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**REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA**

FOR THE YEAR ENDED 31 MARCH 2006

(LOCAL SELF GOVERNMENT INSTITUTIONS)

GOVERNMENT OF KERALA

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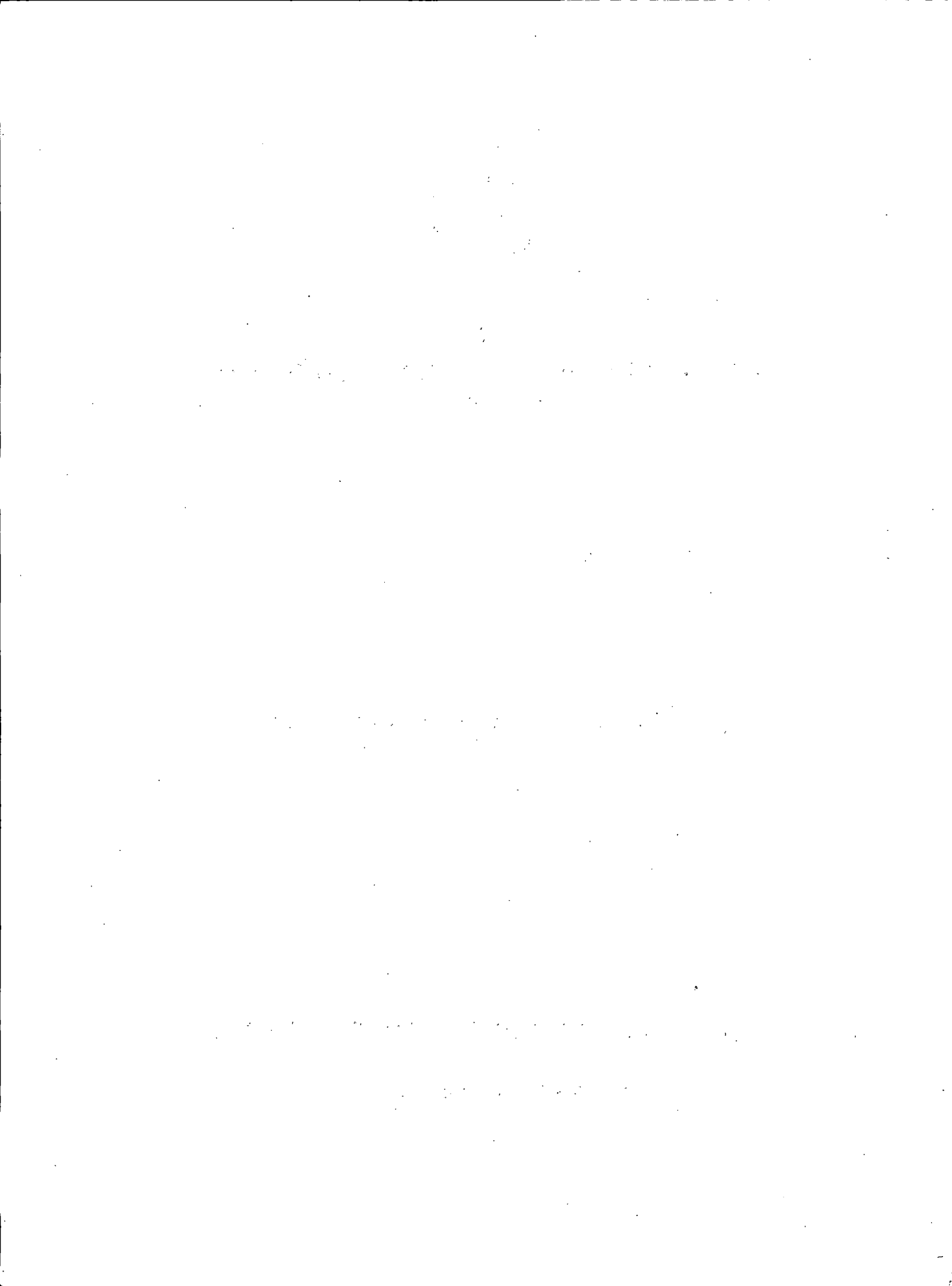


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PREFACE

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 2005-06 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 2005-06 have also been included wherever necessary.



OVERVIEW

This Audit Report includes four performance reviews and twelve audit paragraphs in addition to 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

Government did not 'authorise' an officer to consolidate the annual accounts of all LSGIs for its submission to Government and Legislature.

The database on revenue and expenditure of all LSGIs, recommended by the Eleventh Finance Commission has not been developed by Government.

Against budget provision of Rs.5357.16 crore for the State plan outlay for the year 2005-06, actual disbursement was Rs.4017.49 crore of which transfer to LSGIs was only Rs.1008.15 crore (25.09 per cent).

Though funds of Rs.217.43 crore were available for implementation of four centrally sponsored schemes out of 17, actual utilisation was only Rs.107.65 crore (49.51 per cent).

(Paragraphs 1.1 to 1.17)

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 2005-06, supplementary audit of 68 LSGIs was conducted. It revealed improper maintenance of various registers of accounts, lapses in preparation of budgets and Annual Financial Statements.

The DLFA in its consolidated report failed to highlight arrears in submission of account by LSGIs. There were deficiencies in the audit process followed by DLFA.

(Paragraphs 2.1 to 2.16)

III Performance Reviews

1 Asset Management by Local Self Government Institutions

The assets of LSGIs included movable and immovable assets, remunerative and non-remunerative assets historically owned by them and those acquired or created from time to time. Government, in the process of decentralisation, transferred to the LSGIs, assets and liabilities of the institutions such as primary health centres, hospitals and dispensaries, schools and agricultural farms having considerable assets in the form of land, buildings and other movable and immovable properties correlated to the transferred functions. Audit review revealed that the asset management in LSGIs was not satisfactory.

Six projects for creating immovable assets were abandoned halfway through and forty five others were incomplete due to poor planning, selection of

unsuitable land and failure on the part of LSGIs in monitoring resulting in unfruitful expenditure of Rs.6.51 crore.

Purchase of encumbered property by the Grama Panchayat, Kulathupuzha resulted in loss of Rs.15.16 lakh.

Two slaughter houses constructed at a cost of Rs.67.90 lakh functioned only for two and three days respectively.

Pay wards attached to hospital and rooms in shopping complexes were not let out resulting in loss of revenue of Rs.87.40 lakh.

Two hundred and five buildings in 15 LSGIs remained without proper maintenance whereas maintenance grant of Rs.21.07 crore remained unutilised during 2004-05 and 2005-06.

Land measuring 9.63 acres owned by four LSGIs was encroached due to non-protection by boundaries.

Thirty eight movable assets acquired at a cost of Rs.14.20 lakh were not utilised.

(Paragraph 3.1)

2 Assessment and Collection of Profession Tax in Local Self Government Institutions of Thrissur District

The Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 empower the Grama Panchayats, Municipalities and Municipal Corporations to levy profession tax from every company/person who transacts business or exercise profession in their respective areas. Profession tax constituted 42.97 per cent of tax revenue in Grama Panchayats and 23.92 per cent in Urban Local Bodies. There were lapses in issue of notices to the assesseees and in recording their details. The Local Self Government Institutions (LSGIs) failed to take timely action against the employers who did not assess and collect tax from their employees. The performance of LSGIs in collection of tax was not satisfactory.

Due to non-issue of notices requiring the employers to assess tax of their employees, 26 to 43 institutions did not assess their employees during 2001-02 to 2005-06 in ULBs test checked.

Failure of six LSGIs to monitor compliance by the employers after issue of notices resulted in non-assessment of tax of employees of 5 to 439 institutions during 2001-02 to 2005-06.

Fifteen Grama Panchayats out of 19 did not maintain traders list through which all traders could have been assessed.

Arrears of profession tax amounting to Rs.48.31 lakh pending collection in Thrissur Corporation up to 2002-03, had become time barred and irrecoverable as no action was initiated within three years as prescribed in the rules.

Delay of eight years in revision of rates of tax in Urban Local Bodies resulted in short assessment of profession tax in urban areas.

Accounting records such as assessment books, demand registers and arrear demand registers were not maintained properly resulting in tax arrears and tax becoming time barred and irrecoverable.

Though methods of assessment, levy and collection of profession tax are the same in urban and rural areas, Kerala Panchayat Raj (Profession Tax) Rules, 1996 and Kerala Municipality (Profession Tax) Rules, 2005 differ in respect of rates to be levied, fixation of income for assessment and categories of assessable companies/persons etc., resulting in disparity in taxation.

(Paragraph 3.2)

3 Transfer of Functions and Functionaries to Local Self Government Institutions

From October 1995, functions relating to matters enlisted in the Schedules to Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 were transferred to the LSGIs. The transfer of functions and functionaries to the LSGIs was un-coordinated resulting in non-transfer of functions as envisaged, inter-tier overlapping of functions and activities, improper functioning of transferred institutions, and funds not being transferred in proportion to the functions transferred.

Government continued to provide funds to the Scheduled Caste Development Department during 2001-02 to 2005-06 (Rs.181 crore) for construction of houses for SC beneficiaries, which was a function transferred to Grama Panchayats. This led to parallel implementation of housing schemes by the LSGIs and by the Government.

Three District Panchayats and five Block Panchayats executed 176 projects costing Rs.9.89 crore not relating to functions transferred to them.

Income of Rupees one crore derived by four transferred institutions was remitted to the Government and not to the concerned LSGIs.

Implementation of all the major schemes relating to the transferred functions continued with the respective departments. In 11 such schemes implemented during 2001-02 to 2005-06, expenditure of Rs.306.47 crore was incurred without involvement of LSGIs.

Rupees 40 crore earmarked as grants-in-aid to LSGIs in the State budget for 2001-02 for implementation of the tribal sub-plan was released to the Tribal Directorate instead of to the LSGIs. As a result the transferred functions under Tribal Development could not be carried out.

In 79 health care institutions transferred to the LSGIs, though inpatient wards were constructed, they could not be made functional for want of doctors and staff and other infrastructure facilities.

The internal control and monitoring system was not effective as the monthly progress reports and quarterly reports from the monitoring committee of LSGIs were not submitted and the Decentralisation Cell was not constituted.

(Paragraph 3.3)

4 Implementation of Projects on Deposit Work basis by LSGIs

The Local Self Government Institutions (LSGIs) implemented large number of projects through authorised agencies on deposit work basis. Though the works involved sizeable amounts, they were not monitored by the LSGIs leading to non-completion and abandonment. Lack of proper planning contributed to the defective implementation and deposit of amounts in excess of actual requirement.

Entrustment of works without proper planning led to abandonment of works.

Amounts transferred for execution of deposit works were treated by LSGIs as actual expenditure and included in their figures of financial achievement.

An amount of Rs.2.90 crore transferred to authorised agencies in excess in respect of 1234 completed works remained unrecovered.

The irregular decision of Kerala Water Authority to recover centage charges from LSGIs made them liable to pay Rs.5.61 crore during 2002-06.

Implementation of a beach beautification project in Kozhikode without obtaining sanction for construction in the Costal Regulation Zone had to be abandoned resulting in wasteful expenditure of Rs.15 lakh.

Construction of an indoor stadium at Kollam undertaken on deposit work basis was abandoned as a result of faulty design of pile foundation, leading to wasteful expenditure of Rs.8.06 lakh.

(Paragraph 3.4)

IV Transaction Audit

Non-accountal of cash drawn from treasury and failure to close cash book daily-misappropriation of Rs.15.49 lakh in Thiruvananthapuram Municipal Corporation was detected in audit.

(Paragraph 4.1)

Thrissur Municipal Corporation wrote off penal interest of Rs.4.38 crore in violation of rules and without authority.

(Paragraph 4.2)

Thiruvananthapuram Municipal Corporation incurred a loss of Rs.63.65 lakh due to failure to encash Indira Vikas Patras with face value of Rs.63.65 lakh on the date of maturity and reinvest the same.

(Paragraph 4.3)

Failure to follow the prescribed internal control system enabled misappropriation of Rs.33.87 lakh in 18 LSGIs.

(Paragraph 4.4)

Rupees 1.39 crore received by the Thiruvananthapuram Municipal Corporation for implementation of Centrally Sponsored Schemes were kept unutilised in treasury deposits for more than six years.

(Paragraph 4.5)

Failure of Wayanad District Panchayat to remit water charges in time and to replace defective water meter led to avoidable payment of penal interest and surcharge of Rs.83.78 lakh.

(Paragraph 4.6)

Thiruvananthapuram Municipal Corporation incurred Rs.63.65 lakh in excess of the admissible amount for constructing 50 houses under VAMBAY, violating the guideline issued by Government.

(Paragraph 4.7)

Decision of Mananthavady Grama Panchayat to purchase land unsuitable for establishing a solid waste processing plant resulted in unfruitful expenditure of Rs.31.89 lakh.

(Paragraph 4.8)

Two District Panchayats incurred expenditure of Rs.1.62 crore on providing private water connections to 35453 beneficiaries under the Swajaldhara Scheme in violation of Government guidelines.

(Paragraph 4.9)

Defective formulation of a project for construction of a weir (check dam) across the River Natukani without the provision for lift irrigation led to unfruitful expenditure of Rs.39.13 lakh in Wayanad District Panchayat.

(Paragraph 4.10)

Unnecessary hiring of vehicles and irregular tender procedure followed led to undue benefit to the contractor.

(Paragraph 4.11)

Projects for providing employment to women could not be started as Wadakanchery Grama Panchayat did not procure machinery and raw material rendering Rs.11.70 lakh spent on construction of building unfruitful.

(Paragraph 4.12)

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 Tenth Five Year Plan under a different nomenclature viz. 'Kerala Development Plan'. By the end of 2006-07 grass roots level planning by LSGIs completed a decade.

1.3 Profile of LSGIs

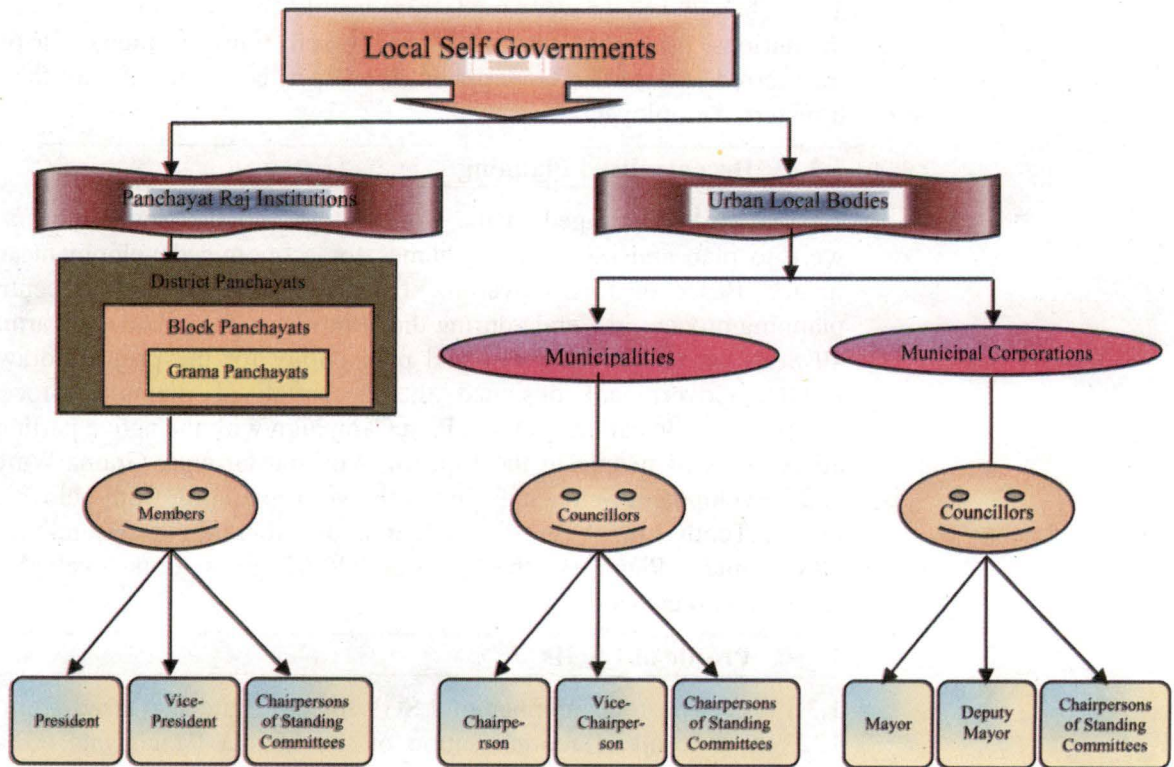
1.3.1 The total number of LSGIs in the State increased from 1215 to 1223 as a result of reorganisation of the Grama Panchayats (GPs) during October 2005. The number of LSGIs of various categories as on 31 March 2006 was as follows.

Sl No	Type of LSGIs	Number	Area (Sq Km)	Average area/LSGI (Sq Km)	Population	Average Population/LSGI	Density of Population
1	Grama Panchayats	999	37123.79	37.16	26647004	26674	718
2	Block Panchayats	152	37123.79	244.24	26647004	175309	718
3	District Panchayats	14	37123.79	2651.70	26647004	1903357	718
4	Municipalities	53	1253.22	23.65	2738170	51664	2185
5	Corporations	5	477.99	95.60	2456200	491240	5139
	Total	1223	38855	31.77	31841374	26035	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 in 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, the LSGIs were required to submit annual accounts to the Director of Local Fund Audit (DLFA) within four months after the 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. In the previous Report of the CAG, it was pointed out that as against the above provisions, the KPR Act and KM Act required that the annual report as certified by the DLFA should be submitted to the 'authorised' officer not later than by 15 May of the following year. Government is yet to take rectificatory action.

1.5.2 Though the Acts provided for authorising an officer for consolidating the accounts of all LSGIs, no officer has been authorised for this purpose.

1.5.3 Delay in submission of Annual Accounts

The position of submission of accounts by the PRIs was quite unsatisfactory during 2004-05 and 2005-06. As of September 2006, 203 PRIs (17.42 *per cent*) out of 1165, submitted their annual accounts for 2004-05 whereas annual accounts for 2005-06 were submitted only by 71 PRIs (6.09 *per cent*). No reason was adduced for the delay. This was indicative of the fact that submission of accounts by the PRIs is not being closely monitored. Consequently, possibility of misappropriation remaining unnoticed cannot be ruled out.

1.5.4 Revised formats for Budget and Accounts of Urban Local Bodies (ULBs) prescribed by CAG, were accepted by the Government in September 2003. Although 3 ½ years have elapsed, no account has been prepared in the new format. No reason was on record for the delay.

1.5.5 Audit issued questionnaires to all PRIs to ascertain how far the utilisation of revised formats for preparation of accounts brought systems improvement. 448 out of 1165 PRIs responded and of these:

- 336 PRIs (75 *per cent*) maintained cash book up to date

- 233 PRIs (52 per cent) failed to close it daily
- 169 PRIs (38 per cent) maintained register of receipts up to date
- 137 PRIs (31 per cent) maintained payment register up to date
- 69 PRIs (15 per cent) submitted Annual Financial Statements for 2005-06 in time

1.5.6 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.

1.5.7 Administrative Report of each LSGI is 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. The Government did not ensure preparation of such a consolidated report by nominating an officer for the purpose.

1.6 Financial Reporting

1.6.1 The DLFA is the primary auditor of the LSGIs. The CAG provides Technical Guidance and Supervision (TGS) for the proper maintenance of accounts and audit of LSGIs under Section 20(1) of CAG's (DPC) Act, 1971. The CAG also conducts audit of LSGIs under the provisions of sections 14 and 15 of the same Act wherever applicable.

1.6.2 The LSGIs are responsible for the timely submission of accounts to DLFA for audit. During 2004-05, the number of accounts submitted by the LSGIs for audit was 1314 (23.59 per cent) out of 5570 due (including arrears) and 820 (14.97 per cent) out of 5479 due during 2005-06 as detailed in the table below:-

Year	Number of accounts due for submission			Number of accounts submitted	Percentage	Number of accounts due for submission at the end of the year
	at the end of previous year	during the year	Total			
1996-97 to 2003-04	8501	1215	9716	5361	55.17	4355
2004-05	4355	1215	5570	1314	23.59	4256
2005-06	4256	1223	5479	820	14.97	4659

The poor percentage of submission of accounts indicated that the LSGIs did not discharge their responsibility of financial reporting properly.

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	---	---

Thus 73.42 to 82.30 *per cent* of LSGIs did not submit accounts within one year. 52.51 to 59.34 *per cent* did not submit accounts even within two years during the period from 2001-02 to 2004-05.

1.6.4 Arrears in audit and issue of audit reports

DLFA received 7495 accounts out of 12154 receivable during the period from 1996-97 to 2005-06. Though 6697 were audited, DLFA issued only 5464 audit reports as of 30 September 2006 as detailed below:

Year	Accounts receivable	Accounts Received	Accounts audited	Audit Reports issued	Arrears in	
					Audit	Issuing Audit Reports
1996-97 to 2001-02	7286	6045	5882	5117	163	765
2002-03	1215	660	511	273	149	238
2003-04	1215	494	255	71	239	184
2004-05	1215	215	46	3	169	43
2005-06	1223	81	3	---	78	3
Total	12154	7495	6697	5464	798	1233

While the arrears in audit was 798 (10.65 *per cent*) the arrears in issue of audit reports was 1233 (18.41 *per cent*).

1.7 Upkeep of Accounts

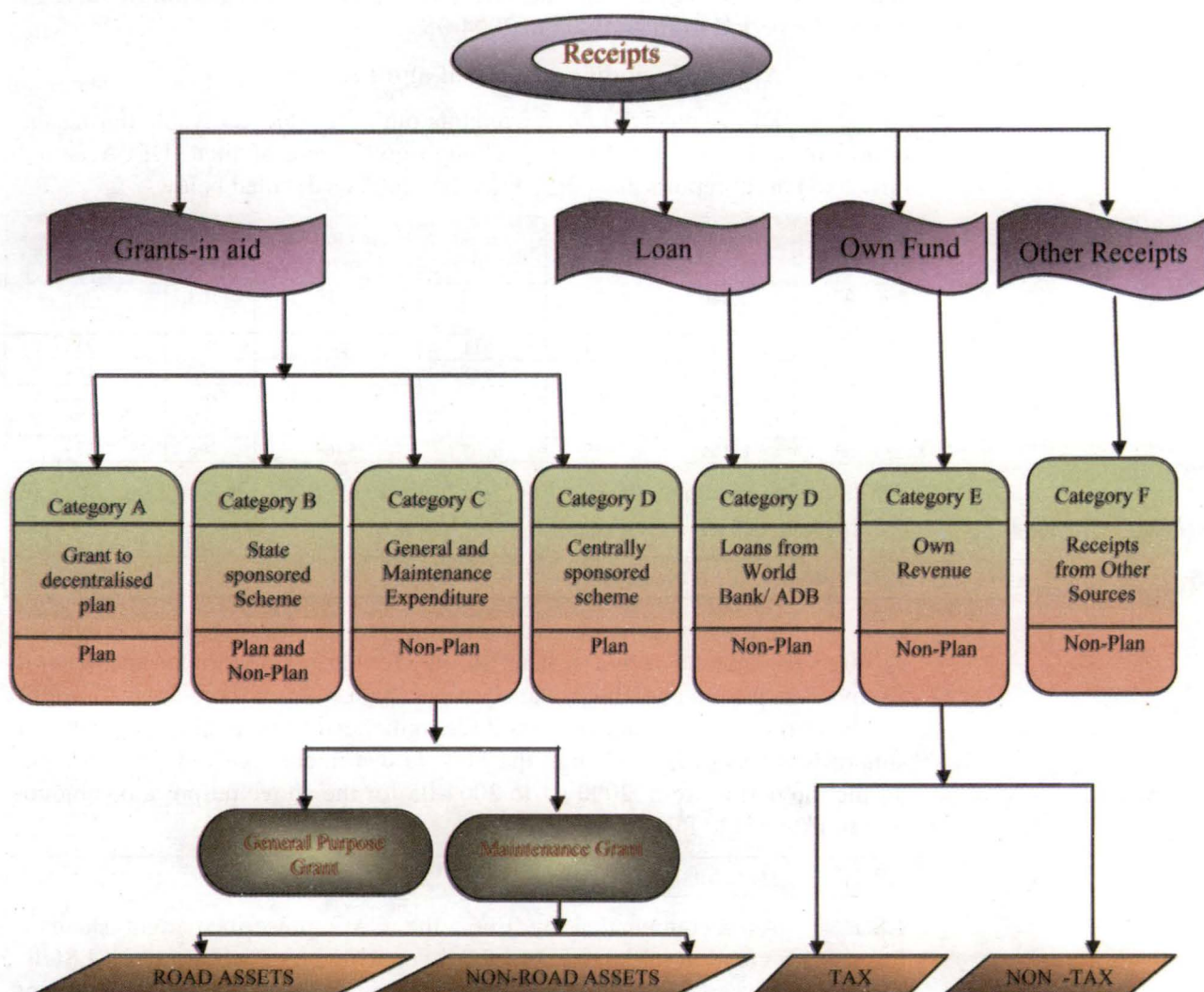
1.7.1 Eleventh Finance Commission (EFC) recommended grant of Rs.4000 per Panchayat per annum on an average for upkeep of accounts of Grama Panchayats and Block Panchayats which did not have exclusive staff for the purpose. The amount of grant recommended to be paid to the State per annum was Rs.46 lakh. Though the State Government received Rs.2.28 crore during the period from 2000-01 to 2004-05 for the above purpose, no amount was transferred to PRIs so far.

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 2006. Though the Government planned for automation and networking of the operations of LSGIs, it did not materialise.

1.9 Funds of LSGIs

1.9.1 The receipts of LSGIs are classified into four groups viz. own funds, grant-in-aid, loan and other receipts. These groups are further classified into categories A to F as shown in the chart below:



1.9.2 Grant-in-aid constituted 82.30 per cent of the revenue of LSGIs. 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 Categories B and D are tied.

1.9.3 Category 'A' funds are plan funds provided by the State Government from the State annual plan outlay to carry out projects relating to functions transferred and formulated by LSGIs under People's Plan Campaign/Kerala Development Plan. The share of each LSGI is indicated in Appendix IV of the Detailed Budget of the State every year.

1.9.4 Category 'B' Funds consist of plan and non-plan funds for implementation of State Schemes transferred to the 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.

1.9.5 Against a budget provision of Rs.7119.67 crore, the State Government released to the LSGIs during the period from 2002-03 to 2005-06, Rs.6054.82 crore under Category 'A' and 'B' as shown below:

(Rupees in crore)

Year	Budget Provision				Amount released				Percentage of release
	Category A	Category B		Total	Category A	Category B		Total	
		Plan	Non Plan			Plan	Non Plan		
2002-03	1251.21	125.38	351.89	1728.48	1021.48	97.23	338.96	1457.67	84.33
2003-04	1425.99	8.55	326.55	1761.09	1284.22	100.76	314.01	1698.99	96.47
2004-05	1288.10	113.46	348.06	1749.62	991.00	101.74	323.93	1416.67	80.97
2005-06	1366.01	110.11	404.36	1880.48	1008.15	101.62	371.72	1481.49	78.78
Total	5331.31	357.50	1430.86	7119.67	4304.85	401.35	1348.62	6054.82	85.04

1.9.6 The policy statement of 1996 envisaged implementation of 35-40 per cent of State's plan Schemes through LSGIs from the year 1997-98 with corresponding devolution of funds to the LSGIs. However, only 29.68 per cent of plan funds were transferred during the period 2002-03 to 2005-06 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
Total	16755.58	5331.31	31.82	14502.28	4304.85	29.68

The short transfer worked out to Rs.770.95* crore.

1.9.7 Category 'C' funds are non-plan grants provided by the State Government to the LSGIs to meet their non-plan expenditure such as office expenses, water and electricity charges, maintenance charges, etc. Funds were separately provided for maintenance and for other purposes. Funds received for maintenance of assets are called 'Maintenance Grant' (MG) and for other purposes are called 'General Purpose Grant' (GPG).

