works costing Rs.394.29 crore in the DPP of Palakkad, the financial achievement was only Rs.16.20 crore. According to the guidelines, at least 60 *per cent* of funds were to be utilied as labour component. Thus at least Rs.236.57 crore should have been spent on payment of wages alone. The employment that could have been generated by utilising Rs.236.57 crore was 189.26 lakh person days which was

more than sufficient to provide employment to all the registered 166200 households in Palakkad district. This points to the need of implementing the district perspective plan for the successful implementation of the scheme.

3.1.10.1 People's participation

It was mandatory to convene a Grama Sabha when the Act commenced to explain the provisions of the Act, mobilise applications for registration and conduct verifications. Audit scrutiny revealed that none of the test checked GPs in Palakkad district convened the grama sabhas at the commencement of the Act. As a result the PRIs could not make the beneficiaries fully aware of the benefits of the scheme.

3.1.10.2 Door to door survey not conducted

Awareness programmes were not effective.

To create awareness among the people about the scheme and to identify persons willing to register under the Act, a door-to-door survey was to be conducted by a team headed by the President of GP involving ward members, SC/ST and women residents, a village level Government functionary and the GP Secretary. Such a survey was conducted only in three[♦] out of 16 GPs test checked in selected districts which also contributed to the lack of awareness among the people about the benefits they were entitled to under the scheme. This had an inverse effect on the demand for work as detailed in paragraph 3.1.11.1

3.1.10.3 Application for Registration

Application for registration under the scheme should be given to the GP in the form prescribed by the Government. The procedure for applying for registration was so simple that even an oral request for registration could be entertained. The GP should verify the application not later than a fortnight after the receipt of the application and register the household. The total registered households in Palakkad and Wayanad districts were 1,66,200 and 1,01,414 respectively. The percentage of such registered households to the total rural households were 36 and 63 in the two districts respectively. The difference was attributable to the fact that Wayanad district was more economically backward and there were restrictions on registration in Palakkad as mentioned in the subsequent paragraph.

3.1.10.4 Restriction on registration

Though as per the scheme, registration was open throughout the year, CRD instructed the DPCs (January 2006) to receive applications between 2 and 16 of February 2006. In accordance with this direction, the applications were received in Palakkad district only during these days whereas in Wayanad applications were received throughout the year. Even though the registration restarted continuously from September 2006 in Palakkad, no registration was done during the intervening period from February 17 to August 2006. This was in violation of the guidelines and prevented the prospective beneficiaries from registering themselves under the scheme and enjoying the benefits assured by the Act.

[♦] Meppady, Pudussery and Vythiri.

3.1.10.5 Job cards not issued to all registered households

Job cards were issued to 79.91 *per cent* registered households.

The GPs were to issue job cards to every registered household within a fortnight of receipt of application. The Job Card is a critical legal document to ensure transparency and to protect labourers against fraud. The cost of job card including photograph was to be borne as part of the programme. Job cards were however not issued to all registered households. Out of 2,67,614 registered households in the state, job cards were issued only to 2,13,840 households (79.91 *per cent*). Non-issue of job cards could be attributable to lack of awareness among people about the scheme and requirements/ specifications contrary to the scheme as explained below.

In Wayanad district all registered households except SC/ST were required to produce photographs to be affixed in the job cards at their cost resulting in delay in processing the cards. Those beneficiaries who found it difficult to spend money on photograph could not obtain job cards. In Palakkad where 84.05 *per cent* of registered households obtained job cards, the cost of photographs was borne by the GPs whereas in Wayanad only 73.12 *per cent* obtained job cards. Demanding photographs from the beneficiaries was irregular and affected the issue of job cards. Since the date of issue of job cards was not recorded in the relevant registers, actual delays in issue of job cards were not ascertainable in audit.

3.1.10.6 Defective maintenance of job cards

A testcheck of job cards in Palakkad district revealed that validity period of job card, date of issue, signature/thumb impression of members of household etc. were not recorded in the job card. As the job card was a critical legal document, non-recording of such vital information in the job card was detrimental to the interest of beneficiaries in matters of transparency and prevention of frauds.

3.1.11 Demanding and providing employment

Job card holders are entitled for job if demanded by submitting an application for work to the GP. Application should contain the registration number of the job card, the date from which employment is required and the number of days to be employed. A single application is sufficient for a number of days in different spells during a year. Joint applications could also be submitted by several applicants. A dated receipt for application received should be issued to the applicant in proof of receipt of application. The GP is responsible for providing employment to the applicants within 15 days from the date on which employment has been sought. If a GP is unable to provide employment, it will be the responsibility of PO to do so. If a PO fails to provide employment, DPC should intervene to provide employment. On the other hand the applicant is bound to do work of any type permissible under the Act as directed by the GP/PO.

3.1.11.1 Majority of job card holders did not apply for work

Out of 213840 job card holders in the State, only 104927 demanded employment (49.07 *per cent*). The percentage of registered households who did not apply for work worked to 60.79. The reasons for not demanding jobs by majority of beneficiaries were availability of alternate seasonal work such

as coffee seed plucking, paddy cultivation, aversion to take up unskilled work, lack of awareness, etc.

In the four test checked Blocks, out of 78857 job card holders, 49917 (63.30 *per cent*) demanded job as detailed below:

Sl No	Block	No of job card holders	Job card holders who demanded job	Percentage
1	Kalpetta	21881	20848	95.28
2	Sulthan Bathery	29995	17693	58.99
3	Alathur	14932	4603	30.83
4	Malampuzha	12049	6773	56.21
	Total	78857	49917	63.30

In Alathur Block only 30.83 *per cent* of job card holders applied for job. Job card holders in selected GPs in the Block who demanded job were still lower as detailed below:

Sl No	Grama Panchayat	No of Job card holders	Job card holders who demanded job	Percentage
1	Erumayur	1937	427	22.04
2	Kannambra	1925	586	30.44
3	Kizhakkenchery	2301	779	33.85
4	Vandazhy	1734	378	21.80
		7897	**2170**	**27.48**

For similar reasons, percentage of job seekers in Nenmeny GP (Wayanad district) was also low. Out of 4700 job card holders, 950 applied for job which was only 20.21 *per cent*

3.1.11.2 Job card holders restricted from applying for job

Allotment of jobs was not done in a true and fair manner.

Applications for work must be for at least 14 days of continuous work and there shall be no limit on the number of days of employment for which a person may apply or on the number of days of employment actually provided to him subject to the aggregate entitlement of the household. A period of employment shall ordinarily be at least 14 days continuously with not more than six days a week. A test check of applications for work submitted by job card holders in Pulpally and Mananthavady GPs in Wayanad revealed that the original demand of 100 days made by 452 applicants was corrected as 14 days. In three GPs (Mananthavady, Poothady and Thirunelli) there were applications which did not contain number of days of employment demanded by job card holders. In Meenangadi, Noolpuzha and Poothady GPs applications demanding work for less than 14 days were accepted in violation of the Act. The applications submitted to three GPs (Meenangadi, Manathavady and Noolpuzha) were not dated. A test check of Muster Rolls and Employment Register in respect of selected works in Palakkad district further revealed that the job days applied for and that allocated to all beneficiaries were the same.

In two such cases job applied for and allocated were 5 ½ days each. Further, the date of application of all beneficiaries was the same in respect of each work. All the above evidences indicated the allotment of jobs in these GPs was not done in a true and fair manner.

3.1.11.3 Dated Receipt not given

Dated receipts were not issued in all cases to the applicants in proof of receipt of application in three[†] out of eight selected GPs in Palakkad district. In the absence of dated receipts, the possibility of details in the applications having been manipulated could not be ruled out.

3.1.11.4 Employment Guarantee Day not earmarked

A particular day of the week should have been earmarked as employment guarantee day as per guidelines for processing work applications and related activities such as disclosure of information, allocation of work, payment of wages and unemployment allowance. None of the GPs test checked earmarked a day as employment guarantee day. Thus one of the components for ensuring transparency in the implementation of the scheme was not adhered to.

3.1.11.5 Low coverage of the scheme

100 days of employment was provided to 0.54 *per cent* of households provided with work.

Prime objective of the scheme is to provide employment. However, it was seen in audit that out of 2,67,614 households registered under the scheme in the State, job was provided only to 99,107 households (37.03 *per cent*). Of these, 100 days of employment was provided only to 537 households (0.54 *per cent*) as mentioned in table under paragraph 3.1.10.

The employment generated in the state by 99107 households was 20.50 lakh at an average of 20.68 person days per household as against 100 person days envisaged by the Act. Thus the achievement of the scheme during 2006-07 was only 20.68 *per cent* which was far from satisfactory. The POs and DPCs also failed to intervene to make appropriate arrangements for providing employment when the GPs and POs were found unable to provide employment.

3.1.11.6 Allotment of works not properly intimated

The allotment of work should be intimated to the job card holders in the form of a letter to their address on the job card and it should be notified publicly at the offices of the GP and PO. None of the selected GPs or Blocks sent intimation of allotment of job to the beneficiaries. Only three[*] GP out of 16 in selected districts notified allotment of work at their offices.

3.1.11.7 Results of survey

A survey conducted by Audit among three beneficiary groups in two different work sites in Meenangadi GP during September 2007 revealed that they were not aware that job could be demanded for different periods in a single application and that they were eligible for compensation if payment of wages was not made within 15 days from the date of work. This indicated that

[†] Elappully,Peruvembu and Pudussery
[*] Meenangadi, Nenmeny and Pothady GPs

ignorance among beneficiaries about the right and entitlements under the Act led to the low rate of demand.

3.1.12 Payment of wages

The payment of wages is the most important component of the scheme. The minimum wage rate of Rs.125 fixed by the State Government for agricultural labourers was made applicable to the scheme. Under no circumstances should the labourers who work for 7 hours a day be paid less than the above wage rate. Both men and women are entitled for equal wages. Wages could be paid either on a time-rate or on a piece-rate basis. Under time-rate basis labourers who work for seven hours a day are entitled to full wages irrespective of the quantum of work whereas under piece-rate basis wages are paid in terms of volume of work done by the labourers which should be measured individually.

3.1.12.1 Payment of wages at rates below minimum wage

In 12 GPs out of 16 in selected districts the average wage paid for works was as low as Rs.60 as detailed below:

Sl No	Name of PRI	Number of completed works	Number of works where wage was less than minimum of Rs.125	Average wage earned in all works together (Rs)	Lowest average wage earned in a work (Rs)
1	Elappully GP	20	2	123.72	81.90
2	Peruvembu GP	31	4	124.06	102.00
3	Erumayur GP	26	23	100.00	63.00
4	Kannambra GP	69	66	118.00	65.00
5	Kizakkenchery GP	49	17	120.00	65.00
6	Vandazhy GP	15	15	106.00	60.00
7	Vythiri	140	9	121.36	114.00
8	Meppady	93	3	124.32	120.32
9	Poothady	285	22	115.00	105.00
10	Pulpally	186	20	120.86	110.00
11	Meenangadi	77	3	121.06	118.52
12	Kottathara	77	2	118.15	115.00

The wage rates were less than the minimum wage rate in 12 test checked GPs.

The reason for the low wage rates was non revision of work norms by the State Government. As the estimation was made based on Standard Data Book and PWD Schedule of rates, GPs could not ensure payment of wages at the rate of Rs.125. The wage rates went below the minimum in such works where the out turn was disproportionately low when compared to the quantum prescribed in Standard Data Book. This had an adverse effect on demanding jobs by the households as discussed in paragraph 3.1.11.1.

3.1.12.2 Minimum wage rate and wages paid were not displayed

Though it was mandatory to display minimum wage rates at work sites, none of the GPs displayed the same in any of the work sites. In all the test checked GPs, wages were credited to the bank account of the labourers. The details of wages paid were displayed in none of 16 GPs test checked in both districts. As a result, the beneficiaries were not aware of the entitlement of minimum wage and transparency in payment was affected to that extent.

3.1.12.3 Delay in wage payments

According to the Act, disbursement of daily wages should be made on a weekly basis or in any case not later than a fortnight after the date on which such work was done. However, payment was delayed by 1 to 56 days in respect of 191 works test checked in all selected GPs in Wayanad district as detailed in **Appendix V**. The maximum delay occurred in Meppady GP where it was upto 56 days. None of the GPs paid any compensation as per the provisions of the payment of wages Act, 1936 for the delay in payment of wages. Timely payment of wages is integral to providing employment and hence delay in payment resulted in delay in extending the benefit to the households.

3.1.12.4 Details of payment not entered in job cards.

It was mandatory to record the details of payment both in the muster rolls and in the job card. However, the details of payment were recorded only in the muster rolls and not in the job cards in the test checked GPs in Palakkad district as no space was provided for recording it.

3.1.12.5 Improper maintenance of muster rolls.

Muster rolls were not properly maintained.

Muster Roll is an important document which is one of the basic records facilitating payment of wages. Separate muster roll with unique identity number should be maintained for each work wherein the details of attendance and absence of all workers involved in the work, wages paid and signature/ thumb impression of the payee are recorded. Muster rolls are to be issued by the PO to the GPs and properly accounted by PO and GPs. The maintenance of muster rolls and their accounts was defective as described below:

- The muster roll for skilled labour used by Pudussery GP was not in the prescribed format and was not issued by the PO.
- No unique identity number was assigned to the muster rolls. Instead, the GPs used their own method of assigning identity number which varied from GP to GP.
- PO, Alathur did not maintain Muster Roll Issue Register in the prescribed format. Muster Rolls were accounted in a General Stock Register.
- None of the GPs returned copy of used muster rolls to POs and the POs did not maintain a record of muster rolls returned by GPs.

3.1.13 Payment of unemployment allowance

If a worker who had applied for work is not provided with employment within 15 days from the date on which work is demanded, the State government is liable to pay unemployment allowance to the workers at such rates as fixed by them. Such rates shall not be less then one fourth of the wage rate for the first 30 days and not less than one half of the wage rate for the remaining period.

3.1.13.1 Unemployment allowance not paid to any household

Though the applications for work were submitted to the GPs, the total number of persondays of employment demanded by all households were not consolidated even at GP level. In the absence of consolidated details about

jobs demanded, exact amount of unemployment allowance payable could not be determined in Audit.

There were 213840 lakh job card holders in the state out of which 104927 applied for work. One hundred days of employment as guaranteed by the Act could be given only to 537 households. However, no unemployment allowance was disbursed in the state. The reasons for this were:

- Ignorance of beneficiaries regarding the benefits of the scheme.
- Restraining job card holders from applying for job as mentioned in paragraph 3.1.11.2

Unemployment allowance amounting to Rs.105.53 crore was not paid.

Based on the number of households who actually applied for job and assuming that all those households applied for 100 days of employment, the unemployment allowance payable would work to Rs.105.53 crore as shown in **Appendix VI.** The state Government failed not only to provide employment fully financed by the GOI but also to pay unemployment allowance to those who were not provided with employment. As against this, the total expenditure on the scheme was only Rs.27.90 crore. This indicated the degree of laxity on the part of the state government to provide employment.

3.1.13.2 Short provision of employment

A comparison of number of days for which job was demanded and the actual days of employment provided at GP level was not possible as consolidated details of demand were not available in any GP. An attempt made by Audit to consolidate and compare the details revealed that in Kannambra GP as against 19194 days of employment demanded by 640 households, the GP could provide employment for 10930 persondays only. However, the PO, Alathur reported to the DPC that 586 households were provided with 8754 person days of employment. The possibility of cases of such misreporting by other POs also could not be ruled out. Though 8264 person days of employment were not provided to those households, which demanded job, no unemployment allowance was paid by the GP.

3.1.13.3 Non payment of compensations

The payment of unemployment allowance should be made not later than 15 days from the date on which it becomes due for payment ie. within 30 days from the date of application for job. In the event of any delay, the recipients shall be entitled to compensation based on the same principles as wage compensation under the payment of wages Act, 1936 which shall be borne by the State Government. As no unemployment allowance was paid in any of the GPs test checked, the beneficiaries were also entitled to be paid compensation. However, in the absence of consolidated details about jobs demanded, the compensation payable could not be worked out in Audit.

3.1.14 Execution of works

Under the Act, the focus of the scheme shall be on eight categories of works such as water conservation, drought proofing, irrigation canals, provision of irrigation facility to land owned by priority sector of beneficiaries, renovation of traditional water bodies, land development, flood control and rural connectivity. Each work should be assigned a unique identity number to avoid

duplication. Standard designs should be put together as a document at the district level and should be made available to GPs. All works in the state were implemented through GPs and contractors were barred from execution of works.

3.1.14.1 Land development in private school

It was observed in audit that two GPs in Wayanad (Nenmeni and Vellamunda) constructed play grounds in private schools in their area under the scheme. The total expenditure incurred on these works was Rs.2.20 lakh. Constructing play grounds on private property was in violation of the Act as the asset created belonged to private persons/bodies.

3.1.14.2 Wage material ratio exceeded

The ratio of wage costs to material cost should not be less than the minimum norm of 60:40 i.e. the material cost including wages of skilled labourers and mate should not exceed 40 *per cent* of the total cost of the work. However, in Wayanad district no material was used in any work test checked. In Pudussery GP in Palakkad district the cost of materials exceeded 40 *per cent* in respect of seven out of 20 works executed. As the amount spent on materials exceeded the prescribed limit, the amount spent on generation of employment was less. The purpose of prescribing such a ratio was that at least 60 *per cent* of the funds allotted under the scheme should be utilised for providing unskilled labour.

3.1.14.3 Quantity towards probable variation in tape measurement not deducted

All earth works exceeding 300 cubic metre should be measured by recording initial and final levels. In such cases payments could be made based on tape measurement provided that 15 per cent of the quantity should be deducted for possible variation. Under NREGS this provision is applicable only to earth works exceeding 600 cubic metres. To circumvent this stipulation, such works were split into several reaches which enabled the GPs to make payment on the basis of tape measurement without the mandatory deduction of 15 *per cent*. This resulted in excess payment of Rs.1.72 lakh in 36 works in four GPs in Wayanad as detailed in Appendix VII.

3.1.14.4 Execution of works which were not included in the Annual Plans

In three GPs 78 works implemented were those not included in annual plan.

According to the guidelines, the works to be executed by the GPs should be those included in the respective annual plans. However, it was seen in audit that in three[‡] GPs in Wayanad district, 78 works out of 789 executed were those not included in the annual plan. In Meppady GP,52 out of 145 works executed (35.86 *per cent*) were those not included in the annual plan. This resulted in taking up non-prioritised works thereby reducing the role of Grama sabhas in planning to that extent.

[‡] Kottathara, Meppady and Thirunelly GPs

3.1.14.5 Exaggerated figures of Administrative and Technical Sanctions

In the selected GPs, 1229 works were completed incurring a total expenditure of Rs.4.39 crore against the Administrative Sanction (AS) for Rs.10.64 crore for those works. This showed that the figures shown in the AS were exaggerated by 142.37 *per cent*. Similarly, the figures given in the Technical Sanction (TS) were exaggerated by 82.92 *per cent* on an average as the amount for which TS accorded was for Rs.8.03 crore as detailed below:

(Rs in crore)

Sl No	Blocks	No of completed works in 4 selected GPs	AS Amount	TS Amount	Actual Expenditure	Percentage of exaggeration of		
						AS to TS amount	AS to actuals	TS to Actuals
1	Alathur	148	1.64	0.48	0.24	241.667	583.33	100
2	Malampuzha	155	1.61	0.93	0.48	73.12	235.41	93.75
3	Kalpetta	341	3.08	2.36	1.75	30.51	76.00	34.86
4	Sulthan Bathery	585	4.31	4.26	1.92	1.17	124.48	121.88
	Total	**1229**	**10.64**	**8.03**	**4.39**	**32.50**	**142.37**	**82.92**

This large variation between AS and TS amounts and between TS amounts and actuals was due to inaccurate estimation, non-execution of certain items of works owing to difficult situation at site, existence of hard strata of soil, objection from public, etc.

3.1.14.6 Quantity of work exceeded the estimated quantity

The executed quantity of certain items of work exceeded the estimated quantity by 129.47 to 263.78 *per cent* in Pudussery GP as shown in the following table.

Sl No	Name of work	Item	Quantity as per estimate	Quantity executed	Percentage of increase
1	Improvement and side protection works to Thottanadu thodu	Clearing thick jungle	5540 M^2	12712.5 M^2	129.47
2	Construction of drainage in Netaji Nagar	Clearing light jungle	4800 M^2	11330 M^2	136.04
3	Improvement and side protection of Kunjappan Patta Thodu	Clearing light jungle	4500 M^2	16370 M^2	263.78

From the above table it could be observed that estimation was not done on realistic basis. The percentage of increase of quantities also indicates that proper inputs for estimation were not taken into consideration. Therefore the

possibility of manipulations in measurement in this case could not be ruled out.

3.1.14.7 District schedule of rates not prepared

District schedule rates not prepared.

According to the scheme, separate schedule of rates for each district should be prepared in order to ensure payment of minimum wages to every household. However, the District Schedule of Rates were not prepared in both the districts which resulted in payment of wages at rates less than the minimum wage rate of Rs.125 leading to under payment of Rs.3.30 lakh in 186 works in 12 selected GPs .

3.1.14.8 Standard designs not put together

The scheme envisaged that standard designs should be put together at the District level and made use of at GP level. However, no standard designs were made use of by the GPs leading to unnecessary preparation of designs each time for similar works.

3.1.15 Creation of Durable Assets

3.1.15.1 Specification of assets not indicated in the annual plan.

The detailed specifications of assets such as length and width of roads, size of tanks, etc. to be constructed were to be indicated in the annual plan. However, the annual plans did not contain such details. On completion of the works, the assets were not documented or accounted which may lead to improper utilisation and upkeep of assets and their loss/encroachment.

3.1.15.2 Enduring Outcome

The annual plan also did not indicate the enduring outcomes such as area irrigated by newly constructed tank, villages connected by the newly constructed road, etc. As a result, on completion of the projects, the outcomes in two GPs out of eight in Wayanad could not be assessed.

3.1.16 Transparency and Accountability

Transparency and accountability could not be achieved as no meetings of grama sabha were held at least once in six months.

An innovative feature of NREGA is that it gives a central role to social audits as a means of public vigilance. The basic objective of social audit is to ensure public accountability. Social audit is a public assembly where all details of projects are scrutinised. The periodic assemblies convened by the Grama sabha as part of Social audit is called Social Audit Forum. Social audit is an ongoing process through which the potential beneficiaries and other stakeholders of a project are involved at every stage starting from the planning to the implementation, monitoring and evaluation. This ensures complete transparency in the process of implementation of projects, participation of all beneficiaries in decision making and accountability of the elected representatives and Government functionaries. Though Grama sabha meetings to review the implementation of the scheme were to be held at least once in every six months no meeting was convened in any GP. This deprived the people of conducting a detailed public audit of all NREGA works carried out in their area during the preceding six months.

3.1.17 Monitoring and Evaluation

At village level, Gramasabhas should monitor all the works including registration, issue of job cards, providing employment and the timely payment

of wages whereas the Block Panchayat and Programme Officer should monitor all these activities of all GPs, flow of funds, social audit and payment of unemployment allowance, etc. The district level monitoring of all blocks should be done by District Panchayat and the DPC and state level monitoring of performance of all districts should be done by the State Government and consolidated reports sent to the Central Government.

3.1.17.1 State Quality Monitors and District Quality monitors were not designated.

For verification and quality audit, the State Government was to designate State Quality monitors with the approval of the State Employment Guarantee Council (SEGC). The District Panchayat was to designate District Quality Monitors with the approval of State Government. However Monitors were not designated either at state level or at district level leading to non-conduct of verification and quality audit.

3.1.17.2 Evaluation not done.

Regular district-wise evaluations and sample surveys of specific works should be conducted by SEGC. Block-wise evaluation studies should be conducted by DPC. SEGC should develop its own evaluation system in collaboration with research institutions of repute. The evaluation studies should throw light on particular innovations in planning, monitoring and implementation. The findings should be used for initiating corrective action. No evaluation of performance was done at any level resulting in lack of corrective action wherever necessary.

3.1.17. 3 Report on inspection not available

The state level officer should inspect and test check works undertaken in the state, the district level officer should test check 10 *per cent* of works under taken in the district and block level officer should check 100 *per cent* works undertaken in the Block. There was nothing on record to show that the inspection and test checks were conducted to the extent prescribed. Moreover, no report on inspection and test check was available.

3.1.17.4 Evaluation of impact of NREGA

The relevance of continuing social security pensions has to be reviewed in the context of implementation of the scheme.

As no evaluation was conducted, the impact of implementation of NREGA could not be studied. In the light of introduction of the scheme, the relevance of the following social security schemes has to be re-examined as the income limit fixed for eligibility was less than the wages for 100 days (12500).

Sl No	Scheme	Income limit for eligibility
1	Unemployment wages	12,000
2	Agricultural Workers Pension	11,000
3	Old age pension	11,000
4	Unmarried women pension	6,000
5	Handicapped pension scheme	6,000
6	Widow/Destitute pension	3,600

If a person enjoying one of the above pensions gets employment for 100 days under NREGS, he would not be entitled to the pension as he would have crossed the income limit. Government have not studied this aspect.

3.1.17.5 Increase of daily Wage rates

Before the implementation of NREGA the prevalent wage rate was Rs.100 to Rs.110 for men and Rs.60 to Rs.80 for women in four* GPs out of 8 test checked in Wayanad. After the implementation of the scheme general wage rate increased to Rs.125 irrespective of gender difference. This is an achievement of the scheme which was not foreseen. Thus, evaluation studies need to be conducted for implementing the scheme intensively in low wage areas.

3.1.18 Conclusion

Review on implementation of NREGS conducted in 16 GPs under 2 districts revealed that 2.14 lakh job cards were issued against which 20.50 lakh mandays of employment were generated at an expenditure of Rs. 27.90 crore. 58 per cent of Rs.48.36 crore released to the districts for implementation of the scheme was utilized by the GPs.

The scheme provided generation of employment through participative planning duly involving the PRIs and the village population through Grama Sabhas in order to identify the works to be taken up for generation of employment and creation of utility durable assets. It was however observed that the DPP was not prepared in Wayanad district. In Palakkad district, though DPP was prepared, it was not approved by the District Panchayat. Non-framing of rules for implementing NREGA had affected various phases of implementation of the Act.

In the two districts, out of the total number of 2.68 lakh households registered, only 1.05 lakh households demanded work. However, employment was only provided to 0.99 lakh households. Of these, the percentage of households provided with 100 days of employment ranged between 0.45 to 0.59 percent of the registered households which demanded employment. No unemployment allowance was paid. In the absence of consolidated details about jobs demanded, exact amount of unemployment allowance to be paid could not be ascertained. Instances of delay in payment of wages and lacunae in preparation, distribution and receipt of job cards were also noticed in audit. Cases of restriction on registration of households was also noticed.

An innovative feature of the scheme was to ensure transparency through regular meetings of the Grama Sabha and conduct of Social Audits. However, it was noticed that the social audits to review the implementation of the scheme were not conducted thereby defeating one of the objectives of the scheme. Monitoring mechanism was also not in place.

* Meppady, Muppainad, Pulpally and Thirunelli

3.1.19 Recommendations

- Government should frame Rules for implementation of NREGA
- The Process of planning should be strengthened so as to enable the GPs, POs and DPCs to provide employment for 100 days to all registered households.
- Government should analyse why majority of job card holders did not apply for jobs.
- Government should examine the reason for non-payment of unemployment allowance.
- Government should immediately take action to prepare District schedule of rates so as to ensure minimum wages to all beneficiaries
- Government should monitor all activities starting from planning to payment of wages and make sure that the scheme is implemented in the state as envisaged in the Act.
- Government should evaluate the impact of the scheme in the State to strengthen its implementation.