1.9.8 Amount equal to 3.5 per cent of tax revenue of the State during the previous year was to be provided as GPG in lieu of Basic Tax Grant, Surcharge on Stamp Duty, Rural Pool Grant, etc. GPG was to be utilised for all general expenditure admissible as per the rules. During the period 2004-05 and 2005-06 GPG released to the LSGIs was Rs.442.40 crore as against Rs.596.83 crore admissible as shown in the table below:-

* (35 per cent of 14502.28) – 4304.85 = 770.95.

(Rupees in crore)

Year	State tax revenue of previous year	GPG due (3.5 per cent)	GPG released	Short release	Percentage of short release
2004-05	8089	283.12	192.05	91.07	32.17
2005-06	8963	313.71	250.35	63.36	20.20
Total	17052	596.83	442.40	154.43	25.88

The short release was Rs.154.43 crore which worked to 25.88 per cent.

1.9.9 MG equal to 5.5 per cent of State tax revenue of previous year was to be provided for maintenance of road assets and non-road assets including transferred assets. During 2004-05 and 2005-06 Government released MG of Rs.481.05 crore to the LSGIs as against Rs.937.87 crore admissible as shown in the table below:-

(Rupees in crore)

Year	State tax revenue of previous year	MG due (5.5 per cent)	MG released	Short release	Percentage of short release
2004-05	8089	444.90	174.43	270.47	60.79
2005-06	8963	492.97	306.62	186.35	37.80
Total	17052	937.87	481.05	456.82	48.71

Government did not release 48.71 per cent of the eligible amount to the LSGIs during the period. The funds under Category A, B and C transferred to each category of LSGIs during the period from 2002-03 to 2005-06 were as follows.

(Rupees in crore)

Sl No	Category of LSGIs	Budget provision	Release	Percentage of Release	Average Release per annum
1	Grama Panchayats	5021.30	4296.85	85.57	1.08
2	Block Panchayats	940.00	839.43	89.30	1.38
3	District Panchayats	1001.86	765.72	76.43	13.67
4	Municipalities	758.60	601.85	79.34	2.83
5	Municipal Corporations	552.66	474.43	85.84	23.72
	Total	8274.42	6978.28	84.34	

The Government released 76.43 to 89.30 per cent of the amount provided in the budget to the various categories of LSGIs. The average transfer of funds ranged from Rs1.08 crore in Grama Panchayats to Rs.23.72 crore in Municipal Corporations (Appendix I).

1.9.10 Category 'D' funds are grants received from Government of India including State share for implementation of various Centrally Sponsored Schemes such as Sampoorna Grameen Rozgar Yojana, Indira Awas Yojana, Swarna Jayanthi Grama Swarozgar Yojana, National Slum Development Programme, Valmiki Ambedkar Awas Yojana, Swarna Jayanthi Shahari Rozgar Yojana, etc. This included assistance provided by the World Bank, Asian Development Bank, etc. The funds under this category are disbursed through agencies such as District Rural Development Agencies (DRDA), State Poverty Eradication Mission (SPEM), Directorate of Urban Affairs (DUA), District Collectors and are to be kept in Bank Accounts and utilised for purposes as specified by the fund provider. The details of assistance under this category received for 17 Centrally Sponsored Schemes during 2005-06 are given below:-

(Rupees in crore)

Authority / Agency who disbursed the fund	Type of LSGI	Opening Balance	Distribution to LSGIs		Total available funds	Funds utilised by LSGIs	Balance	Percentage of utilisation
			Central Share	State Share				
1. District Rural Development Agency	PRIs	76.88	299.92	80.77	457.57	375.80	81.77	82.12
2. Director of Urban Affairs	ULBs	-	4.16	2.94	7.10	7.10	-	100.00
3. Kudumbashree (The State Poverty Eradication Mission)	ULBs	49.63	27.41	17.41	94.45	30.70	63.75	32.50
Total		126.51¹	331.49	101.12	559.12	413.60	145.52	73.97

Source: Information collected from CRD, DUA and SPEM.

LSGIs received Rs.331.49 crore as central assistance and Rs.101.12 crore as State share out of which Rs.413.60 crore was utilised. The details of funds transferred by Central Government directly to the LSGIs called for were awaited (March 2007). At the end of the year there was an unspent balance of Rs.145.52 crore (Appendix II).

1.9.11 Category 'E' 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. Own funds also include income derived from assets of LSGIs. 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.

1.9.12 Since the State wide position of collection of own funds was not available, Audit sent a questionnaire in July 2006 to all LSGIs to collect the details of own funds. One hundred and fifty nine LSGIs furnished details of their own fund collection during 2005-06 which are given below:-

(Rupees in crore)

Sl No	Category LSGIs	Number	Own fund collected	Average
1	Grama Panchayats	117	47.06	0.40
2	Block Panchayats	35	0.40	0.01
3	District Panchayats	1	0.50	0.50
4	Municipalities	4	12.25	3.06
5	Corporations	2	36.55	18.28
	Total	159	96.76	0.61

The collection ranged from Rs.0.01 crore in Block Panchayats to Rs.18.28 crore in Corporations.

¹ The opening balance of Rs.126.51 crore does not tally with the closing balances of previous year, furnished by the agencies.

1.9.13 Category 'F' funds consist of all other receipts which do not come under other categories. This includes beneficiary contributions, voluntary contributions, contributions in kind, etc. and loans other than from World Bank, ADB, etc. These funds are utilised for specified purposes. Details of funds received by LSGIs under this category were not available. However, during 2005-06 the LSGIs received Rs1.49 crore from the State Government and Rs.8.01 crore from 'KURDFC' as loan.

1.9.14 Loans aggregating Rs.363.08 crore availed by LSGIs from the following sources were outstanding to be repaid as on 31 March 2006.

(Rupees in crore)

Sl. No	Source of Loan	Loan outstanding as on 31 March 2006					Total
		GP ¹	BP ²	DP ³	Municipality	Municipal Corporation	
1.	State Government	---	---	0.13	22.71	70.37	93.21
2.	KURDFC	0.18	---	---	33.46	2.82	36.46
3.	KSRDB ⁴	17.96	---	---	0.13	---	18.09
4	HUDCO	---	---	112.21	---	4.28	116.49
5	Kerala State Co-operative Bank	---	---	98.80	---	---	98.80
6	LIC	---	---	---	0.03	---	0.03
	Total	18.14	---	211.14	56.33	77.47	363.08

1.10 Drawal of Funds

1.10.1 The total receipts of LSGIs under all categories was Rs.3002.49 crore during 2005-06 as detailed in the table below:-

(Rupees in crore)

Sl No	Type of LSGI	Funds Received (2005-06)										Total receipts
		Category A Funds for schemes formulated by LSGIs	Category B Funds for state sponsored scheme	Category C ⁵		Category D ⁶ Funds for Centrally Sponsored Scheme		Category E ⁷ Own Funds		Category F		
				GPG	MG	Central Share	State Share	Tax	Non Tax	Loans	Other receipts	
1	Grama Panchayats	596.97	347.37	203.54	176.27	---	---	123.18	102.83	---	---	
2	Block Panchayats	140.84	44.08	---	20.29	---	---	---	---	---	---	
3	District Panchayats	117.02	21.17	---	51.97	---	---	---	---	---	---	
4	Total PRIs	854.83	412.62	203.54	248.53	299.92	80.77	123.18	102.83			2326.22
5	Municipalities	85.92	30.70	46.81	33.22	---	---	86.17	57.79	8.01	---	
6	Corporations	67.40	30.02	---	24.88	---	---	93.85	58.09	1.49	---	
7	Total ULBs	153.32	60.72	46.81	58.10	31.57	20.35	180.02	115.88	9.50	---	676.27
8	Total LSGIs	1008.15	473.34	250.35	306.63	331.49	101.12	303.20	218.71	9.50	---	3002.49

¹ Grama Panchayat

² Block Panchayat

³ District Panchayat

⁴ Kerala State Rural Development Board (defunct)

⁵ Devolved funds, General Purpose Grant and Maintenance Grant: extracted from Finance Accounts 2005-06.

⁶ Centrally Sponsored Scheme Funds received through DRDA, DUA and SPEM: Information furnished by CRD, DUA and SPEM

⁷ The figures submitted to the Twelfth Finance Commission by the Government of Kerala. In the absence of figures for the year 2005-06, the figures for 2002-03 are adopted.

⁸ Extracted from Finance Accounts 2005-06 and information collected from Kerala Urban and Rural Development Finance Corporation Limited and Housing and Urban Development Corporation Limited (HUDCO). Details of loans, if any, availed from any other source are not available.

The receipts increased from Rs.2909.71 crore in 2004-05 to Rs.3002.49 crore in 2005-06.

1.10.2 The receipts of 159 LSGIs as furnished by them in response to the audit questionnaire were Rs.459.66 crore as shown in the table below:-

(Rupees in crore)

Sl No	Type of LSGI	No of LSGIs responded	Funds received during 2005-06								Total
			Category A	Category B	Category C		Category D	Category E		Category F	
					GPG	MG		Tax	Non Tax		
1	Grama Panchayats	117	68.32	30.57	19.54	19.49	10.95	38.39	8.67	22.20	218.13
2	Block Panchayats	35	39.53	2.85	5.53	5.44	30.68	---	0.40	8.82	93.25
3	District Panchayats	1	22.63	1.85	1.40	6.01	2.75	---	0.50	---	35.14
4	Total PRIs	153	130.48	35.27	26.47	30.94	44.38	38.39	9.57	31.02	346.52
5	Municipalities	4	6.20	1.38	1.06	1.76	2.65	11.42	0.83	4.99	30.29
6	Corporations	2	26.67	4.32	7.72	5.06	2.49	36.54	0.01	0.04	82.85
7	Total ULBs	6	32.87	5.70	8.78	6.82	5.14	47.96	0.84	5.03	113.14
8	Total LSGIs	159	163.35	40.97	35.25	37.76	49.52	86.35	10.41	36.05	459.66

1.11 Sectoral Allocation of Funds

1.11.1 Category 'A' funds for implementation of projects formulated by LSGIs are provided under the following three categories.

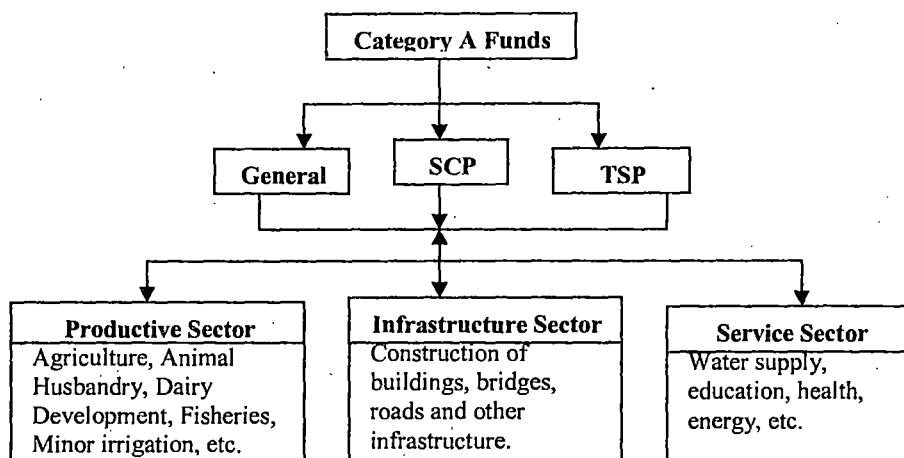
(Rupees in crore)

Sl No	Sectors	Budget Provision							
		2003-04		2004-05		2005-06		Total	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1	General	1009.23 ¹	76.63	1016.67	75.30	990.36	72.03	3016.26	74.62
2	Special Component Plan (SCP)	263.33	19.99	285.20	21.13	334.47	24.32	883.00	21.85
3	Tribal Sub Plan (TSP)	44.44	3.38	48.13	3.57	50.17	3.65	142.74	3.53
	Total	1317.00	100.00	1350.00	100.00	1375.00	100.00	4042.00	100.00

The allocation of plan funds for the development of Scheduled Caste and Scheduled Tribe during 2005-06 was 27.97 per cent against 23.37 per cent during 2003-04 and 24.70 per cent during 2004-05.

1.11.2 The LSGIs are 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

The allocation of funds by the LSGIs was as follows:

Sl. No.	Type of Local Body	Percentages of expenditure under							
		Productive Sector		Infrastructure Dev. Sector		Service Sector		Projects not classified	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	Grama Panchayat	19.58	21.78	27.69	19.03	45.97	45.41	6.76	13.75
2	Block Panchayat	17.69	10.35	27.44	19.11	45.11	49.80	9.76	20.75
3	District Panchayat	23.59	13.95	25.07	26.91	50.76	57.66	0.59	1.48
4	Municipality	6.69	7.58	48.65	40.11	40.16	44.38	4.50	7.94
5	Corporation	2.60	7.51	48.22	42.26	46.25	38.02	2.33	12.21
	Total	17.68	17.18	46.47	46.77	30.33	23.24	6.53	12.82

Source : Economic Review 2005.

It would be seen that the utilisation of funds under productive sector was below the minimum prescribed by the Government.

1.12 Expenditure of LSGIs

1.12.1 The expenditure of 159 LSGIs, which responded to the questionnaire was Rs.402.48 crore during 2005-06 as shown below:

(Rupees in crore)

Sl No	Nature of expenditure	Grama Panchayats	Block Panchayats	District Panchayats	Municipalities	Corporations	Total
1	Direction and administration	87.68	8.15	0.88	10.43	37.48	144.62
2	Revenue Expenditure (Plan)	62.05	17.05	---	2.95	11.93	93.98
3	Capital Expenditure (Plan)	31.31	12.45	22.17	2.18	10.61	78.72
4	Loan Repayment	8.83	51.58	---	6.43	0.35	67.19
5	Deposits and advances	13.94	0.14	---	0.48	3.41	17.97
	Total Expenditure	203.81	89.37	23.05	22.47	63.78	402.48

The expenditure of Rs.144.62 crore incurred on Direction and Administration exceeded the own fund collection of Rs.96.76 crore¹.

1.13 Short utilisation of funds for Centrally Sponsored Schemes

1.13.1 The financial achievement in respect of the following Centrally Sponsored Schemes by LSGIs 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	Prime Ministers Gram Sadak Yojana (PMGSY)	1.01	121.97	122.98	76.95	46.03	62.57
2	Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)	11.28	9.08	20.36	6.90	13.46	33.89
3	National Slum Development Programme (NSDP)	16.08	10.33	26.41	14.48	11.93	54.82
4	Valmiki Ambedkar Awas Yojana (VAMBAY)	22.27	25.41	47.68	9.32	38.36	19.55
	Total	50.64	166.79	217.43	107.65	109.78	49.51

Out of Rs.217.43 crore available, the utilisation was only Rs.107.65 crore (49.51 per cent). The implementation of VAMBAY was poor, the financial achievement being only 19.55 per cent. No reasons were on record for the short utilisation.

1.14 Diversion of Plan funds for repayment of loan

1.14.1 In paragraph 4.6.6 of Report of the CAG (Civil) for the year ended 31 March 2003, mention was made about the diversion of plan funds amounting to Rs.14.26 crore by Local Bodies for repayment of loan availed from KUDFC. In spite of this, Government in March 2006 issued directions to LSGIs to utilise plan funds to repay the loans (principal amount) availed from KURDFC².

1.15 Pendency in clearing objections raised by the CAG

1.15.1 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

¹ See table under para 1.9.12.

² Kerala Urban Development Finance Corporation (KUDFC) was changed to Kerala Urban and Rural Development Corporation (KURDFC) with effect from 1 November 2004 in order to extend their area of operation to rural areas also.

communicated to the respective LSGIs in the form of Local Audit Reports (LARs) with copy to the Government. Though the replies to the objections were to be furnished within four weeks of receipt of LARs, 937 LARs (99.15 per cent) out of 945 issued and 12754 paragraphs (82.34 per cent) out of 15489 were pending to be settled as on 31 December 2006 for want of satisfactory replies from LSGIs concerned as shown in the table 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 2001-02	254	4744	04	2340	250	2404
2002-03	116	2431	01	157	115	2274
2003-04	218	3861	---	150	218	3711
2004-05	205	2951	01	26	204	2925
2005-06	152	1502	02	62	150	1440
Total	945	15489	08	2735	937	12754

Even though there was a proposal for constituting Audit Committees at appropriate levels to discuss and settle the objections on the spot, it did not materialise.

1.16 Conclusion

LSGIs were lagging behind in preparation and submission of annual accounts. There was no database on the revenue and expenditure of LSGIs. Government has yet to frame Budget and Accounts Rules to give effect the revised accounting formats. Clearance of audit objections was very slow.

1.17 Recommendations

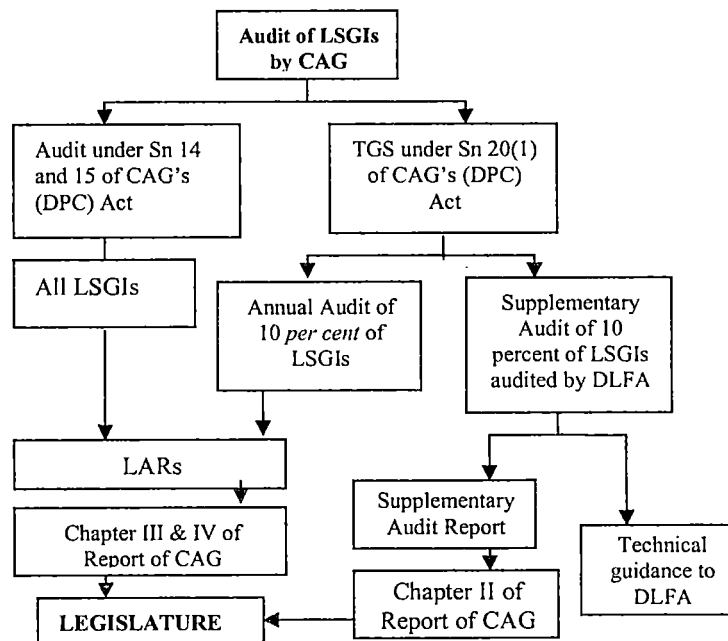
- Government should take effective steps to make the LSGIs update their accounts/accounts records and ensure proper financial reporting. Responsibilities should be fixed clearly for preparation of accounts so that lapses in this regard can be dealt with.
- Government should consider appointing an authorised officer to consolidate the audited accounts of LSGIs so that a clear picture of finances of all LSGIs is available.
- Government should take initiative for the creation of the financial database of the LSGIs.
- Government should prepare and put to use revised Budget/Account Rules for PRIs.
- Audit Committees should be constituted at appropriate levels to settle audit objections.

CHAPTER II

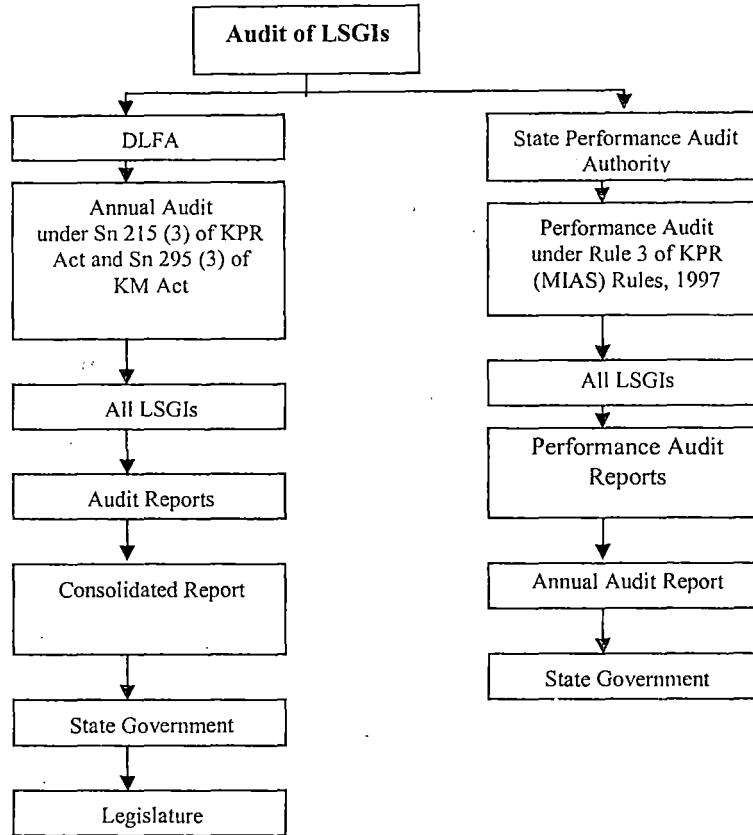
TECHNICAL GUIDANCE AND SUPERVISION AND THE RESULTS OF SUPPLEMENTARY AUDIT

2.1 Introduction

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



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 sanctioned strength and persons in position of various categories of posts in the department were as shown below:-

Sl No	Post	2003-04		2004-05		2005-06	
		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	135	135	151	151
5	Auditors	458	458	458	458	510	510
6	Other ancillary	201	201	201	201	202	202
7	Total	839	839	839	839	908	908

During 2005-06, 69 posts (Audit officers 16, Auditors 52 and others 1) were sanctioned increasing the staff strength from 839 to 908. The DLFA, however,

intimated (December 2006) that the staff available was not commensurate with the quantum of work. It was also stated that the major recommendations contained in the report of work study conducted by the Personnel and Administrative Reforms Department during 1997 were not implemented as of February 2007.

2.3 Training Programmes in the Department

2.3.1 The training facilities available in the department were not adequate to sharpen the skills of staff as it did not cover modern audit techniques and trends in the specified profession of audit and accounts. The DLFA stated (December 2006) that a team of trainers consisting of experts within the department was constituted for imparting training to auditors. As part of TGS, CAG's staff imparted training to 740 staff members of DLFA in auditing standards, certification of accounts and good practices in audit during 2006-07.

2.4 Computerisation

2.4.1 The functions of the department need to be computerised to enhance the quality of service delivery. Automation of the department would facilitate creation of a database of auditee institutions, audit planning, monitoring audit activities and better connectivity. The proposal is under the consideration of the Government.

2.5 Functioning of the Committee for monitoring 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.

The DLFA during April 2006 issued directions to his staff requiring them to

- follow auditing standards prescribed by CAG
- audit and certify accounts of LSGIs
- evaluate internal control system of auditee institutions
- issue audit enquiries and obtain acknowledgements
- prepare local audit reports and discuss it at the exit meeting
- avoid deploying persons with direct or indirect interest in the auditee organisation for audit
- not depute the same team continuously for audit of the same institution.

2.6 Consolidated Audit Report of the DLFA for the year 2004-05

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. The consolidated report for the year 2004-05 was submitted by the DLFA in March 2006. Critical comments about the multiplicity of audit,

reorganisation and shortage of manpower in the LFA department, bill system and new accounting formats were included in the report.

Format of consolidated report not prescribed

2.6.2 The consolidated report is a LSGI-wise heterogeneous compilation of objections without classifying them based on their nature and content. No format for preparing the consolidated report is prescribed in Kerala Local Fund Audit Rules, 1996 in order to ensure uniformity and cohesion.

Failure of DLFA to highlight arrears in submission of accounts

2.6.3 As discussed in Chapter I of this report, the submission of accounts by LSGIs to DLFA is in heavy arrears. According to Rule 16 (1) of KLF Rules, the DLFA should carry out proceedings in court of law against the secretary who did not submit the accounts within the specified time limit. Instead of taking action against the secretaries who were responsible for the arrears and highlighting it in the consolidated report, DLFA expressed an opinion in the consolidated report that "keeping of accounts is not the only responsibility of LSGIs".

2.7 Surcharge and charge imposed by the DLFA

2.7.1 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 from 2002-03 to 2005-06, 527 surcharge certificates involving Rs.2.75 crore and 87 charge certificates involving Rs.0.21 crore against persons responsible for illegal payments/loss were issued. The DLFA stated (February 2007) that during 2002-03 to 2005-06, Rs.8.25 lakh was recovered as surcharge/charge.

2.8 Results of supplementary audit

2.8.1 During 2005-06, the CAG audited 238 LSGIs, including supplementary audit of 68 LSGIs (**Appendix-III**). 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 latest period covered under supplementary audit was 2002-03. The main findings of supplementary audit are given below.

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

Cash Book

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

- Twenty four¹ LSGIs maintained more than one cash book
- Daily closing of cash book was not carried out in 24 LSGIs (**Appendix-IV**).
- Monthly closing was not carried out in 16² LSGIs.
- Physical verification of cash was not done in 10³ LSGIs.
- In six⁴ LSGIs authentication of monthly closing was not done.
- Non- reconciliation of cash book balance with pass book balance was noticed in 17⁵ LSGIs.

Register of Advances

2.9.2 All advances paid are to be recorded in the register of advances. Eleven⁶ LSGIs did not maintain register of advances. In two LSGIs (Mokeri GP and Edavanakad GP) register of advances contained only figures relating to advances given to staff members. In the absence/improper maintenance of the register of advances the monitoring of advances given and adjustment thereof could not be assured.

Arrear Demand Register

2.9.3 Uncollected demand at the end of each year is carried over from the demand register to the arrear demand register for watching collection of arrears of previous years. Puthige and Chempakulam GPs did not maintain the arrear demand register. Arrear demand registers of three⁷ GPs were incomplete. In the absence of arrear demand register, the arrears in respect of various items of receipts pertaining to previous years were not ascertainable. As a result the LSGIs may not be able to take action to realise the arrears before they become time barred.

2.10 Lapses in preparation of budget

2.10.1 Budget is the most important tool for financial planning 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.

2.10.2 The estimated receipts and expenditure varied widely with the actuals in the case of 29 LSGIs (**Appendix V**).

Receipt

2.10.3 A comparison of receipts under property tax and profession tax in four GPs as shown in the table below revealed that against the actual collection of

¹ Aikkaranadu, Amballur, Chathannur, Chempakulam, Cherthala (south), Dharmadam, Edavanakkad, Elamad, Ezhukone, Kadappuram, Kanjiramkulam, Kavalangad, Koodali, Koothattukulam, Kootickal, Kottopadam, Krishnapuram, Kundara, Maneed, Mararikulam, Palakkuzha, Valavannur, Vettoor G.Ps and Chengannur B.P

² Chathannur, Chempakulam, Cherthala (south), Chirayinkeezhu, Edavanakad, Ezhukone, Kadampanad, Kadappuram, Koodali, Krishnapuram, Kundara, Mokeri, Nilamel, Parasala, Puthige G.Ps and Chengannur B.P.

³ Dharmadom, Ezhukone, Kottopadam, Krishnapuram, Kuzhoor, Mokeri, Nagaroor, Nilamel, Punnayurkulam GPs and Anchal BP.

⁴ Kadakarapally, Koothattukulam, Maneed, Mangalapuram, Nagaroor and Puthige G.Ps.

⁵ Chathannur, Chempakulam, Cherthala (south), Dharmadom, Ezhukone, Kadampanad, Kootickal, Krishnapuram, Kundara, Kuttoor, Mangalapuram, Mokeri, Nagaroor, Nediyruppu, Othukkungal, Parasala G.Ps and ChengannurBP

⁶ Aikkaranad, Chempakulam, Cherthala (south), Edapatta, Kadampanad, Kadappuram, Kainakari, Mararikulam (North), Nediyruppu, Othukkungal G.Ps and Chengannur B.P

⁷ Ezhukone, Kunnathur and Mangalapuram G.Ps

Rs.20.81 lakh, the amount provided in the budget was Rs.46 lakh which indicated that the budget was either inflated or the collection was poor. Had the figures in the demand register and the actual collection during previous years been considered for preparing the budget, it would have been more realistic and accurate.

(Rupees in lakh)

Year	Name of Grama Panchayat	Head of account	Estimate	Actual	Excess provision	Percentage of excess provision
1998-99	Cherthala (South)	Property tax	3.50	1.97	1.53	77.66
		Profession tax	4.00	2.67	1.33	49.81
2000-01	Nagaroor	Property tax	12.00	2.63	9.37	356.27
		Profession tax	5.50	2.04	3.51	172.06
2001-02	Kadappuram	Property tax	8.00	4.93	3.07	62.27
		Profession tax	2.50	1.52	0.98	64.47
2001-02	Vettoor	Property tax	7.00	3.14	3.86	122.93
		Profession tax	3.50	1.91	1.59	83.25
	Total	Property tax	30.50	12.67	17.83	140.73
		Profession tax	15.50	8.14	7.41	91.03
	Grand Total		46.00	20.81	25.24	121.29

The budget provisions were inflated by 121.29 per cent.

Expenditure

2.10.4 Against the actual expenditure of Rs.6.55 lakh under public works and public health in two GPs, the amount provided was Rs.47.34 lakh which was more than seven times the actual expenditure as shown below.

(Rupees in lakh)

Year	Name of Grama Panchayat	Function	Estimate	Actual	Excess estimate	Percentage of excess estimate
1999-00	Elamad	Public works	27.37	3.66	23.71	748
		Public health	9.75	2.20	7.55	443
2001-02	Vettoor	Public works	3.98	0.08	3.90	4975
		Public health	6.24	0.61	5.63	1023
	Total		47.34	6.55	40.79	723

Provision of funds in excess of actual requirement was due to failure of financial planning.

2.10.5 While preparing the budget estimates for receipts, the actual collection during previous years should have been taken into account. The following figures of budget provision and actuals of previous year showed that the LSGIs did not consider the receipts of the previous year for preparing the budget estimates of the current year.

(Rupees in lakh)

Year	Name of Grama Panchayat	Head of account	Budget Provision	Actuals of		Excess provision with respect to actuals of previous year	Percentage of excess provision
				Previous year	Current year		
2001-02	Kundara	Property tax	8.00	3.72	3.58	4.28	115.05
2001-02	Ezhukone	Property tax	10.00	3.22	1.78	6.78	210.56
2002-03	Mylom	Property tax	26.00	3.53	3.87	22.47	636.54
	Total		44.00	10.47	9.23	33.53	320.24

The collection estimated under property tax by the three GPs was Rs.44 lakh whereas the actual collection during previous year was only Rs.10.47 lakh. Such unrealistic estimates defeat the purpose of budgeting.

2.10.6 The above lapses point to the absence of a serious and professional approach in preparation of budgets in LSGIs.

2.11 Lapses in preparation of Annual Financial Statements

2.11.1 The LSGIs are 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 are enumerated below.

2.11.2 The AFS of 23¹ LSGIs did not contain transactions relating to Category A and B Funds. Non-incorporation of the transactions relating to the above funds resulted in understatement of receipts and expenditure of the LSGIs.

2.11.3 In 10² LSGIs there was a delay of more than one year in forwarding the AFS to DLFA.

2.11.4 Unclaimed money orders amounting to Rs.52,643 received back by Elamad GP were shown as receipts in the AFS for the year 1999-2000 instead of showing it as reduction in expenditure. This resulted in inflation of receipt and payment figures by such amounts in the AFS.

2.11.5 An amount of Rs.1.04 lakh lying deposited in the District Co-operative Bank, Kottarakara was withdrawn and deposited in another bank account by Mylom GP, during 2002-03. The GP wrongly showed this transfer of money from one bank account to another as expenditure in the AFS.

2.11.6 AFS is a document showing receipts and disbursements. The figures shown therein should agree with those shown in the primary accounting records and subsidiary registers. The figures shown in the 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 Kundara GP the entries in respect of D & O licence fee in the AFS (2001-02) was different from those shown in the register of receipts.
- As against Rs.4.67 lakh recorded in the cash book as receipts under duty on transfer of property, Rs.2.16 lakh only was shown in the AFS by the Ezhukone GP for the year 2001-02, the difference being Rs.2.51 lakh.

In view of occurrence of such errors, the AFS cannot be considered as an accurate and reliable record of transactions of the LSGIs.

2.12 Wrong classification of expenditure/receipt in AFS

2.12.1 Duty on transfer of property amounting to Rs.1.23 lakh and Rs.0.67 lakh received by Puthige GP (2000-01) and Mokeri GP (1999-00) was misclassified as other grants and basic grant respectively in the respective AFSs.

¹ Aikkaranadu, Alagappa Nagar, Amballur, Chempakulam, Cherthala(south), Chirayinkeezhu, Edapatta, Kadampanad, Kadappuram, Kainakari, Kanjiramkulam, Kavalangad, Kottakkal, Kottopadam, Kunnathur, Maneed, Mangalapuram, Mokeri, Nagaroor, Nilamel, Parasala, Puthige and Vettoor G.Ps.

² Chempakulam, Elamad, Kadampanad, Kadappuram, Mulamkunnathukavu, Nagaroor, Nediyruppu, Nilamel, Valavannur G.Ps and Chalakkudy B.P.

2.12.2 In Kodumon GP, receipt of Rs.8.47 lakh (2002-03) under vehicle tax compensation was wrongly classified as General Purpose Grant.

2.12.3 Expenditure of Rs.0.11 lakh incurred towards printing charges by Mylom GP (2002-03) was wrongly classified as election charges in the AFS.

2.13 Lapses in safeguarding assets

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

- asset register was not maintained in 16¹ LSGIs
- physical stock verification was not conducted in six² LSGIs.

2.14 Deficiencies in the DLFA's audit process

Non-issue of audit certificates

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

Conduct of audit without receiving and auditing Annual Financial Statement for previous years

2.14.2 Audit of the accounts of a particular year should be taken up only after completing the audit of previous years. DLFA audited accounts of three LSGIs, (Vechoor G.P 1999-2000, Edappatta G.P 2001 – 2002, Pampady GP 2000 - 01) without conducting audit for the previous year. As a result, the accuracy of figures of opening balance could not be ensured.

Preparation of parallel accounts and DCB statements by DLFA

2.14.3 According to Kerala Local Fund Audit Act, 1994 and Kerala Local Fund Audit Rules, 1996 the DLFA is empowered to audit the accounts of the LSGIs and not to prepare the accounts. Audit review revealed that in five³ GPs, DLFA prepared parallel accounts and DCB statements during audit, which were different from that prepared by the LSGIs. This irregular practice led to the existence of two sets of accounts.

2.15 Conclusion

2.15.1 Maintenance of cash book and other account books in LSGIs was defective. Budgets of LSGIs were not realistic.

¹ Chelakkara, Cherthala (south), Kadappuram, Kainakari, Kanjiramkulam, Kanjirapally, Kattur, Kavalangad, Kootickal, Kundara, Maneed, Mararikulam (North), Mokeri, Muriyad, Vechoor G.Ps and Chalakudy B.P.

² Kajiramkulam, Krishnapuram, Mokeri, Puthige, Vechoor and Vettoor G.Ps.

³ Chempakulam, Kadappuram, Kunnathur, Pathanapuram and Punnayurkulam GPs.

2.16 Recommendations

- Government should ensure preparation of realistic budgets in LSGIs.
- Government should consider issue of guidelines for preparation of consolidated report of accounts by DLFA.
- DLFA should consider initiating action against executive authorities who fail to submit accounts in time as provided in Kerala Local Fund Audit Rules, 1996.

CHAPTER III PERFORMANCE REVIEWS

3.1 Asset Management by Local Self Government Institutions

Highlights

The assets of Local Self Government Institutions (LSGIs) included movable and immovable assets, remunerative and non-remunerative assets historically owned by them and those acquired or created from time to time. Government had in the process of decentralisation, transferred to the LSGIs, assets and liabilities of the institutions such as primary health centres, hospitals and dispensaries, schools and agricultural farms having considerable assets in the form of land, buildings and other movable and immovable properties correlated to the transferred functions. Audit Review revealed that the asset management in LSGIs was not satisfactory.

- Six projects for creating immovable assets were abandoned halfway and forty five others were incomplete due to poor planning, selection of unsuitable sites and laxity on the part of LSGIs in monitoring resulting in unfruitful expenditure of Rs.6.51 crore.
(Paragraph 3.1.6.2)
- Purchase of encumbered property by the Grama Panchayat, Kulathupuzha resulted in loss of Rs.15.16 lakh.
(Paragraph 3.1.6.5)
- Two slaughter houses constructed at a cost of Rs.67.90 lakh functioned only for two and three days.
(Paragraph 3.1.8.8)
- Pay wards attached to hospital and rooms in shopping complexes were not let out resulting in loss of revenue of Rs.87.40 lakh.
(Paragraphs 3.1.8.12 and 3.1.8.13)
- Two hundred and five buildings in 15 LSGIs remained without proper maintenance due to failure to utilise maintenance grant of Rs.21.07 crore during 2004-05 and 2005-06.
(Paragraph 3.1.9.2)
- Land measuring 9.63 acres owned by four LSGIs was encroached due to non-protection of boundaries.
(Paragraph 3.1.9.3)
- Thirty eight movable assets acquired at a cost of Rs.14.20 lakh were not utilised.
(Paragraph 3.1.10.1)

3.1.1 Introduction

Creation, acquisition, utilisation and maintenance of assets are important functions of LSGIs. Asset Management includes:

- planning and decision making in creation or acquisition of assets
- proper accounting of assets
- utilisation of assets
- maintenance of assets
- disposal of obsolete assets.

Laxity in these areas is fraught with the risk of public funds invested on assets becoming unfruitful. A review of the asset management by LSGIs covering the life cycle of assets was conducted by Audit.

3.1.2 Audit objectives

The audit objectives were to examine whether

- the acquisition or creation of assets was properly planned and executed
- the LSGIs properly documented all the assets owned by them
- the assets were properly utilised
- there was a system for the proper upkeep and periodical maintenance of assets and
- there were losses, system deficiencies and lacunae in asset management.

3.1.3 Audit criteria

The criteria used to assess the effectiveness of the LSGIs in asset management were:

- Guidelines issued by the Government and project reports of LSGIs
- Provisions of Kerala Panchayat (Accounts) Rules, 1965 and Kerala Financial Code relating to asset accounting
- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipalities Act, 1994 relevant to asset management
- Norms fixed for upkeep and maintenance of assets.

3.1.4 Audit methodology and scope

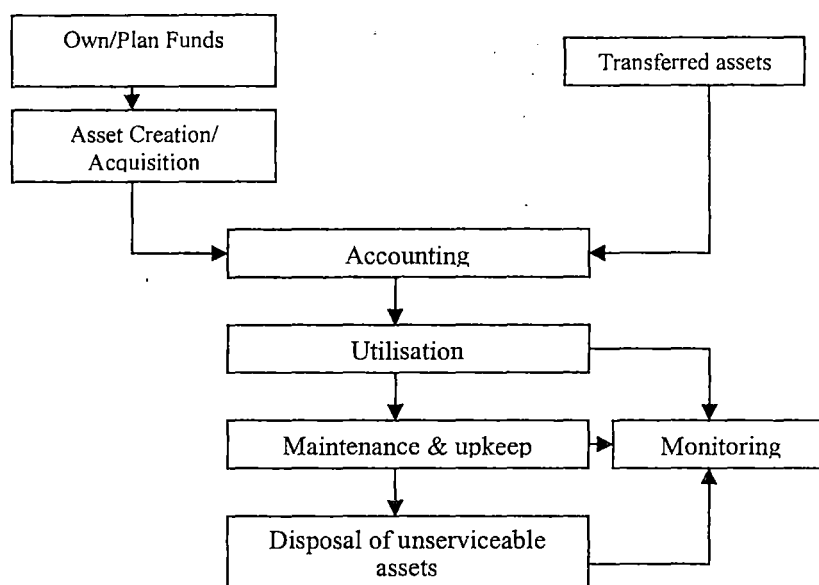
Performance audit of the asset management by the LSGIs covering the period 2002-03 to 2005-06 was conducted during April to September 2006. Three districts¹ out of 14 were selected for audit scrutiny. Within the selected districts three District Panchayats (DPs), four Block Panchayats (BPs)², seven Municipalities/Corporations³ and seven Grama Panchayats (GPs)⁴ were selected for detailed examination in audit. The audit was conducted through test check of the records of the LSGIs such as financial statements, asset registers/stock registers, maintenance files, agreements, purchase files, verification reports, road maps, road registers, reports regarding stock verification, etc. Records relating to budget and expenditure, manpower policies, internal audit and control were also reviewed. The flow chart showing the components of asset management is given below:

¹ Ernakulam, Kannur and Kollam.

² Anchal, Chadayamangalam, Kannur and Muvattupuzha.

³ Aluva, Kannur, Kollam, Muvattupuzha, Punalur, Thallasserry and Thripunithura,

⁴ Alayamon, Anchal, Edamulakkal, Kottarakara, Kulathupuzha, Pathanamthitta and Thrikkakara.



3.1.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.1.6 Creation and Acquisition of Assets

Asset acquisition involves sizeable investment and hence requires project specific business plans to be prepared for timely completion of projects for deriving optimal intended benefits. Assets intended to be acquired or created by LSGIs should be commensurate with the immediate and long term requirements. The points noticed during Audit scrutiny in this regard are summarised below:

3.1.6.1 Trend of utilisation of funds for asset creation

Out of total plan expenditure of Rs.519.21 crore incurred by 21 LSGIs test checked, Rs.119.26 crore were spent on creation or acquisition of assets during 2002-03 to 2005-06 as shown in the table below:

(Rupees in crore)

Year	Total expenditure	Funds utilised for creation/acquisition of assets	Percentage
2002-03	110.44	23.62	21.39
2003-04	147.48	30.88	20.94
2004-05	128.60	31.88	24.79
2005-06	132.69	32.88	24.78
Total	519.21	119.26	22.97

The average expenditure incurred by these LSGIs on creation of assets was 22.97 per cent of the total plan expenditure as against 30 per cent allowed to be incurred.

3.1.6.2 Incomplete and abandoned projects

Fifty one projects undertaken by six LSGIs during 1992-93 to 2003-04 for creation of assets were either abandoned or left incomplete after spending Rs.6.51 crore as detailed below:

(Rupees in lakh)

Sl No	Name of LSGI	Particulars of asset created/ Year of commencement	Expenditure incurred	Present stage	Reasons for non-completion/ abandonment
A - Abandoned projects					
1	Thalassery Municipality	Shopping complex cum lodge /1998-99	42.97 (includes interest of Rs.26.34 on loan)	Foundation completed. Abandoned during June 2003.	Contractor abandoned the work.
2	Thalassery Municipality	Bus stand and commercial complex./2001-02	7.91	Preliminary works such as preparation of design, plan and estimate completed. Abandoned	Appropriate steps were not initiated by the LSGI for commencing the work
3	Ernakulam District Panchayat	Thuthiyoor bridge/ 1998-99	18.18	Abandoned at early stage of construction	Paucity of funds and non-receipt of beneficiary contribution.
4	Ernakulam District Panchayat	Dairy farm unit, Kadungaloor/ 1999-2000	2.29	Land purchased. Abandoned during March 2003.	Land was not suitable for construction as it was water logged.
5	Chadayamangalam Block Panchayat	Women Industrial Training Centre/ 2000-01	16.79	Land purchased. Abandoned	No reasons assigned.
6	Thripunithura Municipality	Shopping complex cum residential apartments/ 1998-99	2.77	Land purchased. Abandoned in May 1999.	No demand for residential flats.
		Total	90.91		
B - Incomplete projects					
7	Thripunithura Municipality	Community hall/ 2000-01	15.66	Contractor abandoned the work during September 2001	Dispute with the contractor.
8	Thalassery Municipality	Town hall/ 1992-93	199.25 (includes interest of Rs.65.13 on loan)	Work at stand still. Fifty per cent of the work to be completed.	Paucity of funds.
9	Ernakulam District Panchayat	Mini industrial estate, Arakkunnam/1998-99	14.96	Building completed up to roof level	Work terminated during July 2002. No further action was taken.
10	Ernakulam District Panchayat	17 Lift irrigation projects/ 1998-2004	165.70	Civil works almost completed.	Electricity connection not obtained. Civil works to be completed in a few projects.
11	Kannur District Panchayat	Women industrial park, Chattukapara 1998-99	69.03	Civil work completed. Electrical, water supply works not done.	The park is situated in a remote place without road facility. Electric and water connection were not provided.
12	Kannur District Panchayat	12 water supply projects/ 2002-04	75.38	Civil works not completed.	Unsuitability of wells in two cases and laxity of the LSGI in the remaining cases.
13	Thalassery Municipality	Building for Homoeo Dispensary/1997-98	3.14	Fitting of doors, windows and electrification and water supply works to be completed.	No action was taken by the LSGI for completion of work.
14	Thalassery Municipality	10 water supply projects/1998-04	14.77	Four works were stopped and other works partly completed.	No recorded reasons.
15	Muvattupuzha Block Panchayat	Pathiyarakulam Lift irrigation project/ 1997-98	2.42	Work almost completed.	Dispute with the owner of adjacent plot.
		Total	560.31		
		Grand Total	651.22		

Four LSGIs abandoned six projects for creating assets resulting in wasteful expenditure of Rs.90.91 lakh.

Six projects on which Rs.90.91 lakh was invested were abandoned due to poor planning, selection of unsuitable land and laxity on the part of the LSGIs in execution of projects. The expenditure of Rs.5.60 crore incurred on 45 incomplete projects was unfruitful, due to failure of the LSGIs to ensure completion in time. Thalsassery Municipality had availed loan of Rs.1.03 crore from Kerala Urban Development Finance Corporation for the above projects and Rs.91.47 lakh had to be paid as interest on the loan which proved largely unfruitful.

3.1.6.3 Creation of assets on reserved land

Unencumbered ownership of land is a precondition for making investments in construction for unhindered enjoyment of benefits of the asset. Failure in ensuring ownership of land by two municipalities before taking up projects resulted in their abandonment as detailed below.

- Thalassery Municipality during 1997-98 started construction of an industrial centre at an estimated cost of Rs.2.71 lakh in Revenue purambokku¹. The project had to be abandoned after spending Rs.1.06 lakh when revenue authorities objected to the construction.
- Similarly, Aluva Municipality during 1998-99 entrusted the construction of a bridge across the River Periyar at the Sivarathri Manappuram² at an estimated cost of Rs.3 crore to M/s Steel Industrials Limited Kerala (SILK) and paid an advance of Rs.6 lakh (November 1998). As the Manappuram was owned by the Devaswom Board, they objected to the construction of the bridge, and the construction had to be abandoned.

3.1.6.4 Acquisition of land in excess of requirement

During 1998, Thripunithura Municipality purchased 2.34 acres of land at a cost of Rs.21.03 lakh for constructing 20 houses for purambokku dwellers. The construction of the houses was completed during February 2001. As 2.5 cents was sufficient for construction of each unit as per the project, the extent of land actually required for the project was only 0.50 acre. The excess land of 1.84 acres costing Rs.16.54 lakh remained unutilised for the last eight years. Failure in assessing actual requirement resulted in unnecessary investment of money in land rather than utilising it for other development activities.

3.1.6.5 Purchase of encumbered property

As decided by the Grama Panchayat, Kulathupuzha, the Secretary purchased 3.20 acres of land during March 1999 at a cost of Rs.15.16 lakh for rehabilitating landless poor. Four months after the purchase, the Thiruvananthapuram District Co-operative Bank attached the land as the original owner of the land had defaulted repayment of the loan of Rs.28.92 lakh availed by him from the bank by mortgaging this property. The Grama Panchayat had failed to ensure before purchase of land that the title of the property was free from all encumbrances. This resulted in loss of Rs.15.16 lakh. Besides, the objective of rehabilitating the landless poor was not achieved.

Verification of title of landed property not done before purchase resulting in loss of Rs.15.16 lakh.

¹ Unassessed lands which are the property of Government or used/reserved for public purposes.

² Temple premises, where Sivarathri Festival is conducted.

3.1.7 Asset accounting

Assets owned by LSGIs are expected to result in deriving future economic or service benefits. In order to ensure attainment of the objective, proper upkeep and maintenance, timely disposal and replacement are necessary for which proper accounting of the assets is required. Periodic verification of assets is an important process in asset management for which proper asset records are to be kept. Points noticed during scrutiny of records relating to Asset accounting by LSGIs are discussed below:

3.1.7.1 Asset Registers not maintained

Prior to December 2005, asset accounting was governed by Kerala Panchayat (Accounts) Rules, 1965 and Kerala Financial Code. The Rules provided for classification and grouping of various types of assets and the registers to be maintained for proper accounting. Separate forms were prescribed for maintenance of accounts of revenue yielding properties and immovable properties. Movable assets were to be accounted in stock registers with details of receipt, issue and balance. The LSGIs test checked did not maintain the prescribed registers and records. Government issued orders (December 2005) for the maintenance of detailed asset accounts on the basis of recommendations of the Second State Finance Commission. Accordingly, the LSGIs were required to maintain ten registers out of which nine were for accounting immovable assets and one for movable assets.

3.1.7.2 Improper maintenance of asset registers

Though all the LSGIs test checked had opened the registers for accounting of assets in accordance with the Government Order (December 2005) the maintenance was defective/incomplete as shown in the table below:

Sl No	Type of asset	Form No	Defects in maintenance of register	Incomplete details
1	Land	1	Though the area of land was to be recorded after conducting a survey, it was copied down from the records without any survey.	Details such as buildings, ponds, trees existing in the land and the protection works carried out were not noted.
2	Buildings	2	----	Area of the land and plinth area of the building, year and cost of construction, amenities provided were not noted.
3	Roads, lanes and culverts	3,4 & 5	----	Year and cost of construction were not noted.
4	Water supply	6	----	Sources of water, storage facility, pipe lines, number of connections, cost of construction etc were not noted.
5	Irrigation	7	----	Source of water, ayacut ¹ area, cost of construction, type of irrigation were not noted.
6	Electricity	8	----	Number of posts and street lights, capacity of transformers and cost of installation were not noted.
7	Solid waste processing plant	9	----	Year and cost of construction were not noted.
8	Movable assets	10	Movable assets except vehicles and agricultural equipment were not accounted.	----

¹ Extent of land irrigated.

In the absence of complete details of assets, it could not be ascertained whether the assets were properly maintained and safeguarded by LSGIs.

3.1.7.3 Survey to ascertain missing details of assets

LSGIs conducted a survey to ascertain missing details of assets owned by them during 2005 as directed by the Government. However, complete details were not collected and recorded in the prescribed registers indicating continued slackness in asset accounting by the LSGIs.

3.1.8 Utilisation of Assets

LSGIs acquire assets as part of the infrastructure development for better civic services or to augment their revenue resources. Since acquisition/creation of assets involves investment of scarce resources, proper planning is required before investment to ensure economic viability and usefulness of the assets to be created. However, audit scrutiny revealed assets remaining idle and their improper utilisation, resulting in unfruitful investment of resources, as discussed in the following paragraphs.

3.1.8.1 Properties remaining unutilised

Land measuring 9.67 acres costing Rs.2.07 crore purchased by seven LSGIs test checked remained unutilised for periods ranging from one to eight years as detailed below:

Sl No	Name of LSGI	Extent	Date of acquisition	Cost (Rs in lakh)	Purpose	Reasons for assets remaining idle
1	Thalassery Municipality	0.25 acre	30.03.2004	26.30	Expansion of market and construction of slaughter house	Work not taken up.
2	Aluva Municipality	0.33 acre	10.08.2004	95.01	Parking area	8 persons who were occupying the shops in the acquired land were to be rehabilitated according to High court decision.
3	Thrikkakara Grama Panchayat	0.50 acre	15.03.2004	9.69	SC/ST industrial estate	Work not taken up.
4	Thrikkakara Grama Panchayat	0.26 acre	15.03.2004	18.11	Industrial park for women	Work not taken up.
5	Chadayamangalam Block Panchayat	1.63 acre	30.06.1998	7.58	Industrial estate	Work not taken up.
6	Kannur Municipality	0.99 acre	12.05.2005	10.28	Slaughter house	Work not taken up.
7	Thripunithura Municipality	4.70 acre	30.03.2004	26.48	Solid waste processing plant	Paucity of funds
8	Pathanapuram Grama Panchayat	0.50 acres	2001-2002	4.95	Bio gas, solid waste processing plant	No recorded reasons
9	Thrikkakara Grama Panchayat	0.51 acres	26.02.2000	8.21	Slaughter house, solid waste treatment plant	Opposition of local people against the plant.
	Total	9.67 acres		206.61		

Paucity of funds, opposition from local people, etc. were the reasons given for not utilising the land purchased. This indicated slackness in the planning process in the LSGIs.

3.1.8.2 Undue favour to the land owners

Aluva Municipality purchased (August 2004) 0.33 acres of land (Sl.No.2 of the above table) at a cost of Rs.95.01 lakh for establishing a parking area, though it was aware that there were eight unauthorised shops on the proposed land. It was noticed during audit that, based on a writ petition filed by the shopkeepers, the High Court had directed (May 2004) the Municipality to consider the matter and take a decision on the petitions. The Municipality resolved (July 2004) to rehabilitate the shopkeepers by constructing a shopping complex at an alternate site but this did not materialise due to the large financial liability involved. The purchase of land where unauthorised shops were already existing without taking into account the cost of rehabilitation was unjustified, and benefited only the owners of the land.

Unjustified purchase of encroached land by Aluva municipality at Rs.95.01 lakh for parking area.

3.1.8.3 Unutilised structures/buildings

The LSGIs constructed structures/buildings for various commercial and non-commercial purposes on the land owned by them. A test check of utilisation of these buildings revealed that 16 such buildings constructed by nine LSGIs at a cost of Rs.3.87 crore remained idle/unutilised either fully or partially for years together as detailed in the table below:

Buildings/structures constructed by nine LSGIs at a cost of Rs.3.87 crore were lying idle for one to eight years.

Sl No	Name of LSGI	Asset	Date of completion of construction/renovation	Cost (Rs in lakh)	Extent of non-utilisation	Reasons for non-utilisation
1	Kollam Corporation	Software Technology park	August 2000	59.66	23 rooms out of 31	For want of takers
2	Muvattupuzha Municipality	Mini Industrial Estate	June 1998	20.19 (including land)	Seven out of Nine rooms	For want of takers
3	Thalassery Municipality	Golden Jubilee Lorry Stand	June 1998	2.75	100 per cent	The stand is away from the town
4	Kannur Block Panchayat	Ladies Hostel	October 2002	16.92 (including land)	100 per cent	For want of inmates as the hostel is 5 KM away from the town
5	Kollam District Panchayat	Industrial Estate, Chadayamangalam	August 2005	20.18	100 per cent	For want of electricity and water connections
6	Kannur District Panchayat	Veterinary mobile aid unit and staff quarters, Manikkadavu	December 2003	10.49	100 per cent	High court had stayed the shifting of the institution from Ulikkal to Manikkadavu even before taking up the construction
7	Muvattupuzha Block Panchayat	Piralimattom lift irrigation scheme	March 2004	4.92	100 per cent	1. The pipe laid was having excess diameter. 2. Dispute regarding the ownership of the land where pump house situated.
8	Thripunithura Municipality	Women industrial estate	September 2000	9.83	100 per cent	For want of power connection.
9	Thripunithura Municipality	Veterinary hospital	2003-04	4.71	100 per cent	For want of power connection.
10	Alayamon Grama Panchayat	Teachers quarters	2000-01	5.60	100 per cent	For want of water and power connections.
11	Kollam District Panchayat	Mini industrial estate, Pooyapally	March 2005	29.53	100 per cent	For want of power connection.

12	Kollam District Panchayat	Mini industrial estate, Karavalloor	March 2005	31.34	100 per cent	For want of power connection.
13	Kollam District Panchayat	Mini industrial estate, Piravanthur	March 2005	24.25	100 per cent	For want of power connection.
14	Kollam District Panchayat	Mini industrial estate, Nilamel	March 2005	20.18	100 per cent	For want of power connection.
15	Kollam District Panchayat	Godown and fish stall	October 2005	15.61	100 per cent	For want of power connection.
16.	Thalassery Municipality	Mini Industrial estate	March 2005	111.22	100 per cent	No recorded reasons
		Total		387.38		

This indicated that no proper planning was undertaken nor any feasibility study conducted for the actual requirement of assets by the LSGIs before creation/acquisition. Out of 16 buildings/structures given in the table above, nine could not be commissioned for want of power connection. In some cases, though the expenditure incurred on these productive assets was Rs.1.61 crore, there was no priority in providing electric connection to these assets to make them viable.

3.1.8.4 Idle investment on assets for tourism promotion

As part of its efforts in promoting tourism, Aluva Municipality purchased (1998-99) four boats of different types and a water scooter at a cost of Rs.9.30 lakh. The Municipality also constructed (March 2000) a boat jetty on the banks of the River Periyar to facilitate boat cruises in the river. Subsequently, carrying out of such an activity for promotion of tourism in the area was not found economically viable and the Municipality disposed of (August 2005) three boats. The other boat and the water scooter costing Rs.6.64 lakh were lying idle. As the project was implemented without proper feasibility study, the investment on these assets turned out to be wasteful.