3.2 Implementation of Building Rules in Municipal Corporations

Highlights

Regulation of building construction in accordance with the provisions of Kerala Municipality Act, 1994, Kerala Municipality Building Rules, 1999, zoning regulations and other related rules and Government orders is one of the functions of Municipal Corporations. Audit noticed numerous unauthorised constructions as a result of issue of permits in violation of the Act and Rules by Municipal Corporations. Short realisation of revenue and unsatisfactory delivery of services to the public were also noticed.

- **Short realisation of additional fee of Rs.36.28 lakh was noticed due to non-application of correct Floor Area Ratio (FAR).**

(*Paragraphs* 3.2.9.1 and 3.2.10.1)

- **The selected Corporations regularised 11433 unauthorised constructions during 2004-05 to 2006-07.**

(*Paragraph* 3.2.12.1)

- **Though TMC detected unauthorised construction of a temporary shed, no action was taken either to regularise or demolish the construction.**

(*Paragraph* 3.2.12.3)

- **Unauthorised permission granted by TMC to construct residential building resulted in construction of 14 storey building in violation of KMBR and zoning regulations.**

(*Paragraph* 3.2.12.4)

- **Thiruvananthapuram Municipal Corporation (TMC) issued building permit to a hospital in violation of zoning regulations.**

(*Paragraph* 3.2.12.5)

- **Even though incinerators were to be installed in hospitals as per KMBR, 67 hospitals in both the Corporations were running without incinerators for disposing of bio wastes.**

(*Paragraph* 3.2.12.6)

- **No action was taken on 26.12 *per cent* of applications seeking for building permit in Thiruvananthapuram and Kozhikode Municipal Corporations.**

(*Paragraph* 3.2.14.2)

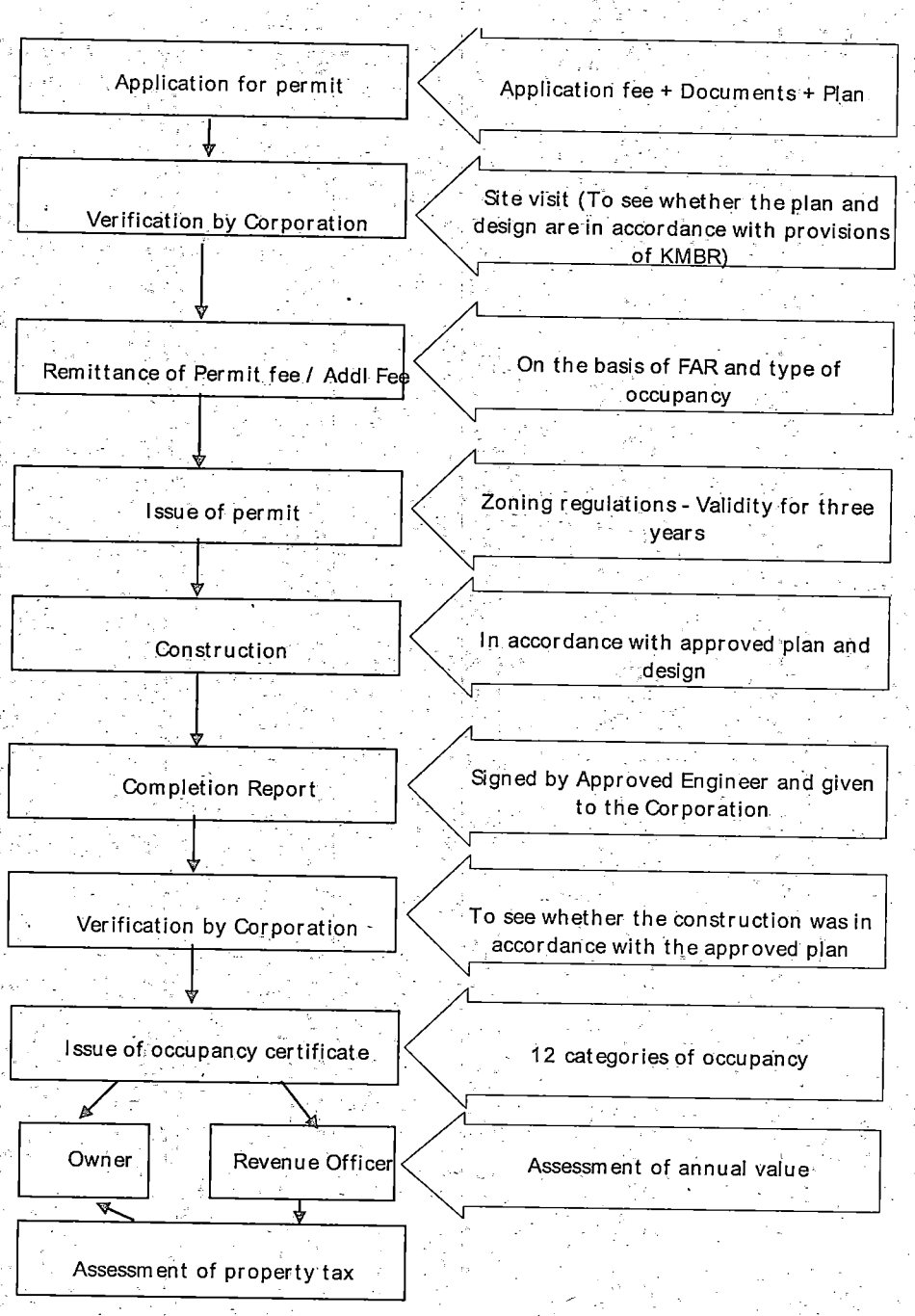
3.2.1 Introduction

Regulation of building construction is one of the important mandatory functions of the Municipal Corporations (MCs) as per the Kerala Municipality Act, 1994 (Act). The State Government framed the Kerala Municipality Building Rules, 1999 (KMBR) in exercise of the powers conferred by the Act for planned development of the area concerned and also for the safety and well being of occupants of the buildings and the public. The rules came into force on 01 October 1999. Prior to that, construction of buildings was being regulated by Kerala Building Rules, 1984

(KBR). According to KMBR, no person shall construct/reconstruct any building or make addition/extension/alteration to an existing building or develop or re-develop any parcel of land in the area concerned without obtaining permit from the MC in order to ensure planned development with due regard to aesthetics, ecology and pollution constraints. However, operational constructions of Central and State Government such as Railways, National Highways and Water ways, Aerodromes, etc. are exempted from KMBR. Similarly, permits are not necessary for minor works such as providing and removing windows, doors and ventilators for partition, painting, petty repairs, etc. which do not otherwise violate provisions of KMBR. The Rules also prescribe specific and separate norms for parking spaces, open area, fire escape, ventilators, sanitation facilities, front and rear yards, etc. for each type of buildings based on their occupancy. The Act and Rules contain provisions for ensuring prompt delivery of services by the Corporations in issuing building permits and occupancy certificates.

3.2.2 Organisational set up

The Secretary of the Corporation is the authority to issue building permits and occupancy certificates. The Town Planning Officer and Assistant Town Planning Officer carry out the above functions on behalf of the secretary. Thus they are de-facto responsible for receipt and scrutiny of applications, granting permits, inspecting buildings and issuing occupancy certificates. Any person aggrieved by an order passed by the Secretary may submit an appeal to the Tribunal for LSGIs constituted under Section 271 S of the Kerala Panchayat Raj Act, 1994. The different stages of implementation of KMBR are depicted in the following chart.



3.2.3 Audit Objectives

The audit objectives were to evaluate the quality of implementation of the KMBR and related provisions of the Act and to examine whether

- the applications received were properly scrutinised
- the building permits granted were in order
- the permit fee and additional fee collected were as per Rules
- the buildings constructed by the permit holders were in accordance with the approved plan and design

- the Corporation made timely inspection of the building construction
- issue of occupancy certificate was in order and
- there was proper internal control and monitoring system for implementing the KMBR.

3.2.4 Audit Criteria

Audit criteria used for the evaluation of the implementation of KMBR were:

- Provisions of Kerala Municipality Act, 1994.
- Provisions of KMB Rules, 1999
- Orders and guidelines issued by Government relating to KMBR
- Provisions of KBR, 1984.

3.2.5 Audit Methodology

Out of five Municipal Corporations in the State, Corporations of Thiruvananthapuram (TMC) and Kozhikode (KMC) were selected for the review. Eleven divisions in TMC and ten divisions in KMC were selected for detailed check while general review was conducted with reference to records of the remaining divisions. The period covered for the review was from 2002-03 to 2006-07. The review was conducted during March 2007 to July 2007 and the findings are given below.

3.2.6 Audit Findings

The important audit findings are categorised under the following sections.

i) Zoning regulation

ii) Application for permit

iii) Approval of site plans and building plans and issue of permit

iv) One day permit

v) Realisation of fees

vi) Occupancy

vii) Unauthorised construction

viii) Exemption from rules and regularisations/demolition of unauthorised construction.

ix) Delivery of services to the public

x) Internal control and monitoring

3.2.7 Zoning Regulations

Zoning regulations were violated.

Before issue of development permit, the secretary should forward the application for building permit to the District Town Planner (DTP) or the Chief Town Planner (CTP) if their approval is required as per KMBR or as per provisions of town planning scheme for that area. Development of any plot is subject to the zoning regulations prescribed as variations to the General Town Planning Scheme. Under this, the Corporation area is divided into various zones such as residential, commercial, industrial, agricultural, etc. having

definite and separate permitted uses, restricted uses and prohibited uses. Permits for construction of buildings for permitted uses in each zone could be issued by the Corporations without getting the approval from the DTP/CTP whereas permits for building for restricted uses should only be issued after obtaining approval from the DTP/CTP. Building for prohibited uses could not be permitted either by the Corporations or by the DTP/CTP. It was detected in audit that TMC violated the zoning regulations as mentioned in paragraphs 3.2.12.4 and 3.2.12.5.

3.2.8 Application for permit

According to KMBR any person who intends to construct/reconstruct a building should submit to the Secretary of the Corporation an application together with the site plan for approval of the site and an application together with ground plan, elevation and sections of the building and specification of the work. The applicant has to submit documents to prove ownership of the land concerned and payment of application fee along with a copy of the certificate of registration of the architect/building designer. The selected divisions during 2002-03 to 2006-07 received 6348 applications against which 4335 permits were issued.

3.2.9 Approval of site and plans and issue of permit

The Secretary after inspection of the site and verification of the site plan and relevant documents, if convinced of the bonafides of the ownership of the site, and that the site plan, drawing and specifications conform to the site and provisions of KMBR, approves the site and site plan. After this, he verifies whether the building plan, elevation and sections of the buildings and specifications of the work conform to the site and site plan and is in accordance with KMBR, approves the plan and issues permit to execute the work on remittance of the permit fee at the prescribed rates. The Secretary also has the power to refuse approval or to require modifications to the plan which should be communicated in writing. The Secretary should within 30 days of the receipt of the application either approve or refuse to approve the site plan/grant or refuse to grant permit to execute the work. The permit is valid for 3 years which can be extended twice by the Secretary for 3 years each if the application for extension is within the valid period of the permit and once for 3 years if the application for extension is made within one year of the expiry of the permit.

3.2.9.1 *Existing area not reckoned for calculating Floor Area Ratio (FAR)*

Incorrect application of Floor Area Ratio resulted in short realisation of additional fee of Rs.18.76 lakh.

In cases where addition or extension to a building is made, KMBR should apply to the addition or extension only. However for calculation of the area for the purpose of determining FAR[1], area of the whole building including the existing constructed area should be reckoned. While issuing permit (July 2003) to the Cosmopolitan Hospital, Thiruvananthapuram for construction of

[1] Floor Area Ratio = $\frac{\text{Total covered area on all floors of all buildings on a certain plot}}{\text{Area of the plot}}$

additional area of 1680 square metre, the area of 9105.26 square metre being the area of the existing building was not taken into consideration for calculation of additional fee. Thus, against the total floor area of 10785.26 square metre, only 1680 square metre was considered for payment of additional fee. Since the FAR permissible without payment of additional fee was two, floor area exempt from payment of additional fee in the plot measuring 4454.70 Sq metre was only 8909.40 Sq metre. However, due to non-consideration of the FAR of the existing building, TMC did not realise additional fee on the excess floor area of 1875.86 Sq metre leading to short levy of Rs.18.76 lakh at the rate of Rs.1000 per Sq metre.

3.2.9.2 *Coverage area exceeded the limit prescribed*

The maximum coverage area (ratio between maximum area at any floor of the building and the plot area) prescribed in KMBR for commercial occupancy is 65 *per cent*. However, TMC issued (May 2002) a permit for extension of the existing building having total plinth area of 672 square metre (3 floors) without considering the coverage area prescribed. The plinth area of the ground floor of the existing building was 224 square metre and the plot area was 359.17 square metre and the existing coverage was 62.37 *per cent* which was within the permissible limit. The total plinth area of ground floor that could be permitted was only 233.46 square metre (65 *per cent* of plot area) i.e. permit could be issued for additional construction upto 9.46 square metre on the ground floor (28.38 square metre for 3 floors). Against this, permit was issued for 174 square metre which exceeded the prescribed limit by 145.62 square metre. Thus overall coverage increased to 78.51 *per cent* as against 65 *per cent* admissible violating the provisions of KMBR.

3.2.10 Realisation of fees

The Corporation derived substantial amount of revenue by way of application fee, permit fee and additional fee. While application fee is payable on submitting the application, permit fee is payable on accepting the application and additional fee is payable when the FAR exceeds the permissible limit. The total revenue earned by both the Corporations on this account was Rs.13.01 crore during the period of review as shown below:-

(Rupees in lakh)

Year	Application fee collected		Permit fee/additional fee collected		Total	
	Thiruvananthapuram	Kozhikode	Thiruvananthapuram	Kozhikode	Thiruvananthapuram	Kozhikode
2002-03	2.77	2.80	72.85	10.75	75.62	13.55
2003-04	3.30	3.26	86.97	58.63	90.27	61.89
2004-05	2.84	3.33	98.60	79.91	101.44	83.24
2005-06	2.93	2.60	227.84	96.79	230.77	99.39
2006-07	2.43	2.38	448.02	92.38	450.45	94.76
Total	**14.27**	**14.37**	**934.28**	**338.46**	**948.55**	**352.83**

3.2.10.1 *Short realisation of additional fee*

Short realisation of additional fee of Rs.17.52 lakh was detected in respect of six buildings.

Depending on the type of occupancy, maximum FAR permissible is prescribed in KMBR. Owners are permitted to exceed the FAR in respect of nine out of 12 categories of occupancies subject to realization of additional fee at the rate of Rs. 1,000 per square metre exceeding the area permissible. However, this is further subject to FAR permissible with additional fee as given in Table 2 under Rule 31 (2) *ibid.* Scrutiny of building permits granted by both the Corporations revealed that there was short realization of additional fee for various reasons such as oversight, irregular exclusion of area of ramps and swimming pool, remission of additional fees to owners who surrendered land, etc. Short-realisation of additional fee by the MCs worked to Rs. 17.52 lakh in six cases as shown in **Appendix VIII.**

3.2.11 Occupancy

Occupancy of the building is decided based on the usage of plots proposed for development. According to KMBR, buildings are classified into 12 categories of occupancies such as residential, education, medical, commercial, assembly, industrial, hazardous, etc. Coverage area and FAR (Ratio of floor area to plot area) allowed as per KMBR vary for each type of occupancy. The maximum FAR allowed is for residential buildings which is three. Additional fee is payable over the permit fee for buildings which exceeds the FAR. Hence, the type of occupancy plays an important role in the determination of permit fee and additional fee.

3.2.11.1 *Wrong classification of Hospital as commercial occupancy*

Commercial occupancy was irregularly changed to hospital occupancy.

The Government exempted (June 2004) the construction of a four storey commercial cum office building in Division No.2 from zoning regulations. On the basis of this order, TMC issued (January 2005) permit to construct a four storey commercial building having a total area of 1363.23 square metre allowing coverage of 65 *per cent.* For commercial occupancy the maximum coverage admissible was 65 *per cent* of the plot area whereas for hospital occupancy it was only 40 per cent. The owner completed the construction of the building and started a hospital there instead of commercial cum office building. This change of occupancy from commercial to hospital was not permissible as per KMBR due to difference in the norms for construction. As the maximum coverage permissible for hospital occupancy was only 40 percent, the floor area in one floor should have been restricted to 212.92 sq. metre (40 *per cent* of plot area of 532.30 sq. metre) against 340.81 sq. metre allowed by TMC for commercial occupancy. Change of occupancy was in violation of KMBR. Government stated (December 2007) that action has been initiated to demolish the building under Section 406 of the Act. Further developments were awaited (March 2008).

3.2.12 Unauthorised Constructions

According to Chapter III of KMBR, any construction without obtaining permission of the Secretary or which is not in accordance with the approved plans and specifications or in violation of the Act and Rules, will be treated as unauthorised. The Secretary has the power to regularise construction/ reconstruction/addition/alteration of any building carried out without obtaining permission or in deviation of the approved plan provided that such

construction is not in violation of the Act and Rules. In cases where regularisation is not done, the Secretary also has powers to require the person responsible to make alterations in accordance with the approved plan or to demolish the unauthorised construction.

3.2.12.1 *Trend of Unauthorised constructions*

The MCs during the period from 2004-05 to 2006-07 regularised 11433 cases of unauthorised constructions as detailed below.

Year	No. of unauthorised constructions regularised		
	TMC	KMC	Total
2004-05	3609	645	4254
2005-06	2822	781	3603
2006-07	2686	890	3576
Total	**9117**	**2316**	**11433**

During 2004-07, 11433 unauthorised constructions were regularised.

The unauthorised constructions could be prevented only by frequent inspections of the constructions made in the corporation area and by strengthening monitoring system for which deployment of more staff is required.

3.2.12.2 *Unauthorised constructions not regularised*

TMC detected the following cases of unauthorised constructions. However, they did not regularise the constructions or demolish them.

Sl No.	Name of owner	Details of permits/ sanction if any	Nature of unauthorised construction	Date of demolition order
1	Sri. N.S Salimkumaran Nair	G.O (Rt) 561/LAD dated. 16 December 1999 to construct two storey building	Construction of unauthorised structure of 17.64 sq.metre in parking space	12 September 2005 (stayed by Court)
2	Sri.G. Mohandas	T.P/BA/662/06 dated 15 May 2006 for internal renovation of existing building	Constructed four storeyed building unauthorisedly on the basis of the permit at the site which was of archaeological importance and subject to zoning regulations	29 November 2006 stayed by Tribunal for LSGIs
3	M/s.Ramachandran Textiles	Nil	Construction of a building with area of 70.20 sq.metre in Division 37	30 May 2007 (stayed by court)

Though TMC issued orders for demolition of the buildings, they could not demolish them on account of stay granted by court/tribunal. Prevention of unauthorised constructions is better than demolition which could be achieved by strengthening the monitoring system as observed in the previous paragraph.

3.2.12.3 *Unauthorised Structures not demolished*

KMC issued (May 2004) a permit to four persons for construction of a temporary shed in R.Sy No. 40/13 consisting of office and shed for keeping

old cars for exhibition. The owners constructed a permanent building for office room and a temporary shed. According to the conditions of permit, the structures should have been removed after three months or else KMC was to remove it departmentally on realisation of expenses from the owners. The owners, however, did not remove the structures after three months which was in violation of the permit condition. Though KMC issued notices twice in May 2005 and September 2006, the owners did not remove the structures even after three years. Though KMC issued demolition notice (January 2007), the structures were not demolished (October 2007). Permit fee amounting to Rs. 1.44 lakh* payable from September 2004 to October 2007 was also not paid by the owners. Further developments were awaited (March 2008)

3.2.12.4 *Unauthorised permission to construct Residential building*

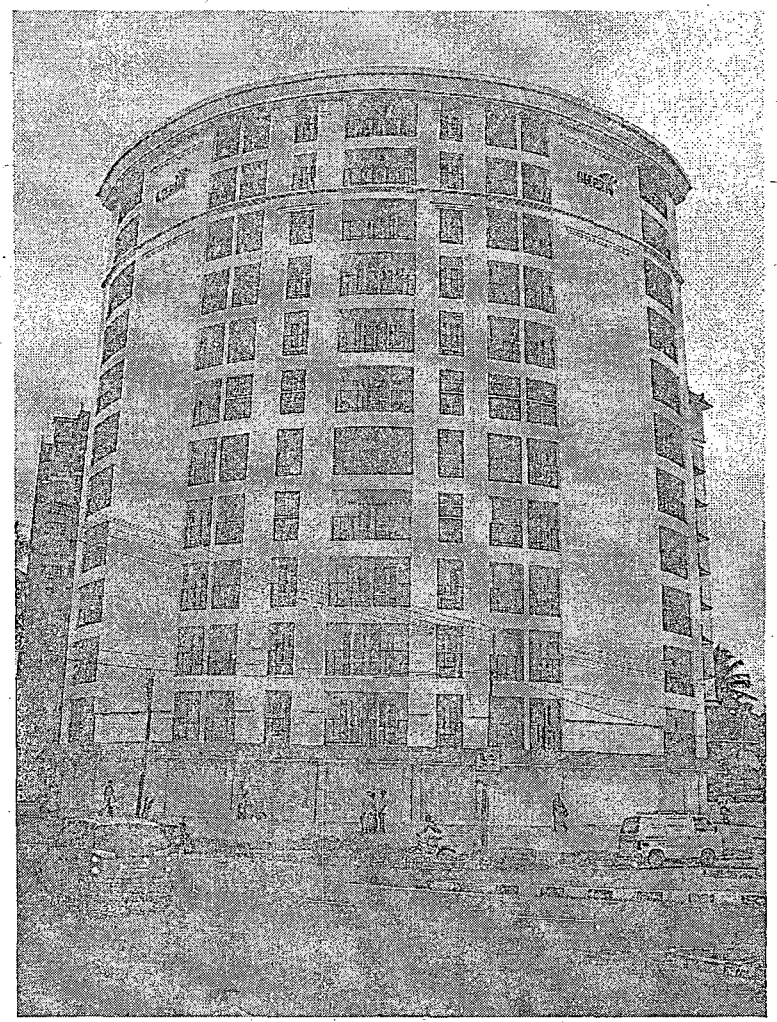
Despite Government orders, Thiruvanantha-puram Corporation permitted construction of a 14 storey building against a two storey building permissible.

TMC received (28 November 2003) an application for construction of a 14 storey-building in 30 cents* of land on the side of Museum Kowdiar Avenue. Subsequently on 22 March 2004, the applicant surrendered 39 square metre of land to Government for widening Kowdiar – Kuravankonam Road. This surrender of land enabled the applicant to claim concessions/relaxations from the provisions of KMBR in accordance with Chapter XI of KMBR. TMC issued (June 2004) permit as recommended by the Special Committee constituted under Rule 85 of KMBR to construct a 14 storey building having a total floor area of 5932.26 square metre. A Detailed Town Planning (DTP) scheme for Museum Kowdiar Avenue was in existence from 1977 onwards with a view to controlling developments and also to preserving the beauty of the avenue and premises. According to the zoning regulations for Residential Zone under the scheme, single and double storey residential buildings with height of 7.5 metres with maximum coverage of 30 *per cent* alone were permitted to be constructed in the zone. As against this, the height of the building and coverage permitted by TMC were 51.90 metre and 68.8 *per cent* respectively with FAR of 3.94. Moreover, the applicant was exempted from payment of additional fee of Rs. 11.41 lakh payable for FAR exceeding 3 under proviso to Rule 81 (2) *ibid*. According to KMBR and DTP scheme a two storey building with plinth area of 364.23 square metre at each floor (total 728.46 square metre) alone was permissible against which building with 5932.26 square metre was permitted to be constructed.

While the construction was in progress, the Government in an urgent letter addressed to the Secretary stated (18 June 2005) that so many concessions in violation of provisions of KMBR were allowed to the applicant on surrender of a small piece of land measuring less than one cent. The Government also called for explanation for the irregularities and asked to report the names of officers of TMC and the members of Special Committee who were responsible for the lapses. Even on receipt of this letter TMC allowed the applicant, to continue the work which was completed by April 2006 as shown in the photograph

* 190 Sq.M x Rs.20 x 38 months = Rs.1.44 lakh.

* 1 cent = 40.47 Sq Metre.



View of 14 storey residential building

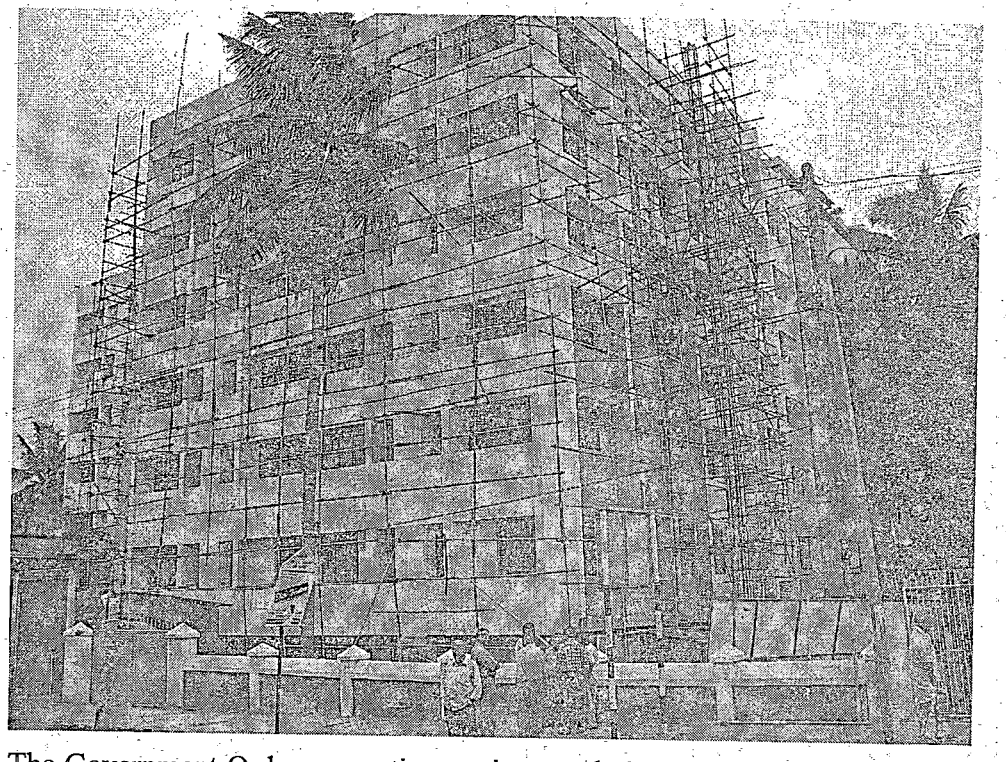
Later, Government intimated (December 2006) that the concessions given to the applicant were invalid and accordingly, TMC issued (May 2007) orders cancelling the permit already issued during June 2004. TMC or Government did not fix responsibility for committing such a serious irregularity which enabled the applicant to construct eight times the permissible area with excess height of 44.4 metre and to avoid remittance of additional fee of Rs.11.41 lakh. Government admitted (December 2007) that issue of permits by TMC was in violation of DTP scheme.

3.2.12.5 *Irregular issue of permit violating zoning regulations*

Eight storey building was constructed for a hospital against a three storey building permitted by Government.