3.1.8.5 Non-utilisation of equipment for video centre

The Kannur District Panchayat during 1999-2000 purchased a video projector, video cassette recorder, generator and accessories at a cost of Rs.3.33 lakh for establishing Video Park in Kannur for exhibiting world classic cinemas. As Video cassettes of such cinemas were not available, the project was abandoned (November 2001). Failure of the DP to ensure availability of the necessary video cassettes before going for purchase of the equipment, resulted in wasteful expenditure of Rs.3.33 lakh.

3.1.8.6 Idle investment on machine and building

The District Panchayat, Kannur during November 1998 purchased one 100 MA X-Ray machine for Rs.2.60 lakh for installation in the proposed X-ray cum physiotherapy centre in the Veterinary Centre, Kannur. As there was no building, the machine could not be installed. The Panchayat completed the construction of the building during March 2001 at a cost of Rs.2.58 lakh and approached (June 2001) the Chief Electrical Inspector (CEI) for sanction to install the machine in the building. But CEI insisted on a certificate from the Director of Radiation Safety. The Director did not issue the required certificate as the prescribed basic facilities to install the machine did not exist. During June 2003 and March 2004,

the Panchayat spent an additional amount of Rs.1.23 lakh for modifying the machine. Even after the modification, the machine and the building costing Rs.3.83 lakh and Rs.2.58 lakh respectively remained unutilised.

3.1.8.7 *Avoidable investment on lorry*

Thalassery Municipal Council during May 1996, purchased a lorry costing Rs.4.24 lakh for removing garbage. After plying 17,699 kilometres the lorry was off road during October 1998. Instead of repairing it, the Municipality purchased (1999) a new lorry, costing Rs.7 lakh. After keeping the old vehicle unutilised for more than four years, the Municipality disposed it for Rs.0.56 lakh. As the existing lorry had not outlived its normal mileage life (Approx:2 lakh km) purchase of new one was not justified. This resulted in avoidable expenditure of Rs.7 lakh.

3.1.8.8 *Functioning of slaughter houses*

One of the functions of the Urban Local Bodies is the establishment of modern slaughter houses with a hygienic environment. Slaughter houses established by the following two Municipalities had to be closed down for reasons noted against each.

(Rupees in lakh)

Sl No	Municipality	Date of starting of slaughter house	Cost of construction	Period functioned (days)	Reasons for closing down
1	Thripunithura	09.08.2000	26.72	2	Traditional butchers were reluctant to use modern slaughter house.
2	Muvattupuzha	14.10.2003	41.18	3	There was no facility for solid waste processing. Foul smell emitted from the slaughter house. As a result, local people opposed the functioning of slaughter house.

Two slaughter houses costing Rs.67.90 lakh worked for only two to three days.

The slaughter houses remained non-functional as no feasibility study was conducted and statutory requirements were not fulfilled before establishing the slaughter houses resulting in locking up of capital amounting to Rs.67.90 lakh. It is pertinent to note that the two slaughter houses could function for two and three days only.

3.1.8.9 *Unfruitful expenditure on Incinerators*

Anchal Grama Panchayat advanced (September 2003) Rs.10 lakh to a supplier for the purchase of an incinerator costing Rs.22 lakh for installation in the cattle market. The proposal did not materialise as the local people approached the court against its installation. Though the court upheld (2005) installation of the incinerator, the Panchayat did not take any action either to install the incinerator or to get the advance refunded. In another instance, an incinerator installed by Punalur Municipality (2000-01) at a cost of Rs.7 lakh went out of order during April 2002. The Municipality had not taken any action to repair it as of September 2006 and the purpose of installation of the incinerator remained unfulfilled.

3.1.8.10 *Incomplete electric crematorium*

Kannur Municipal Council decided to construct (April 1999) an electric crematorium at an estimated cost of Rs.30 lakh in the building already constructed

for the purpose (1998-99) at a cost of Rs.11.25 lakh at Payyambalam beach. Though advances aggregating to Rs.20 lakh were paid during the period between February and June 2000, the company which undertook the work (December 1999) of installation of the furnace, did not complete the construction within the stipulated period of six months. No action was taken against the company. The crematorium remained incomplete for the last six years leading to wasteful expenditure of Rs.31.25 lakh.

3.1.8.11 Building not used for intended purposes

The following buildings constructed by five LSGIs for purposes noted against each were either kept unused or were used for different purposes.

(Rupees in lakh)

Sl No	LSGI	Area of Building	Cost and year of construction	Purpose	How utilised
1	Muvattupuzha Block Panchayat	606.38 M ² (20 rooms)	24.90 (November 2004)	Marketing centres for self help groups	4 rooms used as Village extension office and remaining 16 rooms vacant.
2	Chadayamangalam Block Panchayat	810.00 M ² (24 rooms)	25.70 (December 2001)	Marketing centres for self help groups	2 rooms used as dispensary and remaining 22 rooms vacant
3	Muvattupuzha Municipality	523.42 M ² (14 rooms +2 halls)	23.35 (May 2004)	Women Industrial Centre	7 rooms used as shops, one hall used as village office, one hall used as press club and the remaining 7 rooms vacant.
4	Anchal Grama Panchayat	Not available	3.95 (2002-03)	Women Industrial Estate	Akshaya Computer Training and for grocery store.
5	Kannur Municipality	357.5 M ²	8.42 (August 2000)	Mini Industrial Estate	Power loom Service Centre
6	Kannur Municipality	286.65 M ²	Not available	Cultural Centre	Power loom Service Centre
7	Kannur Municipality	68.32 M ²	Not available	Agro Centre	Power loom Service Centre

Non-utilisation of assets for purposes for which they were created was tantamount to diversion of funds and deprivation of due benefits to the targeted beneficiaries.

3.1.8.12 Pay wards in Taluk Hospital, Muvattupuzha

Muvattupuzha Municipality constructed (August 2004) a four storied shopping complex-cum-pay wards in the Taluk Hospital premises at a cost of Rs.2.93 crore. The second and third floors with an area of 1757.72 square meters and 62 rooms were intended for accommodating pay wards and the ground and first floors were for the shopping complex. The Municipality has not been able to let out 31 rooms in the third floor so far for want of sufficient number of patients. The revenue realisable but forgone from these rooms would work out to Rs.23.02 lakh from August 2004 to October 2006 (27 months) calculated at the rate of Rs.110 per room, the rate at which rent is levied in pay wards of second floor for an average number of 300 days a year.

3.1.8.13 Vacant commercial properties

Out of 477 rooms available for renting out in 21 commercial buildings owned by Kollam Corporation, 56 rooms remained vacant for want of takers for various

periods from August 1998. The loss of revenue for the period from August 1998 to October 2006 worked out to Rs.64.38 lakh as detailed below:

Sl No	Building	Rooms vacant	Monthly Rent fixed (Rs)	Vacant from	Rent realisable up to 31.10.2006 (Rs)
1	Andammukku Municipal Building	5 out of 26 rooms	1,100.00	August 1998	1,08,900
2	Municipal Stadium Building	4 out of 43 rooms	8,499.00	January 2005	1,86,978
3	Techno Park Building	All the 23 rooms	24,856.00	December 2000	17,64,776
4	Maharani Market Building	All the 20 rooms	44,000.00	August 2000	33,00,000
5	Mundakkal Shopping Complex	1 room	2,200.00	December 2004	50,600
6	Chinnakkada Shopping Complex	1 hall	38,023.00	August 2004	10,26,621
		Total			64,37,875

The Corporation did not take effective action to modify the rooms or make them more suitable for the prospective takers.

3.1.8.14 Non-realisation of rent of Rs.13.73 lakh due to non-execution of lease agreement

Kollam Corporation on 20 July 1992 leased out 1429 square feet of office space in the Thankappan Memorial Shopping Complex to the Assistant Director, Resurvey, Kollam for accommodating his office. No lease agreement specifying the period, lease rent and rate of increase to be effected periodically was executed by the tenant. Even though several notices were issued requiring the tenant to remit the rent at rates fixed by the Corporation, he did not pay any amount on the plea that rent at PWD rate alone was payable. Leasing of the building without executing an agreement resulted in non-realisation of rent amounting to Rs.13.73 lakh and penal interest thereon. In the absence of an agreement with the tenant, the Corporation could not also take any penal action for realisation of rent or eviction as per the KM Act and Rules.

3.1.9 Upkeep and maintenance of assets.

Consequent on the transfer of functions and institutions to LSGIs a large number of buildings, roads, bridges and land came under the control of LSGIs. This was in addition to the traditional assets such as ponds, canals, play grounds, etc., owned by them. Maintenance, upkeep and surveillance of these assets is of paramount importance for their long term usefulness, effective delivery of service and protection from encroachment and unauthorised occupation. Mention of non-provision of funds by 25 Grama Panchayats either for construction of retaining walls or for removal of waste from ponds, which are traditional assets of LSGIs, was made in paragraph 3.3.17 of the Report of the CAG (LSGIs) for the year ended 31 March 2005. Further points noticed relating to upkeep and maintenance of assets are discussed below.

3.1.9.1 Allotment of funds for maintenance

The State Government provided substantial amounts to the LSGIs for this purpose in the form of maintenance grant and general purpose grant from the year 2004-05 onwards as detailed below:

Year	Maintenance Grant			General Purpose Grant		
	Budget provision	Funds drawn	Balance lapsed	Budget provision	Funds drawn	Balance lapsed
2004-05	325.79	174.43	151.36	205.32	192.05	13.27
2005-06	396.23	306.62	89.61	255.59	250.35	5.24
Total	722.02	481.05	240.97	460.91	442.40	18.51

The maintenance grant provided for maintenance of assets could not be utilised in full by the LSGIs. The utilisation was 53.54 per cent and 77.38 per cent during 2004-05 and 2005-06 respectively resulting in lapse of funds of Rs.240.97 crore to the Government when a large number of assets were awaiting repairs and maintenance.

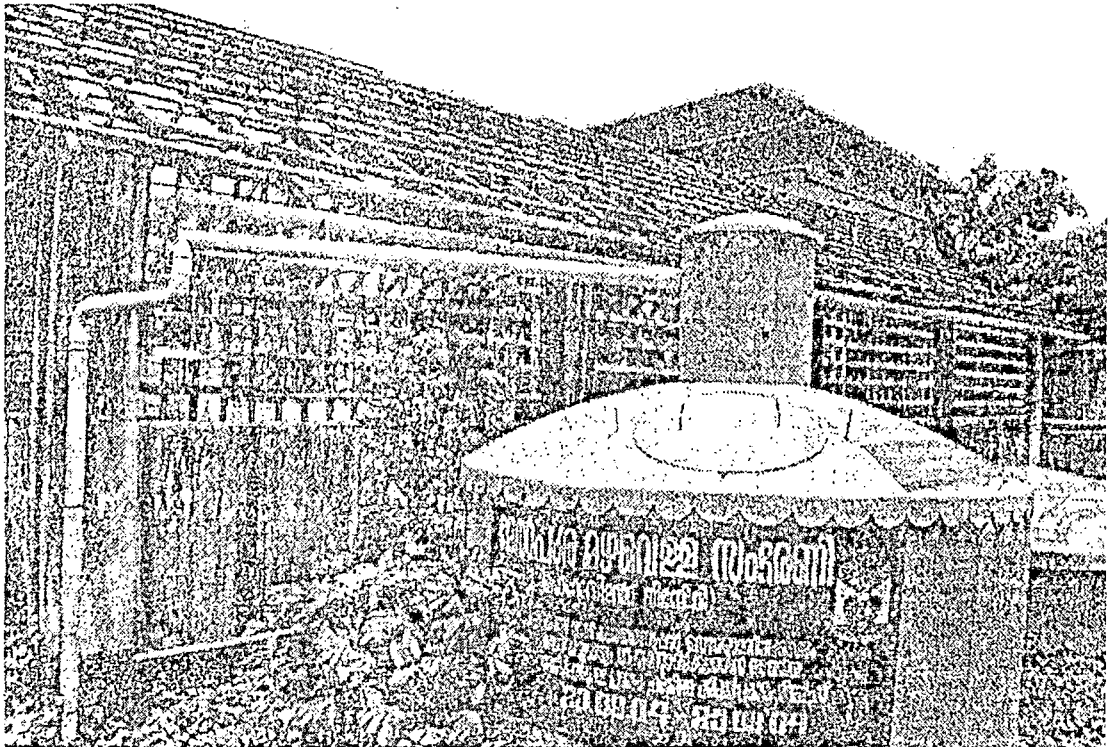
3.1.9.2 Short utilisation of maintenance grant

All roads and buildings require proper maintenance at regular intervals in order to maintain their optimum usefulness. The LSGIs carry out repairs and maintenance of their assets using their own fund as well as assistance from the Government in the form of maintenance grant. The allotment and utilisation of grants for maintenance of road and non-road assets during 2004-05 and 2005-06 by the 21 LSGIs test checked were as shown below:

Assets	Maintenance Grant (Rupees in crore)							
	2004-05				2005-06			
	Allotment	Utilisation	Balance lapsed to Govt.	Percentage of utilisation	Allotment	Utilisation	Balance lapsed to Govt.	Percentage of utilisation
Road Assets	6.85	3.79	3.06	55.33	13.81	7.67	6.14	55.54
Non Road Assets	12.43	5.93	6.50	47.70	14.65	9.28	5.37	63.34
Total	19.28	9.72	9.56	50.41	28.46	16.95	11.51	59.55

Maintenance grant of Rs.21.07 crore lapsed in 21 LSGIs test checked

Against the allotment of Rs.19.28 crore and Rs.28.46 crore during 2004-05 and 2005-06 respectively, the utilisation was Rs.9.72 crore and 16.95 crore which was 50.41 per cent and 59.56 per cent. The unutilised amount of Rs.21.07 crore out of Rs.47.74 crore (44.13 percent) lapsed to Government during these years. In 15 LSGIs test checked, 205 buildings (178 schools, 21 hospitals, four veterinary centres and two other buildings) required maintenance and repairs. Of these, roof of one school building was completely destroyed as seen from the photograph below.



Building of Thavakara Government Upper Primary school in Kannur District

There was no justification for leaving such a large number of assets without maintenance when sufficient funds were available for maintenance.

3.1.9.3 Non-protection of boundaries

Land measuring 9.63 acres owned by four LSGIs was encroached due to non-protection of boundaries.

LSGIs traditionally had large tracts of land in their possession. Further, they had acquired land for various purposes and Government had also transferred land to them for running various institutions. But the LSGIs often failed to protect those lands by constructing compound walls/fencing, leading to unauthorised occupation/encroachment. Instances in test checked LSGIs are given below:

SI No	Name of LSGI	Extent of land encroached (acres)	Period of acquisition	Value (Rupees)
1	Aluva Municipality	0.63	June 1997	37.80 lakh
2	Kollam Corporation	0.91	Not available	
3	Thalassery Municipality	3.79	1931	Not available
4	Thalassery Municipality	4.06	October 1995	Not available
5	Kannur Municipality	0.24	1980	Not available
	Total	9.63		

No action was taken by the LSGIs for retrieval of the encroached land. It was a serious omission on the part of the above mentioned LSGIs not to protect boundaries of landed property owned by them, which resulted in encroachment. The LSGIs had not also taken any action for eviction of such encroachments.

3.1.10 Disposal of Assets

Immovable assets are acquired for earning revenue or providing civic services and are not intended for sale or disposal. However, movable assets such as machinery, tools and equipment and vehicles have to be maintained by LSGIs, only so long as they support delivery of services economically or generate revenue. Once such assets become unserviceable/obsolete and are no longer capable of yielding further services, they have to be disposed of without delay to fetch maximum resale value and to save the cost of supervision, storage, maintenance and security. It was noticed in audit that the LSGIs test checked did not have a system of review and disposal of unserviceable equipment. Some equipment were never put to use after acquisition, pointing to injudicious purchase decisions. Still they were kept in possession for several years, as mentioned below.

3.1.10.1 Equipment, machinery and vehicles not used for long periods.

During the IX and X five year plan period, the LSGIs purchased vehicles, equipment, machinery, etc. for various purposes. It was noticed that the number of movable assets which were lying unutilised or idle in 14 LSGIs was as detailed below:

Sl. No	Name of LSGI	No. of Assets having money value		No. of Assets lying idle having money value		No. of Assets lying idle for more than 3 years
		Above Rs.10,000	Less than Rs.10,000	Above Rs.10,000	Less than Rs.10,000	
1.	Anchal Block Panchayat.	3	75	1	75	76
2.	Kollam Corporation	19	--	19	--	8
3.	Aluva Municipality	9	5	6	--	1
4.	Kannur District Panchayat	18	19	8	2	--
5.	Ernakulam District Panchayat	15	--	15	--	1
6.	Thalassery Municipality	1	37	1	37	38
7.	Muvattupuzha Municipality	19	50	2	15	17
8.	Anchal Grama Panchayat	5	--	5	--	--
9.	Thrikkakara Grama Panchayat	--	23	--	23	23
10.	Chadayamangalam Block Panchayat,	8	10	1	--	1
11.	Pathanapuram Grama Panchayat	12	--	10	--	10
12.	Kannur Block Panchayat,	4	--	2	--	--
13.	Kollam District Panchayat,	10	2	1	1	--
14.	Alayamon Grama Panchayat	2	--	2	--	1
Total		125	221	73	153	176

Out of 346 major movable assets owned by 14 LSGIs, 226 were lying idle, of which 176 were kept unutilised for more than three years. Out of the aforesaid assets the following movable assets acquired by various LSGIs at a total cost of Rs.77.37 lakh during 1996-2005 were lying unutilised for reasons indicated against each.

Sl No	Item	Cost (Rs in lakh)	Date of Receipt	Reasons for non-utilisation	Period of utilisation
1.	Winnower – 5 Nos	0.50	5/96 to 3/00	No demand.	Nil
2.	Thrasher – 8 Nos	0.68	3/98 to 3/00	No demand.	Nil
3.	Sprayer – 18 Nos	0.33	4/98 to 7/98	No demand.	Nil
4.	Pump set – 2 Nos	0.36	7/98 to 12/00	No demand.	Nil
5.	Poultry Hatcher -1 No	3.27	12/05	Want of generator	Nil
6.	Generator -1 No	1.87	3/05	Want of acoustic chamber	Nil
7.	Coconut climber -1 No	0.03	07/98	No demand	Nil
8.	Video projector and accessories - 1 No	3.33	1999-2000	Non-availability of cassettes	Nil
9.	X-ray unit - 1 No	3.83	11/98	For want of certificate from Director of Radiation Safety	Nil
10.	Tractor – 8 Nos	4.44	8/91 to 3/2000	Want of repairs	40 to 58 months
11.	Power tiller-7 Nos	3.10	5/96 to 6/03	No demand and for want of repairs	23 to 26 months
12.	Harvesting machine – 15 Nos	18.08	10/98 to 2/03	No demand and for want of repairs	16 to 75 months
13.	Pick up van - 1 No	0.85	2/03	Want of repairs	27 months
14.	Computers – 31 Nos	11.84	8/99 to 3/02	Technical fault	Nil to 24 months
15.	ECG Machine - 1 No	0.48	---	Want of repairs	-
16.	Tar mixing plant -1 No	6.77	6/98	Unsuitable	11 months
17.	Excavator - 1 No	17.61	3/98	Want of repairs	74 months
Total	103 Nos	77.37			

Thirty eight movable assets purchased at a cost of Rs.14.20 lakh were not put to use.

Of the above assets, 38 assets (cost Rs.14.20 lakh) which are mainly agricultural equipment were not utilised at all since their purchase, whereas 65 assets costing Rs.63.17 lakh were either used sparingly or not utilised for optimum periods. The non-utilisation of these assets was mainly due to absence of demand and/or for want of timely repairs. This indicated inadequate planning and weak internal control and monitoring systems in the LSGIs.

3.1.11 Internal Control System

The internal control system relating to asset management available in the LSGIs was weak and therefore not effective. In none of the LSGIs test checked, was annual physical stock verification done, as a result of which the LSGIs could not ensure whether all the assets accounted for in the Stock Register/Assets Register were physically available and vice versa. Encroachment of landed property, non-maintenance of movable as well as immovable assets, improper utilisation/non-utilisation of assets, etc., were attributable to the weak internal control system. Although the LSGIs maintained the Asset Register as prescribed by the Government (December 2005), all required details of assets were not entered in the register. Incomplete maintenance of Asset Register was again an internal control failure which may lead to loss and non-maintenance of assets.

3.1.12 Monitoring

There was no monitoring system with regard to upkeep and timely maintenance of assets in any of the LSGIs sample checked. As a result, the assets created or transferred could not be maintained properly leading to non utilisation or loss of assets. No registers and records were kept to enable the LSGIs to ensure optimum utilisation of assets. Also no periodical review of the performance of the assets was conducted. In the absence of a system for periodical review of the performance of assets, which was an important factor in asset management, damages to assets and non-utilisation went unnoticed.

3.1.13 Conclusion

- The acquisition and creation of assets was not properly planned and executed leading to abandonment of the action halfway through. This resulted in dead investment of capital which could have been utilised for other productive purposes.
- Though LSGIs incurred large expenditure on construction of productive assets such as mini industrial estates, priority was not accorded to providing power connection to these assets, making them non-functional.
- The documentation and accounting of the assets acquired/created/transferred from the Government was incomplete, indicating weak internal controls.
- The utilisation of assets was not satisfactory resulting in idle capital investment.
- Non-utilisation of remunerative assets resulted in loss of revenue.
- The maintenance grant allotted by the Government could not be fully utilised and lapsed to Government due to poor planning.
- Improper maintenance of assets resulted in loss of property/damage to assets.
- The internal control system in LSGIs for asset management was weak and ineffective.

3.1.14 Recommendations

- Asset acquisition should be properly planned and implemented.
- A proper system of asset accounting should be developed by LSGIs.
- Consistent efforts on the part of the Government and the LSGIs are required to avoid under/non-utilisation of assets.
- Government should consider entrusting the responsibility of ensuring timely implementation of projects relating to creation/acquisition of assets and their proper utilisation to the District Planning Committee.
- The internal control system in LSGIs should be strengthened.

3.1.15 Response of Government

The Review was discussed with the Principal Secretary (LSGD) on 13 March 2007. The Secretary informed that:

- Government is considering issue of guidelines for preparation of a maintenance plan of non-road assets of LSGIs.
- Government policy is to give power connection to buildings constructed by LSGIs on priority basis. Any lapse in this regard would be looked into.
- KPR/KM Act does not envisage any control or monitoring of the activities of LSGI, by the department. LSGIs being self governing institutions, monitoring and control measures should be built into the system.
- District Planning Committee should be entrusted with looking into the completion and utilisation of assets created during the previous years.

3.2 Assessment and Collection of Profession Tax in Local Self Government Institutions of Thrissur District

Highlights

The Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 empowered the Grama Panchayats, Municipalities and Municipal Corporations to levy profession tax from every company/person who transacts business or exercise profession in their respective areas. Profession tax constituted 42.97 per cent of tax revenue in Grama Panchayats and 23.92 per cent in Urban Local Bodies. There were lapses in issue of notices to the assesseees and in recording their details. The Local Self Government Institutions (LSGIs) failed to take timely action against the employers who did not assess and collect tax from their employees. The performance of LSGIs in collection of tax was not satisfactory.

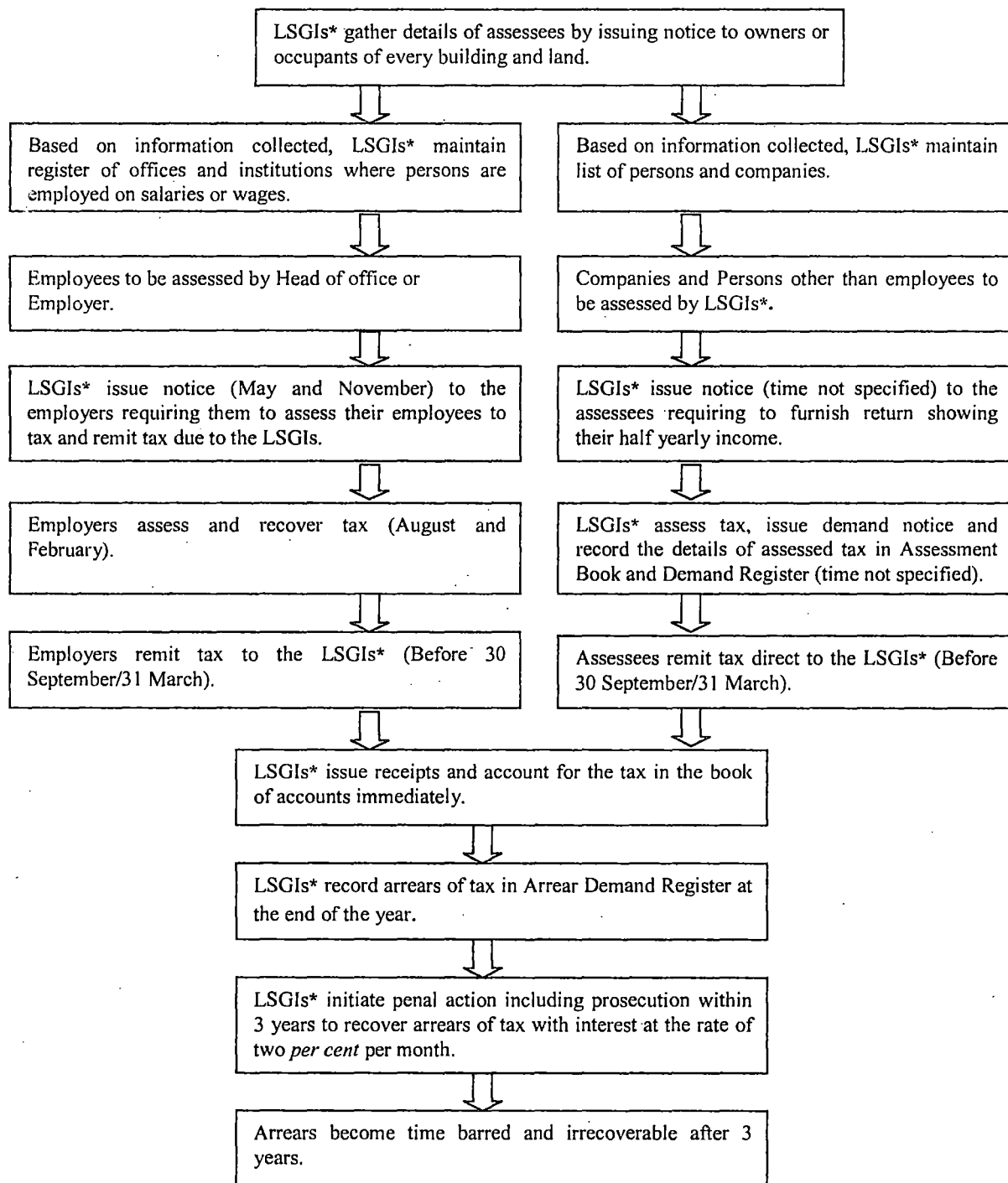
- Due to non-issue of notices requiring the employers to assess tax of their employees, 26 to 43 institutions did not assess their employees during 2001-02 to 2005-06 in ULBs test checked.
(Paragraph 3.2.9.2)
- Failure of six LSGIs to monitor compliance by the employers after issue of notices resulted in non-assessment of tax of employees of 5 to 439 institutions during 2001-02 to 2005-06.
(Paragraph 3.2.9.3)
- Fifteen Grama Panchayats out of 19 did not maintain traders lists through which all traders could have been assessed.
(Paragraph 3.2.10.3)
- Arrears of profession tax amounting to Rs.48.31 lakh pending collection in Thrissur Corporation up to 2002-03, had become time barred and irrecoverable as no action was initiated within three years as prescribed in the rules.
(Paragraph 3.2.11.2)
- Delay of eight years in revision of rates of tax in Urban Local Bodies resulted in short assessment of profession tax in urban areas.
(Paragraph 3.2.11.3)
- Accounting records such as assessment books, demand registers and arrear demand registers were not maintained properly resulting in tax arrears and tax becoming time barred and irrecoverable.
(Paragraphs 3.2.12.2 to 3.2.12.5)
- Though methods of assessment, levy and collection of profession tax are the same in urban and rural areas, Kerala Panchayat Raj (Profession Tax) Rules, 1996 and Kerala Municipality (Profession Tax) Rules, 2005 differ in respect of several provisions resulting in disparity in taxation.
(Paragraph 3.2.13.2)

3.2.1 Introduction

Assessment, levy and collection of profession tax in Grama Panchayats (GPs) is governed by sections 204 and 205 of Kerala Panchayat Raj Act, 1994 (KPR Act) and by sections 245 to 259 of Kerala Municipality Act, 1994 (KM Act) and Rules made thereunder in Urban Local Bodies (ULBs). Profession tax is leviable in every half year from every company/person who transacts business or exercises profession generally within the area of the LSGI for not less than sixty days, based on income/turnover as prescribed in the Rules. Physically handicapped persons, blind persons, beedi workers, cashew factory workers, tile brick pottery workers and developers of Special Economic Zones (SEZ) were exempted from payment of profession tax. In the absence of consolidation of accounts of all LSGIs, the State-wide picture of levy and collection of profession tax was not available.

3.2.2 Organisational Set up

The Municipal Corporations (5), Municipalities (53) and Grama Panchayats (999) in the State are empowered to assess and collect profession tax from the assesseees in their respective areas of jurisdiction. The employer or head of office is responsible for the assessment, levy and collection of profession tax from employees whereas the profession tax from other assesseees is assessed by the Standing Committee in GPs and by the Secretary in ULBs. However, the Standing Committee did not exercise this power in any of the GPs test checked and assessment was made instead by the Secretary. In April 2006 the rule was amended transferring the power of assessment from the Standing Committee to the Secretary. A diagrammatic representation of different stages of assessment, collection and accounting of tax and recovery of arrears is given below:-



A review of the system of assessment and collection of profession tax was conducted by Audit, and is discussed below.

* LSGIs except DPs and BPs.

3.2.3 Audit Objectives

The objectives of the review were to:

- evaluate the efficiency of the system existing in Municipal Corporations, Municipalities and GPs for the assessment, demand, collection and accounting of profession tax.
- ascertain whether the rules and procedures for assessment, collection and accounting of revenue provided sufficient assurance that no revenue remained unrealised.
- the manpower requirement was properly assessed and provided.
- verify whether the monitoring and internal control mechanism in the LSGIs are adequate for mitigating the risks in assessment, levy, collection and accounting of profession tax.

3.2.4 Audit Criteria

Audit criteria used for the evaluation of effectiveness of assessment and collection of profession tax by LSGIs were:-

- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 relating to profession tax.
- Provisions of Kerala Panchayat Raj (Taxation, Levy and Appeal) Rules, 1996 relating to profession tax.
- Kerala Municipality (Profession Tax) Rules, 2005
- Kerala Panchayat (Accounts) Rules, 1965
- Orders and guidelines issued by Government relating to profession tax

3.2.5 Audit Methodology and Scope

The review was conducted from May to August 2006 with reference to the records of one Municipal Corporation¹, one Municipality², and nineteen Grama Panchayats³ in Thrissur District. Evidence was gathered from assessment records such as demand notices, collection registers and copies of receipt books, DCB statements, etc., of the concerned LSGIs.

3.2.6 Audit Findings

Important audit findings are discussed below under the following sections:

- Tax Revenue
- Assessment
- Collection
- Accounting
- Lacunae in Acts and Rules
- Internal control and monitoring
- Staff requirement.

¹ Thrissur

² Kodungallur

³ Adat, Annamanada, Cherpu, Choondal, Kadukutty, Kaiparambu, Kodakara, Kolazhy, Koratty, Mala, Mathilakom, Methala, Mulankunnathukavu, Mulloorkara, Nenmanikkara, Parappukkara, Pudukkad, Vallathol Nagar and Wadakkanchery.

3.2.7 Tax Revenue

The trend of collection of tax revenue by the two ULBs and 19 GPs test checked during the period from 2001-02 to 2005-06 was as given in the table below:

(Rupees in crore)

Year	Profession Tax			Other Taxes			Total Taxes		
	ULBs	GPs	Total	ULBs	GPs	Total	ULBs	GPs	Total
2001-02	1.70	1.18	2.88	5.81	1.45	7.26	7.51	2.63	10.14
2002-03	1.90	1.36	3.26	6.54	1.65	8.19	8.44	3.01	11.45
2003-04	2.02	1.42	3.44	7.76	1.99	9.75	9.78	3.41	13.19
2004-05	2.30	1.38	3.68	7.24	1.90	9.14	9.54	3.28	12.82
2005-06	2.83	1.51	4.34	6.84	2.10	8.94	9.67	3.61	13.28
Total	10.75	6.85	17.60	34.19	9.09	43.28	44.94	15.94	60.88
Annual Average/ LSGI	1.08	0.07	0.17	3.42	0.09	0.41	4.50	0.17	0.58

During the period 2001-02 to 2005-06, there was an increase in collection of profession tax in ULBs from Rs.1.70 crore to Rs.2.83 crore and from Rs.1.18 crore to Rs.1.51 crore in GPs. Out of the total tax revenue of Rs.60.88 crore, profession tax collected was Rs.17.60 crore which constituted 28.91 per cent of the total tax receipts. Though the percentage of profession tax to the total tax revenue was 42.97 and 23.92 in GPs and ULBs respectively, the annual average profession tax revenue of a ULB at Rs1.08 crore was more than 15 times that of a GP.

3.2.8 Assessment

KPR Act and KM Act, categorise assesseees into two classes for assessment purpose as:

- (i) Persons employed in offices/institutions
- (ii) Persons other than those employed, and Companies/Institutions.

3.2.9 Assessment of employees

3.2.9.1 Non-maintenance of Register of offices and institutions

The register containing the names of offices and institutions within the area of jurisdiction of the LSGIs which were liable to recover profession tax from their employees was not maintained in two ULBs¹ and six GPs² out of 21 LSGIs test checked. In the absence of the register, it was not possible to ensure whether employees of such offices and institutions were assessed to profession tax.

3.2.9.2 Non-assessment of employees of institutions due to non issue of notices by ULBs.

In the ULBs test checked, employers or heads of offices of 26 to 43 institutions did not assess their employees during the period from 2001-02 to 2005-06, as detailed in the table below:

¹ Kodungallur Municipality and Thrissur Corporation.

² Kodakara, Mala, Mathilakom, Methala, Nenmanikkara and Parappukkara.

SI No	Name of ULB	Number of institutions that did not assess their employees				
		2001-02	2002-03	2003-04	2004-05	2005-06
1	Thrissur Corporation	36	30	20	33	37
2	Kodungallur Municipality	---	---	6	6	6
	Total	36	30	26	39	43

In two ULBs, institutions numbering 26 to 43 did not assess their employees during 2001-06

The ULBs did not issue notices to the employers requiring them to furnish names of all employees with a statement of their salary or income and to assess all those employees who were liable to pay tax. As a result, employees of these institutions escaped assessment, though the institutions were assessed to tax. The failure to issue notices in time resulted in the profession tax prior to 2002-03 remaining unassessed, and becoming time barred and hence irrecoverable, according to the provisions of the Acts *ibid*.

3.2.9.3 Non-assessment of profession tax by heads of office/employers despite issue of notices

Five to 439 employers did not assess and collect tax during 2001-02 to 2005-06.

The KPR Act as well as the KM Act stipulate that every head of office or employer should assess all employees in his/her institution who are liable to pay profession tax and recover the amount from them and remit to the LSGIs concerned. Though six LSGIs issued notices to heads of offices/employers requiring them to assess and recover profession tax from their employees, 5 to 439 heads of offices/employers did not assess and collect tax from the employees during the period 2001-02 to 2005-06 as detailed below:-

SI No	Name of LSGI	Number of heads of offices/employers who did not assess their employees									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Thrissur Corporation	257	395	262	331	290	344	NA*	NA	NA	NA
2	Kodungallur Municipality	42	41	21	43	15	16	13	17	NA	NA
3	Nenmanikkara GP	1	2	2	2	1	1	---	2	---	3
4	Parappukara GP	---	---	2	2	4	4	---	---	3	3
5	Annamanada GP	---	1	---	---	1	1	1	3	2	3
6	Cherpu GP	---	---	---	---	---	---	---	32	---	---
	Total	300	439	287	378	311	366	14	54	5	9

The institutions which did not assess their employees included Government offices and Banks in Thrissur Corporation and Kodungallur Municipality. The failure of the LSGIs to monitor compliance by the employers after the issue of notices resulted in non-collection of tax by such employers. None of the LSGIs took any penal action provided in the rules to recover the arrear tax from the employers concerned, rendering the arrears prior to the period 2002-03 becoming time barred and irrecoverable.

3.2.9.4 Non-assessment of employees by Government offices, Banks and other Companies in ULBs

A detailed scrutiny of institutions which did not assess profession tax of their employees in Thrissur Corporation and Kodungallur Municipality during 2001-02 to 2003-04 revealed that Central Government institutions/offices ranging from 9 to 25 and state Government institutions/offices ranging from 56 to 103 did not assess their employees during 2001-02 to 2003-04 as detailed below:

* NA=Not available.

Sl No	Category of office	Number of institutions which did not assess employees						Total
		2001-02		2002-03		2003-04		
		Ist half	IInd half	Ist half	IInd half	Ist half	IInd half	
1	Central Government offices and institutions	17	25	9	11	10	14	86
2	State Government offices and institutions	60	97	56	103	68	78	462
3	Banks, Insurance companies and Co-operative societies	57	103	31	41	34	39	305
4	Other establishments	165	211	187	219	193	229	1204
	Total	299	436	283	374	305	360	2057

Employees of major institutions such as government offices, banks and insurance companies escaping assessment of profession tax indicated the degree of laxity of the ULBs in monitoring assessment of tax by the heads of offices/employers. No action was taken against the heads of offices/employers for violating the Acts and Rules.

3.2.10 Non-Assessment of companies and persons other than employees

3.2.10.1 Non-maintenance of data of persons and companies assessable to tax

None of the GPs test checked kept a list of companies/persons liable to pay profession tax.

Rule 10 A of Kerala Panchayat Raj (Profession Tax) Rules, 1996, stipulated that the GPs should serve notice in form VI on a company or person requiring it/him to furnish return showing the income on which profession tax was leviable. For serving notices, the GPs should have data about such companies/persons. None of the GPs test checked kept a list of such companies/persons liable to pay profession tax. In the absence of data of companies liable to be assessed to profession tax, the GPs could not serve notices to them.

3.2.10.2 Non assessment of companies and traders in ULBs

Two ULBs test checked did not assess profession tax in respect of companies/traders/persons who either assessed tax on their employees or were licensees of the ULBs, during 2001-02 to 2005-06, as detailed below:

Sl No	Name of ULB	Number of institutions escaped assessment									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Thrissur Corporation	64	64	31	31	59	59	58	58	67	67
2	Kodungallur Municipality	---	---	---	---	5	5	5	5	6	6
	Total	64	64	31	31	64	64	63	63	73	73

This indicated that the list, of companies/traders/persons who were liable to be assessed to profession tax, maintained by the above ULBs was incomplete resulting in non-issue of notice to them. Consequently, demand could not be raised against them leading to the claims prior to 2002-03 becoming time barred and irrecoverable.

3.2.10.3 Traders in Panchayats not assessed

Of the 19 GPs test checked, only four GPs¹ maintained a list of traders and institutions. In the remaining GPs profession tax was assessed and levied only on those traders who approached the Panchayats for obtaining/renewing licences. In the absence of a traders list, the number of traders/ institutions which escaped assessment could not be ascertained in audit.

3.2.10.4 Dangerous and Offensive (D&O) Trade licensees whose details were available escaped assessment

126 D & O Trade licensees in two² GPs were not assessed to profession tax. The failure of the GPs to assess them resulted in loss of revenue of Rs.0.67 lakh. As the details about the assesseees and their income were available with the GPs, the non-assessment lacked justification and needs to be investigated for fixation of responsibility.

3.2.10.5 Non-assessment of companies and institutions

Profession tax was leviable on all companies which transacted business in the Panchayat area for not less than 60 days in aggregate in a half year. Four out of 19 GPs test checked failed to assess profession tax on companies during the period from 2001-02 to 2005-06 as shown below:

Sl No	Name of GP	Number of companies not assessed									
		2001-02		2002-03		2003-04		2004-05		2005-06	
		I half	II half	I half	II half	I half	II half	I half	II half	I half	II half
1	Kodakara	3	3	4	4	4	4	12	12	11	11
2	Mala	8	8	8	8	7	7	10	10	10	10
3	Mathilakam	2	2	2	2	2	2	3	3	4	4
4	Methala	9	9	9	9	9	9	9	9	10	10
	Total	22	22	23	23	22	22	33	34	35	35

The loss of revenue on account of non-assessment of companies works out to Rs.1.86 lakh calculated at the average rate of Rs.685³ per half year.

3.2.10.6 Agriculturists not assessed

Though the GPs were required to maintain a list of persons deriving income from agriculture who were liable to be assessed to profession tax, none of the GPs test checked maintained such a list. In the absence of the list, the number of persons who escaped assessment and the resultant short collection of tax could not be ascertained in audit.

3.2.10.7 Non assessment of contractors

All contractors who either execute works within the area of the LSGI for not less than 60 days in aggregate in a half year or who reside within the area of the LSGI for not less than 60 days in aggregate in a half year and execute works outside the area, are liable to be assessed to profession tax. None of the LSGIs test checked assessed even those contractors who undertook the works of the respective LSGIs. The number of such contractors who escaped assessment ranged from 60 to 192 each year during the period of review as detailed below:

¹ Adat, Choondal, Mulamkunnathukavu and Nenmanikkara.

² Kodakara and Methala.

³ Average of minimum rate of Rs.120 and maximum rate of Rs.1250.

Year	Half year	Number of contractors who escaped assessment		
		Panchayats	ULBs	Total
2001-02	I	26	34	60
	II	28	37	65
2002-03	I	31	47	78
	II	51	42	93
2003-04	I	51	55	106
	II	117	56	173
2004-05	I	47	57	104
	II	122	70	192
2005-06	I	87	84	171
	II	110	74	184
Total		670	556	1226

The profession tax leviable from these contractors was Rs.8.40 lakh calculated at the rate of Rs.685 per half year.

3.2.10.8 Non-assessment of vehicle owners

Permit holders plying vehicles on rent/stage carriers/goods carriers were liable to be assessed to profession tax. None of the LSGIs test checked assessed the above category of persons/companies except Thrissur Corporation which assessed a few companies. The number of assessees in this category who escaped assessment and the amount of tax escaped could not be ascertained in audit as no details of these assessees were available with the LSGIs.

3.2.10.9 Investment income not assessed

None of the GPs maintained a list of persons who derived investment income such as rent on buildings, interest on deposits, etc. and assessed profession tax on such persons. Non-maintenance of an exhaustive list of persons earning income from investments led to non-assessment and non-collection of tax. The number of persons who escaped assessment could not be ascertained in audit as no data of such persons were available.

3.2.11. Collection

3.2.11.1 Method of collection

Collection of profession tax from employees is made by their employers by deduction from their salary or wages, whereas self drawing officers, self employed persons and companies remit the tax direct to the LSGIs. On receipt of the tax, the LSGIs issue receipts to the employer or the assessee, as the case may be, and account for the tax in the books of accounts prescribed. The profession tax collected by the selected LSGIs during the period of review was Rs.17.60 crore (see table under paragraph 3.2.7).

3.2.11.2 Arrears pending collection

As Thrissur Corporation did not maintain arrear demand register for the period 2004-2005 and 2005-06, details of arrear profession tax pending collection up to 31 March 2004 only was available as detailed below:

Year	Arrears pending collection	
	No of assessees	Amount
Up to 98-99	Not available	20.97
1999-2000	Not available	Not available
2000-01	2720	7.32
2001-02	3081	8.55
2002-03	3856	11.47
2003-04	3974	11.67
Total	13631	59.98

Profession tax from 13631 assessees amounting to Rs.59.98 lakh was pending collection as on 31 March 2004.

The profession tax due from 13631 assessees amounting to Rs.59.98 lakh was pending collection as on 31 March 2004. Out of this, the arrears up to 2002-03, amounting to Rs.48.31 lakh became irrecoverable under Section 539 of KM Act, as no action was initiated within three years of their falling due. The amount of arrears and its recovery during the period 2004-05 and 2005-06 could not be ascertained in audit as the arrear demand register was not maintained during this period.

3.2.11.3 Delay in revision of rates of profession tax in ULBs

Delay in revision of tax rates, resulted in short assessment of profession tax in urban areas.

The half yearly rates of profession tax leviable in GPs as prescribed in Rule 3 (1) of KPR (Profession Tax) Rules, 1996 ranged from Rs.10 to Rs.1250 on half yearly income of Rs.2401 and above. Government revised these rates with effect from 1 April 1997. Revised rates ranged from Rs.120 to Rs.1250 on half yearly income of Rs.12000 and above. These rates were made effective in the ULBs only from 25 May 2005. The rates at which the ULBs collected tax ranged from Rs.9 to Rs.1250 on income exceeding Rs.3600. The unjustified delay in framing the Kerala Municipality (Profession Tax) Rules led to short assessment of profession tax in urban areas.

3.2.12 Accounting

3.2.12.1 Books of accounts

The Secretary of every GP is required to maintain the following books of accounts for accounting assessment, demand and collection of profession tax.

Sl No	Name of book of accounts	Purpose	Authority
1	Assessment book	Details of assessment in respect of each assessee	Rule 5 of KPR (Taxation, Levy and Appeal) Rule, 1996
2	Demand Register	Details of demands, collection refund/write off and balance	Form VIII of KP (Accounts) Rules, 1965
3	Collection Register	Details of tax remitted including arrears	Form XXXII of KP (Accounts) Rules, 1965
4	Cash Book	Details of tax and arrears remitted	Form XXIX of KP (Accounts) Rules, 1965
5	Register of Receipts	Details of tax remitted, including arrears	Form XXVII of KP (Accounts) Rules, 1965
6	Arrear Demand Register	Details of balance outstanding at the end of each year in the Demand Register	Form XH of KP (Accounts) Rules, 1965

Maintenance of assessment book, demand register and arrear demand register by the GPs was not satisfactory as described below:-

3.2.12.2 Non-maintenance of Assessment books

Rule 5 of KPR (Taxation, levy and appeal) Rules, 1996, provides that the Secretary shall maintain assessment books in specified form and such books may contain the names and details of the persons and properties which may be liable to be taxed. Out of 19 GPs test checked only one GP¹ maintained the assessment books indicating details of assessment during 2001-02 to 2005-06.

3.2.12.3 Demand Registers not maintained in prescribed form

The GPs were required to maintain demand register as prescribed in form VIII of the Kerala Panchayat (Accounts) Rules, 1965 indicating names of assesseees, half yearly income, tax due, tax collected, refund/write off and balance amount of tax. Instead of maintaining the demand register in Form VIII, 16 GPs maintained only a register in Form V during 2001-02 to 2005-06 as prescribed in Rule 18 of KPR (PT) Rules. This register which was intended to watch the progress of demand and levy of tax from the employees alone, did not serve the purpose of the demand register.

3.2.12.4 Recording figures of collection as demand

As a result of non-maintenance of assessment books indicating the details of assessment as mentioned in paragraph 3.2.12.2, 10 GPs² out of 19 did not record the amount of tax assessed in the Demand Register. Instead, the amount of tax actually collected was shown as demand at the time of noting the collection in Register in Form V. As the figures of demand and collection were the same there was no arrear as per the register at the end of the year. This defeated the purpose of maintaining the demand register.

3.2.12.5 Non-preparation of DCB Statement in time

Though the LSGIs were required to prepare and submit the Annual Financial Statement (AFS) along with Demand Collection Balance (DCB) statement not later than 31 July of the succeeding year to the DLFA, only 81 LSGIs out of 1223 had submitted the AFS and DCB for the year 2005-06 as of January 2007. As the LSGIs test checked did not prepare DCB statements, the tax arrears of each year was not ascertainable. As tax collected was shown as demand in the demand register as mentioned in the previous paragraph, DCB statements even if prepared would not have indicated the correct position of arrears.

As the LSGIs did not prepare DCB statements, tax arrears of every year was not ascertainable.

3.2.12.6 Non-maintenance of Arrear demand register

According to Rule 12 (1) of the Kerala Panchayat (Accounts) Rules, 1965 the balance outstanding at the end of the year in all demand registers shall be transferred to the respective arrear demand register in Form XII. As demand registers were not maintained in Form VIII as mentioned in paragraph 3.2.12.3, the arrears of tax at the end of each year were not known. Since the arrear demand register was not maintained, the collection of arrears could not be watched in 10 LSGIs. Moreover, when the GPs received arrear tax, that amount had to be shown as supplementary demand in the current demand

¹ Mulamkunnathukavu.

² Annamanada, Cherpu, Choondal, Kadukutty, Kaiparambu, Kolazhy, Koratty, Mulamkunnathukavu, Nenmanikkara, and Pudukkad

register which jeopardised the internal control mechanism. Due to non-maintenance of arrear demand register, the GPs could not take any action for collection of arrears, which led to arrears of tax becoming time barred and irrecoverable.

3.2.13 Lacunae in Acts and Rules

3.2.13.1 *Disparity in methods of assessment of companies/self employed persons in Panchayat and Municipal areas*

In rural areas the profession tax on every company/self employed person who transacts business is determined in accordance with Kerala Panchayat Raj (Profession Tax) Rules, 1996. However, according to Kerala Municipality (Profession Tax) Rules, 2005, only 11 categories of companies/self employed persons are assessable to profession tax in urban areas. Assesseees who do not come under these categories such as hospitals, tutorial colleges, vehicle owners having less number of vehicles than that prescribed in the rules are not liable to be assessed to tax in urban areas even if their income is in the taxable limit.

3.2.13.2 *Variant provisions in Rules for assessment in rural and urban areas.*

The methods of assessment, levy and collection of profession tax in rural and urban areas prescribed in the KPR Act and in the KM Act are the same. However, several provisions of the Kerala Municipality (Profession Tax) Rules, 2005 (KM (PT) Rules) governing assessment of profession tax in urban areas and those in the Kerala Panchayat Raj (Profession Tax) Rules, 1996 (KPR(PT) Rules) differ from each other. The major variant provisions in the two sets of rules are given in the table below:

Sl No	KPR (PT) Rules, 1996	KM (PT) Rules, 2005
1	Grama Panchayat to determine the tax subject to the maximum prescribed in Rule 3 (1)	Tax leviable at rates fixed by the Government as per rules.
2	Percentage of turn over of company or person who transacts business prescribed for determining income for assessing tax.	No method to fix income for assessment prescribed.
3	Assessable Companies/persons are not defined	Assessable Companies/persons are limited to 11 categories
4	Non recovery of profession tax become personal liability of the employer	No such provision.

Non-maintenance of uniformity while framing the above sets of rules resulted in disparity in assessment of profession tax in rural and urban areas.

3.2.13.3 *Disparity in powers given to GPs and ULBs in adopting the rate of profession tax*

Rule 3 of KPR (PT) Rules, empowered the GPs to determine the rates of tax leviable subject to the maximum rates prescribed therein. For the purpose, assesseees were classified into eight categories based on their half yearly income. But the KM (PT) Rules did not give the authority for determining the rate of tax to the ULBs and instead fixed the tax rates leviable from the assesseees. The GPs though had the power to determine the tax rates did not

exercise the power but levied the maximum tax as provided in the Rules. Non-exercise of the powers given to GPs and non-entrustment of the powers to the ULBs to determine the rates of tax leviable are against the spirit of decentralisation.

3.2.14 Other points of interest

The companies functioning in Infopark, Kochi and Special Economic Zone were exempted from paying profession tax. However, it was noticed that such companies did not also assess their employees to profession tax. The details are given below:

3.2.14.1 Non assessment of employees by IT companies in Infopark.

Infopark, Kochi is a software technology park established by the State Government (October 2004) in Thrikkakara Grama Panchayat for providing infrastructure facilities to Information Technology (IT) companies and IT Enabled Service Companies. Twenty nine IT companies such as Tata Consultancy Services, Wipro Technologies, IBS Software services, etc. set up units in the Infopark during 2004-05 and 2005-06, where 3039 software engineers/other staff were employed. Since the GP did not collect the details about the companies from the Infopark authorities and issue notice requiring them to assess their employees to tax, some IT companies failed to assess and collect profession tax from their employees as detailed below:

IT companies failed to assess and levy profession tax amounting to Rs.27.63 lakh.

Sl No	Particulars	2004-05		2005-06	
		Ist half	IInd half	Ist half	IInd half
1	Number of companies who failed to assess tax	6	16	13	13
2	Number of employees not assessed	96	2134	902	902

There was no justification for not initiating penal action under KPR Act against the defaulters, which led to loss of revenue of Rs.27.63 lakh calculated at the average rate of Rs.685 per employee per half year.

3.2.14.2 Non-assessment of employees by the companies in Cochin Special Economic Zone

Cochin Special Economic Zone (CSEZ) is an industrial park established by the Central Government in 1986 in Thrikkakara Grama Panchayat area, for housing industrial units which import machinery and raw materials and manufacture products exclusively for export. There were 45 units functioning during 2001-02 which increased to 85 during 2005-06. More than 50 per cent of these units did not assess their employees during the period from 2001-02 to 2005-06 as detailed below:

Year	Total number of units		Number of units who assessed their employees		Number of units who did not assess their employees	
	Ist half year	IInd half year	Ist half year	IInd half year	Ist half year	IInd half year
2001-02	45	45	22	21	23	24
2002-03	50	50	20	20	30	30
2003-04	55	55	26	21	29	34
2004-05	74	74	33	18	41	56
2005-06	85	85	21	23	64	62

As the details about the number of persons employed in these units were not available with the GP the exact loss of revenue due to non-assessment of employees by the employers could not be ascertained in audit. The failure of the GP to initiate action under KPR Act resulted in non-assessment.

3.2.15 Internal Control and monitoring

3.2.15.1 *Non-adherence to rules for enforcing internal control*

KPR (PT) Rules and KM (PT) Rules contain provisions for internal control and monitoring for proper assessment, levy and collection of profession tax in time from all potential assessees. Issue of notices for collecting details of half yearly income of all assessees, sending demand notices, keeping demand register and arrear demand register, etc. are the internal control measures prescribed in the Rules to mitigate the risk of assessees escaping levy of profession tax and the tax arrears becoming time barred. As discussed in the preceding paragraphs, the internal control system prescribed in the Rules was not followed by the LSGIs resulting in non-assessment of potential assessees, under assessment, time barred arrear tax, etc.

3.2.15.2 *Defective returns*

According to Section 205 F (2) of the KPR Act, each head of office/employer should assess and recover the profession tax due from their employees and remit the amount to GPs with a list of employees containing name, designation, half yearly income and amount of tax recovered. These details were required to be furnished to the GPs in order to enable them to monitor whether the tax collected was correct or not. The statements furnished by 60 heads of offices/employers in three GPs¹ during 2001-02 to 2005-06 were defective as detailed below:-

- (i) Bonus/festival allowances were not reckoned for assessment of tax.
- (ii) Amount of pay and allowances under each category received by each employee was not given.
- (iii) Income of each employee was not mentioned.

As the returns were defective, the GPs were unable to verify the correctness of assessment made by the employers.

3.2.15.3 *Inadequate staff for collection of taxes*

With devolution of functions, the work load of staff of LSGIs increased manifold. As the services of the staff available prior to devolution was also to be utilised for carrying out transferred functions, the available staff strength had become insufficient for performing traditional functions and collection of tax. This also contributed to non-maintenance of vital data about assessees and tax collection including arrears.

3.2.16 Conclusion

- There were lapses on the part of the LSGIs in assessment resulting in loss of potential revenue.
- Maintenance of accounts records relating to demand, collection and balance of profession tax by the LSGIs was not satisfactory.

¹ Kodakara, Mala and Mathilakom.

Weak internal control system resulted in non-assessment of all potential assessees, under assessment, and recovery of arrear tax becoming time barred.