According to zoning regulations, the area where PRS Hospital, Killippalam is situated comes under green strip where construction of buildings is prohibited. However, Government exempted (June 2004) the hospital from zoning regulations subject to the condition that only a three storey building for a hospital and canteen would be constructed, that the construction should satisfy all provisions of KMBR and the lay out approval would be obtained before obtaining the building permit. Accordingly, CTP approved (October 2004) lay out for construction of a three storey building. As against this, TMC issued (January 2005) permit to construct a four storey building with a total area of 2007 sq. metre (Ground floor 779 sq. metre, first floor 564 sq. metre second

floor 552 sq. metre and third floor 112 sq. metre). Later, the hospital authorities submitted a fresh application for constructing an eight storey building having a total area of 8072 sq.metre ignoring the permit already issued in January 2005. On the basis of this application, TMC issued (February 2006) a permit as applied for by the hospital authorities without making any reference to the permit issued earlier. Thus the permits issued by TMC were in violation of the environmental law. Accordingly, an eight storey building was constructed as seen in the photo given below.



The Government Order exempting zoning regulations was for construction of a three storey building subject to approval of lay out by CTP. As per the order of CTP approving the lay out of the building, construction of a three storey building alone was permissible. Issue of building permit by TMC for construction of eight storey building was in violation of zoning regulations and was against lay out approved by CTP. This also tantamounts to extension of undue benefit to the hospital.

3.2.12.6 *Violation of restrictions in construction of buildings*

67 hospitals in Kozhikode and Thiruvananthapuram are running without incinerators causing environmental hazard.

Several restrictions are prescribed in KMBR for the safety and well being of the public such as structural stability certificate from a registered engineer for high rise buildings, incinerators for hospitals, aviation warning lights for telecommunication towers, adequate car parking space, etc. On audit scrutiny, it was seen that these restrictions were violated in the following cases.

Sl No.	Name of owner and permit number	Type of occupancy	How restriction was violated	Rule
1	Sri.K.A Ammad and Sri.O.K. Abdulllah E4/75593/02 dated 23 December 2005 (KMC)	Commercial high rise building	Structural stability certificate was not obtained before issue of permit	120
2	67 hospitals in Kozhikode and Thiruvananthapuram (TMC and KMC)	Hospital	Incinerators for disposal of hazardous and pathological Wastes not installed	54 (4)
3	Reliance communication Ltd TP1/BA/1524/03 dated 29 October 2003 (TMC)	Telecommunication Tower	Aviation warning lights not provided at the height of 40 metre	137 (1)
4	Sri. V.O Mathew Thiruvananthapuram TP1/BA/537/03 dated 5 November 2003	Commercial	Against the required parking spaces for 11 cars. 9 parking space provided	34 and 7.9D
5	Sri.K. Suresh Babu Thiruvananthapuram TP1/BA/1279/03 dated 22 December 2006 (TMC)	Commercial	Permit was issued before taking into possession the land surrendered	79 (1)
6	Smt.Latha S Nair Thiruvananthapuram TP3/BA/1589/02 dated 22 December 2003	Residential	Permit was issued before taking into possession the land surrendered	79 (2)

Non installation of incinerators by hospitals in two Corporations is a very serious violation of restrictions prescribed in KMBR since it continuously affects the state of health of people of the two Corporations.

3.2.13 Exemption from KMBR and Regularisation/demolition of unauthorised constructions

Government exempted buildings from certain restrictions which were not authorised.

According to KBR, which was in force till 30 September 1999, Government was empowered to exempt constructions from the Building Rules. However, by the introduction of KMBR from 1 October 1999, Government's power to exempt constructions from Building Rules was dispensed with. The Building Rules which are meant for the planned development of the area concerned and also for the safety and well being of the occupants of the building and the public should be strictly enforced. However Government/ District Collector, Thiruvananthapuram, exempted the following constructions during November 1999 to January 2003 based on the KBR which had ceased to exist since October 1999.

Sl. No	Name of applicant	No and date of order of Govt/District Collector, Thiruvananthapuram	Rules exempted	No and date of permit issued by TMC and plinth area	Effect of exemption
1	Sri.B. Mohankumar	GO Rt77/2003/LAD dated 4 January 2003	Rules15 (2) (3) and other rules of KBR	TPI/4454/03 Dated 28 January 2004 - 1156.17 sq.metre.	Exempted from leaving prescribed space on front, rear and sides of the buildings.
2	Sri.A.R. Peeru Mohammed	E/2807/T.997/DS dated 4 November 1999 of DCT	Rules15 (2) (3) and other rules of KBR	TI/BAP/792/02 dated 19 July 2002 - 96 sq.metre.	
3	Sri. Mohammed Kassim	G.O (Rt) 3552/2000/LSGD dated 30 August 2000	Rules15 (3) 17 (1) 19 (iii) etc of KBR	TPI/47489/2000 dated 22 March 2001 - 1143 sq.metre.	
4	President, Medical College Lutheran Church, Thiruvananthapuram	G.O (Rt) 1205/2002/LSGD dated 14 May 2002	Rules15 (3) 17 (1) 19 (iii) etc of KBR	TPI/38705/04 dated 13 August 2004 - 460.77 sq.metre	

It was irregular on the part the Government/District Collector to waive the provisions of a rule which was not operational. It is significant that though the exemptions granted were from the operation of provisions of KBR, building permits had to be issued by the TMC as per provision of KMBR as KBR ceased to exist. The Secretary stated that as no validity period was specified in the order of Government/District Collector, granting permits on the basis of such orders was proper. This is not tenable as no exemption can be granted after 01 October 1999 by the Government.

3.2.14 Delivery of Services to the Public

Though KMBR contains numerous provisions for restricting constructions, it also assures prompt and timely delivery of services by the Corporations to the people who are the ultimate beneficiaries of the Rules. Accordingly, KMBR prescribed time limit for providing services such as issue of building permits and occupancy certificates. It was seen in audit that there was inordinate delay in providing such services. This may be attributable to the shortage in staff strength as discussed below:

3.2.14.1 *Shortage of manpower*

The personnel strength in test checked MCs for implementing the rules is as follows:

Category of post	Thiruvananthapuram	Kozhikode
Town Planning Officer	1	1
Asst Town Planning Officers	2	2
Building Inspectors	10	9
Clerks	12	10

Specific norms regarding staff required for issue of permits were not fixed. There was no increase in staff strength corresponding to the increase in the number of permits issued.

3.2.14.2 *Inaction on application for building permits*

Out of 6348 applications for building permits received during 2002-03 to 2006-07 in the selected divisions of both the Corporations, 355 applications were rejected and 4355 were accepted as detailed below.

Year	No. of applications received			No. of permits issued			No. of applications rejected			No. of applications pending		
	TMC	KMC	Total	TMC	KMC	Total	TMC	KMC	Total	TMC	KMC	Total
2002-03	401	649	1050	262	519	781	7	32	39	132	98	230
2003-04	709	602	1311	501	468	969	6	44	50	202	90	292
2004-05	708	616	1324	489	483	972	7	43	50	212	90	302
2005-06	740	650	1390	494	455	949	16	66	82	230	129	359
2006-07	678	595	1273	375	289	664	13	121	134	290	185	475
Total	**3236**	**3112**	**6348**	**2121**	**2214**	**4335**	**49**	**306**	**355**	**1066**	**592**	**1658**

No action was taken by the Corporation on 1658 applications for building permits.

There were 1658 applications (26.12 *per cent*) which were neither rejected nor accepted and were pending finalisation. Applications received as early as from 2002-03 onwards were pending with the Corporations. As per KMBR every application for permit should have been disposed of within 30 days from the date of receipt. Inaction on 26.12 *per cent* applications without valid reasons points to the control weakness in handling individual applications and poor delivery of service to the public.

3.2.14.3 *Delay in issue of permits*

The time limit prescribed for issue of building permits is 30 days from the date of receipt of application. Out of 2121 and 2214 permits issued in selected divisions of TMC and KMC during 2002-03 to 2006-07, 186 and 1060 permits respectively were issued after three months from the date of receipt of applications as detailed below:-

Year	No of permits issued		Delay in issue of permits							
			4 to 6 months		7 to 12 months		More than 12 months		Total	
	TMC	KMC	TMC	KMC	TMC	KMC	TMC	KMC	TMC	KMC
2002-03	262	519	19	138	6	90	2	34	27	262
2003-04	501	468	29	111	19	119	2	35	50	265
2004-05	489	483	26	134	15	85	1	21	42	240
2005-06	494	455	30	122	16	89	3	14	49	225
2006-07	375	289	16	56	2	12	-	-	18	68
Total	2121	2214	120	561	58	395	8	104	186	1060

While the delay in issue of permits was only 8.76 *per cent* in TMC, in KMC, the permits were issued late in 47.88 *per cent* cases which were attributable to increase in construction activity, defective applications, lack of required details in the application for permit, etc.

3.2.14.4 *Delay in issue of occupancy certificates*

The Corporations were to issue occupancy certificates within 15 days of receipt of completion certificate from the owner of the buildings. Out of 2998 and 3418 completion certificates received during 2002-03 to 2006-07 in selected divisions, TMC and KMC respectively could issue 2911 and 2907 occupancy certificates as detailed below:-

Year	No. of completion certificates received		No. of occupancy certificates issued		No. of cases pending		Percentage of pending cases	
	TMC	KMC	TMC	KMC	TMC	KMC	TMC	KMC
2002-03	631	725	627	631	4	94	0.63	12.97
2003-04	606	668	602	575	4	93	0.66	13.92
2004-05	632	634	629	545	3	89	0.47	14.04
2005-06	603	651	580	586	23	65	3.81	9.98
2006-07	526	740	473	570	53	170	10.08	22.97
Total	**2998**	**3418**	**2911**	**2907**	**87**	**511**	**2.90**	**14.95**

There was delay in issue of occupancy certificates in respect of 598 cases which was due to deviation from approved plan and deficiencies in documents to be accompanied with completion certificate.

3.2.14.5 *One day permit*

An innovative system of granting building permits for single residential units on the same day of the application was introduced in TMC during 1997. However KMC introduced the system of 'one day permit' only during October 2000. Out of 52382 building permits issued during 2002-03 to 2006-07 in both the Corporations, 28701 were one day permits which was 54.79 *per cent* as detailed below:-

Year	No. of building permits issued						Grand Total
	TMC			KMC			
	One day permits	Others	Total	One day permits	Others	Total	
2002-03	3354	2178	5532	3043	2060	5103	10635
2003-04	3447	3144	6591	3057	2232	5289	11880
2004-05	2631	3039	5670	2365	2332	4697	10367
2005-06	3039	2814	5853	2506	2258	4764	10617
2006-07	3033	1827	4860	2226	1893	4119	8979
Total	**15504**	**13002**	**28506**	**13197**	**10775**	**23972**	**52478**

The system became popular as there was no delay in getting building permits. Only those applications against which building permits could be granted on the same day were accepted. Hence, no application was pending with the Corporations under this system.

3.2.14.6 *Delay in assigning building number leading to delay in assessment of property tax*

It was seen in audit that there was delay in assigning building number and assessing property tax in respect of 30.89 *per cent* cases where occupancy certificates were issued as shown in the table below:

Year	No of occupancy certificates issued by TPO		Delay in assigning building number and assessing property tax						
			1 to 3 months		4 to 6 months		more than 6 months		Total
	TMC	KMC	TMC	KMC	TMC	KMC	TMC	KMC	
2002-03	627	631	111	115	98	-	105	-	429
2003-04	602	575	80	122	81	53	38	-	374
2004-05	629	545	63	45	74	-	18	-	200
2005-06	580	586	112	126	83	72	21	-	414
2006-07	473	570	145	94	92	-	49	-	380
Total	**2911**	**2907**	**511**	**502**	**428**	**125**	**231**	**-**	**1797**

In respect of 231 out of 2911 buildings, there was delay of six months and more in assigning building number and assessing property tax in TMC.

3.2.14.7 *Excess compounding fee levied for regularisation of unauthorised constructions*

A formal application in the prescribed form should be submitted for regularisation as in the case of application for permit for building construction after remitting the prescribed application fee. If the secretary is satisfied that regularisation could be granted, the applicant is required to remit a compounding fee at double the rate of permit fee. However, scrutiny of records revealed that both MCs realised permit fee in addition to compounding fee from 11433 applicants for issue of orders of regularisation during the period from 2004-05 to 2006-07. The realisation of permit fee was irregular which resulted in penalising the applicants unauthorisedly.

3.2.15 Internal Control and monitoring

3.2.15.1 *Non maintenance of Register of Regularised Constructions*

As per KMBR, several registers are to be maintained as tools for internal control. Register for Regularised Constructions for recording details of unauthorized constructions and the details of regularization as prescribed in KMBR were not maintained by KMC. This weakness in internal control affected the watching of action taken on unauthorized constructions.

3.2.15.2 *Weakness in monitoring system*

Monitoring building construction was very weak leading to unauthorised construction.

Every stage of implementation of KMBR such as receipt and processing of applications for building permits, issue of permits and occupancies, etc. is to be monitored by the Corporations. The pendency in disposing of applications for building permits as mentioned in paragraph. 3.2.14.2 was attributable to insufficient monitoring of receipt and processing of applications. Similarly, non-maintenance of Register of Regularised Construction by KMC affected

the monitoring of unauthorised constructions detected by KMC when compared to that in TMC where the register was maintained. On noticing increasing number of unauthorized constructions, Government issued (July 2006) directions to the Corporations to form squads to prevent and detect unauthorized constructions during state holidays and during night time and to resort to demolish such constructions and to take stringent action against the erring officials. Even though squads were formed in the Corporations, unauthorized constructions are recurring as mentioned paragraph 3.2.12.1. There is no system to monitor whether the provisions of KMBR are adhered to during each stage of construction. The weaknesses in the monitoring system affected the implementation of KMBR.

3.2.16 Conclusion

The review on implementation of building rules in municipal corporations revealed that the municipal corporations issued permits in violation of the provisions of KMBR. Additional fee was realized short due to error in determining the floor area of buildings. Instances of numerous unauthorized constructions were noticed and the delivery of service to the people was not satisfactory. Monitoring of implementation of KMBR was also very weak

3.2.17 Recommendations

- The MCs should take more effective steps to avoid delay in processing applications and issue of permit.
- The MCs should assess the floor area more accurately so as to avoid short realization of additional fee.
- The MCs should be vigilant and careful so as to avoid unauthorized constructions.
- Sufficient staff should be deployed for regulating building construction efficiently.
- Monitoring system should be strengthened.

3.3 Internal Controls in Urban Local Bodies in Ernakulam District

Highlights

A built in internal control mechanism to ensure effectiveness in carrying out the traditional functions and the transferred functions by the Urban Local Bodies (ULBs) is provided in the Kerala Municipalities Act, 1994, rules made thereunder and Government Orders and guidelines. The internal control system in ULBs was very weak as rules regarding various control measures were not complied with. The system could not ensure efficiency and economy of operation and failed to provide reasonable assurance against loss and misappropriation.

- **Advances amounting to Rs.10.37 crore paid by the selected ULBs during 1975-76 to 2006-07 remained unadjusted as a result of control lapse.**

(*Paragraph* 3.3.7.5)

- **Non-adherence to internal controls prescribed in respect of assessment and collection of tax and non-tax revenue led to non-realisation of revenue.**

(*Paragraph* 3.3.9)

- **Non-maintenance of Personal Register led to lapse in internal controls for ensuring prompt action by the ULBs with respect to the documents received by them.**

(*Paragraph* 3.3.14)

- **Inadequate internal controls led to awarding the same work to a contractor as two different works in Municipal Corporation of Kochi (MCK)**

(*Paragraph* 3.3.16.1)

- **There was no provision in the Act and Rules for conducting internal audit to check the efficiency of the internal control system.**

(*Paragraph* 3.3.17)

3.3.1 Introduction

Kerala Municipality Act, 1994 (Act) governs the functioning of Urban Local Bodies (ULBs) consisting of five Municipal Corporations and 53 Municipalities. Apart from the traditional functions such as regulating building construction, collection and disposal of solid waste, management of public markets, maintenance of roads, street lighting, etc., certain functions of the Government as enumerated in the First Schedule to the Act *ibid* were transferred to the ULBs with effect from 2 October 1995. For carrying out the above functions and fulfilling the statutory obligations such as preparation of budget and accounts, taxation and finance, licences and fees, etc. the State Government framed several sets of rules. To ensure effectiveness in carrying out the above activities, a built in internal control mechanism in every ULB at all levels was absolutely essential. Specific internal control measures have been prescribed in the Act as well as in the Rules. Besides, Government has

also issued orders and guidelines from time to time to enable the LSGIs to have a strong internal control system. The creation of a control environment prevents and checks failure to adhere to rules and procedures laid down. Though one cannot eliminate completely the risks involved in a specified system by only following internal control measures, it is possible to mitigate the risks to a certain extent. Internal audit is a very important component of internal control and examines the effectiveness of internal control and recommends improvements. To ensure effective Internal Control, best practice requires a robust Internal Audit function complementary with other tools such as fraud controls, safety audit and programme evaluation.

3.3.2 Organisational set up

Mayor/Chairperson of a ULB elected by the Council is the Chief Executive Authority who has overall powers in all matters of administration of the ULB. There shall be five Standing Committees (Finance, Development, Welfare, Health Education and Works) in the Municipalities. In addition to these Standing Committees, the Municipal Corporations shall have two more Standing Committees for Town Planning and for Appeal relating to tax. The members of the standing committees are elected by the members of the council. Mayor/Chairperson shall be an ex-officio member in all standing committees and the Deputy Mayor/Deputy Chairperson shall be the ex-officio member and Chairperson of the Standing Committee for Finance. The standing committees oversee functions of ULBs in the respective spheres. The Secretary, who is an officer of the Government is the Executive Officer of the ULB.

3.3.3 Audit Objectives

The Audit objectives were to evaluate whether:

- the ULBs had properly complied with the internal controls prescribed in relevant Acts, Rules and Regulations
- records were properly maintained
- proper budgetary controls were exercised
- proper physical controls over assets were ensured
- control checks were exercised.

3.3.4 Audit criteria

Audit criteria used for the evaluation of control mechanism in ULBs were :

(i) Provisions of Kerala Municipality Act 1994 and Rules there under

(ii) Kerala Financial Code (KFC)

(iii) Kerala Treasury Code (KTC)

(iv) Manual of Office Procedure (MOP)

(v) Orders and guidelines issued by Government

3.3.5 Audit methodology and scope

The review was conducted from April to July 2007, with reference to the records of one Municipal Corporation* and two Municipalities** out of nine ULBs in Ernakulam district. Evidences were gathered from the records, documents and registers maintained by the selected ULBs.

3.3.6 Audit findings

The audit findings are grouped under the following sections.

(i) Observance of internal controls

(ii) Adequacy of internal controls

(iii) Internal audit

(iv) Man power

(v) Monitoring and evaluation

Observance of internal controls

Specific internal control measures were prescribed in the Kerala Municipality Act, KFC, KTC, MOP and orders and guidelines issued by the State Government. These controls intended to utilise the resources of ULBs in the best possible way avoiding risks of infructuous expenditure, loss, manipulations, mistakes, etc. thereby increasing the efficiency and performance standards of ULBs. However, the ULBs failed to implement the internal controls prescribed in the Act, Rules and Codes as discussed in succeeding paragraphs.

3.3.7 Financial controls

In the area of financial management, proper internal controls are prescribed in the Acts and Rules. However, prescribed internal controls were not observed in respect of custody and disbursement of cash and maintenance of cash book and other registers as detailed below:

3.3.7.1 *Improper maintenance of cash book*

According to Rule 92 (a) (ii) of KTC Vol I, all monetary transactions should be entered in a cash book as soon as they occur. However, the test checked ULBs maintained more than one cash book during 2002-03 to 2006-07 except in MMY during 2006-07 and none of them entered either the receipt or the remittance to bank on the day of transaction. None of the ULBs closed the cash book daily during the period 2002-03 to 2006-07, except MCK during 2005-06 and 2006-07. Improper maintenance of cash book indicated lack of control over the cash and bank/treasury balances of the local body.

3.3.7.2 *Lack of control over custody and disbursement of cash*

Cash control was unsatisfactory.

According to Kerala Municipal Corporation Accounts Rules, 1967, all disbursements were to be watched through a petty cash book. It was reported

* Municipal Corporation of Kochi (MCK)

** Kalamassery Municipality (KMY) and Muvattupuzha Municipality (MMY)

that Rs.5.41 lakh was lost on 6 December 2004 from the officer authorised to disburse pension to regular staff in MCK. However, the exact amount of loss could not be ascertained as the petty cash book was not written after 29 November 2004. Joint verification of cash balance in the custody of the officer in MCK who was responsible for disbursing pension to contingent staff, conducted on 20 July 2007 revealed a shortage of Rs.220. Even after this, MCK did not take any measure to prevent recurrence of such incidents like loss, shortage etc. by ensuring upto date closing of petty cash book and reconciliation of cash balance in the cash chest with the petty cash book balance.

3.3.7.3 *Subsidiary register for recording transactions pertaining to each treasury/bank account not maintained*

As the cash book had no separate columns for recording transactions pertaining to each treasury and bank accounts, balances relating to individual treasury/bank accounts were not ascertainable from the cash book. Though subsidiary registers for recording transactions pertaining to each treasury/bank accounts were to be maintained, the registers were maintained by none of the ULBs. Consequently, the details of balances in each of the treasury/bank accounts as per cash book were not available with the ULBs. Hence, reconciling the cash book balance and pass book balances at regular intervals was not possible and the occurrence of mistake/fraud remaining unnoticed could not be ruled out.

3.3.7.4 *Issue of Receipt books in bulk to the cashier*

Blank receipt books should be issued to the cashier who writes and issues the receipts only after completely exhausting the pages of the book already issued. However, scrutiny of stock register of receipt books maintained by MMY revealed that the receipt books were issued to the cashier in bulk. The risk of cashier using two receipt books at a time and misappropriating money received through one of the receipt books could not be eliminated. This control failure could lead to malpractices going undetected.

3.3.7.5 *Risk in non-adjustment of advances*

Advance of Rs.10.37 crore remained unadjusted as advance register was not maintained properly.

ULBs should adjust advances paid within one month in ordinary cases and three months in special cases. It was mandatory to close the Advance Register at regular intervals for regularising advances outstanding for periods exceeding the prescribed limit. As the Advance Register was not closed periodically, advances amounting to Rs.10.37 crore paid during the period from 1975-76 to 2006-07 by the ULBs remained unadjusted. Of this unadjusted advance, Rs.16.39 lakh drawn by three officials became irrecoverable as they retired from service. Due to control failure, the liability of the officers was not verified and assessed at the time of their retirement which resulted in non-adjustment of the advances paid to them.

3.3.8 Budgetary controls

The Act, clearly specified internal control measures for the preparation of budget in ULBs. Test check of the internal control system in the selected ULBs revealed the following lapses.

3.3.8.1 *Delay in presenting budget before the council*

The Finance Standing Committee was to prepare and lay the budget estimate for the ensuing year before the Council latest by the first week of March and the Council was to pass the budget on or before 31 March. However, Standing Committees in none of the ULBs test checked laid the budget before the Council in the first week of March. As a result of delayed presentation of budget, adequate time for consideration of the budget was not available to the Council. This led to approving of the budget without proper analysis and evaluation of the reasonableness of the budget proposals made by the Finance Standing Committee as it was mandatory to pass the budget on or before 31 March.

3.3.8.2 *Expenditure in excess of budget provision*

Three test checked ULBs incurred expenditure of Rs.80.24 crore in excess of budget provision as a result of budgetary control lapse.

Except in the case of a pressing emergency, no sum shall be expended by or on behalf of a Municipality unless such sum is included in the budget estimates in force at the time of incurring the expenditure. The ULBs, test checked did not maintain the 'Register of Bills Passed for Payment' during 2002-03 to 2006-07 as prescribed in the Rules. In the absence of this register, expenditure control could not be achieved as a result of which the selected ULBs incurred expenditure of Rs.80.24 crore in excess of budget provision during 2002-03 to 2006-07 as shown below.

(Rs in crore)

Year	Expenditure incurred in excess of budget provision							
	MCK		MMY		KMY		Total	
	No of items	Excess	No of items	Excess	No of items	Excess	No of items	Excess
2002-03	60	15.40	33	1.19	21	2.32	114	18.91
2003-04	53	17.05	40	0.99	22	1.42	115	19.46
2004-05	38	9.80	60	0.62	19	2.54	117	12.96
2005-06	41	24.13	Nil	Nil	NA	NA	41	24.13
2006-07	Nil	Nil	28	1.21	39	3.57	67	4.78
Total	**192**	**66.38**	**161**	**4.01**	**101**	**9.85**	**454**	**80.24**

3.3.9 Risks in assessment and collection of tax and non-tax revenue

Assessees escaped assessment of taxes due to non-observance of prescribed internal controls resulting in short realisation of revenue.

Effective and efficient internal controls were prescribed in the Act and Rules to mitigate the risks involved in assessment, levy, collection and accounting of different categories of taxes. Similarly, for proper and prompt collection of non-tax revenue, a definite system was prescribed in the Act and Rules. However, the ULBs did not adhere to the procedures prescribed for internal controls in this regard. The lapses in observing these controls resulted in assessees escaping assessment and levy of various categories of taxes and short collection of revenue as detailed in the table below:

Sl. No.	Area of control failure	Provisions of Act/Rules	Internal controls prescribed	Lapses in implementation	Risk not covered
1	Assessment of property tax on completion of building	Validity period of building permit is three years. Property tax should be assessed on completion of construction of building.	**Building Permit Application Register indicating details of application, permit, completion certificate and occupancy certificate is to be maintained from which those who did not submit completion certificate can be identified and action taken.**	Though the selected ULBs maintained the Building Permit Application Register, they did not monitor the completion of 871 out of 3896 buildings for which permits were issued three years ago.	Non-assessment of property tax on 871 buildings.
2	Assessment and recovery of profession tax of employees by the Head of the Institution	Every Head of office should assess profession tax of all the employees, recover the tax and remit to the ULB every half year.	**ULBs were to issue notices to heads of offices/employers requiring them to assess and recover profession tax from their employees. Register of offices and institutions where persons are employed on salaries or wages is to be maintained by ULBs and the assessment watched.**	37 to 327 Heads of Offices/employers did not collect and remit profession tax of their employees during 2002-03 to 2006-07 as the Register of offices and institutions was not properly maintained.	Non collection of profession tax. Arrears prior to 2003-04 became time barred.
3	Assessing Persons and Companies liable to be assessed to profession tax.	Secretary shall in the third month of every half year prepare an assessment list of persons or Companies and firms liable to be assessed to Profession tax	**Notices were to be issued to traders to whom D&O licence was issued by ULBs for assessing profession tax.**	Traders who obtained D&O licence for 2006-07 were not assessed to profession tax.	Short collection of profession tax.
4	Maintenance of profession tax arrear demand register	Arrear Demand Register of profession tax to be maintained for watching collection of arrears of profession tax.	**Demand Register should be maintained showing demand, collection and balance of tax of each assessee. The balance at the end of each year was to be entered in the Arrear Demand Register.**	MCK did not record the details in the Arrear Demand Register regarding arrears to be recovered during the period 2002-03 to 2006-07.	Non-realisation of arrears of tax.
5	Execution of agreement with allottees of shopping complex	For safeguarding the interest of ULBs, an agreement should be executed with the tenants before leasing out buildings.	**An agreement register and rent register indicating details of agreement, rent realisable, etc. should be maintained.**	Absence of proper maintenance of agreement register and rent register led to non-execution of agreements by KMY in respect of 12 rooms and 12 stalls leased out.	Non-realisation of rent from tenants.
6	Issue of Dangerous and Offence Trade (D&O) licence to traders/institutions	"No place within the Municipal area shall be used for any trade or business without a licence from ULB". (Section 447 of KM Act)	**Periodical inspection of premises of traders should be conducted to see whether they were trading with valid licences.**	List of places used for trade and business under D&O licences was not kept by selected ULBs.	318 traders/institutions transacted business without valid D&O licence.