- Unlike in KPR Act and Rules, arrears of tax due from the employees is not treated as arrears chargeable on the employer under KM Act and Rules, resulting in non-recovery of tax.
- There was no effective system to collect arrears of tax in time and to avoid arrears becoming time barred.

3.2.17 Recommendations

- Government should ensure that the LSGIs maintain an up-to-date database of potential assesseees to bring all assesseees under the profession tax net.
- Government should give adequate publicity notifying the dates of payment of tax during each half year.
- LSGIs should maintain proper accounting records relating to profession tax.

3.2.18 Response of Government

During discussion made with the Principal Secretary, LSGD on 13 March 2007, he generally agreed with the conclusions and the recommendations.

3.3 Transfer of Functions and Functionaries to Local Self Government Institutions

Highlights

From October 1995, functions relating to matters enlisted in the Schedules to Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 were transferred to the LSGIs. The transfer of functions and functionaries to the LSGIs was un-coordinated resulting in non-transfer of functions as envisaged, inter-tier overlapping of functions and activities, improper functioning of transferred institutions, and funds not being transferred in proportion to the functions transferred.

➤ Government continued to provide funds to Scheduled Caste Development Department during 2001-02 to 2005-06 (Rs.181 crore) for construction of houses for SC beneficiaries which was a function transferred to Grama Panchayats. This led to parallel implementation of housing schemes by the LSGIs and by the Government.

(Paragraph 3.3.6.4)

➤ Three District Panchayats and five Block Panchayats executed 176 projects costing Rs.9.89 crore not relating to functions transferred to them.

(Paragraphs 3.3.6.6 & 3.3.6.7)

➤ Income of Rupees one crore derived by four transferred institutions was remitted to the Government and not to the concerned LSGIs.

(Paragraph 3.3.7.1)

➤ Implementation of all the major schemes relating to the transferred functions continued with the respective departments. In 11 such schemes implemented during 2001-02 to 2005-06, expenditure of Rs.306.47 crore was incurred without involvement of LSGIs.

(Paragraph 3.3.8.2)

➤ Rupees 40 crore earmarked as grants-in-aid to LSGIs in the State budget for 2001-02 for implementation of the tribal sub-plan was released to the Tribal Directorate instead of to the LSGIs. As a result the transferred functions under Tribal Development could not be carried out.

(Paragraph 3.3.9.2)

➤ In 79 health care institutions transferred to the LSGIs, though in-patient wards were constructed, they could not be made functional for want of doctors and staff and other infrastructure facilities.

(Paragraph 3.3.10.5)

➤ The internal control and monitoring system was not effective as the monthly progress reports and quarterly reports from the monitoring committee of LSGIs were not submitted and the Decentralisation Cell was not constituted.

(Paragraphs 3.3.11.2 and 3.3.11.3)

3.3.1 Introduction

Visualising LSGIs as institutions of self government, the 73rd and 74th Amendment Acts left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of functions, functionaries and funds to LSGIs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. In accordance with Article 243G of the Constitution, the State Legislative Assembly enacted the Kerala Panchayat Raj Act, 1994 (KPR Act) and Kerala Municipality Act, 1994 (KM Act). The Acts, *interalia*, envisaged transfer of functions of various departments of the State Government to the LSGIs together with the staff to carry out the functions transferred. Accordingly, the functions relating to matters enumerated in the Third, Fourth and Fifth Schedules of the KPR Act and First Schedule of KM Act were transferred with effect from 2 October 1995 to the Grama Panchayats (GPs), Block Panchayats (BPs), District Panchayats (DPs) and Municipalities/Corporations respectively. The transfer of functions and related activities was reviewed by Audit and is discussed below:

3.3.2 Audit Objectives

The audit objectives were to evaluate whether:

- the functions and functionaries envisaged to be transferred to the LSGIs were actually transferred
- the transfer of functions to the LSGIs was effective
- the functionaries transferred to the LSGIs were adequate/proportionate to the functions transferred
- the functions transferred were carried out effectively and efficiently
- adequate monitoring and internal control system exists in the LSGIs for effective planning and execution of functions/activities.

3.3.3 Audit criteria

The criteria used to review the effectiveness of transfer of functions and functionaries to LSGIs were:

- Provisions of KPR Act and KM Act relating to transfer of functions
- Third, Fourth and Fifth Schedules of KPR Act and First Schedule of KM Act.
- Government orders transferring functions, institutions, schemes, functionaries, funds, etc.
- Guidelines fixing norms for transfer of functions
- Plan documents of LSGIs

3.3.4 Methodology and Scope

The Review covering the period from 2001-02 to 2005-06 was conducted during the period May to August 2006 with reference to the records of 32

LSGIs (four District Panchayats¹ (DPs), eight Block Panchayats² (BPs), 16 Grama Panchayats³ (GPs) and four Municipalities⁴). Evidence was gathered from plan and implementation documents, files relating to deployment/sanctioned strength and from government orders/guidelines, etc. In addition, records of Directorates of Agriculture, Animal Husbandry, Scheduled Caste Development, Scheduled Tribe Development and Industries and Commerce also were test checked.

3.3.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.3.6 Transfer of functions

3.3.6.1 Activity mapping among the LSGIs

Co-existence of various tiers of Self Governing Institutions pre-supposes balanced distribution of powers and functions among them, the basic criteria for such distribution being that a function should be performed by a tier to which it belongs naturally and there be a mechanism for inter-tier co-ordination in case of overlapping functions. The KPR Act and KM Act as amended in 1999 distributed functions relating 26 subjects among the three tiers/levels of PRIs and ULBs respectively. The details in respect of 19 activities relating to the above subjects are given below.

Sl. No	Activity	Number of functions transferred to			
		GPs	BPs	DPs	ULBs
1	Agriculture	13	6	12	14
2	Animal Husbandry and Dairy Farming	9	3	8	12
3.	Minor Irrigation	3	1	3	4
4	Fisheries	6	1	7	8
5.	Social forestry	3	-	-	3
6.	Small Scale Industries	3	3	9	8
7	Housing	3	2	2	7
8	Water supply	2	-	2	2
9	Electricity and Energy	2	1	2	3
10	Education	3	1	7	6
11	Public works	2	2	2	2
12	Public Health & sanitation	5	1	3	6
13	Social Welfare	5	1	2	7
14	Poverty Alleviation	3	2	1	5
15	Scheduled caste/scheduled tribe development.	5	2	2	9
16	Sports and culture	2	-	1	1
17	Public Distribution system	3	-	-	3
18	Natural Calamities Relief	2	-	-	2
19	Cooperation	2	2	2	2
	Total	76	28	65	104

The transfer of functions to different tiers of Panchayats was to be done in such a way that none of the functions transferred to a particular tier overlapped

¹ Alappuzha, Kannur, Palakkad and Thiruvananthapuram

² Ambalapuzha, Athiyannur, Edakkad, Kanjikuzhy, Kannur, Kilimanoor, Malampuzha and Palakkad.

³ Athiyannur, Chembilode, Edakkad, Kanjikuzhy, Kanjiramkulam, Malampuzha, Mankara, Parali, Marutha Road, Nagaroor, Pallikunnu, Pazhaya Kunnummel, Punnapra North, Punnapra south, Thanneermukkaom and Valapattanam.

⁴ Alappuzha, Kannur, Neyyattinkara and Ottappalam.

with that of another as detailed in the activity mapping chart given in **Appendix VI**

3.3.6.2 Inadequate transfer of functions

The functions relating to minor forest produce, distribution of electricity and implementation of land reforms though listed in the XI Schedule of the Constitution and mandated under the KPR Act for transfer to the PRIs were not transferred. Similarly, no function relating to fire services which was among 18 matters to be transferred to ULBs as per Seventy Fourth Constitution Amendment Act was transferred.

3.3.6.3 Deficiencies noticed in transferred functions relating to housing

According to the KPR Act and the KM Act, 'providing assistance for construction of houses to individual beneficiaries' is a function transferred to the GPs and ULBs. Review of the 'housing activity' revealed that in spite of the transfer, Government and other tiers of Panchayats carried out the function resulting in parallel implementation, overlapping of functions and poor implementation of housing as described in the succeeding paragraphs.

3.3.6.4 Parallel implementation

The Scheduled Caste Development Department during 2001-02 to 2005-06 incurred expenditure of Rs.138.07 crore out of budget provision of Rs.181 crore for construction of houses for SC beneficiaries. During the same period GPs and ULBs also carried out the same function. The rates of assistance per unit available under the State scheme was Rs.70000 as against Rs.35000 under the scheme implemented by LSGIs. This substantial variation in rates of assistance affected the implementation of housing scheme by LSGIs as seen from the housing schemes implemented in Varkala Block Panchayat area. The Government and the Block Panchayat during 2002-03 simultaneously implemented housing schemes in the area. Out of 22 beneficiaries selected by the BP, only three beneficiaries (13.64 per cent) completed the construction. However, 63 out of 67 beneficiaries completed construction under the scheme implemented by the Scheduled Caste Development Department. Further, while the selection of beneficiaries of the schemes implemented by LSGIs was made by the Grama Sabha in a transparent manner, the selection of beneficiaries of the Government scheme was made by officers of the department in contravention of the guidelines that beneficiaries for such schemes should be selected by the Grama Sabha.

3.3.6.5 Irregular implementation by BPs and DPs

The housing functions transferred to each tier of PRIs are different from each other and the same function should not be carried out by different tiers. Providing houses to individual beneficiaries of all categories is a function exclusively transferred to GPs. Contrary to this, two LSGIs, (Varkala BP and Alappuzha DP) implemented housing projects for individual beneficiaries as detailed below:

Sl No	Name of BP/DP	Housing scheme taken up	Year	No. of units	Outlay (Rupees in lakh)
1.	Varkala BP	Assistance for purchase of land and construction of houses to SC beneficiaries	2002-03	22	11.99
2	Alappuzha DP	Assistance for construction of houses to SC beneficiaries	2005-06	70	35.00

DPs and BPs unauthorisedly carried out the functions of GPs

The implementation of the above projects was on the basis of Government orders and guidelines which indicated that the orders issued by the Government were not in conformity with the provisions of the Act. Though the selected beneficiaries in Alappuzha DP were 70, first instalment of assistance was released to 252 beneficiaries including those not selected by the Grama Sabhas (December 2006).

3.3.6.6 Overlapping of functions

The cardinal principle behind devolution of functions to different tiers is that what is appropriate for a given tier should be done by that tier and not by a higher level. Separate and exclusive functions were transferred to each tier of PRIs with exclusive power to administer them as per Third, Fourth and Fifth Schedules of KPR Act. In three DPs test checked 101 projects were implemented during 2001-02 to 2005-06 relating to functions transferred to BPs and GPs for which an expenditure of Rs.8.99 crore was incurred as detailed below:-

Sl. No.	Name of DPs	No. of projects relating to functions of			Expenditure (Rupees in crore)
		BPs	GPs	Total	
1	Alappuzha	2	18	20	1.41
2	Palakkad	7	35	42	6.40
3	Kannur	-	39	39	1.18
	Total	9	92	101	8.99

3.3.6.7 The following five BPs implemented 75 projects relating to functions transferred to GPs for which an expenditure of Rs.0.90 crore was incurred.

Sl. No.	Name of BPs	No. of projects relating to functions of GPs	Expenditure (Rupees in crore)
1	Ambalappuzha	13	0.04
2	Kanjikuzhi	19	0.35
3	Palakkad Rural	33	0.35
4	Malampuzha	1	0.01
5	Edakkad	9	0.15
	Total	75	0.90

Instead of spending Rs.9.89 crore for carrying out functions assigned to lower tiers of PRIs, the above DPs and BPs could have utilised the amount for implementing projects relating to functions devolved upon them.

3.3.6.8 Implementation of projects relating to Co-operation

Organising and strengthening of co-operative societies was an important function transferred to the LSGIs. However three DPs¹ and three Municipalities² did not include any project relating to this function during the period 2001-02 to 2005-06 in their annual plans. Of these LSGIs, Alappuzha DP had implemented these projects up to 2002-03. These LSGIs failed to intervene in a vital area of social importance and capacity building at the grass roots level.

3.3.6.9 PDS activities not performed

Examining complaints against the Public Distribution System (PDS) and implementing remedial measures, organising campaigns against offences relating to weights and measures and general supervision and guidance of ration shops, etc. are the activities with regard to PDS transferred to the GPs and ULBs. Ten test checked GPs did not carry out these devolved activities. This led to a situation where a large number of cases requiring intervention at GP level went unnoticed. These were subsequently detected during inspection by the Taluk level officers. Prompt intervention by the LSGIs, duly invoking the powers entrusted to them by the Acts, would have had a greater impact on the protection of interest of local consumers and instilled confidence in the public on the benefits of decentralisation.

3.3.6.10 Activities not executed by LSGIs

Two DPs and three BPs test checked did not carry out the activities and sub-activities transferred to them under Animal Husbandry, Soil Conservation, Dairy Development and Agriculture sectors as detailed below:

Sl. No.	Name of Panchayat	Function	Activities/sub-activities not carried out	Period
1	Alappuzha DP	Animal Husbandry	Disease prevention programme, propagating new methods of field trials and pilot project, local research work	2001-02 to 2005-06
2	Palakkad DP	Soil Conservation	Soil testing	2001-02 to 2005-06
3	Palakkad DP	Dairy Development	Running of dairy, extension units, promotion of milk co-operative societies	2001-02 to 2005-06
4	Ambalapuzha BP	Agriculture	Farmers training, Agricultural inputs for schemes of village level, Agricultural exhibition, Arranging agricultural loans, encouraging sericulture	2004-05 and 2005-06
5	Athiyannur BP	Agriculture	All sub functions ³	2001-02 to 2005-06
6	Palakkad BP	Agriculture	All sub functions ³	2001-02 to 2005-06

¹ Alappuzha, Kannur and Palakkad.

² Alappuzha, Kannur and Ottappalam.

³ Farmers training, arranging agricultural inputs, conducting exhibitions, management of watersheds, mobilizing agricultural loans and encouraging sericulture.

Avoidance of such core sectors which have a direct impact on the development of the rural population indicated lack of appreciation on the part of the LSGIs of the importance of these activities in the rural scenario or set up. Reasons for not including any projects under the above functions called for are awaited. (March 2007).

3.3.7 Transfer of Institutions

Government Orders (September 1995) transferring functions and functionaries to LSGIs also envisaged transfer of institutions relating to the transferred functions. Thus, schools, primary health centres and hospitals, farms, post matric hostels, veterinary hospitals, etc., were to be transferred to the respective LSGIs. The income accruing from these institutions is to be treated as own income of the LSGIs concerned. The details of institutions transferred to each tier/level of Panchayats and ULBs are given in **Appendix VII**.

3.3.7.1 Income from transferred institutions not remitted to the LSGIs

Government issued (February 2003) orders that income derived by transferred institutions should be treated as own income of the LSGIs concerned and utilised for their development. A test check of accounts of two DPs revealed that income of Rupees one crore derived by the following transferred institutions during the period from 2003-04 to 2005-06 was not transferred to the respective DPs.

Income of Rupees one crore derived by four transferred institutions was not transferred to the LSGIs.

(Rupees in lakh)						
Sl No	Name of DP	Name of the transferred institutions	Income not transferred			
			2003-04	2004-05	2005-06	Total
1.	Kannur	1.State seed farm, Kankol	6.49	4.56	5.90	16.95
		2.District Agricultural farm, Thaliparamba	21.95	17.39	23.94	63.28
		3. Coconut nursery, Palayad	3.42	2.05	Nil	5.47
2.	Alappuzha	Seed Development centre Veeyapuram	Nil	14.44	Nil	14.44
Total			31.86	38.44	29.84	100.14

Out of this, Rs.87.70 lakh was remitted to the Government account. The amount of Rs.14.44 lakh shown against Seed Development Centre, Veeyapuram was the cost of seeds supplied to the State Seed Development Authority which was not collected (March 2007). This was attributable to the fact that LSGIs did not monitor the income generated by transferred institutions.

3.3.7.2 Post-Matric Hostels not transferred

Post-matric hostels intended for accommodating SC students and controlled and managed by the SC Development Department were ordered to be transferred to the respective DPs and ULBs with effect from 2 October 1995. Even after 11 years of the orders, none of the 15 hostels was transferred to the LSGIs (December 2006). During the period from 2001-02 to 2005-06, Government provided Rs.14.34 crore in the State Budgets for running these hostels against which the Department incurred an expenditure of Rs.9.36 crore. There was no role of the LSGIs either in selection of inmates of the hostels or in their management which was against the spirit of decentralisation.

None of the post-matric hostels was transferred to LSGIs.

3.3.7.3 Construction without ascertaining user requirement

Numerous buildings were constructed under MP/MLA Local Area Development Scheme in transferred institutions. The District Collectors who

were the implementing officers of the scheme did not ascertain the user-requirement before constructing these buildings. As a result, basic requirements were not provided due to which they were either remaining idle or functioning improperly besides blocking of scarce resources.

3.3.8 Transfer of Schemes

Along with functions and institutions, Government had also transferred schemes relating to matters specified in KPR Act and KM Act. Plan schemes which were being implemented by the State Government were transferred to the LSGIs as State Sponsored Schemes (SSSs) for which, funds were provided in the State Budget annually. The funds earmarked for SSSs were allotted to the respective LSGIs for effective utilisation in implementation of the schemes.

3.3.8.1 Schemes relating to functions of LSGIs not transferred

The departments of Agriculture, Industries and Commerce, SC Development and ST Development continued to implement schemes relating to functions transferred to the LSGIs utilising funds provided in the State Budget as detailed below:

(Rupees in crore)

Year	Details of amount utilised for functions transferred									
	Agriculture		SC Development		ST Development		Industries and commerce		Total	
	Budget	Expr.	Budget	Expr.	Budget	Expr.	Budget	Expr.	Budget	Expr.
2001-02	3.20	1.84	27.49	22.31	3.11	2.95	N.A	NA	33.80	27.10
2002-03	3.20	2.30	159.88	123.41	8.46	4.07	20.17	20.17	191.71	149.95
2003-04	2.30	2.09	42.81	78.94	3.73	3.00	24.25	23.59	73.09	107.62
2004-05	3.20	2.80	83.63	66.81	2.76	1.76	19.42	19.13	109.01	90.50
2005-06	4.76	4.58	125.89	98.17	2.48	2.11	16.32	15.33	149.45	120.19
Total	16.66	13.61	439.70	389.64	20.54	13.89	80.16	78.22	557.06	495.36
Average per year	3.33	2.72	87.94	77.93	4.11	2.78	20.04	19.56	111.41	99.07

NA : Not Available

The State Government provided Rs.557.06 crore to these departments during 2001-02 to 2005-06 for implementation of 25 schemes relating to transferred functions. The departments incurred expenditure of Rs.495.36 crore out of this provision. This included Rs.138.07 crore spent on housing as mentioned in paragraph 3.3.6.4 of this report. Provision of such funds to the Government departments instead of the LSGIs to whom the functions were transferred was violative of statutory provisions.

3.3.8.2 Major Schemes retained by the Government

Out of 25 schemes implemented by the departments during 2001-02 to 2005-06, 11 schemes involving an expenditure of Rs.306.47 crore were significant, the details of which are given in the table below:-

Four departments though the functions of which were transferred to LSGIs, continued to implement 25 schemes relating to transferred functions. An expenditure of Rs.306.47 crore was incurred for implementation of 11 such schemes.

(Rupees in crore)

Sl. No.	Department	Scheme	Purpose	LSGI to which scheme was transferable	Budget provision	Expenditure
1	Agriculture	Modernisation of Agricultural Farms	Transforming farms as centres of demonstration of advanced agricultural technology	DP	6.20	5.93
		Integrated Pest management	Establishing full fledged system of pest surveillance covering major crops	DP	3.96	2.89
		Small Farm Mechanisation	Adopting appropriate mechanisation practices to reduce cost of cultivation	GP	3.50	2.13
2	SC Development	Pre-matric studies	Providing lump sum grant to pre-matric SC students	GP	5.63	5.06
		Post-matric studies	Providing lump sum grant, monthly stipend, tuition fees, mess fees, etc. to post-matric SC students	GP	197.42	201.61
3	ST Development	Tutorial scheme	Providing special coaching to school going students and failed students of X and XII standards for increasing percentage of pass.	GP	7.40	2.51
		Housing	Providing assistance to ST beneficiaries for construction of houses up to a maximum of Rs. 75000 per unit	GP	8.33	8.17
		Special incentive to Brilliant students	Providing special incentive to ST students and cash awards to those who score high marks	GP	0.80	0.69
4	Industries and Commerce	State Investment subsidy	Providing subsidy on fixed capital investment of SSI units, loan linked rural industrial development projects, pollution control devices etc.	DP	75.83	75.10
		Strengthening of Industrial Estates	Modernisation of existing common facility service centres to enable rubber and plastic waste industries for improving their quality	DP	0.97	0.65
		Enterprenual Assistance to handicrafts artisan sector	Meeting 10 per cent share for availing term loan and margin money loan by artisans not belonging to backward classes or minorities below poverty line.	DP	1.80	1.73
Total					311.84	306.47

Retention of such transferred schemes by the departments and expenditure incurred thereon were irregular.

3.3.8.3 Non-implementation of Women Industries Programme by DPs

Women Industries Programme (WIP) is a scheme for providing building and machinery grant, rent subsidy, managerial grant and stipend to trainees of Women Industrial Units in order to minimise the difficulties experienced by women in the field of industry and to attract more women to participate in the industrial ventures. Though the Government transferred (December 1997) this scheme to the DPs covering urban areas also, it did not provide specific funds for implementation of the scheme. As a result none of the DPs had implemented this scheme. Thus, transfer of schemes without providing funds resulted in their non-implementation for eight years from 1997-98 to 2005-06, and also deprived due benefits to the women of industrial units.

None of the DPs implemented the scheme of WIP due to non-provision of funds by the Government.

3.3.9 Inadequate transfer of funds in respect of transferred functions

Devolution of funds to LSGIs should be a natural corollary to implement the transferred functions. In order to enable the LSGIs to carry out the transferred functions, the State Government began providing grants-in-aid to the LSGIs from 1995-96 as plan and non-plan assistance. With the introduction of decentralised planning during 1997-98, LSGIs were permitted to formulate and implement projects. Consequently, the grants-in-aid provided to the LSGIs increased many fold from 1997-98. The plan and non-plan funds devolved upon the LSGIs by the State Government during 2001-02 to 2005-06 amounted to Rs.7888.62 crore as shown in the table below:

(Rupees in crore)

Year	Budget provision			Amount disbursed					
	Plan	Non-plan	Total	Plan	percentage	Non-Plan	percentage	Total	Percentage
2001-02	971.65	265.86	1237.51	676.03	69.58	234.31	88.13	910.34	73.56
2002-03	1376.59	351.89	1728.48	1118.71	81.27	338.96	96.33	1457.67	84.33
2003-04	1434.54	326.55	1761.09	1384.98	96.54	314.01	96.16	1698.99	96.47
2004-05	1401.56	850.99	2252.55	1092.74	77.97	690.41	81.13	1783.15	79.16
2005-06	1476.12	1056.18	2532.30	1109.77	75.18	928.70	87.93	2038.47	80.50
Total	6660.46	2851.47	9511.93	5382.23	80.81	2506.39	87.90	7888.62	82.93

LSGIs received 80.81 per cent of plan fund provision and 87.90 per cent of non-plan funds. From 2003-04, there was declining trend in release of plan funds to LSGIs. Though provision of plan funds increased from Rs.1434.54 crore in 2003-04 to Rs.1476.12 crore in 2005-06, the disbursement declined from Rs.1384.98 crore to Rs.1109.77 crore. Against this, provision and disbursement of non-plan funds showed increase during these years. The disbursement of the total grants however increased from Rs.1698.99 crore in 2003-04 to Rs.2038.47 crore in 2005-06.

3.3.9.1 Non-utilisation/lapse of Plan funds

Up to 2002-03, the LSGIs were permitted to draw Plan fund allotments in lump by transfer credit to their Personal Deposit (PD) accounts. The unspent balance in the PD accounts at the end of each year was allowed to be carried over to the succeeding year. During 2003-04, the Government introduced the bill system in LSGIs whereby the drawal of funds was restricted to the actual requirement and the system of depositing Plan funds in the PD accounts was stopped. At the end of the year 2003-04, all the LSGIs in the State had an accumulated unspent balance of Rs.581.20 crore in their PD accounts. This unspent balance was against Rs.1794.74 crore transfer credited during the previous two years (2001-02 and 2002-03). As directed by the Government, the unspent balance of Rs.581.20 crore held in the PD account was refunded to the Consolidated Fund of the State in March 2004. On account of under utilisation due to poor planning in implementation of transferred functions, each LSGI had to surrender Rs.47.84 lakh on an average. The underutilisation continued during subsequent years also, and was Rs.308.82¹ crore during 2004-05 and Rs.366.35² crore during 2005-06. As these amounts were not drawn, they lapsed to Government automatically.

¹ 1401.56-1092.74=308.82

² 1476.12-1109.77=366.35

3.3.9.2 LSGIs' funds diverted to Directorate of Tribal Development

The State Government during 2001-02 earmarked Rs.58 crore for implementation of the Tribal Sub Plan (TSP). Of this, Rs.40 crore was provided for implementation of transferred functions under TSP by LSGIs as detailed below:

(Rupees in crore)			
Sl. No.	LSGIs to which funds were provided	Head of Account	Amount provided
1	Grama Panchayats	2515-00-191-45-03	19.86
2	Block Panchayats	2515-00-191-45-02	7.94
3	District Panchayats	2515-00-191-45-01	11.91
4	Municipalities	2217-80-191-45-04	0.29
	Total		40.00

However, Government did not release any amount to the LSGIs. Against legislative intent, the Government placed the entire amount at the disposal of the Director of Scheduled Tribe Development. This resulted in the LSGIs being deprived of their legitimate right to implement transferred functions under TSP during 2001-02.

3.3.10 Transfer of Functionaries

Devolution of powers and functions on the LSGIs requires availability of qualified and trained personnel at all levels for efficient discharge of those functions. The LSGIs should have administrative control over the staff to command loyalty and directions of purpose in the new scenario. A review of the system of transfer of functionaries to LSGIs revealed the following deficiencies.

3.3.10.1 Shortfall in deployment of staff from Departments of Public Works and Irrigation

During September 2003, Government ordered deployment of 2474 technical staff and 1363 ministerial staff additionally to the LSGIs against which 2040 and 572 respectively were actually deployed resulting in short deployment as detailed below:

Category of Staff	Number of Staff		
	Proposed to be transferred	Actually transferred	Shortfall
<i>Technical Staff</i>			
Engineers	692	626	66
Overseers	1782	1414	368
Total	2474	2040	434
<i>Ministerial Staff</i>			
Administrative Assistant/Divisional Accountant	15	12	03
Jr.Superintendent/Clerks/Typist/Confidential assistant.	928	433	495
Part Time Sweepers/Peons/Driver	420	127	293
Total	1363	572	791
Grand Total	3837	2612	1225

There was a short deployment of 1225 staff members in LSGIs.

The short deployment of technical and ministerial staff was 434 and 791 respectively. Government did not take any steps to implement its orders.

3.3.10.2 Inadequate administrative control over functionaries.

Government transferred (September 1995) the services of officers along with the posts to the LSGIs as detailed in **Appendix VIII**. Even though these functionaries were transferred to the LSGIs, their pay and allowances were drawn from the Departments concerned. Though the administrative control over transferred functionaries was vested with the LSGIs, the power to impose major penalty under the disciplinary rules for serious misconduct/irregularity was retained by the government. Thus, for all purposes, these functionaries continued to perform as government servants, subject to control by higher levels of government and not by the LSGIs, thereby negating one of the basic objectives of decentralisation.

3.3.10.3 Inadequate discharge of assigned responsibilities by Implementing officers

Implementing officers were not discharging their functions and were not furnishing monthly reports of progress.