7	Registration of private hospitals and para medical institutions.	"No private hospital and para medical institution shall be established in the territorial area of municipality without prior registration in that municipality". (Sec 311 KM Act)	**When building permits are granted for construction of hospitals and para-medical institutions and occupancy certificate issued, it should be seen that they are registered in the ULBs. State Government framed Kerala Municipality (Registration of Private Hospitals and Private Para-Medical Institutions) Rules, 1997 governing registrations.**	Periodical survey of institutions functioning in the ULBs should be conducted and list of institutions prepared to ensure that no private hospital/tutorial institution is functioning without registration. As the list of private hospitals and para medical institutions was not maintained, 75 private hospitals and para medical institutions which were assessed to profession tax for 2006-07 were not registered with ULBs.	Non-registration of 75 private hospitals.
8	Registration of tutorial institutions.	"No tutorial institution shall be established within a municipal area without prior registration obtained from that municipality" (Sec. 507 of KM Act)	**When building permits are granted for educational institutions and occupancy certificates are issued, it should be seen that all tutorial institutions are registered with the ULBs. State Government framed Kerala Municipality (Registrations of Tutorial Institutions) Rules, 1999 governing registration.**	ULBs did not maintain complete list of tutorials functioning in the area of ULB.	27 institutions functioning in the area of ULBs without registration – Loss of revenue.

3.3.10 Expenditure control

On a review of the expenditure incurred on unemployment wages and social security pensions, the following lapses were noticed in the implementation of internal control system.

3.3.10.1 *Non-adherence to prescribed internal controls by competent authorities*

Unemployment wages and social security pensions were paid to ineligible persons as a result of flouting the relevant internal controls.

According to orders issued (May 1998) by Government, unemployment wages are admissible to SSLC passed unemployed persons within the age group of 21 to 35 and whose family income is not more than Rs.12,000 per annum. However it was detected in audit that un-employment wages amounting to Rs.30760 were paid to 24 persons before attaining 21 years and to 20 persons after the age of 35 years in KMY and MMY. Though the date of birth and other details of the beneficiaries were available with the ULBs, the failure of the Secretary to ensure implementation of control measures led to enrolment

of underaged persons under the scheme and non-elimination of over aged persons resulting in payment of unemployment wages to ineligible persons.

The ULBs sanctioned social security pension such as widow pension, pension for disabled and mentally retarded persons and old age pension from 1997-98 onwards and Agricultural Workers Pension from 1998-99 onwards without fulfilling the control requirements. In MCK it was noticed that the Secretary did not certify the eligibility after proper scrutiny of the applications in 62 out of 100 applications for widow pension test checked whereas in KMY and MMY the Secretary did not scrutinise any application. As a result of this control failure, the risk of payment of widow pension to ineligible persons could not be overruled.

3.3.10.2 *Pension sanctioning records not maintained*

Various social security pensions are sanctioned, drawn and disbursed by the ULBs. In the ULBs test checked, such pensions were sanctioned to 6327 persons as detailed below:

Sl No	Category of Pension	MCK		MMY		KMY		Total		
		No of Pensioners	No of applications and other documents available	No of Pensioners	No of applications and other documents available	No of Pensioners	No of applications and other documents available	No of Pensioners	No of applications and other documents available	No of cases where documents were not available
1	Widow pension	2109	1285	522	458	225	198	2856	1941	915
2	old age pension	965	869	110	69	110	92	1185	1030	155
3	pension to handicapped	1283	701	152	99	200	157	1635	957	678
4	Kerala Agricultural Workers Pension	130	80	142	82	379	338	651	500	151
	Total	**4487**	**2935**	**926**	**708**	**914**	**785**	6327	**4428**	**1899**

The documents such as application for pension, verification report, recommendation and decision in respect of 1899 out of 6327 cases were not available in the ULBs making further verification impossible. The risk of pensions being disbursed to ineligible persons could not therefore be safeguarded against.

The ULBs had to conduct annual verification to ensure that the pensioners continue to be eligible for pension. The ULBs test checked did not conduct such verification during 2002-03 to 2006-07. Thus, there was no assurance that the pension payments were restricted to eligible persons only.

3.3.11 Internal control in execution of works

Public works is a major area of operation of all ULBs. Hence implementation of internal controls prescribed was to be ensured without any exception.

50 *per cent* works were executed without preparing estimate reports/ plans which may lead to overpayment and duplication.

3.3.11.1 *Execution of works without essential records*

ULBs did not record the chainage of roads/drains which was required for identification of the location of work site. On a test check of 50 works executed by each ULB, it was seen that more than 50 *per cent* of the works

were done even without preparing the estimate report/plans as envisaged in KPWD code. In the absence of the above details, the chances of unnecessary execution of works as well as overlapping and duplication of works could not be ruled out.

3.3.12 Accounting controls

3.3.12.1 *Delay in preparation of Annual Financial Statement*

Delay in preparation of annual financial statements indicated poor accountability.

The ULBs shall prepare and publish the Annual Financial Statement (AFS) for each year and the accounts so published shall be forwarded to the Director of Local Fund Audit before 31 July of succeeding year. However, KMY and MMY did not prepare the AFS for the years 2005-06 and 2006-07 as of August 2007. Thus internal controls prescribed for ensuring accountability of the ULBs could not be effected leading to risks of misappropriation, incurring expenditure in excess of budget provision, preparing budgets of subsequent years without considering the actual receipts and expenditure of previous years, etc.

3.3.12.2 *Non-verification of original receipts issued*

Revenue Inspector (RI) having jurisdiction of a division was to verify two *per cent* of original receipts granted to tax payers by the Bill Collectors with the respective counterfoils. A statement of verification should have been furnished by each RI to the Revenue Officer (RO) who should also check one *per cent* of original receipt not checked by RIs and furnish a certificate to that effect to the Secretary every month. However, no such verification was done in any of the ULBs test checked. In the absence of implementation of this internal control, possibilities of misappropriation could not be ruled out.

3.3.13 Physical control over assets

Physical control over assets was poor.

The ULBs did not maintain proper records for accounting of their assets such as land and buildings, furniture and equipment, etc. Annual physical verification of assets was also not done to protect them and to ascertain any loss or shortage. The control lapses detected in these areas were non-availability of details about landed property, non-verification of title deeds, etc. as detailed below.

3.3.13.1 *Details of landed property not available*

MCK maintained an asset register to record the details of land owned by it. However, the details incorporated in the register were collected through field visits conducted during 2005-06 and not based on relevant records. In the absence of reliable data on all the properties, there was no assurance that all the landed property owned by MCK was incorporated in the register and could be protected from unauthorised occupation and alienation.

3.3.13.2 *Register for watching custody of title deeds not maintained*

The ULBs test checked kept in their safe custody the title deeds of their immovable properties as well as properties pledged to them by others. KMY did not maintain a register for watching the custody of title deeds, whereas other two ULBs maintained the register which did not contain essential details such as survey number, area, etc, for linking the deeds with respective

properties. As a result the ULBs could not exercise physical control over assets.

3.3.13.3 *Physical verification of immovable assets*

None of the ULBs conducted Annual physical verification of title deeds of immovable properties owned by them and pledged to them. The Register maintained in MMY showed custody of 158 deeds against which only 132 deeds were available. In the absence of 26 out of 158 deeds, the risk of alienation/encroachment of properties could not be eliminated.

3.3.13.4 *Physical verification of moveable assets*

Though the test checked ULBs maintained the stock register of movable assets, they did not conduct annual physical verification during the period 2002-03 to 2006-07. As a result of this control failure, the risk of loss of movable assets could not be mitigated.

3.3.14 Administrative Controls

Non-maintenance of personal register led to lapse in internal controls.

The Manual of Office Procedure (MOP) prescribed various internal control measures for ensuring prompt action on letters/applications/complaints received by ULBs. On a test check, it was noticed that the procedure laid down in MOP was not followed by the ULBs. All letters received in ULBs were to be numbered and entered in the Distribution Register and then distributed to the clerks of the concerned sections. Clerks were to record the details of each letter in a Personal Register. The details of action taken was also to be noted in the Personal Register. Though the Distribution Register was maintained by every ULB, Personal Registers were not maintained in KMY. In MCK, 13 out of 113 clerks and in MMY two out of 17 clerks alone maintained Personal Registers. The Superintendent of General Section was to prepare a consolidated arrear report for the whole office for every month based on the arrear list furnished by each clerk and submit to the head of office on 10th of every month. However, the arrear report was not prepared in any ULB during the period from 2002-03 to 2006-07. In the absence of these control measures, the risk of not taking timely action on letters/applications/ complaints could not be eliminated.

3.3.14.1 *Separate record room not set up*

According to MOP, old records should be kept in separate record room under the supervision of a record keeper for preserving them upto the stipulated period. However, no record room was set up in any of the ULBs test checked and no record keeper was posted in the ULBs except in MCK. This internal control lapse led to dumping of old records in the sections concerned involving the risk of destruction of records.

3.3.15 Other Controls

3.3.15.1 *Non-maintenance of project register*

The ULBs were to maintain a project register to record the details of each project undertaken by them. However none of the ULBs test checked except KMY and MMY during 2003-04 maintained this register during 2002-03 to 2006-07. In the absence of this register, details such as the amount allotted for

each project, expenditure incurred, whether project was completed, etc. could not be ascertained and the risk of expenditure exceeding allotment and non-completion of project could not be detected.

3.3.15.2 *Non conducting of fuel efficiency test for vehicles*

Fuel efficiency test of vehicles was to be conducted annually in order to achieve economy in fuel consumption. However, MCK tested only 16 out of 62 vehicles owned by them whereas none of the five vehicles owned by MMY was tested after 2004. As a result, the risk of consumption of more fuel than requirement could not be eliminated.

3.3.16 Adequacy of internal control

The internal controls prescribed in the Act and Rules should be adequate and sufficient to mitigate all kinds of risks involved in the day to day functioning of ULBs. The internal controls prescribed in the Acts and Rules were not adequate to mitigate the risks involved in the following areas.

3.3.16.1 *Drain maps not prepared*

In the absence of a system prescribed for the preparation of drain maps indicating all details of drains constructed and owned by ULBs, the sanctioning authorities could not ensure that no overlapping and duplication of works took place. During 2003-04, MCK executed two works viz.,

Inadequate internal controls led to awarding the same work to a contractor as two different works.

(i) Repairing lane and drain and providing slab at Vathuruthy

(ii) Construction of drain, covering slab and concreting lane at Vathuruthy.

Both the works were awarded (March 2003) to the same contractor who completed the work and claimed (September 2003) a total amount of Rs.8.44 lakh for both the works. The site plan of the works revealed that both the drain works executed related to the same drain existing at Vathuruthy. The measurement shown in the estimate as well as measurement book did not agree with actual measurement. In the absence of drain maps, the Corporation failed to rule out the possibility of overlapping and duplication in this case.

3.3.16.2 *Inadequacy of internal controls led to payment of Rs.1.19 crore without any verification*

Though ULBs arranged supply of drinking water in lorries through contractors in areas where water scarcity was experienced, there was no well defined internal control system to regulate payment in accordance with the quantity supplied. In the absence of such a system, the payment of Rs.1.19 crore to the contractors by MCK and KMY during 2002-03 to 2006-07 for supply of drinking water was made without properly verifying the quantity supplied by them as detailed below:

(Rupees in lakh)

Year	Expenditure incurred		
	MCK	KMY	Total
2002-03	Nil	4.17	4.17
2003-04	5.46	1.30	6.76
2004-05	18.16	4.52	22.68
2005-06	32.01	Nil	32.01
2006-07	52.95	0.29	53.24
Total	**108.58**	**10.28**	**118.86**

Though a register was maintained by the ULBs, no details regarding quantity of water supplied at each place were recorded. KMY did not even engage any officer to supervise the water supply. This control lapse occurred as a result of non-specification of an internal control system.

3.3.16.3 *Pledging of fake security deposit receipts*

Pledging of fake security deposit could not be detected due to inadequacy of internal controls.

Contractors were required to furnish security deposits to the LSGIs at prescribed rates at the time of execution of the agreement. They were permitted to pledge fixed deposit receipts and other deposit receipts as security deposit in lieu of cash deposits. However, there was no internal control system to ensure the genuineness of fixed deposit receipts produced by the contractors as security deposit. As a result, the fixed deposit receipts were accepted and kept in the custody of ULBs. On a verification of fixed deposit receipts made by Audit in MCK with reference to the records of institutions from where the contractors obtained the receipts, it was detected that three out of five deposit receipts having a total value of Rupees one lakh pledged by three contractors were fake. While permitting the contractors to pledge deposit receipts, no control measures were prescribed to ensure the genuineness of the receipts which led to the fraud. The matter was reported (July 2007) to MCK for detailed investigation on which no action was taken.

3.3.17 Internal Audit

There is no provision in the Act and rules for internal audit to evaluate the efficiency of internal controls.

The function of Internal Audit Wing includes examining, evaluating and monitoring the adequacy of accounting and internal control system. It also helps in assessing the organisational system and procedures in order to prevent fraud, errors etc. No provision was made in the Act for conducting internal audit. None of the ULBs test checked had such a system for detecting the lapses in internal controls, deficiency/absence of internal controls and reporting it to the ULBs and Government. The control failures enumerated in the preceding paragraphs were facilitated also as a result of absence of internal audit.

3.3.17.1 *Performance Audit*

Kerala Municipality (Manner of inspection and Audit System) Rules, 1997 envisaged a regular concurrent or running audit called Performance Audit by the State Performance Audit Officer at least once in a quarter in each ULB for detecting problems as and when they occur and solving them,. It was seen in audit that performance audit was not conducted in every quarter as detailed below.

Year	Number of Performance Audits due	Number of Performance Audits conducted		
		MCK	MMY	KMY
2002-03	4	1	1	1
2003-04	4	1	1	1
2004-05	4	2	1	2
2005-06	4	2	1	2
2006-07	4	Details not available		

The fact that performance audit was not conducted at prescribed intervals enhanced the risk of non-detection of problems.

3.3.18 Adequacy of Man Power

Manpower was not adequate to carry out the internal controls prescribed.

Government devolved upon the ULBs the functions, functionaries, institutions and schemes relating to matters enlisted in the Act with effect from 2 October 1995. Though the workload of the staff increased consequent on this change, no study was conducted to assess the same and the staff strength was not refixed. Though Government issued orders for deployment of staff from State Departments to LSGIs there was short deployment leading to inadequate discharge of functions by LSGIs as mentioned in paragraph 3.3.10 and 3.3.11 of the Report of CAG for the year ended 31 March 2006 (LSGIs). The shortage of staff in LSGIs weakened the internal controls as mentioned in this Chapter of this report.

3.3.19 Monitoring and Evaluation

3.3.19.1 *Non-maintenance of Audit Objection Register*

According to Article 63 of Kerala Financial Code Vol-I, in order to watch the progress in settlement of audit objections communicated by the Accountant General, an audit objection register shall be maintained in each office as a relevant internal control mechanism. However the three ULBs selected did not maintain this register during 2002-03 to 2006-07 leading to non-settlement of objections. The number of outstanding audit objections in respect of these ULBs was 267 as indicated in the table below.

Sl No	Name of LSGI	No of pending Local Audit Reports	No of outstanding audit objections	Period	
				From	To
1	MCK	8	140	1997-98	2005-06
2	KMY	4	48	1997-98	2006-07
3	MMY	5	79	1997-98	2006-07
	Total	17	267		

This indicated the progress of settlement of outstanding objections was very poor.

3.3.19.2 *Response to Audit*

ULBs have to take remedial action on any defect or irregularity pointed out in audit. Audit Reports issued by the Director of Local Fund Audit (DLFA), State Performance Audit Officer (SPAO) and the Accountant General were to be placed before the Council for discussing observations contained in the reports. The ULB failed to place the reports before the Councils as detailed in the table below.

Name of LSGI	DLFA		Performance Audit		AG (Audit)	
	No of reports received during 2002-07	No of reports placed in the Council	No of reports received during 2002-07	No of reports placed in the Council	No of reports received during 2002-07	No of reports placed in the Council
MCK	2	0	5	3	4	2
KMY	1	1	5	1	2	1
MMY	0	0	4	1	3	1

Non-placement of audit reports before the Council prevented the Council from taking decision on the irregularities reported by DLFA, SPOA and AG.

3.3.20 Conclusion

The review of Internal Control System revealed that the control system was very weak and inadequate when compared to the size and nature of activities of ULBs. Rules, Regulations and Orders of Government regarding budgetary control, expenditure control, financial control and physical control were not complied with. The system could not provide reasonable assurance against the loss of resources and misappropriation of Government money. It could not ensure the economy and efficiency of operation including achievement of performance goals and safeguarding of resources against loss. There was no system for internal audit. Performance Audit was not conducted periodically. The response to Audit was also not satisfactory.

3.3.21 Recommendations

- Government and ULBs should take effective action for prescribing adequate internal control system wherever it was inadequate/absent.
- Government and ULBs should ensure that the prescribed internal controls are implemented by the ULBs.
- Internal audit wing should be formed in each ULB to evaluate the efficiency of internal controls as the performance audit is not a substitute to internal audit.
- Adequate manpower should be provided to exercise the prescribed internal controls.
- Government and ULBs should initiate action against those officers who violate internal controls.

3.4 Death-Cum-Retirement benefit scheme in Urban Local Bodies

3.4.1 Introduction

Government of Kerala introduced (November1967) a pension scheme for the employees under the regular establishment of urban local bodies (ULBs) governed by Kerala Municipal Employees Death-Cum-Retirement Benefit Rules, 1967. The rules which envisaged creation of a Central Pension Fund (CPF) for making payment to the employees were replaced by Kerala Municipality (Employees Death-Cum-Retirement Benefit) Rules, 1996 (Rules). However, the admissibility of death-cum-retirement benefits (DCRB) was continued to be governed by the provisions of Kerala Service Rules, 1959 (KSR). Each ULB was to contribute from its own fund *15 per cent* of total monthly emoluments of each of its employees every month to the CPF which was administered by the Director of Urban Affairs (DUA). The amount contributed to the CPF by the ULBs was to take care of the payment of DCRB to the employees, thus absolving the ULB of any liability to pay DCRB at a later stage. The major advantage of this system was that the liability for the payment of DCRB of an employee could be apportioned among the ULBs in proportion to the length of his service in each ULB.

Out of 58 ULBs in the state, 10* were selected for detailed scrutiny. Records of these ULBs and the DUA were test checked during September and October 2007 and the following audit findings emerged.

Audit Findings

3.4.2 Fund Position

Total contribution received directly from the ULBs and through adjustment from grants due to ULBs was Rs. 23.87 crore during 2002-03 to 2006-07 against which Rs.26.03 crore was spent for payment of death-cum-retirement benefits.

(Rupees in crore)

Year	Opening Balance	Direct Contributions	Contributions through adjustments♣	Total	Payments	Closing Balance
2002-03	3.21	3.13	1.65	7.99	4.21	3.78
2003-04	3.78	3.55	0.71	8.04	6.02	2.02
2004-05	2.02	3.68	0.71	6.41	4.73	1.68
2005-06	1.68	4.19	0.73	6.60	4.98	1.62
2006-07	1.62	5.52	0	7.14	6.09	1.05
Total		**20.07**	**3.80**		**26.03**	

Source : Control Register of DUA.

Accounts of the pension fund not properly maintained.

Receipts and payments under CPF were not properly accounted in the cash book and other records and the cash book was not closed by DUA. In the absence of proper accounts, the details of receipts and payments were compiled from Control Register and the bank accounts by DUA which were not reliable. Further, non-reconciliation of accounts of the DUA with the accounts of the ULBs made the accounts even more unreliable.

* Thiruvananthapuram, Kollam and Kozhikode Corporations and Municipalities of Nedumangad, Chengannur, Kottayam, Thripunithura, Aluva, Vadakara and Thalassery.

♣ Amount recovered by DUA from the grant payable to ULBs and adjusted towards contribution due.

3.4.3 Arrears of Pension Contribution

14 ULBs out of 58 defaulted payment of pension contribution.

The contributions to the CPF should be sent to the DUA before 25th of every month failing which the ULBs were liable to pay interest for the defaulted period at the rates in force for Savings Bank Deposits. As per the accounts maintained by the DUA, 14 ULBs (refer table in paragraph 3.4.4) out of 58 in the state did not remit the contributions on due dates. The arrears of contributions payable by these ULBs could not be ascertained in audit as the DUA had no details of the contribution payable by them. The contribution payable by ULBs which defaulted payment was not ascertainable by DUA as the salary details were not forwarded to him. DUA did not monitor whether the payment of contribution made by each ULB was at the prescribed rate and at the stipulated time. Though a certificate of salary drawn by the employees was to be attached while remitting the contribution, it was not properly verified by the DUA to ensure the correctness of the amount.

3.4.4 Interest on belated payment of contributions not realised

The following ULBs in the state did not remit the contribution during periods noted against each.

Sl No	ULB	Period during which contribution was not remitted
1	Alappuzha	2003-04 to 2006-07
2	Aluva	2003-04 and 2004-05
3	Cherthala	2002-03 to 2006-07
4	Changanassery	2005-06 to 2006-07
5	Chengannur	2002-03
6	Kochi	2004-05
7	Kozhikode	2002-03 and 2003-04
8	Nedumangad	2002-03
9	Neyyattinkara	2002-03 to 2006-07
10	Pathanamthitta	2002-03 to 2004-05 and 2006-07
11	South Paravoor	2002-03
12	Thiruvananthapuram	2003-04 to 2006-07
13	Thripunithura	2002-03
14	Varkala	2003-04

Interest on arrears was not recovered.

The interest payable on the amount of arrears also could not be worked out as the amount of contributions payable was not ascertainable. However, it was confirmed that the DUA had not received any amount towards interest so far. Though the Corporation of Kochi remitted contribution during the years except 2004-05, the amount remitted was negligible (Rs.56,727). Inability to ensure prompt and timely payment of contributions and interest on defaulted payments indicated that DUA could not allot entitled amounts as mentioned in paragraph 3.4.5, to even those ULBs that had remitted the contributions due.

3.4.5 Sanctioning of pension and allotment of amount to ULBs

The secretary of the ULB should prepare the pension papers one year before the retirement of every employee and forward it to the DUA through the Director of Local Fund Audit who should verify the eligibility of pension under KSR. The DUA on sanctioning pension allots to the ULB the amount

required for disbursement of pension and other benefits for one year to such employees. In respect of other pensioners, DUA should allot before 31 March to the ULB the amount required for disbursement of the pension benefits during next year. The secretary should keep this amount in a separate fund called Municipal Pension Fund and disburse the pension from this fund every month. However, audit scrutiny revealed that the amount required for next year's disbursement was not allotted before 31 March to any ULB in the state. Out of 58 ULBs in the state 46 ULBs (79.3 *per cent)* (Appendix IX) did not receive any allotment during the years noted against each. Of the 46 ULBs, 34 were those which remitted the contribution every year. As a result of these, 34 ULBs (59 *per cent*) out of 58 had to make DCRB payments from their own funds during different periods between 2002-03 and 2006-07 although they had remitted Rs 7.55 crore towards contribution. This led to avoidable draining of resources of ULBs which could have been utilised for developmental activities. Incidentally, Kozhikode Corporation which defaulted payment of contribution during 2002-03 and 2003-04 received allotment every year during the period from 2002-03 to 2006-07.

34 ULBs made pension payments from their own funds as they did not receive any amount from Pension Fund.

3.4.6 Payment of contribution and receipt of allotments in selected ULBs

A detailed examination of the amount contributed and that received as allotment revealed that none of the selected ULBs received sufficient allotment for disbursement of pension as shown below:

(Rs.in crore)

Sl No	ULB	Period	Contribution			No. of pensioners	Pension and other benefits disbursed	Source of funds for disbursement	
			Due	Paid	Balance			CPF	Own funds
1	Kollam	4/00-9/07	2.01	2.01	0	212	5.49	1.50	3.99
2	Kozhikode	1/96-9/07	2.39	2.39	0	544	9.49	3.30	6.19
3	Kottayam	1/97-9/07	1.62	1.62	0	144	4.55	2.33	2.22
4	Thripunithura	4/97-9/07	0.46	0.46	0	25	0.66	0.30	0.36
5	Aluva	1/97-9/07	0.78	0.78	0	38	1.23	0.50	0.73
6	Thiruvananthapuram	4/02-3/07	5.18	0.11	5.07	713	18.50	0.25	18.25
7	Vadakara	4/00-9/07	0.82	0.64	0.18	65	0.93	0.68	0.25
8	Nedumangad	4/91-10/07	0.34	0.33	0.01	14	0.69	0.16	0.53
9	Thalassary	5/03-9/07	0.80	0.63	0.17	109	2.18	0.91	1.27
10	Chengannur	1-1-97-9/07	0.47	0.19	0.28	21	0.79	0.25	0.54
	Total		**14.87**	**9.16**	**5.71**	**1885**	**44.51**	**10.18**	**34.33**

The amount of contribution payable/due (Rs.14.87 crore) by 10 slected ULBs during the above periods was just one third of the actual DCRB liability (Rs.44.51 crore) during the same period which indicated that the rate of contribution was not sufficient to run the scheme successfully. As a result, the

The amount of contribution was not sufficient to meet the pension payment liability of ULBs.

ULBs had to incur an expenditure of Rs.34.33 crore from their own funds as they received only an amount of Rs.10.18 crore (22.87 *per cent*) from the CPF. The lack of financial viability of the scheme may prompt the ULBs to withdraw from the scheme leading to its discontinuance. In fact, Thiruvananthapuram Corporation stated (October 2007) that they did not remit the contribution since 2002-03 as no allotment was received from CPF for several years.

3.4.7 Payment of arrears of pension not met from CPF

According to the Rules, the total amount required for payment of gratuity, commutation, pension and arrears was to be met from CPF. Although the selected ULBs had to incur an expenditure of Rs.3.51 crore from their own funds towards payment of arrears of DCRB, DUA did not allot any amount from CPF for the purpose. As contribution equal to *15 per cent* of arrear pay was payable to CPF, arrear pension on account of revision of Pay/Dearness Allowance was also to be met from CPF.

3.4.8 Administrative Expenses not met from CPF

Administrative expenses of the Fund was not met from Pension Fund.

According to the Rules, the administrative expenses of the scheme such as establishment expenditure, travelling allowance, stationery, furniture, contingent expenditure, etc of the pension section of the Directorate of Urban Affairs were to be initially met from the budget allotment of the department. After the close of the year, the amount so spent should be remitted back to the Government Account from the CPF. During the period from 2002-03 to 2006-07, though an amount of Rs.74.64 lakh was spent from Government accounts towards administrative expenses of the scheme, DUA did not remit back the amount to the Government by debit to CPF.

3.4.9 Diversion of Specific Purpose Grant towards Pension Contribution

Government diverted grant for specific purposes towards contribution.

Government during March 2005 allotted Rs. 84 lakh to the ULBs for the specific purposes of Maternity and Child Welfare, Mosquito Control Operation and nursery school maintenance. However, DUA adjusted Rs. 73.20 lakh from this amount towards pension contribution arrears of ULBs. The action of DUA in adjusting pension contribution from specific purpose grant was unauthorised.

3.4.10 Evaluation

No evaluation of the scheme was so far done either by the Government or by the DUA. The amount in the CPF other than that necessary for meeting daily expenses was to be deposited in fixed deposits for getting more interest and the interest so earned was to be credited to the CPF. As at the end of 2006-07, the amount kept in fixed deposits was Rs.3.66 crore and the balance in CPF was Rs. 1.05 crore. Had allotments as provided in the Rules been made to ULBs, there would not have been any balance in the CPF and the object of the scheme for meeting the whole expenses for payment of pension from the interest would not have materialized. Likewise, another objective of the scheme to allocate the pension liability *prorata* among the ULBs where the employees worked during their service could not be achieved, wherever payment of pension was made from own funds. None of the ULBs test checked could meet the full expenditure on pension from the amount allotted

from CPF and they had to spend from own funds. As a result of non-evaluation of the scheme, the Government could not take care of these aspects which were adverse to the scheme. Unless the scheme is revamped, it is not possible to continue the scheme.

3.4.11 Internal Control and Monitoring

The internal control mechanism for ensuring prompt payment of pension contribution was very weak as the DUA had no accurate data about the pay and allowances of the ULB employees. As such DUA could not determine the amount payable by each ULB towards pension contribution and could not take any action against erring ULBs. Even though the Director of Local Fund Audit was to prescribe the form of accounts and registers of CPF, the form of registers and accounts used by DUA were not consistent with the purpose of the intended internal control. Another weakness in internal control was in monitoring the maturity period of fixed deposits made in treasuries. Failure of internal control and monitoring system in this case led to loss of interest of Rs. 37.61 lakh on fixed deposit due to non-renewal of fixed deposits for the last four years. Further as DUA did not conduct treasury/Bank reconciliation during 2006-07, the correctness of the balances as per the accounts of DUA could not be ensured which was also an internal control lapse.

3.4.12 Conclusion

A review on implementation of the death-cum-retirement benefit scheme for the employees of ULBs introduced by the Government of Kerala revealed that accounts of the Central Pension Fund were not properly maintained by the DUA. 14 out of 58 ULBs did not remit the pension contributions on the due dates. However, the DUA did not have records to ascertain the arrears or the interest on such arrears payable by the ULBs. 34 ULBs made pension payments from their own funds in addition to periodic contributions to the fund due to non receipt of the due amount from Pension Fund. The amount of pension contribution was not sufficient to meet the pension payment liability of the ULBs. As a result, there is a likelihood of the ULBs withdrawing from the schemes leading to discontinuance of the scheme. Evaluation of the scheme was not done by the Government and the internal control system was very weak.

3.4.13 Recommendations

- **Proper accounts should be maintained both by DUA and the ULBs.**
- **Government should consider adoption of a viable rate of pension contribution for successful continuation of the scheme.**
- **Arrears of pension contribution should be recovered immediately with interest.**
- **The scheme may be revamped so that the ULBs need not spend any money from own funds for payment of pension.**

3.5 Implementation of RIDF Projects

3.5.1 Introduction

The Government of India announced a scheme for setting up of Rural Infrastructure Development Fund (RIDF) in the budget of 1995-96. This fund was operated by the National Bank for Agriculture and Rural Development (NABARD). The Corpus of the RIDF was made up of contribution by way of deposit from scheduled commercial banks operating in India to the extent of shortfall in their agriculture lending subject to a maximum of 1.5 *per cent* of the net bank credit. The loan from RIDF was provided to State Governments for development of rural infrastructure such as roads, markets, etc. The Finance Department of the State Government was designated as the nodal department for the implementation of the projects under RIDF. The State Government should also make adequate provision in the budget for timely repayment of principal and interest. The projects sanctioned under RIDF were to be implemented by the State Government through PRIs and line departments. Ten *per cent* of the project cost was to be borne by the PRIs till 2001-02 and 20 *per cent* thereafter.

Block Panchayats (BPs) accordingly undertook construction of rural roads alone and gave priority to roads leading to markets to facilitate transportation and marketing of farm products. As the works were to be integrated with annual plan of BP, they were identified by the grama sabhas. Out of 152 BPs in the state, 15* in five selected districts** were selected for audit and the following audit findings emerged.

Audit Findings

3.5.2 Funding

3.5.2.1 Allotment of funds by NABARD

Release of funds by NABARD was on reimbursement basis. Work bills were to be paid by BPs initially and the work bills were to be forwarded to NABARD through Commissioner of Rural Development (CRD) and Finance department. NABARD in turn was to release funds to the Finance Department wherefrom it was to be transferred to the BPs through CRD.

During the period from 2002-03 to 2006-07 the State Government received total amount of Rs.694.47 crore from NABARD towards loan for RIDF. As against this the Government paid back Rs.472.65 crore during this period as detailed below:

* Anchal,Chadayamangalam,Chengannur,Kaduthuruthy,Kilimanoor,Konni,Kottarakkara, Kulanada, Parakkode,Pathanapuram,Pandalam, Ranni, Uzhavoor,Vamanapuram and Vettikkavala.

** Alappuzha,Kollam,Kottayam,Pathanamthitta and Thiruvananthapuram.

(Rs in crore)

Sl No	Year	Opening Balance	Amount of loan received	Total	Repayments	Closing Balance
1	2002-03	317.20	114.37	431.57	44.50	387.07
2	2003-04	387.07	117.54	504.61	51.89	452.72
3	2004-05	452.72	100.84	553.56	49.64	503.92
4	2005-06	503.92	125.71	629.63	304.43	325.20
5	2006-07	325.20	236.01	561.21	22.19	539.02
	Total		**694.47**		**472.65**	

As at the end of 2006-07, the loan outstanding to be repaid was Rs.539.02 crore as against Rs.317.20 crore at the beginning of 2002-03. The amount received was to be provided to PRIs and line departments for implementation of the scheme.

3.5.2.2 Physical achievement

BPs in the state undertook, construction of 617 rural roads under the scheme during 1997-98 to 2005-06 out of which 369 roads alone (59.81 *per cent*) were completed as detailed below:

Sl No	Tranche No & Year	No of projects sanctioned	No of Projects not started/ cancelled	No of projects started but not completed	No of Projects completed
1	III-1997-98	140	11	5	124
2	IV-1998-99	37	Nil	4	33
3	V-1999-00	61	8	6	47
4	VI-2000-01	72	5	10	57
5	VII-2001-02	36	2	11	23
6	VIII-2002-03	92	4	33	55
7	IX-2003-04	57	4	30	23
8	X-2004-05	49	12	30	7
9	XI-2005-06	73	22	51	Nil
	Total	**617**	**68**	**180**	**369**

Of the remaining 248 road works, 68 were either cancelled or not started whereas 180 remained incomplete.

3.5.2.3 Short transfer of funds by State Government

Though NABARD released Rs.138.66 crore for payment to Block Panchayats, Govt. transferred Rs.100.59 crore.

According to the guidelines issued by NABARD the loan amount was to be utilised solely and exclusively for the purpose for which it was sanctioned and the Finance Department of the State Government was to ensure that funds drawn from NABARD were passed on to the Implementing Department. NABARD sanctioned Rs.227.46 crore to the BPs in the state for implementation of 617 projects sanctioned by NABARD upto 2005-06. Out of this, NABARD released Rs.138.66 crore to the State Government to be passed

on to the BPs. Government, however, released only an amount of Rs.100.59 crore resulting in irregular retention of Rs.38.07 crore by the Government relating to the period from 1997-98 to 2005-06 as detailed below:

(Rs in crore)

Sl No	Tranche No & Year	Estimated cost (as approved by NABARD)	RIDF loan sanctioned by NABARD	Loan released to Govt.	Balance to be released by NABARD	Amount actually transferred to BPs by Govt	Balance amount retained by Govt
1	III-1997-98	35.49	31.27	27.32	3.95	27.33	(-)0.01
2	IV-1998-99	10.32	8.53	7.18	1.35	6.99	0.19
3	V-1999-00	22.90	19.93	16.77	3.16	13.86	2.91
4	VI-2000-01	45.58	31.38	27.44	3.94	20.96	6.48
5	VII-2001-02	23.30	20.16	15.84	4.32	9.48	6.36
6	VIII-2002-03	44.90	40.04	28.74	11.30	16.09	12.65
7	IX-2003-04	24.98	19.85	9.43	10.42	4.48	4.95
8	X-2004-05	28.34	18.76	3.78	14.98	1.40	2.38
9	XI-2005-06	44.00	37.54	2.16	35.38	0	2.16
	Total	**279.81**	**227.46**	**138.66**	**88.80**	**100.59**	**38.07**

This included Rs.3.09 crore relating to Tranche III to V which were closed during the period from 2003 to 2005. The irregular retention of the amount released by NABARD led to non-reimbursement of expenditure of Rs.38.07 crore to the BPs and utilisation of the amount by the Government for other purposes which was in contravention of the guidelines as discussed in the subsequent paragraphs.

3.5.2.4 Lapse of funds

As allotment of Rs.1.35 crore was sanctioned by the Govt, at the fag end of the year, selected BPs could not draw the amount.

Scrutiny of records of 15 selected BPs revealed that 110 projects estimated to cost Rs.37.80 crore were executed by them during the period from 1997-98 to 2006-07. Though the BPs incurred a total expenditure of Rs.20.86 crore on these projects, NABARD released an amount of Rs.18.20 crore to the Government. However, the Government actually transferred only Rs.14.62 crore through the CRD resulting in short transfer of Rs.3.58 crore as detailed in Appendix X. Out of Rs.14.62 crore transferred, the allotment in respect of Rs.1.35 crore was sanctioned at the fag end of the financial year. As a result, the BPs could not draw the amount which lapsed to Government. Apart from this, an amount of Rs.2.66 crore (20.86 – 18.20) was to be reimbursed by NABARD as of February 2008.

3.5.2.5 Short disbursement of assistance in closed Tranche

Against an amount of Rs.3.83 crore spent by nine BPs out of 15 selected BPs in respect of 13 projects, under the closed Tranche No III to V Rs.3.35 crore was due to be reimbursed. Out of this, NABARD released Rs.2.51 crore to the Government of which Government transferred Rs.2.31 crore to the BPs leading to short transfer of Rs0.20 crore as detailed below:

(Rs in lakh)

Sl No	Name of BP	Tranche No	No of projects completed	NABARD approved cost	Total expenditure (met from Plan funds)	Amount due to be reimbursed (excluding BP share)	Amount reimbursed by NABARD to Govt	Amount transfered by Govt. to BP	Balance amount to be reimbursed by NABARD	Balance amount to be transferred to BPs by Govt.
1	Vettikavala	III	2	43.89	44.10	39.50	24.99	23.25	14.51	1.74
2	Parakkode	III	1	30.45	32.65	27.40	26.88	26.87	0.52	0.01
		V	3	56.60	42.77	38.49	34.46	33.51	4.03	0.95
3	Panadalam	V	1	50.00	49.49	44.54	42.97	42.98	1.57	(-)0.01
4	Ranni	III	1	51.78	46.84	42.16	22.73	22.73	19.43	0
5	Chengannur	IV	1	38.48	29.84	26.86	27.07	9.85	(-) 0.21	17.22
6	Kaduthuruthy	IV	1	46.34	45.77	41.19	38.69	38.69	2.50	0
7	Vamanapuram	III	1	46.80	55.31	42.12	8.36	8.36	33.76	0
8	Kulanada	III	1	21.00	17.90	16.11	11.74	11.97	4.37	(-)0.23
9	Anchal	III	1	18.50	18.50	16.65	13.45	13.27	3.20	0.18
	Total		13	**403.84**	**383.17**	**335.02**	**251.34**	**231.48**	**83.68**	**19.86**

3.5.2.6 Diversion of Plan funds for implementation of RIDF works

Initial diversion of plan funds for implementation of RIDF projects affected the plan implementation of BPs.

For the implementation of RIDF works, the BP share alone was to be met from plan/development fund. However, BPs test checked paid Rs.20.86 crore in respect of 110 works undertaken by them during 1997-98 to 2006-07 against which an advance of Rs.1.77 crore only was released by the CRD. Thus BPs had to divert a sum of Rs.19.09 crore from the plan funds for payment of value of works to the contractors of which Rs.12.85 crore was got reimbursed. This diversion of plan funds adversely affected the implementation of plan projects included in their annual plans.

3.5.3 Implementation of projects

3.5.3.1 Works not completed

Out of 617 works, 248 works were not completed.

Out of 110 works undertaken by the selected BPs during 1997-98 to 2005-06 only 68 (62.39 *per cent*) could be completed. The expenditure incurred on 41 incomplete works was Rs.3.84 crore as shown in Appendix XI. This amount could not be claimed from NABARD as the works could not be completed as mentioned in paragraphs 3.5.3.2 and 3.5.3.3.

At state level, 369 projects alone could be completed out of 617 taken up by the BPs. Out of the remaining 248 works 68 could not even be started whereas 180 works remained incomplete as shown in table under para 3.5.2.2. The physical achievement was less than 60 *per cent*.

3.5.3.2 Non-availability of land

Two works were abandoned after spending Rs.38.64 lakh due to non-availability of land.

The road works under RIDF should be taken up only if land with width of eight metre was available for the entire length of the road. Two works undertaken during 2002-03 by the following BPs were abandoned due to non-availability of land.

(Rs in lakh)

Sl No	BP	Name of road	Estimated cost	Expenditure incurred	Remarks
1	Kulanada	Thundakadavu-Thundaplavu Road	26.00	14.31	Owner of the land declined to surrender land
2	Konni	Chempikunnu-Thattakunnu-Elappara Road	33.75	24.33	Non-availability of land.
	Total		59.75	38.64	

Taking up road works without ensuring availability of land with sufficient width resulted in unfruitful expenditure of Rs.38.64 lakh incurred on the abandoned works.

3.5.3.3 Performance guarantee not obtained from contractors

Government decided (August 1997) that if the quoted rate was between 25 *per cent* and 50 *per cent* below estimate rate, the contractor had to remit performance guarantee equal to the difference between estimated PAC* and quoted PAC. However, in the following three works, even though quoted rates were below 25 *per cent* of the estimated rates, no performance guarantee was obtained from the contractors and the works remained incomplete.

Sl No	Name of work	Name of BP	Estimated Cost (Rs. in lakh)	Quoted Rate	Amount Spent (Rs. in lakh)	Remarks
1	Aruvachankuzhy-Edakadathy Road	Ranni	64.64	25 *per cent* below	10.42	Work terminated in September 2007
2	Elavattom-Vanchuvam Road	Vamanapuram	45.00	25.61 *per cent* below	27.81	Work to be completed on 18 January 2003. But not completed so far.
3	Paluvally-Kadumankuzhy-Vandithadam Road	Vamanapuram	60.00	27 *per cent* below	Nil	Work to be completed before 29 November 2006. Started only in 08/2007.

* Probable Amount of Contract

Had performance guarantee been obtained from the contractors there would have been better prospects of these works being completed within the stipulated period and benefits accrued to the rural population.

3.5.3.4 Work abandoned after receipt of start up advance

Start up advance of Rs.10.80 lakh was not recovered despite the work being abandoned.

NABARD approved a project for construction of Uliyanthara Alakkode Road at Venmany in Chengannur BP under Tranche VII during 2001-02. The estimated cost of the project was Rs.60 lakh. NABARD released a start up advance of Rs.10.80 lakh which was passed on to the BP on 29 March 2003. The BP, though credited the amount in its Personal Deposit Account on 31 March 2003, did not execute the work even after the lapse of about five years. No action was taken against the BP for not executing the work inspite of having received the initial advance or for recovering the advance.

3.5.3.5 Irregular payment of differential cost of bitumen

As per the PWD Schedule of Rates (SoR) effective from 1 December 2004, the rate for bitumen was Rs.7223 per MT whereas the actual price payable to oil companies was about Rs.13500 per MT during that period. As the rates prescribed in the SoR was reckoned in the estimates, the differential cost was to be borne by the contractor unless bitumen was supplied departmentally. However, two BPs out of 15 test checked paid the differential cost of bitumen amounting to Rs.5.93 lakh to the contractors in respect of three road works undertaken under Tranche VIII as detailed below:

(Rs in lakh)

Sl No	Name of work	Name of BP	Estimated Cost	Payment made			Date of completion
				Value of work done	Differential cost of bitumen	Total	
1	Unakkthode-Anakkulam Road	Anchal	31.17	30.37	0.90	31.27	30 March 2006
2	Manalil-Erachikkal Road	Anchal	61.13	61.13	2.09	63.22	30 March 2006
3	Manthuka-Reethupally – Puthankadam Road	Chengannur	31.00	30.98	2.94	33.92	7 April 2006
	Total		**123.30**	**122.48**	**5.93**	**128.41**	

Thus the payment of Rs.5.93 lakh towards differential cost of bitumen to the contractors was irregular.

3.5.4 Accounting

3.5.4.1 Receipts and payments not accounted

Rs.98.36 lakh were not accounted by the BPs.

PRIs were to maintain proper accounts to record transactions relating to the implementation of the scheme. However, the following BPs did not account for Rs.98.36 lakh received and expenditure incurred therefrom.

(Rs in lakh)

Sl No	Name of BP	Tranche number	Amount
1	Anchal	III & IV	65.87
2	Kottarakkara	VIII	24.02
3	Kilimanoor	III	8.47
	Total		**98.36**

In the absence of accounting for the funds received and spent, the possibility of misappropriation could not be ruled out.

3.5.5 Monitoring and evaluation

According to the guidelines issued by NABARD and the Government, the project implementing authority and NABARD were to monitor the progress and quality of implementation of works. Periodical field visits were to be conducted by NABARD and the implementing authority. It was stipulated that the Secretary of Block Panchayats and district level officers should inspect 10 and 20 *per cent* of works respectively. There was nothing on record to show that the secretary and district level officers conducted inspection as stipulated. In the absence of monitoring, 40 *per cent* of the projects undertaken by BPs remained incomplete as detailed in Paragraph 3.5.2.2. Due to non-completion of works within the stipulated time, NABARD did not reimburse funds of Rs.88.80 crore as already detailed in Paragraph 3.5.2.3.

3.5.6 Conclusion

A review on NABARD assisted RIDF projects undertaken by the Block Panchayats revealed that only 60 per cent of the projects undertaken during 1997-2006 could be completed. The BPs had to incur expenditure in excess of prescribed limits from their own funds since the Government had withheld certain amounts out of the amount released by NABARD for the projects. Some of the BPs did not account the amount received for implementation of the scheme and the expenditure therefrom. Monitoring of the work was also not done as stipulated resulting in non completion of works and non reimbursement of amount by NABARD.

3.5.7 Recommendations

- RIDF fund released from NABARD to State Government should be released to CRD and from CRD to BPs promptly.
- Plan funds should not be utilised for RIDF project, except the BP share.
- Specific guidelines should be framed and issued for the maintenance of RIDF funds and keeping of accounts.
- Government should strengthen monitoring and evaluation of the implementation at all levels.

3.6 Management of food grains in Sampoorna Grameen Rozgar Yojana (SGRY) in Block Panchayats and District Panchayats

3.6.1 Introduction

Sampoorna Grameen Rozgar Yojana (SGRY) is a Centrally Sponsored Scheme launched during September 2001 to provide additional wage employment and food security to rural poor. Out of 67.26 lakh households in the State, 17.24 lakh were below poverty line (25.63 *per cent*). The scheme envisaged execution of works, material component of which was not to exceed 40 *per cent* of total value of the work, without engaging contractors with a view to generate more employment in rural areas. To ensure food security to the rural workers, a part of the wages was to be paid in food grains at the rate of five kilogram per day for each worker. This cost was to be fully borne by the Government of India (GoI). The quantity of food grains was reduced to three kilograms from 1 November 2005. The cash component of the wages was to be shared by Central and State Governments in the ratio 75 : 25. The scheme was implemented in the state through the three tier Panchayat Raj Institutions (PRIs) and monitored by the Commissioner of Rural development (CRD) at state level and by Ministry of Rural Development (MoRD) at national level. The scheme was discontinued from 2006-07 in Palakkad and Wayanad districts where National Rural Employment Guarantee Scheme was implemented. A review on the management of food grains under the scheme for the period from 2002-03 to 2006-07 was conducted during the period from March to July 2007 with particular reference to the records of eight Block Panchayats[†] (BPs), District Panchayats (DPs) and the Poverty Alleviation Units (PAUs – erstwhile District Rural Development Agency) in three selected districts[‡] and the CRD.

3.6.2 Provision of resources

During the period from 2002-03 to 2006-07 the resources provided for the scheme were as follows:

Year	Cash (Rs in crore)			Food grains (MT) lifted		
	Central share	State share	Total	Rice	Wheat	Total
2002-03	77.40	23.55	100.95	52297	2519	54816
2003-04	86.85	19.47	106.32	50583	10725	61308
2004-05	78.04	36.92	114.96	64761	32242	97003
2005-06	91.38	30.25	121.63	54205	27599	81804
2006-07	74.62	24.13	98.75	5240	1076	6316
Total	**408.29**	**134.32**	**542.61**	**227086**	**74161**	**301247**

[†] Anchal,Angamali,Chadayamangalam,Koduvally,Kottarakkara,Kunnamangalam, Vazhakkulam and Vypin.
[‡] Ernakulam,Kollam and Kozhikode.

Against 3.01 lakh MT of food grains and Rs.408.29 crore provided by GoI, the State Government provided Rs.134.32 crore. According to the accounts maintained by CRD, 4.59 crore persondays of employment was generated in the state under the scheme during the above period.

3.6.3 Allotment and lifting food grains

Issue of food grains to convenors direct from FCI godown instead of the labourers through ARDs led to diversion and fraud.

MoRD intimated the CRD every year about the allotment of food grains to each district which was to be provided by the Food Corporation of India (FCI) free of cost. Even though the food grains were released by FCI free of cost, MoRD was to pay the value at the economic cost[§]. However, the State Government had freedom to fix the rate at which the food grains were to be issued to the workers recoverable from their wages, which could be either BPL rate[**] or APL rate[††] or anywhere between the two rates. The rates fixed by the State Government for rice and wheat were Rs.6.20 and Rs.5.50 per kilogram respectively. According to the guidelines issued by GoI the distribution of food grains to the workers was to be either through PDS or by GP or any other Agency appointed by the State Government. However, lifting of food grains for all the implementing agencies including BPs and GPs was to be made either by DPs/PAUs or through their authorised agencies only. The guidelines further stipulated that the Secretary of DP/Project Director of PAU should co-ordinate the release and lifting of stocks under the scheme. The PRI-wise allocation out of the district allocation was to be made by the PAU of that district. However, the State Government prescribed (November, December 2001) a slightly different procedure for lifting and distribution, according to which PAU was to gather ARD[‡‡]-wise details of quantities of food grains required by PRIs each year and PAU had to prepare and issue an AWD[§§]-wise consolidated indent to the FCI Depot. AWDs were to lift and transfer the food grains from FCI to ARDs wherefrom the food grains were to be distributed to the workers. In actual practice, the PAU followed a procedure different from that prescribed. PAU issued indents to the FCI Depot authorising to release food grains to the secretary of the PRI who in turn issued the entire quantity of food grains required for the work to the convenor after obtaining his receipt. Instead of issuing foodgrains from ARDs to the labourers based on actual work done, the foodgrains were issued directly from FCI godown to the convenors in lump resulting in diversion and fraud as mentioned in paragraphs included under section 4.

3.6.3.1 Transportation/handling charges of food grains met from SGRY funds

As per SGRY guidelines, the transportation charges and handling charges to ARDs/AWDs on food grains were to be borne by the State Government.The guideline also provided for utilisation of the sale proceeds of the gunny bags in which the food grains were received for making payment towards transportation cost/handling charges. However, PAU Kollam incurred an expenditure of Rs.20.42 lakh from SGRY funds for meeting the above

[§] Words used in guidelines.
[**] Rs.6.20 per kilogram.
[††] Rs.8.90 per kilogram
[‡‡] Authorised Retail Dealers (of the locality)
[§§] Authorised Wholesale Dealers (wherefrom ARD is authorised to lift food grains)

expenses during 2002-03 and 2003-04. The diversion of fund for purposes not permitted under the scheme was unauthorised.

Cost of gunny bags amounting to Rs.7.20 lakh not recovered from convenors.

As the food grains were distributed by the convenors and not by PRIs, the cost of gunny bags should have been recovered from the convenors. However, audit scrutiny revealed that the cost of 1.44 lakh gunny bags amounting to Rs.7.20 lakh calculated at Rs.5 each was not recovered from the convenors in four out of 11 PRIs test checked.

3.6.3.2 Non utilisation of food grains kept at private godown

Food grains costing Rs.34.28 lakh kept idle in private godowns for long periods.

Ernakulam DP lifted food grains from FCI and kept it in the godowns of Kerala State Civil Supplies Corporation/convenors. However, it was seen in audit that 235.03 MT of rice and 10.27 MT of wheat remained unutilised in the private godowns as of July 2007 for periods ranging from one year to six years as shown below:

Period for which the food grains had been lying idle	Rice (MT)	Wheat (MT)
Between 5 years and 6 years	125.00	-
Between 2 years and 3 years	92.27	7.40
Between 1 year and 2 years	17.76	2.87
Total	**235.03**	**10.27**

This was due to lifting of food grains without ascertaining the actual requirement and non-issue of the food grains thus lifted during next year. It is apprehended that prolonged storage of food grains would lead to deterioration of its quality. The value of food grains kept idle in private godowns worked to Rs.34.28 lakh.

3.6.3.3 Allotment of food grains lapsed

In Ernakulam District, 437.67 MT of rice and 37.07 MT of wheat valued at Rs.65.54 lakh were not lifted from FCI during 2002-03 to 2006-07. As a result, the quantity of food grains allotted free of cost by GOI lapsed which led to non-achievement of the objective of food security. The Project Director, PAU stated (May 2007) that this was due to non lifting of food grains by GPs.

3.6.4 Accounting

3.6.4.1 Fraudulent accounting of food grains

Fraud involving Rs.2.04 crore detected in audit.

PAU Kollam during 2002-03 allotted 2243 MT of rice to DP, Kollam for implementation of the scheme. Though the entire quantity of rice was shown as lifted from FCI as per the records of FCI and PAU, the quantity of rice actually lifted by DP, Kollam was only 804.357 MT. Thus 1438.643 MT of rice had been lifted either by somebody else on behalf of the PRI or by the PRI themselves without making any entry in the Stock Register which tantamounts to fraud. This fraud cost the exchequer an amount of Rs.2.04 crore.

3.6.4.2 Discrepancy in accounting food grains

On a scrutiny of stock register of food grains, it was noticed that the closing stock recorded by Vazhakulam and Angamali BPs were minus figures. The closing stock of rice in Vazhakulam as on 31 March 2004 was (-) 4.94 MT. In

Angamali BP the closing stocks of rice and wheat as on 31 March 2006 were (-) 20.20 MT and (-) 8.10 MT respectively. The discrepancy occurred as a result of lack of periodical physical verification of stock and reconciliation.

3.6.5 Diversion

Scrutiny of records of selected PRIs, PAUs and CRD revealed that large scale diversion of food grains took place causing huge loss to GoI besides defeating the objective of providing food security to the rural poor.

3.6.5.1 Diversion of food grains to other districts

According to the guidelines, diversion of resources (including food grains) from one District to another was not permissible. However, it was seen in audit that this was violated by PAU, Kozhikode which transferred 2000 MT of rice to PAU, Wayanad.

3.6 5.2 Diversion of food grains for other purposes

4683.83 MT of food grains costing Rs.6.64 crore diverted to Tribal Development Department.

Audit scrutiny revealed that 4683.83 MT of rice allotted in seven districts were diverted (Appendix-XII) to Tribal Development Department for other purposes such as providing free ration to tribal people and backward classes. The total value of food grains diverted worked out to Rs.6.64 crore at the average rate of Rs.14170 per MT.