Government through various orders assigned responsibilities to Implementing Officers (IOs) for implementation of transferred functions and for active participation in conduct of the business of the LSGIs. According to the replies furnished by the heads of 21 LSGIs in response to a questionnaire, the IOs did not discharge the responsibilities assigned to them as detailed in the table below:-

Sl. No.	Responsibility assigned	No. of LSGIs where IOs		No. of Heads of LSGIs who did not respond to the survey
		discharged the responsibility	did not discharge the responsibility	
1	Participate actively in review meetings, training programmes etc.	15	5	1
2	Present in the Grama Sabha	9	10	2
3	Recording minutes of Grama Sabha and take follow up action	4	13	4
4	Ensure people's participation	8	8	5
5	Work unitedly with elected representatives and campaigners	7	9	5
6	Give monthly review reports to the LSGIs	5	14	2
7	Intimate in advance the particulars of leave to the LSGI	8	10	3
	Average	8	10	3

IOs in 5 to 14 LSGIs out of 21 did not discharge their functions and responsibilities properly. It was also significant that 67 per cent of IOs were not giving monthly review report of projects entrusted to them. There is thus a strong need to empower the LSGIs with effective administrative control over the transferred functionaries.

3.3.10.4 *Implementing officers did not execute/failed to implement projects*

Owing to laxity of the IOs, two LSGIs could not implement 14 projects with a total outlay of Rs.1.36 crore as detailed in table below.

(Rupees in lakh)

Sl. No.	Name of IO	Name of LSGI	Year	No. of projects not implemented	Outlay
1	Asst. Director of Agriculture(ADA), Neyyattinkara	Athiyannur B.P	2005-06	3	10.50
2	Secretary, DP	Kannur D.P	2001-02	1	14.00
3	Deputy Director of Agriculture (Horticulture)		2001-02 & 2004-05	2	15.00
4	HMs of schools		2001-02, 2002-03 & 2005-06	3	37.06
5	District SC Development officer		2002-03	3	45.00
6	Deputy Director of Agriculture (Horticulture)		2004-05	1	4.75
7	District Medical Officer (Health)		2005-06	1	10.00
Total				14	136.31

Though as supervisory officers, the respective heads of departments had disciplinary powers over the IOs, none the above cases except one was referred to them. The ADA Neyyattinkara (Sl No 1) did not implement the projects on the pretext that the subsidy norms were violated in the projects. This was reported to the Government (April 2006) for initiating disciplinary action, results of which were awaited (March 2007).

3.3.10.5 *Lack of staff/infrastructure in transferred institutions*

Though inpatient wards were constructed in 79 health centres, they could not be made functional for want of doctors and staff.

Primary Health Centres, Community Health Centres and Taluk Head Quarters Hospitals were among the transferred institutions and the responsibility of running these institutions rested with the LSGIs. Large number of buildings and wards attached to these institutions remained idle for want of manpower and for other reasons. These buildings/wards were constructed by utilising funds of LSGIs and MP/ MLA Local Area Development fund. Based on recommendations of the Director of Health Services, Government sanctioned (July 2004) creation of 1200 posts under various categories in such institutions. However a test check of these institutions revealed that in 79 institutions, in-patient wards attached to them could not be made functional (November 2006) for want of supporting staff and other infrastructure facilities as detailed below:-

Sl. No	District	No. of institutions		
		where inpatient wards were constructed	where inpatient wards were functioning	where inpatient wards were not functioning
1	Kannur	29	3	26
2	Palakkad	30	4	26
3	Thiruvananthapuram	30	3	27
	Total	89	10	79

Thus due to shortage of staff and infrastructure in the transferred institutions, LSGIs failed to ensure proper health care facilities to the poor people.

3.3.10.6 *Basic statutory functions affected due to insufficient transfer of staff*

In response to a questionnaire issued by Audit, 14 out of 21 heads of LSGIs replied that the number of functionaries transferred from the Government departments to the LSGIs was not sufficient to handle the additional workload in the LSGIs consequent on transfer of functions. For the efficient discharge of the transferred function of disbursement of various pensions and unemployment wages and keeping connected accounts, the existing number of staff deployed from Government departments was not sufficient. The State Planning Board also confirmed (January 2006) that the staff in LSGIs was insufficient. This affected even the basic and statutory accounting functions such as maintenance of various registers and timely preparation and submission of annual financial statements with demand collection balance statement as discussed in Chapter 2 of this report. A staff study was conducted in LSGIs by the Centre for Management Studies, on which the report was awaited (March 2007).

3.3.11 **Internal control and monitoring**

A strong internal control mechanism facilitates smooth functioning of an institution. For better delivery of services, periodical review and monitoring of activities, functionaries and a prescribed control mechanism are important. The performance of the LSGIs in relation to their functions in general was not effective due to the weak internal control system resulting in improper planning, deficient fund management and ineffective execution of activities. A strong monitoring mechanism is also essential for the efficient discharge of transferred functions. The implementation of transfer of functions and staff were to be monitored at Government level. Due to the failure of monitoring, the inefficiency of staff in the LSGIs persisted. Apart from this the following deficiencies were also noticed.

3.3.11.1 *Functioning of District Planning Committee*

The LSGIs could implement the transferred functions only after undergoing several stages of planning and scrutiny by different agencies/bodies such as Grama Sabha, Technical Committee, Technical Advisory Committee, District Planning Committee (DPC), etc., in accordance with the orders and guidelines issued by the Government from time to time. Even though the DPC was to ensure that the projects submitted by the LSGIs were in conformity with the guidelines issued by the Government, several unauthorized projects escaped its notice and inter-tier functions/activities overlapped. This indicated the need

to strengthen the functioning of DPCs for monitoring the planning and the implementation of transferred functions.

3.3.11.2 Release of funds to LSGIs without obtaining monthly progress reports

The IOs were required to send monthly progress reports of implementation of schemes to the secretaries of the respective LSGIs, which were to be forwarded to the Government after consolidation through the District level officers designated for the purpose. In addition to the monthly progress report, the Monitoring Committee of each LSGI had to present a quarterly report showing the physical and financial progress and quality of implementation to the Government. The funds were to be released to the LSGIs and allowed to be utilised by the IOs only after review of the monitoring reports. Monthly progress reports were not sent by the IOs of 21 LSGIs out of 22 test checked. Similarly the monitoring committees in none of the LSGIs submitted the quarterly report. However, funds were released to the LSGIs, and IOs were allowed to utilise the funds, indicating weakness of the internal control mechanism.

3.3.11.3 Decentralisation Cell not constituted

Government issued orders (June 2004) for the constitution of a Decentralisation Cell in each district for the review of the progress of implementation of schemes under transferred functions by the LSGIs. Decentralisation cells were not constituted in the departments of Agriculture, Animal Husbandry, Social Welfare, SC Development and ST Development in Kannur District. The monitoring system designed for proper implementation of transferred functions by the LSGIs was weakened because of the non-constitution of Decentralisation Cells.

Due to non-constitution of decentralisation cell, the monitoring system was not effective.

3.3.11.4 Rules for implementation of transferred functions not framed.

Planning and implementation of transferred functions by LSGIs are governed by various Government orders issued from time to time. Government did not frame any rules for the proper and effective implementation of transferred functions. In the absence of rules, there was no well designed internal control system for implementation of transferred functions.

3.3.12 Conclusion

- Activities under Agriculture, SC and ST Development and Industries and Commerce Departments were not transferred as envisaged in the Acts.
- Funds and functionaries were not transferred to LSGIs in proportion to the transferred functions.
- Inter-tier overlapping of functions resulted in parallel implementation of the same functions by more than one agency, in the same area.
- No rules governing the implementation of transferred functions were framed leading to defective implementation.
- The monitoring and internal control mechanism was ineffective.

3.3.13 Recommendations

- Government should consider transfer of functions to the LSGIs as envisaged in the Acts.
- Government should make realistic assessment of funds and functionaries required by the LSGIs for carrying out the transferred functions.
- Government should take action to avoid inter-tier overlapping of same functions
- Government should consider framing rules governing planning and implementation of transferred functions.

3.3.14 Response of Government

The Principal Secretary (LSGD) generally agreed (March 2007) to the recommendations, at the time of discussion of the audit findings.

3.4 Implementation of Projects on Deposit Work basis by LSGIs

Highlights

The LSGIs implemented a large number of projects through authorised agencies on deposit work basis. Though the works involved sizeable amounts, they were not monitored by the LSGIs leading to non-completion and abandonment. Lack of proper planning contributed to the defective implementation and deposit of amounts in excess of actual requirement.

- Entrustment of works without proper planning led to abandonment of works

(Paragraph 3.4.6)

- Amounts transferred for execution of deposit works were treated by LSGIs as actual expenditure and included in their figures of financial achievement.

(Paragraph 3.4.7.2)

- An amount of Rs.2.90 crore transferred to authorised agencies in excess in respect of 1234 completed works remained unrecovered.

(Paragraph 3.4.7.3)

- The irregular decision of Kerala Water Authority to recover centage charges from LSGIs made them liable to pay Rs.5.61 crore during 2002-06.

(Paragraph 3.4.7.4)

- Implementation of a beach beautification project in Kozhikode without obtaining sanction for construction in the Costal Regulation Zone had to be abandoned resulting in wasteful expenditure of Rs.15 lakh.

(Paragraph 3.4.8.2)

- Construction of an indoor stadium at Kollam undertaken on deposit work basis was abandoned as a result of faulty design of pile foundation, leading to wasteful expenditure of Rs.8.06 lakh.

(Paragraph 3.4.8.4)

3.4.1 Introduction

With the introduction of decentralised planning in the State, LSGIs were permitted to formulate and implement projects relating to functions transferred to them from 1997-98 onwards. The LSGIs implemented the projects through implementing officers and other agencies. Implementing agencies such as Kerala Water Authority (KWA), Kerala State Electricity Board (KSEB), Kerala State Housing Board (KSHB), etc. are called 'authorised agencies' and the works entrusted to them 'deposit works'. The implementation of projects on deposit work basis by LSGIs was reviewed by Audit and is discussed in the succeeding paragraphs.

3.4.2 Audit Objectives

The audit objectives were to examine whether:

- sufficient planning was done before entrusting deposit works
- funds transferred were adequate
- unutilised funds, if any, were refunded
- implementation of deposit works was monitored effectively
- the internal control and monitoring system was effective.

3.4.3 Audit criteria

The following criteria were used for the review

- Provisions of Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994 relating to deposit works.
- Kerala Panchayat Raj (Execution of Public Works) Rules, 1997 and Kerala Municipality (Execution of Public Works and Purchase of Materials) Rules, 1997 relating to execution of works.
- Provisions of Kerala Public Works Account Code relating to deposit works.
- Government orders and guidelines issued in 1997-98 regarding deposit works.
- Project reports, design and estimate of deposit works.

3.4.4 Audit methodology and scope

The review covering the period from 2001-02 to 2005-06 was conducted during June and July 2006 with reference to the records of three Municipal Corporations¹, two District Panchayats², KWA office, Thiruvananthapuram, four Divisional offices³ each of KWA and KSEB and the District office of the Nirmithi Kendra, Thiruvananthapuram. In respect of KWA, records relating to the period from 1997-98 were also test checked. Evidence in support of audit findings/observations were gathered from the plan documents, expenditure statements, utilisation certificates, data furnished by the authorised agencies and files of the above institutions.

3.4.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.4.6 Planning

Before entrusting a project to an authorised agency, proper planning of activities is to be carried out. This includes feasibility study, resource mobilisation, preparation of design and estimates, allocation of funds, identification of beneficiaries, etc. Mention was made in the Report (LSGIs) of CAG for the year ended 31 March 2004 about the irregular entrustment of

¹ Kollam, Kozhikode and Thiruvananthapuram

² Kollam and Pathanamthitta.

³ Kollam, Kozhikode, Pathanamthitta and Thiruvananthapuram.

construction of houses to KSHB by LSGIs without identifying the beneficiaries. Audit analysis revealed that 75 works entrusted to KWA were abandoned due to non-viability and 579 works could not be completed due to short provision of funds, non-provision of power supply and delay in supply of materials to KWA. Inadequate planning before entrusting works to authorised agencies resulted in the abandonment and non-completion of works leading to wasteful expenditure.

3.4.7 Fund Transfer

Government guidelines issued in August 1997 govern the transfer of funds to the authorised agencies for executing deposit works under People's Plan Campaign. The funds are transferred by issuing cheques only after executing an agreement with the agencies in the form prescribed by the Government. The funds transferred and expenditure therefrom are to be accounted for by the LSGIs properly. Audit scrutiny revealed the following:

3.4.7.1 *Records showing details of deposit works not maintained*

The LSGIs test checked did not maintain records showing complete details of deposit works including funds transferred to the authorised agencies. Though LSGIs were required to enter the details of amounts advanced in the Advance Ledger as per Kerala Panchayat (Accounts) Rules, 1965, this was not done. The LSGIs also did not maintain a register of deposit works. As proper records were not maintained by LSGIs, Audit had to verify the records of authorised agencies to gather data about deposit works entrusted to them.

3.4.7.2 *Amount deposited shown as final expenditure*

The Government set (1997) separate financial target for each LSGI for implementing projects annually. It was also stipulated that LSGIs which did not achieve the targets were liable to lose from the allotment of Plan funds for the following year, by the amount which fell short of the target. Government also ordered that the funds transferred for executing deposit works should be deemed to be the actual expenditure by the LSGIs. This enabled the LSGIs to exhibit such amounts as expenditure although no actual expenditure was incurred on implementation of the projects. Those LSGIs which did not achieve the financial targets, transferred funds to the authorised agencies without proper planning and working out the details of works, with the intention of achieving the target. Thus, the Government order treating amounts deposited as final expenditure was contrary to the provisions of Accounts Rules regarding payment of advances. As the funds were treated as final expenditure, no monitoring of deposit works was done by the LSGIs resulting in avoidable locking up of funds as detailed below:-

3.4.7.3 *Deposit works entrusted to KWA not monitored*

As per the records of KWA, LSGIs entrusted 4009 deposit works to KWA during 1997-98 to 2005-06. As of July 2006, KWA had completed 3387 works as shown in the table below:-

Year	Projects					Amount (Rupees in crore)				
	Entrusted	Completed	Percentage	Abandoned	Incomplete	Deposited	Utilised	Percentage	Balance	Percentage
Up to 2000-01	1667	1540	92.38	54	73	40.74	34.00	83.46	6.74	16.54
2001-02	305	281	92.13	1	23	6.60	6.41	97.12	0.19	2.88
2002-03	486	394	81.06	6	86	10.03	6.82	68.00	3.21	32.00
2003-04	710	589	82.96	12	109	21.56	13.72	63.64	7.84	36.36
2004-05	577	454	78.68	2	121	11.75	7.73	65.79	4.02	34.21
2005-06	264	79	29.92	-	185	7.15	2.11	29.51	5.04	70.49
Total	4009	3337	83.24	75	597	97.83	70.79	72.36	27.04	27.64

Out of Rs.97.83 crore transferred for execution of the works, KWA utilised Rs.70.79 crore (including expenditure on incomplete projects). No monitoring of implementation of the deposit works was done and the balance amount of Rs.27.04 crore pertaining to the period from 1997-98 onwards was not claimed by the LSGIs. It was noticed during audit that the deposit amounts were taken as actual expenditure which led to non-monitoring of utilisation of funds by KWA. It was also seen that out of 3337 works completed, actual expenditure in respect of 1045 works was less than the deposit amount whereas actual expenditure was more in respect of 189 works resulting in retention of a net amount of Rs.2.90 crore by KWA. The LSGIs also did not take any action to recover the advanced amount in respect of 75 works abandoned by KWA. The details of actual amount deposited on abandoned works was not available with KWA.

3.4.7.4 Irregular decision of KWA to recover Centage Charges

Execution of deposit works by KWA is governed by Kerala Public Works Account Code (KPWA code), Government Orders¹ and Guidelines². As per the provisions contained therein, no centage charge (charges for meeting the administrative cost of deposit works) is recoverable from LSGIs, for undertaking deposit works. Paragraph 16.2.6 of KPWA code also prohibits recovery of centage charges from LSGIs. The Government guidelines reiterated that while undertaking such works under decentralised planning, KWA should follow the procedure prescribed in the work rules governing LSGIs. The State Planning Board clarified (September 2002) that no centage charges should be recovered from LSGIs for undertaking deposit works. KSEB had also exempted (September 1998) the LSGIs from payment of centage charges. KWA, however decided (April 2002) to recover centage charges at 12.50 per cent on all deposit works undertaken by them. The centage charge thus payable by LSGIs from 2002-03 to 2005-06 would work to Rs.5.61 crore. The decision of KWA to recover centage charges from LSGIs was against codal provisions and Government Orders.

3.4.7.5 Non-recovery of unutilised amount from authorised agencies.

The LSGIs executed several projects through authorised agencies such as Trivandrum Development Authority, KSEB and Niirmithi Kendra for which they deposited Rs.2.71 crore during the period from 1997-98 to 2004-05. As

¹ G.O (P) 676/97/Fin dated 6 August 1997.

² GO (MS) 29/98/Ird dated 19 March 1998.

the amounts utilised by the agencies were less than that deposited, there was an unspent balance of Rs.31.53 lakh with them as shown below:-

(Rupees in lakh)

Sl No.	Name of LSGI	No. of projects	Authorised agency which undertook the work	Amount			Period of deposit
				Deposited	utilised	unspent balance	
1	Trivandrum Corporation	2	Trivandrum Development Authority	57.00	40.71	16.29	March 2000
2	Kozhikode Corporation	27	KSEB	175.54	169.67	5.87	1997-98 to 2002-03
3	Five LSGIs ¹	7	Nirmithi Kendra	38.25	28.88	9.37	1997-98 to 2004-05
Total		36		270.79	239.26	31.53	

Since the LSGIs did not monitor the implementation of projects and utilisation of funds by the authorised agencies, there was accumulation of unspent balances. No action was taken by the LSGIs to recover the amount.

3.4.8 Defective implementation of deposit works

A review of deposit works implemented by various authorised agencies revealed that the works were not completed in time and hence the intended benefits could not be derived resulting in deprivation of benefits to economically weaker sections of the society. Further there were deficiencies in execution. LSGIs did not take any action against the agencies though there were conditions in the agreement enabling them to ensure timely execution of works.

3.4.8.1 Delay in completion of Thrikkannapuram Water Supply Scheme

Thrikkannapuram Water Supply Scheme is a project for constructing intake well, pump house, transmission main and treatment plant, distribution line, etc. with an outlay of Rs.5.93 crore, formulated by Thiruvananthapuram Municipal Corporation (TMC) during 1997-98 under decentralised planning with the objective of providing water supply to 25000 people of the locality. TMC deposited Rs.4.15 crore in nine instalments with KWA during the period from June 1998 to March 2006 out of which Rs.2.20 crore was deposited much ahead of commencement of work by KWA in October 2000. Even though several items of work such as treatment plant, distribution lines, wash water tanks, etc. costing Rs.1.76 crore were to be completed, TMC partly commissioned the scheme on 24 August 2005 after spending Rs.3.57 crore. The delay of more than eight years after releasing funds was unjustified especially in the context of transfer of sufficient funds by TMC much in advance of the requirement.

¹ Kottayam and Pathanamthitta DPs, Mavelikkara Municipality, Kumarakom and Thalayolaparambu GPs.

3.4.8.2 Wasteful implementation of projects through Kozhikode Development Authority

Kozhikode Municipal Corporation (KMC) entrusted three city beautification projects with a total outlay of Rs.1.40 crore to Kozhikode Development Authority (KDA) on deposit work basis during 1999-2000. Though KMC deposited the whole amount of Rs.1.40 crore on 30 March 2000 with KDA, only one project was completed, one project remained incomplete and the work on the third project was abandoned in view of protest by fishermen. The details of the incomplete works are given below:-

(Rupees in lakh)

Sl. No	Name of Project	outlay	Amount deposited with KDA	Amount utilised by KDA	Unspent balance	Date of Commencement
1	Beach Beautification at Bhatt Road Junction	50.00	50.00	15.00	35.00	27.12.2001
2	Beach Beautification at Gandhi Road	50.00	50.00	-	50.00	Not started
	Total	100	100	15.00	85.00	

As no sanction was obtained for construction in the Coastal Regulation Zone (CRZ), work at Sl.No.1 had to be stopped after spending Rs.15 lakh. Thus inadequate planning before entrusting works to authorised agencies resulted in expenditure of Rs.15 lakh becoming wasteful. No action was taken by KMC to get the unutilised amount of Rs.85 lakh refunded.

3.4.8.3 Conditions of agreement not enforced

Authorised agencies are required to enter into agreements with LSGIs before the LSGIs deposit the amount with them. The form of agreement prescribed by Government contained clauses stipulating completion of projects as prescribed by the LSGIs within due dates subject to conditions specified by the LSGIs. However, LSGIs failed to enforce conditions of the agreements leading to delay in execution of works and rendering accounts.

3.4.8.4 Construction of Indoor Stadium by Kollam District Panchayat

Kollam District Panchayat (KDP) decided (1997-98) to construct an indoor stadium at Kollam at an estimated cost of Rs.2.18 crore with the participation of all LSGIs in the district. KDP entrusted the implementation of the project to the District Collector, Kollam. The design and estimate of the work was got prepared by a private architect during September 2000 and technical sanction was accorded in December 2000. As per the design 70 piles having a total length of 690 meters were to be driven. The work was entrusted to a contractor in April 2002. He commenced the work and completed the pile foundation as per approved design. However, the load test conducted on the pile foundation proved that it was very weak. A reinvestigation conducted by LBS Centre for Science and Technology revealed that in order to have a strong foundation, the required length of piles was 1779 meters instead of 690 meters. As the contractor was not willing to execute the additional quantity of piling work at the existing rate, the work was stopped in January 2003. The expenditure of Rs.8.06 lakh incurred on the work so far, became wasteful. KDP had deposited Rs.54.46 lakh with the District Collector during 2002-03 and 2003-04 of which Rs.44.46 lakh was contributed by the Kollam Corporation. Though the envisaged share of all the ULBs was only Rs.24 lakh, Kollam Corporation

alone had contributed Rs.44.46 lakh. It was seen in audit that the Corporation paid Rs.34.46 lakh out of Rs.44.46 lakh after the stoppage of work in 2003-04. The unutilised balance of Rs.46.40 lakh remained with the District Collector as of March 2007. The faulty design prepared by the private architect and the failure to scrutinise the design properly resulted in abandonment of the project.

3.4.9 Internal control and monitoring

There was no effective monitoring system in the LSGIs enabling them to get the deposit works executed by the authorised agencies effectively and efficiently and in time. The Internal control system relating to deposit works was also not effectively enforced. The stipulation that the preparation of design, detailed estimate and plan should be completed before implementing any work was not complied with resulting in delay in execution. Since utilisation of the amount deposited, was not watched, the LSGIs were not aware of how much amount was utilised. In the absence of monitoring of implementation by LSGIs, works were abandoned or remained incomplete.

3.4.10 Conclusion

- Planning of deposit works was defective
- As the amount deposited was treated as final expenditure, the LSGIs did not monitor deposit works properly leading to retention of large unutilised amounts by the authorised agencies
- The internal control and monitoring system was weak leading to non-completion of projects.

3.4.11 Recommendations

- LSGIs should ensure that before entrusting a deposit work to an authorised agency, all parameters of planning are completed.
- LSGIs should ensure that the deposit amounts are watched through the Register of Advances and unutilised balances are recovered.
- Government should consider issuing orders for strengthening the internal control and monitoring system for implementation of deposit works so that the works are executed in time.

**CHAPTER IV
TRANSACTION AUDIT**

4.1 Defalcation of public money

Non-accountal of cash drawn from treasury and failure to close cash book daily-misappropriation of Rs.15.49 lakh in Thiruvananthapuram Municipal Corporation detected in audit.

Sanction and distribution of unemployment wages to unemployed youths is a transferred function of the Urban Local Bodies (ULBs) as per Kerala Municipality Act, 1994. The State Government during 2005-06 and 2006-07 allotted non-plan funds of Rs.2.27 crore under Category 'B' to Thiruvananthapuram Municipal Corporation (TMC) for distributing unemployment wages at the rate of Rs.120 per month per beneficiary. As per Kerala Unemployment Wages Rules, 1998, beneficiaries who were not present at the time of distribution of the assistance were not eligible to claim it later. Hence the undisbursed amounts were to be refunded to the Consolidated Fund of the State immediately. The details of amounts drawn, disbursed and the balance refunded by TMC during 2005-06 and 2006-07 (up to 12 February 2007) are given below:

(Rupees in lakh)

Sl No	Date of drawal	Amount drawn	Amount disbursed	Balance amount	Amount refunded	Date of refund
1	07.09.2005	29.20	24.20	5.00	5.00	15.10.2005
2	15.10.2005	29.30	23.74	5.56	5.56	09.11.2005
3	24.11.2005	14.60	11.80	2.80	2.80	12.01.2006
4	02.03.2006	43.81	35.70	8.11	8.11	16.08.2006
5	25.05.2006	66.28	50.79	15.49	Nil	--
6	30.08.2006	43.81	35.41	8.40	8.40	27.09.2006
	Total	227.00	181.64	45.36	29.87	

Out of Rs.66.28 lakh drawn on 25 May 2006 (Sl.No.5 above) TMC disbursed Rs.50.79 lakh only towards unemployment wages for nine months (October 2003 and November 2004 to June 2005). The disbursement was made between 25 and 31 May 2006. There was an unspent balance of Rs.15.49 lakh on 1 June 2006 which should have been refunded to the Government immediately. Instead of refunding the surplus amount, the clerk of the Accounts Department who was responsible for making refund, misappropriated the money. This misappropriation was detected in physical verification of cash by the officers of TMC on 12 February 2007 conducted at the instance of Audit. The clerk handed over Rs.11.25 lakh out of Rs.15.49 lakh to the Accounts Officer on the same day which was refunded to the Government on the next day i.e. 13 February 2007. The Secretary suspended the clerk with effect from 13 February 2007 and the police registered a case against him. The balance of misappropriated amount of Rs.4.24 lakh remained unrecovered. The misappropriation was reported to the Government on 15 March 2007.

The non-accountal of drawals from the treasury and failure to close the cash book daily were brought to the notice of the Secretary and Accounts Officer (April 2006), through the local audit report for the year 2004-05. In spite of this, they failed to rectify the mistakes facilitating the misappropriation. If cash book entries had been verified with Treasury Bill Book¹ and periodical verification of cash done, this defalcation could have been avoided. The misappropriation occurred despite the existence of a concurrent audit office of the Director of Local Fund Audit at the TMC to conduct audit of transactions concurrently.

The matter was reported to Government in March 2007.

4.2 Penal interest written off without the approval of competent authority

Thrissur Municipal Corporation wrote off penal interest of Rs.4.38 crore in violation of rules and without authority.

The erstwhile Government of Cochin had, during 1937 granted a licence to Thrissur Municipality for distribution of electricity in the area of the municipality contained within a radius of 16 Km from Vadakkumnathan Temple. The municipality later became a Corporation (October 2000) and continued to hold the license enabling it to purchase power from the Kerala State Electricity Board (KSEB) at grid tariff rates and distribute it to the consumers in the licensed area at the rates applicable to consumers of KSEB. Penal interest at the rate of two *per cent* per month was payable by the consumers for defaulted payment of energy charges.

The amount of penal interest on arrears of energy charges of Rs.15.81 crore up to March 2001 as demanded by the Corporation was Rs.4.38 crore against which Rs.0.21 crore was collected as of December 2002. The Corporation however decided (December 2002) to write off the penal interest of Rs.4.38 crore including that already collected. The Corporation adjusted the penal interest of Rs.0.21 crore collected from the defaulters against their energy charges which fell due after March 2003. This was in violation of Rule 3 (5) of the Kerala Municipality (Writing off Irrecoverable Amounts) Rules, 1999 which stipulated that no amount exceeding Rs.5000 should be written off without the approval of the Director of Local Fund Audit and the Government. The Rule also stipulated that any amount should be written off only if the LSGI was satisfied that it was not possible to recover the amount by any means. Therefore, the decision to write off the amounts especially that already collected, was unauthorised. The Assistant Secretary, Electricity Department of the Corporation admitted (July 2005) that the write off was unauthorised. The write off led to loss of revenue of Rs.4.38 crore to the Corporation.

The matter was reported to Government in September 2006; reply is awaited (March 2007).

¹ Treasury Bill Book is a register where details of bills presented to the treasury and details of money drawn from treasury are recorded under attestation by treasury officer.