3.6 5.3 Diversion of food grains to open market

As a result of diversion of 7666.66 MT of food grains to open market, middlemen derived undue benefit of Rs.5.44 crore.

As mentioned in paragraph 3.6.3, the secretaries of PRIs issued foodgrains lifted by them from the FCI depot to the convenors instead of the workers. Though the food grains were to be distributed to the workers, the convenors sold the same in wholesale market and fetched prices higher than the issue rate fixed by the State Government. As a result, wages to workers were paid fully in cash and no food grain was distributed as evidenced from the details given below.

Sl. No.	No. of works where food grains were diverted	No. of PRIs involved	Quantity diverted (MT)		Evidence of diversion
			Rice	Wheat	
1	204	5	1518.50	469.99	Convenors lifted food grains after the completion of works.
2	126	7	2218.32	1194.97	As per muster rolls, only cash was paid.
3	52	4	1922.63	14.46	No muster rolls or other evidence to show the distribution of food grains.
4	21	1	307.79	20.00	Short distribution as per muster roll.
Total	403		5967.24	1699.42	

Apart from violation of the guidelines, the non-distribution of food grains helped the middlemen to derive undue benefit at the expense of GoI. Though the cost of rice and wheat recoverable from the convenors was at the concessional rate of Rs.6.20 and Rs.5.50 per kilogram, the actual cost payable by GoI to the FCI was Rs.14.17 and Rs.9.54 respectively. The undue benefit derived by the convenors by diverting 5967.24 MT of rice and 1699.42 MT of wheat worked out to Rs.5.44 crore.

3.6 5.4 Diversion of food grains to Kerala State Civil Supplies Corporation (KSCSC)

Kerala State Civil Supplies Corporation derived an undue benefit of Rs.1.65 crore.

In order to check unauthorised diversion and black marketing of food grains allotted for SGRY Government issued orders (13 November 2006) that food grains allotted under SGRY should be released to KSCSC by authorising it to lift the food grains from FCI. KSCSC was to lift the rice from FCI and to pay the cost at the rate of Rs.6.20 per kilogram to the PAUs concerned. The PAUs in turn were required to release the fund so received in lieu of rice to the PRIs for making payment of wages entirely in cash. As this system was against the guidelines, Government after four months *suo moto* withdrew (March 2007) this order. During the intervening period, KSCSC lifted 2075 MT of rice and paid Rs.128.65 lakh being its cost to the PAUs in the state. Against this value of rice payable to FCI by GOI was Rs.294.03 lakh at the rate of Rs.14.17 per kilogram. Thus, there was an unintended benefit of Rs.1.65 crore in the form of foodgrain to the KSCSC.

3.6.5.5 Excess issue of food grains

Non-linking the issue of food grains to the number of person days resulted in excess expenditure of Rs.29.98 lakh.

According to the guidelines, food grains were to be issued to the workers as part of their wages and not for meeting the cost of materials. The labour involved as per estimates and standard data*** in respect of 27 works executed during 2002-03 to 2006-07 in five PRIs out of 11 test checked was 48264 person days. As such the food grains that was to be distributed was 419.64 MT at the rate of 10 or 3 kilogram* per person. Against this, 678.31 MT of rice and 166.37 MT of wheat were issued to the convenors. This resulted in excess issue of 325.80 MT of rice and 99.24 MT of wheat. The excess expenditure due to such excess allotment worked out to Rs.29.98 lakh as the cost recoverable from convenors was at the concessional rates of Rs.6.20 and Rs.5.50 per kilogram of rice and wheat respectively against Rs.14.17 and 9.54 payable by GoI.

Under special component of the scheme, food grains upto a maximum of 75 *per cent* of wages could only be met from the scheme. However, three PRIs test checked in Kozhikode district distributed 484.07 MT of rice in excess of 75 *per cent* of wages in respect of 13 works taken up under special component during 2002-03 to 2005-06. As 25 *per cent* of wages was to be met from other sources, the excess issue of rice was equivalent to excess expenditure of Rs.68.59 lakh.

3.6.5.6 Payment of cash in lieu of food grains

Food grains were not issued to workers in 242 works in 11 PRIs.

Under SGRY, the wages shall be paid partly in food grains and partly in cash. If there was non-supply or inadequate supply or inordinate delay in supply of food grains by the FCI, after obtaining a certificate to this effect from the concerned District Manager/State Regional Manager (FCI), to the extent of shortage of food grains required for wages, payment in kind component of wages could be paid in cash also. It was noticed that in eight out of 11 PRIs test checked, cash was paid to the workers in lieu of food grains in 242 works without obtaining the required certificate from the FCI authorities. This was against the guidelines and resulted in denial of foodgrains to the rural poor.

*** Standard as per PWD

* 3 kilograms/person days from 1 November 2005 onwards.

3.6.6 Non-distribution of food grains

3.6.6.1 Work bills not paid

Sixty seven works taken up by two* BPs out of eight test checked were completed during the period from 2004-05 to 2006-07. The value of works done was Rs.96.96 lakh. The BPs did not pay the work bills as of July 2007 for want of sufficient funds. The food grains entitled under the scheme were also not distributed to the workers. Non-payment of work bills led to non-payment of wages including food grains to workers. Non-availability of funds and food grains was due to taking up works having value exceeding the allotment. During 2006-07, Anchal BP had taken up works costing Rs.2.66 crore against the allotment of Rs.33.81 lakh, which was almost eight times the allotment.

3.6.6.2 Irregular execution of works through contractors

Though no contractor could be engaged for execution of SGRY works, Kozhikode DP executed six works costing Rs.21.03 lakh through a contractor during the period from 2002-03 to 2004-05. As middlemen/intermediate agencies were engaged for execution DP could not ensure that the food grains reached the eligible workers.

3.6.7 Food grains not distributed to workers

Distribution of 10 kilograms of food grains instead of 5 kilograms as per guidelines resulted in generation of 117.81 lakh person days of employment without issue of food grains.

As the State Government was allowed as per guidelines, to give more than five kilograms of food grains per person day if they could do so within the state allocation subject to a minimum of 25 *per cent* of the wages being paid in cash, the State Government distributed 10 kilograms per personday till 31 October 2005. However, from 1 November 2005, food grains were distributed only at the rate of three kilograms as prescribed by GoI. Thus a total quantity of 385948 MT of food grains was required for 459.14 lakh persondays of employment generated during the period from 2002-03 to 2006-07. Against this, 299552 MT was distributed which resulted in short distribution of 86396 MT as shown in the table below.

Year	Employment generated (persondays in lakh)	Food grains to be distributed as per				Quantity Provided (MT)	Actual quantity distributed (MT)	Short distribution (MT)
		Central guidelines		State guidelines				
		Rate (Kg)	Quantity (MT)	Rate (Kg)	Quantity (MT)			
2002-03	70.95	5	35475	10	70950	54816	54691	16259
2003-04	100.87	5	50435	10	100870	61308	59726	41144
2004-05	118.91	5	59455	10	118910	97003	97003	21907
2005-06 upto 31 Oct	63.85	5	31925	10	63850	81804	81996	(-) 4463
2005-06 (From 1 Nov)	45.61	3	13683	3	13683			
2006-07	58.95	3	17685	3	17685	6316	6136	11549
Total	**459.14**		**208658**		**385948**	**301247**	**299552**	**86396**

* Anchal and Kottarakkara

As a result of short distribution of food grains, 117.81 lakh persondays of employment were generated without distribution of food grains to the workers as worked out in **Appendix XIII**. Provision of food grains at double the quantity prescribed by GoI without taking into consideration the state allocation led to non-achievement of major objective of providing food security to such a huge number of rural workers.

3.6.8 Monitoring and internal control

For every work undertaken by the PRIs there should be a monitoring committee of villagers of the area where the work is executed to monitor the progress and quality of the work. Besides, the officers at state, district, sub divisional and block levels were to monitor all aspects of the programme through visits to work sites which should be 10 *per cent* of PRIs by district level officers and two *per cent* of PRIs by state level officers. There was nothing on record to show that proper monitoring was done at any level. Had the monitoring been effective, the irregularities in food grain management could have been avoided.

3.6.9 Conclusion

The control mechanism of the scheme was very weak leading to diversions and fraud. The major objective of providing food security to the rural poor could not be achieved.

3.6.10 Recommendations

- Government should take measures to revamp the monitoring and internal control mechanism.
- Government should conduct a detailed enquiry into the implementation of the scheme including the large scale diversion of food grains.
- Government should take action against the officers responsible for misutilisation of food grains.

3.7 Special Live Stock Breeding Programme

3.7.1 Introduction

Special Live Stock Breeding Programme (SLBP) a state sponsored scheme started during 1976 was transferred by the Government initially to the District Panchayats (DPs) and later during 2001-02 to the Grama Panchayats (GPs) and Urban Local Bodies (ULBs). The primary objective of the scheme was to reduce the productive age of cross bred calves to two years and increase milk production in the State by providing good quality feeds, medicines, vaccination and insurance cover at subsidised rates to calves between the age of four to 32 months. The subsidy admissible was 50 *per cent* of the expenditure for a maximum period of 28 months or up to the first calving whichever was earlier subject to a maximum of Rs.6500 per calf which was to be borne by the department and LSGIs equally. Those intending to avail these benefits were to submit applications to the field level implementing officer either through the LSGI or through milk societies. The beneficiaries were selected by the Grama sabha after scrutiny of such applications. A review on the implementation of SLBP during 2002-03 to 2006-07 was conducted during October 2007. Three districts[†††] out of 14 were selected for the review. Records of six GPs[‡‡‡], two municipalities[§§§], the offices of Animal Husbandry Department at the district and field levels in the selected districts and the office of the Additional Director (SLBP) were test checked.

Audit Findings

3.7.2 Enrolment of calves

During the period from 2002-03 to 2006-07 the physical target fixed by the Government was 86000 calves against which the calves enrolled were 82146 as detailed below.

Year	Target	Enrolled	Shortage
2002-03	10000	8429	1571
2003-04	17000	15254	1746
2004-05	17000	17235	(-) 235
2005-06	21000	20228	772
2006-07	21000	21000	---
Total	**86000**	**82146**	**3854**

However, in three out of eight LSGIs test checked, no calf was enrolled during the years noted against each as shown below.

[†††] Ernakulam, Palakkad and Thiruvananthapuram

[‡‡‡] Keezhumadu, Mulamthuruthy (Ernakulam), Akathethara, Malampuzha (Palakkad) Kazhakkutom and Parassala (Thiruvananthapuram)

[§§§] Angamali and North Parur (Ernakulam)

Three out of eight LSGIs test checked did not enroll calves.

Sl No	LSGI	Target	Enrolled	Year
1	Anad GP	40	0	2006-07
2	Municipal Corporation of Kochi	50	0	2004-05
3	Muvattupuzha Municipality	30	0	2006-07
	Total	**120**	0	

As there was no milk producers co-operative societies through which inputs were provided to the beneficiaries in the urban area of Kochi and Muvattupuzha, no enrolment was possible there.

3.7.3 Funding

The funds required for meeting Government share were provided in the State Budget. The LSGIs transferred their share to the state Animal Husbandry Department which implemented the scheme by arranging all inputs envisaged in the scheme.

3.7.3.1 Budget provision and expenditure

The funds provided in the State Budgets and the expenditure incurred by the Government were as follows:

(Rs in crore)

Year	Budget Provision	Expenditure
2002-03	5.84	4.16
2003-04	6.24	4.32
2004-05	5.64	5.19
2005-06	10.95	10.81
2006-07	7.00	6.99
Total	**35.67**	**31.47**

Out of Rs.35.67crore provided in the State Budget, the amount utilised was Rs.31.47 crore which was 88.23 *per cent*.

3.7.3.2 Excess funds released by the LSGIs and Government

LSGIs and Govt. released 11.94 crore to the implementing officers in excess of actual requirement.

The cost of feeds and other inputs involved was Rs.13000 for each calf, of which Rs.6500 was to be borne by the beneficiary whereas the Government and the LSGI was to meet Rs.3250 each towards subsidy. Thus the amount to be provided by the LSGIs as well as by the Government was only Rs.26.70 crore each against which the LSGIs and Government released Rs.33.87 crore and Rs.31.47 crore respectively as detailed below.

(Rs in crore)

Year	No of calves enrolled	Amount to be released by LSGIs and Government each	Amount released by		Excess release by		Total
			LSGIs	Govt	LSGIs	Govt	
2002-03	8429	2.74	4.96	4.16	2.22	1.42	3.64
2003-04	15254	4.96	4.74	4.32	(-) 0.22	(-) 0.64	(-) 0.86
2004-05	17235	5.60	6.25	5.19	0.65	(-) 0.41	0.24
2005-06	20228	6.58	8.87	10.81	2.29	4.23	6.52
2006-07	21000	6.82	9.05	6.99	2.23	0.17	2.40
Total	**82146**	**26.70**	**33.87**	**31.47**	**7.17**	**4.77**	**11.94**

Thus the LSGIs and the Government released Rs.7.17 crore and Rs.4.77 crore respectively in excess of actual requirement. This amount was retained by the District Level Implementing Officers (DLIOs) in their bank accounts. Drawal of plan funds in excess of actual requirement by the LSGIs and the Government was irregular.

3.7.3.3 Unnecessary retention of funds

Out of Rs.11.94 crore released in excess, Rs.1.17 crore was refunded and the balance retained.

Out of Rs.65.34 crore available during 2002-03 to 2006-07 with the District Level Implementing Officer (DLIOs), the amount utilised for implementation of the scheme was Rs.40.71 crore. Of the balance amount, Government share amounting to Rs.1.17 crore was refunded to Government account during March 2007 by the DLIOs leaving an unspent balance of Rs.23.46 crore at the end of 2006-07. The SLIO stated (December 2007) that an amount of Rs.13.28 crore was required to provide inputs in respect of calves already enrolled during 2004-05 to 2006-07. Thus Rs.10.18 crore out of the unspent balance of Rs.23.46 crore was not required for any purpose. In fact, there should have been at least a balance of Rs.10.77 crore (Rs.11.94 crore – Rs.1.17 crore) due to excess release of funds by the LSGIs and Government to the Department as mentioned in paragraph 3.7.3.2. The resultant shortage of funds worked to Rs.59 lakh. As a result of non-reconciliation of the accounts maintained by DLIO exact reasons for the discrepancy could not be ascertained in audit.

3.7.4 Implementation of the scheme

Starting of feed supply was delayed by two to four months.

Veterinary Surgeon was the Field Level Implementing Officer (FLIO) and at district level, the Deputy Director/Assistant Director was the Implementing Officer (DLIO). The DLIO was to arrange insurance and supply of feeds, medicines and vaccines, whereas FLIO was to monitor and keep the records of calves enrolled and feeds supplied. The quantity of feeds given under the scheme varied from 30 to 75 Kilogram per month depending on the age of calf. The feeds were supplied through milk producers' co-operative societies after collecting the beneficiary share of 50 *per cent*. The beneficiary share collected by the societies and the share of LSGIs were then passed on to DLIO which were utilised along with Government share for payment of cost of feeds and other inputs. The feed supply to the calves was to be started at the age of four to six months. However, it was seen in audit that the starting of feed supply was delayed by two to four months in the following LSGIs during 2005-06.

Sl No	LSGI	No of calves enrolled	No of calves which got feed supply belatedly at the age of (months)				Percentage
			Eight	Nine	Ten	Total	
1	Kavalasseri GP	50	36	3	---	39	78
2	Anakkara GP	50	1	36	1	38	76
3	Nagalasseri GP	50	12	2	36	50	100
4	North Parur Municipality	50	20	4	---	24	48
5	Angamali Municipality	50	9	2	---	11	22
	Total	**250**	**78**	**47**	**37**	**162**	**64.8**

In the above LSGIs, feeds to 64.80 *per cent* calves enrolled during 2005-06 were supplied late denying good quality feeds at the early age which affected their health and milk production as mentioned in para 3.7.7.

3.7.5 High rate of dropouts

3.7.5.1 According to the guidelines, beneficiaries would be removed from the scheme on any of the following grounds.

The drop out rate was as high as 25 *per cent*.

- If the calf does not conceive till 26th month of age
- On calving
- On attaining age of 32 months
- On the subsidy amount reaching the maximum of Rs.6500
- If the beneficiary does not collect the feed continuously for three months

The number of dropouts, i.e., beneficiaries who did not turn out to collect the feed was very high in selected GPs as shown in the table below.

Sl No	District	Calves enrolled during 2001-02 to 2004-05	Dropouts	Percentage
1	Thiruvananthapuram	903	214	23.70
2	Palakkad	365	91	24.93
3	Ernakulam	473	53	11.21

The high rate of drop outs was attributed by FLIOs (October 2007) to the fact that the beneficiaries were not able to cope with the increase in the cost of feeds due to price escalation and increase in expenditure due to increase in quantity of feeds in proportion to the increase in age.

3.7.5.2 Removal of calves from the rolls showed an increasing trend in the past few years. The subsidy of Rs.6500 was fixed based on the prices of feeds prevailed in January 2001. Due to increase in price of feeds from Rs.6650 per MT during 2001 to Rs.7900 per MT during 2007 the quantity of feeds that could be supplied with the available amount decreased in inverse proportion to increase in price. In Parassala circle in Thiruvananthapuram, the percentage of such removal increased from 24 to 45 as shown below.

Due to increase in price of feeds, calves were removed from the scheme before attaining the age of 32 months.

Year of enrolment	No of calves enrolled	Removal from rolls due to reaching maximum subsidy	Percentage
2002-03	100	24	24.00
2003-04	195	77	39.49
2004-05	100	45	45.00

The calves were removed at the age of 29 months during 2003-04 and during 2004-05 even at the age of 28 months. Non-revision of subsidy rates in synchronisation with the increase in price rates of feeds resulted in non-supply of feeds to the calves especially at a time when it was most required. This affected the achievement of objectives of the scheme.

3.7.6 Calving age could not be reduced

The percentage of calving within 32 months was only 27.72 per cent.

The primary objective of the scheme was to reduce the calving age to 32 months at the least and thereby increase milk production. However, a test check of records of selected GPs revealed that the calving age of calves could be reduced to 32 months or below only in respect of 27.72 *per cent* of calves enrolled in selected districts as shown below:.

Sl No	District	No of LSGIs test checked	Period of enrolment	No of calves enrolled	No of calving within 32 months	Percentage
1	Palakkad	9	2002-03 and 2003-04	495	12	2.42
2	Ernakulam	4	2001-02 to 2004-05	473	134	28.33
3	Thiruvananthapuram	12	2001-02 to 2004-05	623	295	47.35
	Total	**25**		**1591**	**441**	**27.72**

At state level, the calving rate within 32 months was only 49.25 *per cent* as disclosed in a review meeting held by SLIO on 21 June 2006.

3.7.7 Decrease in milk production

Inspite of implementation of schemes for increasing the milk production of cross bred cows in the state, the milk production in the state decreased from 25.38 lakh MT during 2001-02 to 19.48 lakh MT during 2005-06 as shown below:

Year	Number of cows (lakh)	Milk production of cows in the state (MT in lakh)
2001-02	21.22*	25.38
2002-03	21.22	22.65
2003-04	21.22	19.92
2004-05	21.22	19.12
2005-06	21.22	19.48

3.7.8 Monitoring and internal control

Efficient internal control system ensures smooth functioning of an organisation. For better delivery of services, periodical review and monitoring of activities werez to be carried out. Monitoring and internal control failures are discussed below:-

* Figures as per last live stock census conducted during 2003. As Live Stock census is conducted only once in five years, same figure was adopted for all years.

3.7.8.1 Defective monitoring by LSGIs

The DLIO was to furnish utilisation certificate indicating amount utilised and the physical achievement to the concerned LSGIs at regular intervals. The monitoring committees of the LSGIs constituted for monitoring the implementation of various projects was to monitor progress of implementation of the scheme. As the DLIOs did not furnish the utilisation certificate, the LSGIs test checked could not monitor the implementation of the scheme.

3.7.8.2 Insufficient monitoring at District level

The data relating to the beneficiaries and calves enrolled, feed distribution, age of puberty, date of artificial insemination, date of calving, etc., were to be kept by DLIO for periodical verification of the progress of implementation of the scheme. However, no such data was kept in the district level offices test checked disabling the DLIOs to rectify the defects/shortfall in the implementation.

3.7.8.3 Monitoring at the State Level

The SLIO is assisted by a Joint Director and two Deputy Directors at the Headquarters. Each Deputy Director was to supervise the activities of seven districts and was to conduct detailed inspection of one district every month and surprise inspection of FLIOs and the Societies. However, inspections conducted by the SLIO were much less than that prescribed under the scheme as seen from the table below.

Year	Prescribed number of inspections	No of district wise inspections conducted	Shortfall
2002	24	10	14
2003	24	13	11
2004	24	4	20
2005	24	Nil	24
2006	24	16	8
2007	24	6	18
Total	**144**	**49**	**95**

As seen from the above details 66 *per cent* of prescribed inspections were not conducted by the SLIO leading to improper implementation of the scheme.

3.7.9 Conclusion

Review of the Special Live Stock Breeding Programme revealed that funds released by Government and LSGIs exceeded the actual requirement with reference to the actual number of calves enrolled. Animal Husbandry Department did not refund the resultant excess amount to the LSGIs. Feeds and other inputs could not be provided for periods as envisaged due to increase in cost. The dropout rate of beneficiaries was high and the objective of reducing calving age could not be achieved.

3.7.10 Recommendations

- In order to retain/increase levels of enrolment, Government should consider increasing the subsidy keeping pace with the increase in price of feeds.
- Government should conduct an investigation to find out the reasons for the productive age of calves not being reduced.
- The scheme should be revamped to ensure that feeds and other inputs are provided at prescribed quantity for periods as envisaged.
- Government and LSGIs should ensure that funds released do not exceed the amount required as per enrolment.
- The Animal Husbandry Department should refund to the LSGIs the excess amount retained by it.

CHAPTER IV
TRANSACTION AUDIT

4.1 Avoidable advance of Rs.3.93 crore to Kerala State Electricity Board by District Panchayat, Kozhikode

Injudicious decision to advance Rs.3.93 crore to KSEB for implementation of Arippara Hydro Electric Project without executing agreement resulted in loss of interest of Rs.1.97 crore.

According to the KPR Act, the functions of DPs relating to electricity and energy are taking over of micro-hydel projects and determining priority areas for extension of electricity. Micro-hydel projects are those with capacity less than one MW and therefore DPs were not authorised to implement hydrolectric projects with installed capacity of 3 MW which come under the category of small hydel projects.

Inspite of this, District Panchayat, Kozhikode (DP) formulated (October 1998) a project at a total outlay of Rs.8 crore for implementing Arippara Small Hydroelectric Scheme with installed capacity of 3 MW and power potential of 8.028 MU in Kodanchery Grama Panchayat. The State Government permitted the DP (March 1999) to implement the scheme through Kerala State Electricity Board (KSEB) on 'Deposit Work' basis. KSEB prepared a project estimate of Rs.10.05 crore in June 2000. Even before preparing the estimate, the DP advanced Rs.2 crore to the KSEB on 29 March 1999. As KSEB had not demanded any money or executed any agreement, the payment of advance was evidently only for achieving the financial target of the year. Though the project was to be completed within two years, KSEB did not start the work till March 2004. During February 2004, they revised the estimate to Rs.13.10 crore. As 70 *per cent* of the project cost was decided to be met from loan raised from Rural Electrification Corporation, the balance amount of Rs.3.93 crore was to be earmarked from plan funds of the DP. Accordingly, the DP paid its balance share of Rs.1.93 crore on 30 March 2004 in addition to Rs.2 crore already paid. KSEB again revised the estimate to Rs.13.52 crore during August 2004.

To avail loan, DP had to submit a copy of the power purchase agreement (PPA) executed with the KSEB indicating the tariff for purchase. Kerala State Electricity Regulatory Commission (KSERC) was the only competent authority to fix the power tariff. They fixed (September 2006) the power tariff as Rs.2.04 per unit on the basis of approved estimate. The DP, however, did not execute the PPA as the tariff fixed by KSERC was very low and therefore they could not avail any loan.

After a lapse of more than eight years, KSEB repaid Rs3.88 crore during September 2007 after deducting Rs.5 lakh towards the cost of preparation of Detailed Project Report.

Payment of 30 per cent of the estimated cost without ensuring the availability of the loan amount was injudicious and was a result of poor planning. Failure of the DP to execute the PPA with KSEB before transferring the amount of

Rs.3.93 crore resulted not only in non-implementation of the project, but also in loss of interest to the tune of Rs.1.97 crore calculated at the average borrowing rate of 8.4 *per cent* per annum.

The matter was reported to Government in July 2007; reply is awaited (March 2008).

4.2 Non-implementation of Centrally Sponsored Schemes due to crediting of Central funds of Rs.49.50 lakh in State Account

Unauthorised closure of Treasury Public account and crediting funds received for implementation of Centrally Sponsored Schemes to Government account resulted in the non-implementation of Centrally Sponsored Scheme by the Block Panchayat, Thaliparambu.

Treasury Public Account (TP Account) is a deposit account permitted to be opened in the treasuries by Government officers and LSGIs to deposit public money. As it was noticed that departmental officers kept large sums of public money drawn from the Consolidated Fund of the State in the TP Accounts, Government issued directions (January 2002) to freeze the operation of all TP Accounts of Departmental officers/ Departments. Later, Government ordered (June 2005) to credit back the outstanding balance in the frozen TP account to Government Account under Minor Head "911-Deduct Recoveries of Over Payments" below the relevant Major Head of account from which the funds were originally drawn and deposited in the TP Accounts. Government further clarified (March 2006) that the TP accounts operated by the Block Panchayat (BP) Secretaries were exempted from the purview of the Government Orders regarding closure of TP accounts.

Despite this, the Secretary, Thaliparambu BP withdrew the entire amount of Rs.75.41 lakh kept in his TP account and credited (March 2006) to Government account. This amount included Rs.49.50 lakh received for implementation of eight* Centrally Sponsored Schemes (CSS). The BP did not take any action to get back the central fund from the State Government

The closure of TP account in violation of Government Orders thus resulted in crediting central funds to state accounts. This led to non-implementation of the CSS by the BP.

The matter was reported to Government in November 2007; reply is awaited (March 2008).

*

Employment Assistance Scheme (SGRY)	7,19,770
Indira Awas Yojana	6,04,260
Swarnajayanthi Grama Swarozgar Yojana	90,855
DWCRA	97,699
NABARD Aid	2,55,768
CRSP	9,00,300
Million Well Scheme	20,81,474
RDP	2,00,000
Total	**49,50,126**

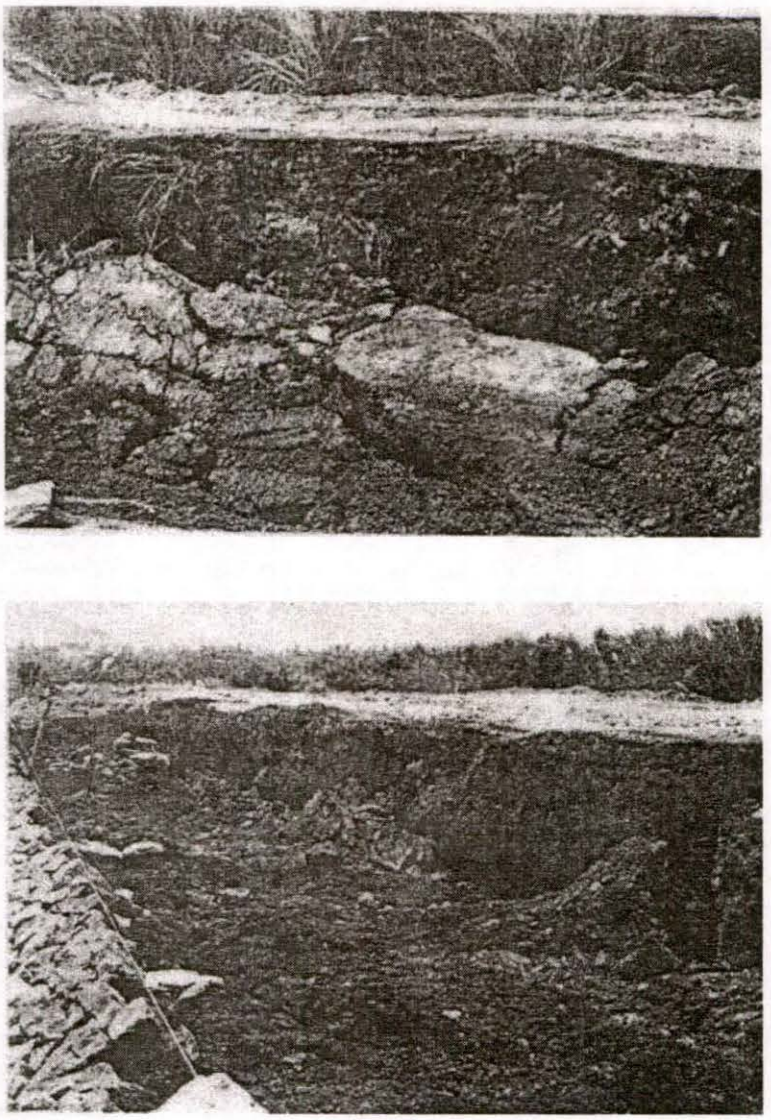
4.3 Unfruitful expenditure due to sinkage of road constructed at a cost of Rs.43.26 lakh

Failure to conduct sub soil test by Block Panchayat, Cherpu resulted in sinkage of road leading to abandonment of the work after spending Rs.43.26 lakh.

The Block Panchayat, Cherpu during 1999-2000 took up a project for construction of road of 1618 metre length and eight metres width across the kole* fields connecting Block Panchayats of Cherpu and Puzhakkal with the object of reducing the distance to Thrissur town by 5 KM. The main items of the work were formation of the road involving earth filling at an average height of 5 metre, construction of three culverts and metalling and tarring the road which was estimated to cost Rs.55.93 lakh. The project decided to be implemented under RIDF-III scheme of NABARD was awarded (December 1999) to a contractor at estimate rates. The stipulated date of completion was 31 March 2000.

It was observed in audit that during February 2001, when the height of land filling reached 4.5 metre in chainage 620 M to 780 M, the embankment sank up to 2.75 metre as seen from the photos given on next page. According to the Report on Quality Assessment prepared (14 May 2001) by the consultants of LBS Centre for Science and Technology, they had during their visit before the start of construction required the Block Panchayat (BP) to conduct a sub soil investigation in the middle section of the proposed road. The BP however did not arrange for carrying out this test due to paucity of fund. Meanwhile, as the contactor could not complete the work within the stipulated time, the period of contract was extended (supplemental agreement dated 17 January 2002) upto 31 March 2002. According to the consultants the existing sub soil except at the tail end having a length of 600 meters was very weak. In the absence of any sub soil investigation, it was not possible to ascertain the depth of the soft sub soil and to assess the carrying capacity and consolidation behaviour of the soil. Therefore, the consultants could not suggest an exact solution for the problem of sinking. However, they recommended to construct the embankment in stages giving six months time for each stage for consolidation which was accepted by the BP. Accordingly, BP decided (December 2002) to close the work and make payment to the contractor on the basis of measurement of the work executed till then.

* Deep paddy fields below MSL in Thrissur district are called Kole fields.



Views of sunken embankment

The value of work done by the contractor was worked out by the BP at Rs.50.89 lakh which was paid (December 2002) after withholding retention money of Rs.7.63 lakh. The BP did not restart the work as suggested by the consultants and the work was in an abandoned stage. Thus, the failure of the BP to carry out sub soil investigation as recommended by the consultants before the commencement of the work led to sinkage of the embankment and stoppage of the work resulting in unfruitful expenditure of Rs.43.26 lakh.

The matter was reported to Government in November 2007; reply is awaited (March 2008).

4.4 Unfruitful expenditure of Rs.2.23 crore on Rice Park

Injudicious decision of the District Panchayat, Thrissur to hand over the construction and working of the rice park to ASIRVAD without ensuring proper monitoring and control mechanism on its working resulted in closing down of the Rice Park.

The District Panchayat, Thrissur (DPT) decided (December 1997) to establish a Rice Park consisting of a modern rice mill (par boiling unit), a rice powder unit and a rice flake unit at Chelakkara at a cost of Rs.1.77 crore for providing direct employment to 35 SC persons and creating indirect employment opportunities to 200 others. DPT registered (June 1998) Ambedkar Society for Industrial Rural and Vocational Advancement (ASIRVAD- a charitable society) consisting of SC members only, for implementation of the project.

DPT transferred Rs.80 lakh to ASIRVAD during 1998-99. The estimate was revised to Rs.2.43 crore (July 2000) to provide Rs.70 lakh towards working capital. During 2000-01, DPT transferred Rs.1.38 crore making the total transfer Rs.2.18 crore. From the initial advance, ASIRVAD commenced the work of construction of rice park in September 1999. The construction was completed in July 2000 at a total cost of Rs.1.73 crore. The rice mill had a capacity of 24 MT per day for two shifts.

Though ordinary variety of paddy alone could be processed in the modern rice mill, ASIRVAD purchased 112.54 MT of Basmati paddy costing Rs.16.88 lakh in June and November 2001 and stored it in the godown of the mill. Basmati paddy is not normally grown in the state and the Basmati paddy purchased was that grown in a few places on experimental basis during 2001. To process the Basmati paddy, ASIRVAD decided (March 2002) to install a Basmati rice plant in the rice room and finished goods godown of the modern rice mill instead of constructing a separate building. However, during May 2002, commercial production of modern rice mill commenced and 105 MT of ordinary variety of paddy was processed till October 2003. Thereafter, the unit was closed and installation of Basmati plant with capacity of 2 MT per hour started (November 2003) which was completed in May 2005 at a cost of Rs.11.44 lakh. During trial run conducted from 23 August to September 2005, a quantity of 2.05 MT of Basmati paddy was processed and it was found that the rice produced was of poor quality and had no commercial value. Therefore commercial production did not start.

ASIRVAD could not operate the modern rice mill from November 2003, since the Basmati plant was installed in the same building as that housed the modern rice mill. Even, the Basmati plant which rendered the modern rice mill non-operational, could not be operated from September 2005 onwards as the Basmati paddy already in stock of ASIRVAD was in such a bad condition that it could not be processed. Further, as Basmati paddy was not normally grown in the state it was not financially viable to operate the Basmati plant. The injudicious decision to install Basmati plant to process Basmati paddy grown in the state on an experimental basis led to closing down the rice park resulting in unfruitful expenditure of Rs.2.23 crore (including Rs.0.05 crore transferred in November 2004). Besides, intended employment opportunities to SC beneficiaries were denied for the past five years.

This could be attributable to the injudicious decision of the DPT to hand over the construction and working of the rice park to ASIRVAD without proper monitoring and control on its working.

Government admitted (December 2007) that there was some flaw in the initial planning and steps were taken to lease out the plant on condition that employment should be provided to SC beneficiaries. Further developments were awaited (March 2008).

4.5 Excess release of General Purpose Grant leading to diversion of plan funds for non-plan expenditure - Rs. 1.29 crore.

Allotment of General Purpose Grant to the Corporation of Kochi during 2005-06 without deducting the amount already allotted resulted in release of funds in excess of budget provision leading to irregular diversion of plan funds of Rs.1.29 crore for payment of salary and other non-plan expenditure.

An amount of Rs.7.01 crore was provided in the State Budget for 2005-06 towards General Purpose Grant(GPG) to the Municipal Corporation of Kochi (MCK). The Director of Urban Affairs (DUA) released (July 2005) the first instalment of Rs.1.29 crore to the Corporation. Though the Corporation was entitled to receive only the balance amount of Rs.5.72 crore, the DUA released (September 2005) Rs.7.01 crore by mistake without deducting first instalment of Rs.1.29 crore already released. Thus a total release of Rs.8.30 crore was made against the budgeted provision of Rs.7.01 crore. This resulted in excess release of Rs.1.29 crore to the Corporation.

During October 2005, DUA noticed that the entire budget allotment of GPG for 2005-06 was released by mistake to all Urban Local Bodies (ULB) in the state without deducting the amount already released. Accordingly, DUA directed (October 2005) Secretaries of all ULBs to surrender the allotment letters issued to them and to obtain fresh allotment letters. The Corporation immediately intimated their inability to remit the amount as it had been already spent for the expenses connected with pay and allowances, pension, works and maintenance. This argument of the Corporation was not justifiable as they were not entitled to draw amounts in excess of the budget provision even though release order authorised excess amount. Upon this, DUA directed (January 2006) the Corporation to remit back the excess amount of Rs.1.29 crore released to them. As the amount was to be refunded to the Government Account before the close of the financial year, permission was sought for (March 2006) from the Government to divert Rs.1.29 Crore from Plan funds. As permitted by the Government (31 March 2006) the Corporation refunded (March 2006) the amount by diverting Plan funds earmarked for implementation of three projects. This tantamounts to diversion of plan funds of Rs.1.29 crore for payment of pay and allowances, pension and expenditure on works and maintenance which were not included in the annual plan approved by the District Planning Committee. The failure of DUA in restricting the allotments to the ULBs within the budget provision led to incurring expenditure exceeding budget provision by MCK. MCK also should have restricted their expenditure in accordance with the amount entitled to them as per budget failing which diversion of plan funds for pay and allowances and other forbidden expenditure took place.

The matter was reported to Government in November 2007; reply is awaited (March 2008).

4.6 Unfruitful expenditure of Rs.64.45 lakh on construction of a bridge and approach roads

A bridge across Kannadichal[1] constructed in January 2002 in Kumarakom Grama Panchayat could not be used as the approach road sank twice despite technical feasibility study carried out by Government Engineering College, Thiruvananthapuram.

A bridge across Kannadichal in Kumarakom Grama Panchayat was constructed (January 2002) under MP's Local Area Development Scheme, at a cost of Rs.33.91 lakh. The Block Development Officer, Pallom was the implementing officer of the project. The construction of approach roads on both ends of the bridge was not included in this work. During 2001-02, the District Panchayat, Kottayam (DP) undertook the construction of approach roads of the bridge under three works which were entrusted to the beneficiary committee for execution. Though a total amount of Rs.11.43 lakh was paid, the works were not completed for reasons as stated below:-

Sl No	Name of work	No and date of agreement	Amount paid (Rs)	Reason for non-completion
1	Construction of Approach Road on southern side	38/EE/DPK/ 01-02/dated 24 December 2001	1,92,979	When the works were progressing, the approach road at a length of 40 metres sank by 3 metres on 22 July 2002 causing damage to the side protection wall.
2	Construction of side protection wall on southern side	163/EE/DPK/DF/ 01-02 dated 30 March 2002	2,72,785	
3	Construction of Approach Road on northern side	105/EE/DPK/DF/ 01-02 dated 10 March 2002	6,77,015	As the convenor did not execute balance work after payment of third part bill, DP terminated the contract in December 2004.
	Total		**11,42,779**	

The construction of approach road and construction of side protection wall on the southern side of the bridge was not completed as the approach road sank on 22 July 2002. Taking up the work without conducting a detailed soil investigation to study subsoil conditions of the site resulted in sinking of the approach road. One and a half years after sinking of the approach road on the southern side was noticed, DP conducted a detailed soil investigation at the site through the Department of Civil Engineering of Government College of Engineering, Thiruvananthapuram during January 2004. Standard penetration test by taking three bore holes at depths of about 20 to 21 metre conducted by the Engineering College revealed that the soil even at that depth was of poor resistance and there was water table near the ground surface. Ignoring the weakness of sub soil even at the depths of 20 metre, the Engineering College recommended (March 2004) to install sand piles only at a depth of 10 to 12 metre with a spacing of about 1.50 metre centre to centre. Based on this recommendation an estimate for Rs.26.78 lakh was prepared for

[1] A rivulet

reconstruction of the approach road and the side protection wall which contained provision for sand piles of a total length of 3350 metre at an average depth of 10 to 12 metre costing Rs.10.85 lakh. The project was approved by the District Planning Committee on 20 May 2005 and technical sanction accorded on 23 May 2005 for Rs.26.83 lakh. The work was awarded to a contractor at estimate rates who executed the agreement on 23 November 2005 and commenced the work immediately. The work executed by him was measured on 3 March 2006 and accordingly part bill for Rs.19.11 lakh was paid. When the work was progressing further, the embankment constructed for the approach road sank again (24 May 2006) displacing the sub soil to the nearby canal forming an island almost filling the canal as seen in the photo of the site given below:

View of sunken approach road at Kannadichal

Non-conducting soil investigation before taking up the project during 2001-02 resulted in sinkage of embankment twice. There was visible contradiction between the findings of the soil study and the recommendations made by the Engineering College. The study revealed that sub soil even at a depth of 20 metres was very weak whereas the recommendation was to install sand piles only at a depth of 10 to 12 metres. The failure of the District Level Technical Committee chaired by an Executive Engineer to identify the contradiction resulted in non-prescription of piles upto a depth where hard strata of soil was present. This eventually led to sinkage of the embankment again and unfruitful expenditure of Rs.64.45 lakh (33.91 + 11.43+19.11) incurred on construction of the bridge and approach roads as the bridge constructed in January 2002 could not be used for the last six years.

The matter was reported to Government in November 2007; reply is awaited (March 2008).

4.7 Embezzlement of food grains costing Rs.34.03 lakh

Fraud committed by the staff of Arattupuzha Grama Panchayat in connivance with convenors in arranging works relating to Tsunami relief, detected in audit.

The District Rural Development Agency, Alappuzha accorded administrative sanction (August and November 2005) for 12 projects for reconstruction of roads as part of tsunami relief works under Special Component of Sampoorna Grameen Rozgar Yojana in Arattupzha Grama Panchayat (GP) in Alappuzha District at a total estimated cost of Rs.60.63 lakh. Of this, Rs.31.84 lakh was cash component and Rs.28.79 lakh was food grain component. The works were entrusted to beneficiary committees as per agreements executed during October/November 2005. The Project Officer (PO), DRDA, Alappuzha accorded sanction (October 2005) to release food grains of 103.70 MT to the GP in respect of eight works. During November 2005, the PO sanctioned release of 245.95 MT of food grains relating to the remaining four works. Accordingly, the PO issued two authorisations to the Secretary of the GP on 28 October 2005 and 22 November 2005 to lift rice of 103.70 MT and 245.95 MT respectively from the Food Corporation of India (FCI) Depot, Alappuzha. Based on these authorisations, entire quantity of rice (349.65 MT) was lifted by the GP in November 2005. Out of this, the GP distributed 245.95 MT of rice to the convenors of four works on 30 November 2005 whereas the balance quantity of 103.70 MT was neither distributed nor taken into stock.

As none of the convenors commenced the works, the GP issued notice to them on 11 September 2006 informing that the cost of food grains issued to them would be recovered with interest under the provisions of Revenue Recovery Act, unless they commenced the work within 20 days of the notice. It was detected in audit that one of the convenors to whom the work of "Construction of road from pump house junction to Lakshmi House junction" was entrusted on 5 October 2005 was a person who died nine years earlier on 14 December 1996.

Despite 245.95 MT of rice costing Rs.34.03 lakh at the rate of Rs.13837 per MT being issued to four convenors in November 2005, none of them commenced the works even after expiry of more than two years (March 2008). Issue of food grains to convenors of works which were not even commenced and entrusting work to a person who died nine years ago are indicative of the fraudulent nature of arranging execution of works by the GP in connivance with the convenors. This fraud cost the exchequer Rs.34.03 lakh.

The balance quantity of 103.70 MT of rice costing Rs.14.35 lakh was embezzled by a former Upper Division Clerk (UDC) of the GP who lifted the rice from FCI godown on 24 November 2005. The embezzlement was unearthed when one of the convenors who received the notice issued by the GP in September 2006 approached (28 September 2006), the Ombudsman complaining that no food grains was issued to him as stated

in the notice. Based on the verdict of Ombudsman (May 2007) that the UDC was responsible for diversion of food grains, Deputy Director of Panchayats placed him under suspension. Thus four convenors and a former employee of the GP embezzled the entire quantity of 349.65 MT of rice costing Rs.48.37 lakh allotted to Tsunami relief works which could have been avoided if it was ensured that the rice lifted from FCI had been brought to stock of the GP and issue of rice to convenors been regulated in accordance with the progress of the work. Further developments were awaited (March 2008).

The matter was reported to Government in December 2007; reply is awaited (March 2008).

4.8 Excess expenditure of Rs.45.35 lakh due to wrong adoption of market rates

Adoption of higher market rates in the estimate for supply and installation of sodium vapour lamps in Municipal Corporation of Kochi led to excess expenditure

According to Kerala Municipality (Execution of Public Works and Purchase of Materials) Rules, 1997 no Municipal Corporation shall commence any work unless provision for sufficient funds therefor has been made in the budget and Administrative Sanction (AS) obtained from the competent authority (Standing committee upto Rs. One lakh and Council exceeding Rs. One lakh) and a detailed plan and estimate are prepared and Technical Sanction (TS) obtained from the competent authority (competent engineer of the Electrical Wing of Public Works Department (PWD) in the case of electrical works exceeding Rs.6.50 lakh). Further, tenders should be invited if a work was executed through a contractor and Notice Inviting Tenders (NIT) should be published in the office notice board of the Corporation and in the offices of the PWD and in news papers (in two Malayalam dailies having circulation all over the state and in an English daily having circulation at National level compulsorily in respect of works with estimated cost exceeding Rs.50 lakh). However, it was observed in audit that Municipal Corporation of Kochi (MCK) did not follow the above procedures while arranging the works of supply and installation of Sodium Vapour Lamp (SV Lamp) for street lighting during the period from 2002-03 to 2006-07 as shown in the table below:

(Rs in lakh)

Year	No of works tendered	Works with estimated cost of less than Rupees one lakh		No of tenders received			Details of works estimated cost of which were available	
		No	Estimated cost	1	2	More than 2	No of works	Amount
2002-03	111	99	75.36	43	65	3	111	108.48
2003-04	160	114	95.88	15	143	2	127	126.15
2004-05	264	250	230.48	2	260	2	262	270.61
2005-06	178	162	148.48	---	178	---	170	171.30
2006-07	274	263	236.88	---	274	---	273	257.00
Total	**987**	**888**	**787.08**	**60**	**920**	**7**	**943***	**933.54**

Though the estimated cost of the work each year was more than Rs.50 lakh, the works were split into 987 works of which 888 works (89.97 *per cent*) were costing less than Rs. One lakh. As a result of this irregular splitting of works, MCK could avoid obtaining AS from the Corporation Council and TS from Electrical Wing of PWD and publishing the NIT in two Malayalam dailies having circulation all over the state and in an English daily having circulation all over India. This led to inclusion of incorrect rates in the estimates and poor response from the contractors. More than two tenders were received only in respect of 7 out of 987 (0.71 *per cent*) works and only one tender was received in respect of 60 works. Due to non-publishing the NIT in newspapers and the resultant low response from contractors, 985 works out of 987 were to be awarded at 35 to 42 *per cent* above estimate rates. From the above, it was evident that the whole process of arranging the works costing about Rs.10 crore during the period was vitiated.

As a result of avoiding scrutiny of estimates by competent authorities, exorbitant rates for SV Lamp were included in the estimates. As the rates for SV Lamp street light fitting with complete accessories were not provided in the PWD Schedule of Rates, market rates were adopted by MCK during the period from 2002-03 to 2006-07. It was however, noticed in audit that the rates adopted were much higher than the rates at which a neighbouring Municipality (Aluva) purchased SV Lamps and fittings during 2004-05 as shown below:

Sl No	Specification of one complete set of SV lamp	Market rate adopted by MCK (Rs)	Rate at which lamp was purchased by Aluva Municipality (Rs)	Excess (Rs)	Percentage of excess	No of lamps supplied	Excess amount paid approx (Rs)
1	70 Watts	2560	2075	485	23.37	1222	592670
2	150 Watts	4135	2850	1285	45.09	2938	3775330
3	250 Watts	4655	3090	1565	50.64	107	167455
	Total						**4535455**

* Estimated cost of 44 works were not available.

There was nothing on record to show how MCK ascertained the above mentioned market rates. Thus, the splitting of work to avoid the laid down tendering procedures resulted in adoption of wrong market rates. This led to excess expenditure of Rs.45.35 lakh in 284 test checked cases.

Government stated (February 2008) that work was split into several works as the proposals for installation were on the basis of divisions. This argument is not tenable as the number of works arranged each year was more than the number of divisions (71) in MCK. Besides, there was no difficulty in consolidating the proposals received from each division before arranging the work. It was also mentioned in the reply that market rate provided by MCK was for reputed and quality products whereas the other local body would have purchased items of lesser quality. This is also not tenable as the Aluva Municipality purchased fittings manufactured by reputed companies such as GE and Havels.

4.9 Loss of revenue to the tune of Rs.12.72 lakh due to non-realisation of value of sand extracted

Non-realisation of value of sand extracted by contractor led to undue benefit to the contractor in Aruvappulam Grama Panchayat

Aruvappulam Grama Panchayat (GP) extracts sand from the following three stretches of the Achankovil River which flows through the GP.

1 From Konnonmuzhi kadavu* to Thottamuzhi kadavu
2 From Thottamuzhi kadavu to Vattappara kadavu
3 From Vattappara kadavu to Aruthakandam kadavu

During 1999-2000, the GP arranged extraction of sand through two distinct systems viz. permit and auction systems. Under permit system, permits were issued every day for extracting a specific quantity of sand on realisation of permit fee as fixed by the GP. Extraction of sand could be restricted or regulated by the GP under this system as it was done under close supervision of the GP and based on permits issued whereas under auction system, the successful bidder could extract sand without any restriction during the whole year causing environmental hazards such as drying up of rivers, soil erosion, etc. The GP auctioned (16 February) the right for extraction of sand from the first stretch above for Rs.27 lakh as against permit system followed in the remaining two stretches. The contractor remitted 25 *per cent* of the quoted amount (Rs.6.75 lakh) to the GP in March 1999 including the Earnest Money deposit of Rs. two lakh already remitted on the auction day.

As the indiscriminate sand mining under auction system would cause environmental problems, local residents filed a complaint (7 June 1999) before the GP and the GP found that the complaints were genuine and appointed (11 June 1999) a sub committee to study various aspects involved. Based on the report of the sub committee, the GP decided (30 June 1999) to cancel the auction and to extract sand under permit system as done in the remaining stretches. However, the GP did not implement the decision.

* Kadavu- A river bank or water body where removal of sand is carried out.

The petitioners filed an Original Petition (August 1999) before the Honourable High Court alleging that the contractor was extracting sand indiscriminately and requesting for issue of direction to the GP to implement their decision and to regulate collection of river sand on a permit basis. The Honourable High Court on 8 September 1999 directed the GP to implement their decision dated 30 June 1999 and accordingly the GP cancelled the auction on 20 September 1999 and refunded (22 September 1999) the amount of Rs.6.75 lakh deposited by the contractor. As the contract was valid from 1 April 1999 to 19 September 1999 (172 days), the proportionate bid amount based on the number of days of validity of contract should have been realised from him. However, no amount was realised. This resulted in loss of revenue of Rs.12.72* lakh leading to undue benefit to the contractor, besides indiscriminate sand mining leading to irreparable damage to the environment. Unless orders preventing LSGIs from sand extraction from rivers under auction system are issued, indiscriminate sand extraction would continue causing environmental hazard.

The matter was reported to Government in December 2007; reply is awaited (March 2008).

4.10 Plan fund to be utilised on housing diverted for repayment of loan of Rs.27.87 lakh.

Plan fund meant for providing house plots and houses to purambokku* dwellers was diverted by MCK for liquidating loan liability of beneficiaries of housing scheme implemented by Greater Cochin Development Authority.

Municipal Corporation of Kochi (MCK) during 2005-06 formulated a project for providing house plots and houses to 264 BPL beneficiaries residing in purambokku land for more than 10 years at a total outlay of Rs.1.58 crore. The project envisaged providing assistance of Rs.20000 (Plan funds) for purchasing land and Rs.40000 for construction of house in the land so purchased, under Valmiki Ambedkar Awas Yojana* (VAMBAY). The District Planning Committee (DPC) approved the project on 8 June 2005.

Instead of implementing the project, MCK called for (November 2005) the list of defaulters of housing schemes for slum dwellers already implemented by the Greater Cochin Development Authority (GCDA) during 1979-1981. In response, GCDA furnished (December 2005) a statement showing the names of 279 beneficiaries and the amount of arrears due to be remitted by them to GCDA. Accordingly, MCK remitted (15 March 2006) Rs.27.87 lakh out of the amount of Rs.52.80 lakh earmarked for the purchase of house plots for purambokku dwellers without the approval of Corporation Council. The Corporation Council took a decision for remitting the amount to GCDA only after three months (27 May 2006) which had no approval of the DPC either. The payment of amount defaulted by the beneficiaries of a housing scheme implemented by GCDA was unauthorised and irregular. As a result of this

* (Rs.27 lakh / 365 days) x 172 days = Rs.12.72 lakh

* Unassessed lands which are the property of Government or used/reserved for public purposes.

* A Centrally Sponsored Scheme for providing houses to urban poor.

diversion, the project for providing house plots and houses to purambokku dwellers below poverty line could not be implemented. Besides, the funds provided by GoI for implementation of VAMBAY could not be utilised.

MCK replied (January 2008) that land was not available in the area at the rate of Rs.10000 per cent and hence the project was not viable. This indicated that the formulation of the project itself was defective which led to the diversion of funds.

The matter was reported to Government in December 2007 and reply awaited (March 2008).

(S.NAGALSAMY)
Principal Accountant General (Audit), Kerala

Thiruvananthapuram,
The 8 July 2008

Countersigned

(VINOD RAI)
Comptroller and Auditor General of India

New Delhi,
The 11 July 2008

APPENDICES

Appendix-I

Statement showing details of allocation and utilisation of Centrally Sponsored Scheme Funds

(Reference to Paragraph 1.11.8, Page 13)

(Rupees in crore)

Sl No	Name of Scheme	Opening Balance	Distribution to LSGIs			Total available fund	Funds utilised by LSGIs	Balance	Percentage of utilisation
			Central Share	State Share	Total				
Funds distributed through District Rural Development Agencies (DRDA)									
1	Swarnajayanthi Grama Swarozgar Yojana (SGSY)	1.13	19.95	6.65	26.60	27.73	27.18	0.55	98.02
2	Indira Awas Yojana (IAY)	4.56	55.57	18.52	74.09	78.65	70.63	8.02	89.79
3	Swarna Jayanti Grama Swarosgar Yojana (Special Project)	0.04	10.96	3.51	14.47	14.51	11.50	3.01	79.26
4	Sampoorna Grameen Rozgar Yojana (SGRY)	11.70	74.62	24.13	98.75	110.45	102.41	8.04	92.72
5	Total Sanitation Campaign(TSC)	5.39	2.62	2.77	5.39	10.78	10.62	0.16	98.42
6	Integrated Wasteland Development Programme (IWDP)	8.21	2.40	0.24	2.64	10.85	2.75	8.10	25.35
7	National Rural Employment Guarantee Scheme (NREGS)	8.38	42.88	5.76	48.64	57.02	28.03	28.99	49.16
	Total	**39.41**	**209.00**	**61.58**	**270.58**	**309.99**	**253.12**	**56.87**	**81.65**
Funds distributed by Director of Urban Affairs (DUA)									
8	Integrated Development of Small and Medium Towns (IDSMT)	0	3.24	1.92	5.16	5.16	1.93	3.23	37.40
9	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	0	101.37	9.48	110.85	110.85	7.56	103.29	6.82
	Total	**0**	**104.61**	**11.40**	**116.01**	**116.01**	**9.49**	**106.52**	**8.18**
Funds distributed by Kudumbasree –State Poverty Eradication Mission (SPEM)									
10	Swarnajayanthi Shahari Rozgar Yojana (SJSRY)	13.46	6.39	2.13	8.52	21.98	9.52	12.46	43.31
11	National Slum Development Programme (NSDP)	11.93	0	0	0	11.93	5.25	6.68	44.01
12	Valmiki Ambedkar Awas Yojana (VAMBAY)	38.37	3.09	1.55	4.64	43.01	15.59	27.42	36.25
	Total	**63.76**	**9.48**	**3.68**	**13.16**	**76.92**	**30.36**	**46.56**	**39.47**
	Grand Total	**103.17**	**323.09**	**76.66**	**399.75**	**502.92**	**292.97**	**209.95**	**58.24**

Appendix – II

List of Local Self Government Institutions audited under Supplementary Audit during 2006-07

(Reference to paragraph 2.9.1, Page 24)

Sl No	Name of LSGIs	Year
1.	Alakode G.P	2003-04
2.	Anchal G.P	2003-04
3.	Anchuthengu G.P	2003-04
4.	Arakulam G.P	2002-03
5.	Arakuzha G.P	2002-03
6.	Aryanad G.P	2002-03
7.	Athirampuzha G.P	2001-02
8.	Attingal Municipality	2000-01
9.	Avinissery G.P	2002-03
10.	Ayyankunnu G.P	2001-02
11.	Bharanikavu G.P	2004-05
12.	Bison Valley G.P	2002-03
13.	Chathamangalam G.P	2002-03
14.	Chemmanad G.P	2000-01
15.	Cherpu G.P	2001-02
16.	Cheruvannur G.P	2001-02
17.	Edakkattuvayal G.P	2000-01
18.	Edamulackal G.P	2000-01
19.	Edathua G.P	2001-02
20.	Edavaka G.P	2000-01
21.	Elakamon G.P	2003-04
22.	Elikulam G.P	2001-02
23.	Ernakulam District Panchayat	2001-02
24.	Eruthenpathy GP	2001-02
25.	Ezhumattoor G.P	2003-04
26.	Kadanad G.P	2001-02
27.	Kadapla mattom G.P	2002-03
28.	Kaduthuruthy G.P	2001-02
29.	Kalliyoor G.P	2001-02
30.	Kanjikuzhy G.P	2000-01

Sl No	Name of LSGIs	Year
31.	Karassery G.P	2002-03
32.	Kelakam G.P	2001-02
33.	Kolazhy G.P	2003-04
34.	Kollam District Panchayat	2000-01
35.	Kottayi G.P	2001-02
36.	Kozhikode Corporation	2001-02
37.	Kozhikode District Panchayat	2001-02
38.	Kuzhuppilly G.P	2002-03
39.	Mankara G.P	2003-04
40.	Makkaraparamba G.P	2003-04
41.	Marady G.P	2000-01
42.	Marangattuppilly G.P	2002-03
43.	Mararikulam G.P	1999-00
44.	Mathur G.P	2000-01
45.	Meenangadi G.P	2000-01
46.	Mookkannur G.P	2002-03
47.	Mutholi G.P	2003-04
48.	Mynagapally G.P	2003-04
49.	Neezhoor G.P	2002-03
50.	Nilambur Block Panchayat	2003-04
51.	Oachira G.P	2002-03
52.	Ottoor G.P	2003-04
53.	Pallikkunnu G.P	2001-02
54.	Pallivasal G.P	2002-03
55.	Pampadumpara G.P	2002-03
56.	Pampady Blcok Panchayat	2003-04
57.	Pangode G.P	2003-04
58.	Paralam G.P	2000-01
59.	Pattazhi Vadakekara	2000-01
60.	Pazhayakunummel G.P	2003-04
61.	Peralassery G.P	2001-02
62.	Peravoor G.P	2001-02
63.	Peringalam G.P	2002-03
64.	Peringamala G.P	2001-02
65.	Perumbavoor Municipality	2000-01
66.	Perumpadappu G.P	2002-03

Sl No	Name of LSGIs	Year
67.	Pookkottur G.P	2003-04
68.	Poonjar, Thekkekara G.P	2001-02
69.	Poruvazhy G.P	2002-03
70.	Pudussery G.P	1999-00
71.	Puzhanthi G.P	2001-02
72.	Ranniangadi	2002-03
73.	Teekoy G.P	2003-04
74.	Thevalakkara G.P	2002-03
75.	Thiruvalla Municipality	2001-02
76.	Thiruvallur G.P	2000-01
77.	Thiruvegapura G.P	2002-03
78.	Thodupuzha Municipality	2002-03
79.	Thrikkunnapuzha G.P	2002-03
80.	Thripunithura Municipality	1999-00
81.	Triprangottoor	2001-02
82.	Udumbanoor GP	2003-04
83.	Uzhavoor Block Panchayat	2003-04
84.	Vakkom G.P	2002-03
85.	Vannappuram G.P	2002-03
86.	Vattavada G.P	2001-02
87.	Vazhakkad G.P	2002-03
88.	Veliancode G.P	2003-04
89.	Velliamattom G.P	2003-04
90.	Velloor G.P	2001-02
91.	Vithura G.P	2002-03

Appendix – III

List of LSGIs in which irregularities relating to Cash Book were noticed

(Reference to paragraph 2.10.1, Page 24)

Sl No	Names of LSGI	Year	LSGI s which maintained more than one cash book	LSGIs which did not close cash book daily	LSGIs which did not close cash book monthly	LSGIs which did not physically verify cash
1	Alakode G.P	2003-04	✓	✓		✓
2	Anchal G.P	2003-04	✓			
3	Anchuthengu G.P	2003-04		✓	✓	
4	Arakulam G.P	2002-03	✓			
5	Athirampuzha G.P	2001-02	✓	✓		
6	Attingal Municipality	2000-01	✓	✓		
7	Avinissery G.P	2002-03	✓	✓		✓
8	Ayyankunnu G.P	2001-02	✓	✓		✓
9	Bison Valley G.P	2002-03	✓			
10	Chathamangalam G.P	2002-03	✓			
11	Cheruvannur G.P	2001-02	✓	✓		✓
12	Edakkattuvayal G.P	2000-01	✓	✓		
13	Edamulackal G.P	2000-01	✓		✓	
14	Edathua G.P	2001-02	✓	✓		
15	Eruthenpathy GP	2001-02	✓	✓	✓	✓
16	Ezhumattoor G.P	2003-04		✓		✓
17	Kadanad G.P	2001-02		✓		✓
18	Kadapla mattom G.P	2002-03	✓	✓	✓	
19	Kalliyoor G.P	2001-02	✓	✓		✓
20	Kanjikuzhy G.P	2000-01	✓	✓		✓
21	Karassery G.P	2002-03		✓		✓
22	Kelakam G.P	2001-02	✓			
23	Kolazhy G.P	2003-04		✓		
24	Kollam District Panchayat	2000-01	✓	✓	✓	✓
25	Kottayi G.P	2001-02	✓	✓		
26	Kozhikode Corporation	2001-02	✓			

Sl No	Names of LSGI	Year	LSGI s which maintained more than one cash book	LSGIs which did not close cash book daily	LSGIs which did not close cash book monthly	LSGIs which did not physically verify cash
27	Kozhikode District Panchayat	2001-02		✓	✓	✓
28	Kuzhuppilly G.P	2002-03	✓			
29	Makkaraparamba G.P	2003-04	✓		✓	✓
30	Marangattuppilly G.P	2002-03	✓	✓	✓	✓
31	Mathur G.P	2000-01	✓	✓		
32	Mookkannur G.P	2002-03	✓	✓		
33	Mutholy G.P	2003-04	✓	✓		
34	Mynagapally G.P	2003-04	✓	✓		✓
35	Nilambur Block Panchayat	2003-04	✓			
36	Pallikkunnu G.P	2001-02	✓	✓		✓
37	Pallivasal G.P	2002-03	✓	✓	✓	
38	Pampadumpara G.P	2002-03	✓			
39	Pampady Block Panchayat	2003-04	✓	✓		
40	Pangode G.P	2003-04	✓	✓	✓	
41	Peralassery G.P	2001-02	✓			
42	Peringammala G.P	2001-02	✓			
43	Perumbavoor Municipality	2000-01	✓	✓		✓
44	Perumpadappu G.P	2002-03				✓
45	Pookkottur G.P	2003-04	✓			
46	Poonjar Thekkekara G.P	2001-02	✓	✓	✓	
47	Poruvazhy G.P	2002-03	✓	✓		✓
48	Pudussery G.P	1999-00		✓	✓	
49	Thevalakkara G.P	2002-03	✓	✓		
50	Thiruvallur G.P	2000-01	✓			
51	Thodupuzha Municipality	2002-03	✓			
52	Thrikkunnapuzha G.P	2002-03	✓	✓		
53	Thripunithura Municipality	1999-00	✓	✓		
54	Vakkom G.P	2002-03	✓	✓	✓	✓
55	Vannappuram G.P	2002-03		✓		

Sl No	Names of LSGI	Year	LSGI s which maintained more than one cash book	LSGIs which did not close cash book daily	LSGIs which did not close cash book monthly	LSGIs which did not physically verify cash
56	Vattavada G.P	2001-02	✓			
57	Vazhakkad G.P	2002-03	✓	✓		
58	Veliancode G.P	2003-04		✓		✓
59	Velliamattom G.P	2003-04	✓	✓		✓
60	Velloor G.P	2001-02		✓		
61	Vithura G.P	2002-03	✓		✓	

Appendix – IV

List of LSGIs in which irregularities relating to preparation/maintenance/forwarding of Budgets/AFSs/Audit Reports were noticed (Reference to paragraph 2.11.3, Page 25)

Sl No	Names of LSGI	Year	LSGIs which prepared unrealistic Budget	LSGIs which forwarded incomplete AFS	LSGIs in which delay of more than one year was noticed in forwarding AFS to DLFA	Delay of more than six months in issuing Audit Report by DLFA
1	Alakode G.P	2003-04	✓	✓		
2	Anchal G.P	2003-04	✓	✓		
3	Anchuthengu G.P	2003-04	✓	✓		
4	Arakulam G.P	2002-03	✓		✓	
5	Athirampuzha G.P	2001-02	✓	✓		✓
6	Attingal Municipality	2000-01	✓		✓	
7	Avinissery G.P	2002-03	✓	✓	✓	
8	Ayyankunnu G.P	2001-02	✓			✓
9	Bharanikcavu G.P	2004-05	✓			
10	Bison Valley G.P	2002-03			✓	
11	Chathamangalam G.P	2002-03		✓		
12	Cherpu G.P	2001-02	✓	✓	✓	
13	Cheruvannur G.P	2001-02	✓		✓	
14	Edakkattuvayal G.P	2000-01	✓	✓		
15	Edamulackal G.P	2000-01		✓	✓	
16	Edathua G.P	2001-02	✓	✓	✓	
17	Elikulam G.P	2001-02	✓			
18	Ernakulam District Panchayat	2001-02		✓		
19	Eruthenpathy GP	2001-02		✓	✓	
20	Ezhumattoor G.P	2003-04	✓	✓		
21	Kadanad G.P	2001-02	✓	✓		
22	Kadaplamattom G.P	2002-03	✓			
23	Kaduthuruthy G.P	2001-02	✓	✓	✓	
24	Kalliyoor G.P	2001-02	✓			✓
25	Kanjikuzhy G.P	2000-01	✓	✓	✓	
26	Karassery G.P	2002-03			✓	
27	Kelakam G.P	2001-02	✓		✓	
28	Kolazhy G.P	2003-04	✓			

Sl No	Names of LSGI	Year	LSGIs which prepared unrealistic Budget	LSGIs which forwarded incomplete AFS	LSGIs in which delay of more than one year was noticed in forwarding AFS to DLFA	Delay of more than six months in issuing Audit Report by DLFA
29	Kollam District Panchayat	2000-01	✓	✓		
30	Kottayi G.P	2001-02	✓			✓
31	Kozhikode Corporation	2001-02	✓			
32	Kuzhuppilly G.P	2002-03	✓			
33	Mankara G.P	2003-04		✓		
34	Makkaraparamba G.P	2003-04		✓		
35	Marady G.P	2000-01	✓	✓		
36	Marangattuppilly G.P	2002-03	✓			
37	Mathur G.P	2000-01	✓	✓		
38	Meenangadi G.P	2000-01		✓		
39	Mookkannur G.P	2002-03	✓			✓
40	Mutholy G.P	2003-04	✓			
41	Mynagapally G.P	2003-04	✓	✓		
42	Neezhoor G.P	2002-03			✓	
43	Nilambur Block Panchayat	2003-04	✓			✓
44	Pallikkunnu G.P	2001-02	✓	✓		
45	Pallivasal G.P	2002-03	✓		✓	
46	Pampadumpara G.P	2002-03	✓	✓	✓	
47	Pangode G.P	2003-04			✓	
48	Paralam G.P	2000-01	✓		✓	
49	Peravoor G.P	2001-02		✓		
50	Peringalam G.P	2002-03		✓		
51	Peringammala G.P	2001-02	✓	✓		✓
52	Perumbavoor Municipality	2000-01		✓		
53	Perumpadappu G.P	2002-03				✓
54	Poonjar Thekkekara G.P	2001-02	✓	✓	✓	
55	Poruvazhy G.P	2002-03				✓
56	Puzhanthi G.P	2001-02	✓	✓		
57	Teekoy G.P	2003-04	✓			
58	Thevalakkara G.P	2002-03	✓	✓		✓
59	Thiruvalla Municipality	2001-02	✓		✓	
60	Thiruvallur G.P	2000-01		✓	✓	

Sl No	Names of LSGI	Year	LSGIs which prepared unrealistic Budget	LSGIs which forwarded incomplete AFS	LSGIs in which delay of more than one year was noticed in forwarding AFS to DLFA	Delay of more than six months in issuing Audit Report by DLFA
61	Thodupuzha Municipality	2002-03		✓		
62	Thrikkunnapuzha G.P	2002-03	✓	✓		
63	Thripunithura Municipality	1999-00	✓	✓	✓	
64	Triprangottoor G.P	2001-02				✓
65	Udumbanoor GP	2003-04	✓			
66	Vakkom G.P	2002-03				✓
67	Vannappuram G.P	2002-03	✓	✓	✓	
68	Vattavada G.P	2001-02	✓	✓	✓	
69	Vazhakkad G.P	2002-03	✓	✓		
70	Veliancode G.P	2003-04		✓		
71	Velliamattom G.P	2003-04	✓	✓		
72	Velloor G.P	2001-02	✓	✓	✓	
73	Vithura G.P	2002-03	✓	✓		

Appendix – V
Statement showing delay in payment of wages
(Reference to Paragraph 3.1.12.3, Page 45)

Sl.No.	*GP*	*No.of works test checked*	*Period of delay(days)*
1	Kizhakkenchery	20	3 to 39
2	Meenangadi	1	3 to 12
3	Vythiri	25	8 to 39
4	Muppainad	1	1 to 5
5	Nenmeni	50	3 to 13
6	Poothady	65	18
7	Meppady	3	19 to 56
8	Kottathara	26	4 to 14
	Total	191	

Appendix – VI
Statement of calculation of unemployment wages
(Reference to Paragraph 3.1.13.1, Page 46)

1.	Number of registered households who demanded job	1,04,927
2.	Person days to be generated for providing 100 days of employment (1x100)	104,92,700
3.	Person days actually generated	20,50,075
4.	Short provision of employment days (2-3)	84,42,625
5.	No.of households who were provided employment for 100 days	537
6.	No. of households eligible for unemployment wages (1-5)	104,390
7.	Unemployment allowance payable to 104390 households for 8442625 person days upto each household received Rs.12500	1055328125

Appendix – VII
Statement showing excess payment due to tape measurement
(Reference to Paragraph 3.1.14.3, Page 47)

Sl No	*Grama Panchayat*	*No of works*	*Amount paid as per tape measurement (Rs)*	*Deduction to be made at 15 percent (Rs)*	*Amount actually payable*	*Excess payment (Rs)*
1	Poothady	22	644293	96644	547649	96644
2	Nenmeni	2	61293	9194	52099	9194
3	Pulpally	2	59153	8873	50280	8873
4	Meenangadi	10	383847	57577	326270	57577
	Total	36	1148586	172288	976298	172288

Appendix VIII
Statement Showing short realization of additional fee in TMC and KMC.
(Reference to Paragraph 3.2.10.1, Page 59)

(Area in sq.m)

Sl. No	Name of owner and Permit No.	Type of occupancy	Plot area (Sq.M)	FAR permissible without addl. fee	Floor area permissible (4 x 5)	Area of surrendered land	Incentive Floor area (7) x 2x (5)	Total Floor area permissible without addl. Fee (6 + 8)	Proposed/ constructed Floor area	Excess Floor area (10 – 9)	Additional fee (Rs.)			Reason for short realisation of addl. fee
											Payable (11 x Rs.1000)	Already paid	Balance	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Sri.R. Rajkumar, Thiruvananthapuram. TP2/BA/1937/06 dated 20 April 2007	Special Residential (Hotel)	1242.20	2.50	3105.50	-	-	3105.50	4977.74	1872.24	1872240	13,70,000	5,02,240	Exclusion of area of ramp and misclassification of occupancy
2	Smt.A.P Shakeena, Kozhikode. E4/75201/06 dated 7 November 2006	Residential (Flats)	2846.26	3.00	8538.78	-	-	8538.78	8749.90	211.12	2,11,120	1,42,313	68,807	Exclusion of area of swimming pool
3	Sri. Radha Madhavan Kozhikode. E1/33233/05 Dated 16 January 2006	Residential (Flats)	1396.21	3.00	4188.63	19.02	114.12	4302.75	4994.37	691.62	6,91,620	Nil	6,91,620	Amendment to chapter XI of KMBR with effect from 5 January 2006 not taken into account.

4	Sri. M. Vijayakumar and B.Vijayan, Thiruvananthapuram TP2/BA/1692/05 dated 27 January 2007	Special Residential	607.05	2.50	1517.63	47.67	238.35	1755.98	1942.57	186.59	1,86,590	Nil	1,86,590	Amendment to chapter XI of KMBR with effect from 5 January 2006 not taken into account
5	Sri. A.R Babu, Thiruvananthapuram. TP1/BA/670/06 dated 9 November 2006	Residential	1133.16	3.00	3399.48	-	-	3399.48	4191.62	792.14	7,92,140	6,64,140	1,28,000	Exclusion of Ramp
6	Sri. R. Ganeshkumar Thiruvananthapuram TP7/BA/796/05 dated 11 August 2005	Residential	1497.39	3.00	4492.17	-	-	4492.17	4666.68	174.51	1,74,510	Nil	1,74,510	Short collection
	Total										3928220	2176453	1751767	

APPENDIX -IX

List of ULBs which did not receive allotment
(Reference to Paragraph 3.4.5, Page 86)

Sl No	ULB	Period during which no amount was allotted to ULBs
1	Adoor*	2003-04 and 2006-07
2	Alappuzha	2002-03 to 2006-07
3	Aluva	2004-05 and 2006-07
4	Angamaly*	2004-05 and 2006-07
5	Attingal*	2006-07
6	Changanassery	2002-03 and 2005-06
7	Chavakkad*	2002-03, 2003-04, 2005-06, 2006-07
8	Chittoor Thathamangalam*	2004-05 to 2006-07
9	Guruvayoor	2002-03 and 2003-04
10	Kalamassery*	2002-03, 2003-04 and 2006-07
11	Kalpetta*	2002-03 to 2006-07
12	Kanhangad*	2002-03, 2004-05 and 2005-06
13	Kasargod*	2002-03, 2003-04 and 2005-06
14	Kayamkulam*	2003-04,2005-06 and 2006-07
15	Kochi	2002-03 to 2006-07
16	Kodungalloor*	2003-04, 2004-05 and 2005-06
17	Koilandy*	2006-07
18	Kollam*	2004-05 and 2005-06
19	Koothuparamba*	2004-05 and 2006-07
20	Kothamangalam*	2002-03
21	Kunnamkulam*	2002-03
22	Malappuram*	2002-03
23	Manjeri*	2005-06 and 2006-07
24	Mattannur*	2004-05 and 2006-07
25	Muvattupuzha*	2005-06
26	Nedumangad	2005-06 and 2006-07
27	Neyyanttinkara	2004-05 to 2006-07
28	North Parur*	2002-03
29	Ottapalam*	2004-05 to 2006-07
30	Palakkad*	2002-03
31	Pathanamthitta	2002-03, 2005-06 and 2006-07
32	Perinthalmanna*	2002-03
33	Perumbavoor*	2002-03
34	Ponnani*	2004-05 to 2006-07
35	Punalur*	2004-05 and 2006-07
36	Shornur*	2002-03
37	South Paravoor	2002-03, 2003-04 and 2006-07

* ULBs which remitted contribution in full but received no allotment from CPF

Sl No	ULB	Period during which no amount was allotted to ULBs
38	Thalassery*	2002-03 and 2004-05
39	Thaliparamba*	2003-04, 2006-07
40	Thiruvalla*	2004-05 and 2005-06
41	Thiruvananthapuram	2005-06 and 2006-07
42	Thodupuzha*	2002-03
43	Thripunithura	2002-03 to 2004-05 and 2006-07
44	Thrissur*	2004-05
45	Vaikom*	2006-07
46	Varkala	2002-03 and 2004-05 to 2006-07

APPENDIX – X

Statement showing funds released by NABARD, transferred to selected BPs and lapsed to Government during 1997-98 to 2006-07 (Reference to Paragraph 3.5.2.4, Page 91)

(Rs in lakh)

Sl No	Name of Block Panchayat	No of projects undertaken	Estimated cost	Expenditure incurred	Amount released by NABARD	Amount transferred to PRIs	Short transfer	Amount lapsed to Govt	Short release by NABARD
1	2	3	4	5	6	7	8 (6–7)	9	10 (5-6)
1	Chadayamangalam	18	565.80	282.29	257.41	183.94	73.47	---	24.88
2	Konni	6	289.28	186.90	188.95	148.72	40.23	48.76	(-) 2.05
3	Pathanapuram	3	153.25	66.46	95.60	42.46	53.14	7.46	(-) 29.14
4	Vettikavala	4	124.31	92.98	50.85	35.92	14.93	8.11	42.13
5	Parakode	6	129.58	90.12	79.54	73.61	5.93	5.46	10.58
6	Pandalam	1	50.00	49.49	42.97	42.98	(-) 0.01	---	6.52
7	Kottarakara	8	165.30	102.47	82.39	78.83	3.56	8.97	20.08
8	Ranni	9	378.85	147.36	107.19	89.07	18.12	---	40.17
9	Chengannur	10	505.23	226.19	233.29	178.19	55.10	10.91	(-) 7.1
10	Kaduthuruthy	4	144.57	83.08	74.33	72.09	2.24	---	8.75
11	Vamanapuram	7	365.26	201.85	152.19	127.11	25.08	33.24	49.66
12	Uzhavoor	15	275.86	170.54	147.64	145.39	2.25	---	22.90
13	Kulanada	5	154.75	82.15	63.91	49.37	14.54	11.97	18.24
14	Anchal	10	312.05	193.41	162.80	147.61	15.19	---	30.61
15	Kilimanoor	4	166.25	110.75	80.55	46.20	34.35	---	30.20
	Total	**110**	**3780.34**	**2086.04**	**1819.61**	**1461.49**	**358.12**	**134.88**	**266.43**

APPENDIX – XI

Statement showing expenditure incurred on incomplete projects during 1997-98 to 2006-07 in selected BPs

(Reference to Paragraph 3.5.3.1, Page 92)

(Rs in lakh)

Sl No	Name of Block Panchayat	No of projects			Expenditure for incomplete projects
		Undertaken	Completed	Not completed	
1	Chadayamangalam	18	12	6	17.90
2	Konni	6	4	2	70.81
3	Pathanapuram	3	1	2	53.31
4	Vettikavala	4	3	1	35.71
5	Parakode	6	5	1[1]	Nil
6	Pandalam	1	1	Nil	Nil
7	Kottarakara	8	5	3	21.42
8	Ranni	9	3	6	28.48
9	Chengannur	10	6	4	Nil
10	Kaduthuruthy	4	2	2	15.10
11	Vamanapuram	7	2	5	78.54
12	Uzhavoor	15	10	5	27.35
13	Kulanada	5	3	2	14.31
14	Anchal	10	8	2	Nil
15	Kilimanoor	4	3	1	20.91
	Total	**110**	**68**	**42**	**383.84**

[1] The project was abandoned in January 2004; no expenditure incurred

Appendix-XII

Details of diversion of food grains to Tribal Development Department (Reference to paragraph 3.6.5.2, Page 99)

Sl. No.	Name of PAU	To whom transferred	Quantity of rice transferred (MT)	Reference
1	PAU, Idukki	Project Officer ITDP, Idukki	1871.67	Letter No.A1/14453/06 Dated 8 November 2006 of Director, ST Development Department and GO(Rt)299/02/SC/ST/DD dt 7.6.02
		District Labour Officer, Idukki	150.00	
2	PAU, Kollam	PAU, Wayanad	850.00	Letter Dated 8 November 2006 of Director, ST Development Department
		Tribal Welfare Department	158.24	
3	PAU, Thrissur	Project Officer, ITDP, Nilambur	116.32	Letter No.A1/14453/06 Dated 8 November 2006 of Director, ST Development Department and GO(Rt)299/02/SC/ST/DD dt 7.6.02
		Tribal Development Officer, Chalakudy	171.48	
4	PAU, Pathanamthitta	Tribal Development Officer, Ranni	150.00	Letter No.A1/14453/06 Dated 8 November 2006 of Director, ST Development Department and GO(Rt)299/02/SC/ST/DD dt 7.6.02
5	PAU, Malappuram	ITD Project Officer, Nilambur	378.04	Letter No.A1/14453/06 Dated 8 November 2006 of Director, ST Development Department and GO(Rt)299/02/SC/ST/DD dt 7.6.02
6	PAU, Kasaragod	Tribal Development Office, Kasaragod	419.88	Letter No.A1/14453/06 Dated 8 November 2006 of Director, ST Development Department and GO(Rt)299/02/SC/ST/DD dt 7.6.02
7	PAU, Kozhikode	Tribal Development Officer, Thamarassery	418.20	Statement of food grains lifted during 2002-03 (including period upto 30.6.03) furnished by PAU, Kozhikode
		Total	**4683.83**	

Appendix XIII

Calculation sheet
(Reference to paragraph 3.6.7, Page 102)

1	Total short distribution from 2002-03 to 2004-05	79310 MT
2	No of persondays that could be generated with 79310 MT at the rate of 10 KG	79310 x 1000/10 = 7931000
3	Short distribution during 2006-07	11549 MT
4	No of persondays that could be generated with 11549 MT at the rate of 3 Kg	11549 x 1000/3 = 3849666
5	**Total**	**11780666 personsdays**