4.3 Loss due to failure to encash Indira Vikas Patras on maturity and reinvest the amounts

Thiruvananthapuram Municipal Corporation incurred a loss of Rs.63.65 lakh due to failure in encashing Indira Vikas Patras with face value of Rs.63.65 lakh on the date of maturity and reinvesting it.

Thiruvananthapuram Municipal Corporation (TMC) implemented the Scheme for Housing and Shelter Up-gradation (SHASU) under Nehru Rozgar Yojana (NRY) during the period 1990-94. Each beneficiary selected under the scheme was eligible for an assistance of Rs.4,000 for the upgradation of existing house. Out of the assistance, Rs.3,000 was loan provided by Kerala Urban Development Finance Corporation (KUDFC) and the balance amount of Rs1,000 was Central and State subsidy. The loan portion of Rs.3000 alone was released to the beneficiary withholding the subsidy of Rs.1000 to cover the liability of repayment of loan in case of default by the beneficiaries. The beneficiary was to repay the loan through TMC within a period of 10 years failing which TMC was liable to repay the loan. TMC invested the withheld amount of Rs.1000 in Indira Vikas Patras (IVPs) and kept it in safe custody as security. The amount invested in IVPs would have quadrupled within a period of 10 or 11 years, if reinvested in IVPs immediately on maturity after 5 or 5 ½ years. No interest accrued on IVPs after the date of maturity. The quadrupled amount of Rs.4000 received after 10 or 11 years was to be utilised to meet the repayment liability of the loan of Rs.3000 in case of any default by the beneficiary. On completion of the repayment period, TMC was to pay Rs.4000 to the beneficiaries who repaid the loan promptly.

During the period 1990-1994, 8565 beneficiaries availed the assistance under SHASU at the rate of Rs.3000. TMC invested Rs.1000 per beneficiary in IVPs which were to be encashed and invested immediately on the date of maturity. However, TMC failed to encash and reinvest 6469 IVPs having a face value of Rs.63.65 lakh purchased at Rs.31.83 lakh, immediately on maturity. IVPs purchased during 1990-94 were to be first encashed and reinvested during 1995-2000 which would have fetched Rs.127.30 lakh during the period 2001-2005. TMC, however, encashed the IVPs during February and March 2005. i.e. 11 to 15 years after purchasing the IVPs, which fetched only Rs.63.65 lakh instead of Rs.127.30 lakh. Non-encashment of IVPs in time thus resulted in loss of Rs.63.65 lakh. If the maturity date of IVPs retained by TMC had been closely monitored, the lapse could have been avoided.

TMC, in reply, stated (November 2006) that the IVPs could not be encashed in time as a vigilance case registered in 1992 against a retired officer in connection with misappropriation of money (Rs.2.25 lakh) relating to purchase of IVPs was pending. This argument is not tenable because the vigilance case on misappropriation, about which a comment is included in Para 4.4 of this Report, was not an obstacle for encashing IVPs as TMC could encash it in 2005 when the case was not settled.

The matter was reported to Government in December 2006; reply is awaited (March 2007).

4.4 Lack of internal control in LSGIs**Failure to follow prescribed internal control system enabled misappropriation of Rs.33.87 lakh in 18 LSGIs.**

A strong internal control system which is an essential pre-requisite for the efficient discharge of functions of an organisation is prescribed in Kerala Panchayat (Accounts) Rules, 1965. Receipts in the prescribed form prepared in duplicate by using a double side carbon paper signed by the Secretary or any other person authorised by him/her should be given for all moneys received in LSGIs. Similarly, every payment made, either in cash or cheque should be supported by a voucher duly receipted, stamped, if necessary and signed by the person to whom the money was due and to whom it was actually paid. All moneys received and payments made should be entered in the Cash Book, Register of Receipts/Register of Payments based on which monthly accounts and annual financial statements were prepared. Apart from these, Demand Register, Arrear Demand Register, Stock Accounts, Asset Registers, Register of Deposits, etc., also are tools of internal control. Government and the Secretary/Chairperson of the LSGIs failed to oversee and ensure that the internal control system was strictly followed. As a result of failure to follow the prescribed procedures, there was delay in submission of annual financial statements to DLFA. This led to misappropriation of public money and other financial irregularities.

During the local audit of LSGIs, 18 cases of misappropriation of public money involving Rs.33.87 lakh were noticed as detailed in **Appendix IX**.

None of the LSGIs took a serious view of the misappropriations committed by the staff. In spite of the Government being informed of the misappropriations as and when they were noticed, no disciplinary action, except recovery of misappropriated amounts of Rs.4.75 lakh, was taken. The risk of misappropriation of public money can be mitigated only through strict enforcement of the internal control system and proper maintenance of accounts records under proper supervision and monitoring. Government did not take any action to avoid such lapses in future which led to the misappropriation of money drawn for distribution of unemployment wages as discussed in paragraph 4.1 of this report.

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

4.5 Non-utilization of funds for poverty alleviation programmes

Rupees 1.39 crore received by the Thiruvananthapuram Municipal Corporation for implementation of Centrally Sponsored Schemes was kept unutilised in treasury deposits for more than six years.

The funds required for implementation of Centrally Sponsored Schemes (CSSs) viz. Swarna Jayanthi Shahari Rozgar Yojana (SJSRY) and National Slum Development Programme (NSDP) were received by the Thiruvananthapuram Municipal Corporation (TMC) during 1999 -2000 and 2000-01 through the State Poverty Eradication Mission and Director of Urban Affairs. Though the funds, as per Central guidelines, were to be deposited in an account opened in one of the nationalised banks, TMC deposited the amounts in the Treasury Public Account¹ (TP Account) in the District Treasury, Thiruvananthapuram as detailed below.

(Rupees in lakh)				
SI No	Date of deposit	NSDP	SJSRY	Total
1	22.03.2000	55.70		55.70
2	04.07.2000		22.15	22.15
3	31.03.2001	48.71		48.71
	Total	104.41	22.15	126.56

The balance in the TP Account as of March 2004 was Rs.1.39 crore including interest of Rs 0.12 crore allowed by the treasury upto March 2002. Since the schemes were to be implemented through the Community Development Society(CDS), as per central guidelines, TMC transferred the amount available in the TP Account to CDS on 22 March 2004 by issuing a cheque for Rs.1.39 crore. When the CDS presented the cheque at the District Treasury for encashment, the treasury officer did not honour the cheque stating that special sanction from the State Finance Department should be obtained. As the TP account was equivalent to a bank account, a valid cheque could be dishonoured by the treasury only if there was insufficient balance in the account. As there was sufficient balance in the TP account for honouring the cheque, the objection of the treasury was not sustainable. Though the matter was taken up with the Finance Department several times, the last being in October 2006, no sanction was received (as of March 2007). This irregular withholding of funds by the treasury and non response by the State Finance Department resulted in non-utilisation of the CSS funds even after the lapse of seven years since the allotment by the Government of India. Depositing CSS funds in the treasury, in violation of guidelines, was the root cause for the non-implementation of the CSSs.

The matter was reported to the Government in August 2006; reply is awaited (March 2007).

¹ Deposit account maintained in the treasury, similar to savings bank account in a bank

4.6 Avoidable payment of surcharge and penal interest on water charges.

Failure of Wayanad District Panchayat to remit water charges in time and to replace defective water meter led to avoidable payment of penal interest and surcharge of Rs.83.78 lakh.

The District Hospital, Mananthavady was transferred from the State Health Department to Wayanad District Panchayat (DP) with effect from 2 October 1995 in accordance with the provisions of Kerala Panchayat Raj Act, 1994. The upkeep and maintenance including payment of water and electricity charges of the hospital, therefore became the responsibility of the DP from October 1995. The Kerala Water Authority (KWA) levied penal charges amounting to Rs.83.78 lakh¹ as detailed in **Appendix X**. The water charges included an amount of Rs.4.01 lakh pertaining to the period prior to the transfer of the hospital to the DP.

The surcharge for non-replacement of the water meter was Rs.28.18 lakh calculated at the rate of 50 *per cent* of the water charges for December 1998 and January 1999 and at 100 *per cent* thereafter. The fine at the rate of two *per cent* per month levied for default in payment of surcharge was Rs.29.13 lakh. Thus non-replacement of water meter costing Rs.4147 resulted in payment of avoidable surcharge and fine thereon amounting to Rs.57.31 lakh (Rs.28.18 lakh + Rs.29.13 lakh).

Against the total demand of Rs.1.24 crore, for the period from October 1993 to May 2006 the DP paid Rs.1.19 crore as of May 2006 leaving a balance of Rs.4.46 lakh. Had the water meter been replaced in time, payment of surcharge and fine thereon could have been avoided. Even though the water meter was replaced during May 2006, KWA continued to levy surcharge. Though this was brought to the notice (August 2006) of the KWA, no action was taken as of September 2006.

Failure on the part of the DP to pay water charges in time and replace the defective water meter led to avoidable payment of penal interest and surcharge amounting to Rs.83.78 lakh.

The matter was reported to Government in August 2006; reply is awaited (March 2007).

¹ Surcharge for non-replacement of faulty water meter	= Rs.28.18 lakh
Fine for defaulting water charges and surcharge during October 1999 to May 2006	= Rs.55.60 lakh

Total	= Rs.83.78 lakh
	=====

4.7 Unauthorised financial aid of Rs.63.65 lakh

Thiruvananthapuram Municipal Corporation incurred Rs.63.65 lakh in excess of the admissible amount for constructing 50 houses under VAMBAY, violating the guideline issued by Government.

Valmiki Ambedkar Awas Yojana (VAMBAY) is a Centrally Sponsored Scheme primarily to provide shelter or to upgrade the existing shelter for people living Below Poverty Line in urban slums. The upper financial limit for construction of a house under VAMBAY was Rs.40,000 (including provision for sanitary latrine) which was to be borne by the Central Government, State Government and the Urban Local Body (ULB) in the ratio of 2:1:1. According to the guidelines, the beneficiaries should be identified through Neighbourhood Groups (NHGs), Area Development Societies (ADSs) and Community Development Society (CDS) in consultation with the ULB. The identification of BPL beneficiaries should be on the basis of baseline survey conducted under Swarna Jayanthi Shahari Rozgar Yojana. It is also stipulated that the allotment of houses should be in the name of the female member or jointly in the name of husband and wife.

The State Poverty Eradication Mission (SPEM), which is the State level nodal agency for VAMBAY, released (May 2002) Rs.64 lakh (including the State and ULB shares) to the Thiruvananthapuram Municipal Corporation (TMC), to provide houses in the Chengalchoola Colony to 160 beneficiaries at the rate of Rs.40,000 per house. Government accorded sanction (June and August 2003) for construction of 160 houses at an estimated cost of Rs.267.68 lakh. TMC entrusted (August 2003) the work of construction to the Centre for Science and Technology for Rural Development (COSTFORD). The stipulated date of completion of the work was 1 February 2005. Although a total amount of Rs.128.59 lakh¹ was paid to COSTFORD, works of only 50 houses were completed and works of 40 houses were in progress as of November 2006. The works in respect of 70 houses were not even commenced.

Audit scrutiny revealed the following irregularities.

- Beneficiaries were selected by a Committee consisting of Chairpersons of Standing Committees of Health, Works and Social Welfare, the Ward Councillor concerned, Leader of Opposition, Secretary, Project Engineer and Urban Poverty Alleviation Project Officer. The Corporation Council approved the list (August 2005) consisting of 160 beneficiaries. Selection of beneficiaries other than through NHGs, ADSs and CDS was violative of guidelines.
- Out of 160 beneficiaries 123 were male beneficiaries which was also in contravention of the guidelines indicating that the list contained ineligible beneficiaries.

¹ Funds released by SPEM	-Rs.64.00 lakh.
Own funds	-Rs.34.00 lakh
Plan funds	- <u>Rs.30.59 lakh</u>
Total	- Rs.128.59 lakh

- Even though the construction was to be completed by February 2005, the achievement was only 31 *per cent* after two years.
- As the amount spent on construction of 50 houses was Rs.83.65 lakh, the unit cost worked out to Rs.1.67 lakh. This exceeded the prescribed ceiling of Rs.0.40 lakh by Rs.1.27 lakh. This violation of guidelines resulted in excess expenditure of Rs.63.65 lakh.

The matter was reported to Government in September 2006; reply is awaited (March 2007).

4.8 Unfruitful expenditure on purchase of unsuitable land

Decision of Mananthavady Grama Panchayat to purchase land unsuitable for establishing solid waste processing plant resulted in unfruitful expenditure of Rs.31.89 lakh.

Mananthavady Grama Panchayat (GP) started (July 2004) construction of a solid waste processing plant in their own land measuring 4.75 acres at Choottakadavu as authorised (July 2002) by the Kerala State Pollution Control Board (PCB). For the disposal of the non-biodegradable waste, the PCB stipulated that a landfill site should be set up at the above plot by converting the existing waste dumping site in accordance with the Municipal Solid Waste (Management and Handling) Rules, 2000 which are applicable to GPs also.

In the meanwhile, the GP decided (June 2004) to acquire 2.03 acres of additional land lying adjacent to the above land for facilitating the installation of the plant. Based on the valuation certificate issued by the District Collector, Wayanad, the GP fixed (August 2004) the value of the land at Rs.15000 per cent. As total value of the land to be purchased was exceeding Rs.15 lakh, the GP decided (November 2004) to obtain sanction from higher authorities. One of the local residents challenged the construction of the plant in the High Court on grounds of pollution. PCB on 30 October 2004 issued direction to the GP in the light of a High Court order, to stop the construction of the plant until further orders. However, the GP purchased two acres of land at a total cost of Rs.30 lakh in January 2005 without waiting for the final orders of PCB and without obtaining Government sanction.

According to the Rules *ibid*, land fill sites should be away from habitation clusters and water bodies and shall have approach and other internal roads for free movement of vehicles and other machinery. As the land purchased was situated on the banks of River Kabani, very close to residential houses and was inaccessible during monsoon as seen from the photos given below, PCB rejected (June 2005) the request of the Panchayat to extend the period of authorisation which was only up to 31 March 2003, for installation of the plant.



Views of plot purchased for solid waste disposal facility

The honourable high court upheld (August 2005) the decision of the PCB. Thus the expenditure of Rs.31.89 lakh (including stamp duty and registration fee) incurred for acquiring land without the sanction of Government, and without waiting for the final orders of PCB and violating the provisions of the Solid Waste (Management and Handling) Rules became unfruitful.

The matter was reported to the Government in August 2006; reply is awaited (March 2007).

4.9 Avoidable expenditure on providing private water connections

Two District Panchayats incurred expenditure of Rs.1.62 crore on providing private water connections to 35453 beneficiaries under Swajaldhara Scheme in violation of Government guidelines.

Sector Reforms Pilot Project (SRP) aimed at reforms in the Water supply and Sanitation sector financed by the Government of India (GOI) was launched in Kasaragod and Kollam districts during December 2000 and January 2001 respectively. The objectives of SRP were to ensure access to water supply and sanitation for the rural population by developing sustainable systems and sources and to institutionalise water quality monitoring and surveillance and community participation in the rural water supply programme. This project was renamed as Swajaldhara II with effect from 1 April 2004 and was closed on 31 March 2006. Against 771 water supply schemes taken up in the two districts, 749 were completed catering to the needs of 35,453 households and 111 schools. The expenditure incurred was Rs.54.79 crore of which Rs.49.87 crore was GOI share and the rest was beneficiary share, District Panchayat share and interest accrued from bank account.

The District Panchayats (DPs) coordinated the implementation of SRP. For the overall management of project implementation and for co-ordinating various institutional entities, a Project Support Unit (PSU) was set up within each DP under the chairmanship of the President of the DP.

According to clause B1 of Annexure-1 of the Guidelines issued by the State Government (December 2000 and January 2001), 70 per cent households were expected to opt for private connections which were not to be financed from the project funds and the rest to be served with public stand posts. In contravention of these guidelines, all the 15161 and 20292 beneficiaries in Kollam and Kasaragod Districts respectively were provided private connections free of cost and no public stand post was provided. The avoidable expenditure on account of this worked to Rs.1.62 crore (**Appendix XI**).

On this being pointed out in audit, Kollam and Kasaragod DPs admitted (June 2006) that private connections were provided to all beneficiary houses as it was not possible to ensure that non-beneficiaries would not avail the facilities under the scheme if public stand posts were provided. The reply is not tenable as providing private water connections with project funds was unauthorised.

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

4.10 Unfruitful expenditure on check dam

Defective formulation of a project for construction of a weir (check dam) across the River Natukani without the provision for lift irrigation led to unfruitful expenditure of Rs.39.13 lakh in Wayanad District Panchayat.

Wayanad District Panchayat (DP) during 2001-02 took up a project for constructing a check dam across the River Natukani at Cheekallur in Kaniambetta Grama Panchayat at an estimated cost of Rs.42.50 lakh mainly to irrigate 187 hectares of land on the banks of the river. The construction of the check dam was completed in August 2003 by the Beneficiary Committee at a cost of Rs.39.13 lakh. As the irrigable land was on a higher terrain, lifting of water by using motor and pump set was an essential requirement of the irrigation scheme. Since provision of pump set was not made in the estimate, the DP could not make use of the check dam for irrigation even after a lapse of three years after the completion of its construction. As the intended benefits of the project could not be derived, the expenditure of Rs.39.13 lakh incurred became unfruitful. The construction of a check dam without making provision for lift irrigation indicated defective planning. The DP confirmed (October 2006) that no lift irrigation system was constructed.

The matter was reported to Government in August 2006; reply is awaited (March 2007).

4.11 Irregular Hiring of vehicles in Kochi Municipal Corporation

Unnecessary hiring of vehicles and irregular tender procedure led to undue benefit to the contractor

(i) Undue favour to the contractor

Municipal Corporation of Kochi (MCK) invited (March 2003) quotations (inclusive of fuel and driver) for supplying vehicles having transporting capacity of 10 MT for removal of solid wastes from East and West Zones to the land fill sites. As MCK could not finalise the tender before the expiry of the existing contract on 31 March 2003, the contractor was allowed to continue to supply vehicles at the existing rate Rs.1,549 per vehicle per day till the award of a new contract.

The lowest bid quoted was for Rs.1,159. However, MCK negotiated (22 April 2003) with other bidders including the existing contractor, who had quoted Rs.1590 (8th lowest). This was in violation of Rule 10(12) of Kerala Municipality (Execution of Public Works and Purchase of Materials) Rules, 1997, according to which the lowest tender should have been accepted and if the lowest tender was not acceptable, second lowest tender should have been accepted for recorded reasons. On negotiation, the existing contractor reduced his quote to Rs.1,140. Instead of considering the lowest bidder at the first instance, MCK awarded the work to the existing contractor (August 2003).

Further, Rule 11(2) *ibid* stipulate that negotiations should be made only with the lowest bidder. Thus negotiating with all bidders after the rates quoted by each were made public was in violation of the rules. No reasons were on record for not accepting the lowest quote. It was evident that the tendering

procedure was not transparent in the MCK and awarding the work to the existing contractor was tantamount to extending undue favour to him.

(ii) Unjustified payment for hiring of vehicles

The District Medical Officer of Health (DMOH) brought to the notice of the MCK (May 2003) that the outbreak of dengue fever in Ernakulam district was due to the large number of used and obsolete tyres lying in industrial areas, near motor workshops and retreading shops in the city. The water collected in these tyres accelerated the breeding of 'aedes' mosquitoes which are carriers of the 'dengue' virus. The DMOH asked MCK to remove such sources by instructing them to either destroy such tyres or to keep them covered failing which their licence should be withdrawn.

Instead of directing the workshops/retreading shops to remove the tyres at their cost, MCK decided to hire two tipper lorries and one excavator (JCB) for three days to remove such accumulated waste for which it invited (May 2003) quotations. The contract was awarded again to the same contractor who was engaged for providing vehicles for the period 2003-04 for transporting municipal solid waste to land fill sites referred to in (i) above. MCK did not execute any agreement with the contractor for the above job. The rate quoted by him and accepted by MCK was Rs.2550 per day per lorry which was much higher than that which prevailed up to March 2003 and thereafter i.e. Rs.1590 and Rs.1140 respectively.

The Secretary of MCK reported to the Director of Urban Affairs on 23 June 2003, that the work was complete. Further, though the contractor was to supply lorries and JCB only on 28, 29 and 30 May 2003 as directed in the work order dated 26 May 2003, he claimed hire charges of Rs.1.61 crore for supplying vehicles from 23 May 2003 to 31 July 2005. Nearly after two years of commencement of the work, MCK entered into an agreement with the contractor on 18 May 2005 to the effect that "the contractor shall supply the vehicles for as many hours/days as required by MCK". A review of the agreement executed ex-post facto revealed that the following essential and vital conditions were not incorporated.

- i) Mention about the quotation notice (24 May 2003), quotation of the contractor and work order (26 May 2003).
- ii) Stipulated period of commencement and completion of the work.
- iii) Conditions for maintaining a vehicle movement register.

In the absence of the above conditions, the possibility of a fraudulent claim towards hiring charges of 10380 hours for JCB and 2841 lorries between 23 May 2003 and 31 July 2005 could not be ruled out. Claiming amounts for periods even prior to publication of the quotation notice was indicative of fraud and needs to be investigated. The admissible hire charges payable as per the work order were only Rs.39525 for hiring vehicles for three days on 28 May to 30 May 2003. Further, as there was an existing agreement for hiring lorries for removal of solid waste during the same period, there was no necessity for hiring vehicles for this similar nature of work. Thus, lack of monitoring of the hired vehicles and the non-transparent tender procedure followed resulted in avoidable payment of Rs.1.61 crore.

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

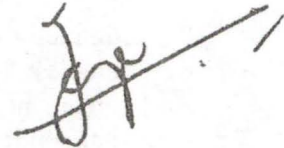
4.12 Unfruitful Expenditure on a building

Projects for providing employment to women could not be started as Wadakanchery Grama Panchayat did not procure machinery and raw materials rendering Rs.11.70 lakh spent on construction of building unfruitful.

Wadakanchery Grama Panchayat (GP) included in its annual plan for the year 2000-01, two projects for establishing an umbrella manufacturing unit and a dress making unit with an outlay of Rs.4.94 lakh and Rs.3.50 lakh respectively to provide employment to 10 women each. The amount included the cost of buildings, machinery and raw materials. The construction of the buildings was completed in February 2001 and July 2001 respectively at a total cost of Rs.7.27 lakh. As the GP did not procure the machinery and raw materials costing Rs.1.50 lakh, which was 18 *per cent* of the project outlay, the units could not be commissioned.

Even though the units were not commissioned in the buildings, the GP decided to construct the second floors of the buildings which had been idle for two years. The construction was completed in March 2004 at a cost of Rs.4.43 lakh. The buildings, in spite of modifications, could not be utilised for want of machinery. Construction of second floors of the buildings even when portions already constructed had been lying idle was injudicious leading to unfruitful expenditure of Rs.11.70 lakh. Besides, the intended benefit of providing employment to 20 women could not be derived.

The matter was reported to Government in August 2006; reply is awaited (March 2007).



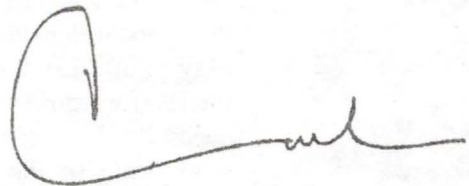
(JAYANTA CHATTERJEE)

Principal Accountant General (Audit), Kerala

Thiruvananthapuram,

The **6 JUL 2007**

Countersigned



(VIJAYENDRA N.KAUL)

Comptroller and Auditor General of India

New Delhi,

The

APPENDICES

Appendix-I
Extent of devolution of Funds
(Reference to Paragraph 1.9.9)

(1) Grama Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	735.34	225.45	960.79	605.63	239.90	845.53
2003-04	758.90	220.43	979.33	766.58	208.57	975.15
2004-05	785.33	710.50	1495.83	601.37	550.65	1152.02
2005-06	804.48	780.87	1585.35	622.90	701.25	1324.15
Total	3084.05	1937.25	5021.30	2596.48	1700.37	4296.85

(2) Block Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	196.74	19.67	216.41	169.40	14.05	183.45
2003-04	211.50	15.74	227.24	246.40	15.03	261.43
2004-05	221.25	9.16	230.41	182.54	6.80	189.34
2005-06	230.24	35.70	265.94	178.69	26.52	205.21
Total	859.73	80.27	940.00	777.03	62.40	839.43

(3) District Panchayat

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	180.25	55.31	235.56	134.97	54.25	189.22
2003-04	192.90	56.54	249.44	174.74	56.76	231.50
2004-05	198.87	19.16	218.03	138.57	16.27	154.84
2005-06	210.30	88.53	298.83	125.64	64.52	190.16
Total	782.32	219.54	1001.86	573.92	191.80	765.72

(4) Municipalities

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	154.60	27.11	181.71	114.74	21.41	136.15
2003-04	167.94	25.91	193.85	121.30	22.71	144.01
2004-05	125.23	29.22	154.45	102.20	22.84	125.04
2005-06	116.86	111.73	228.59	96.45	100.20	196.65
Total	564.63	193.97	758.60	434.69	167.16	601.85

(5) Municipal Corporations

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	109.66	24.35	134.01	93.97	9.35	103.32
2003-04	103.30	7.93	111.23	75.96	10.94	86.90
2004-05	70.88	82.95	153.83	68.06	93.85	161.91
2005-06	114.24	39.35	153.59	86.09	36.21	122.30
Total	398.08	154.58	552.66	324.08	150.35	474.43

(6) Total of all Local Self Government Institutions (1 to 5)

(Rupees in crore)

Year	Budget provisions			Amount Disbursed		
	Plan	Non Plan	Total	Plan	Non Plan	Total
2002-03	1376.59	351.89	1728.48	1118.71	338.96	1457.67
2003-04	1434.54	326.55	1761.09	1384.98	314.01	1698.99
2004-05	1401.56	850.99	2252.55	1092.74	690.41	1783.15
2005-06	1476.12	1056.18	2532.30	1109.77	928.70	2038.47
Grand Total	5688.81	2585.61	8274.42	4706.20	2272.08	6978.28

Appendix-II
Utilisation of Centrally Sponsored Scheme Funds
(Reference to Paragraph 1.9.10)

(Rupees in crore)

Name of Scheme	Opening balance	Distribution to LSGIs			Total available fund	Funds utilised by LSGIs	Balance	Percentage of utilisation
		Central Share	State share	Total				
<u>Funds distributed by District Rural Development Agencies</u>								
Swarnajayanti Grama Swarozgar Yojana (SGSY)	0.94	17.98	5.99	23.97	24.91	24.20	0.71	97.14
Indira Awas Yojana (IAY)	8.34	51.69	17.62	69.31	77.65	71.50	6.15	92.08
Swarna Jayanti Grama Swarozgar Yojana (Special Project)	2.98	2.42	0.81	3.23	6.21	2.66	3.55	42.83
Sampoorna Grameen Rozgar Yojana (SGRY)	44.63	90.76	30.25	121.01	165.64	155.33	10.31	93.77
Total Sanitation Campaign(TSC)	2.29	8.38	3.46	11.84	14.13	8.74	5.39	61.85
Integrated Wasteland Development Programme (IWDP)	4.13	1.56	0.15	1.71	5.84	2.88	2.96	49.32
Extension Training Centres	---	---	0.36	0.36	0.36	0.36	---	100
DRDA Administration	5.58	4.68	1.56	6.24	11.82	8.65	3.17	73.18
State Institute of Rural Development	1.92	0.48	0.37	0.85	2.77	1.55	1.22	55.96
Block Information Centers	---	---	0.20	0.20	0.20	0.20	---	100
Attapady Wasteland Environmental Conservation	5.06	---	20.00	20.00	25.06	22.78	2.28	90.90
Prime Minister's Gram Sadak Yojana (PMGSY)	1.01	121.97	---	121.97	122.98	76.95	46.03	62.57
Total	76.88	299.92	80.77	380.69	457.57	375.80	81.77	82.12
<u>Funds distributed by Director of Urban Affairs</u>								
IDSMT	---	3.65	2.43	6.08	6.08	6.08	---	100
MSH	---	0.51	0.51	1.02	1.02	1.02	---	100
Total	---	4.16	2.94	7.10	7.10	7.10	---	100
<u>Funds distributed by Kudumbasree – the State Poverty Eradication Mission</u>								
Swarnajayanti Shahari Rozgar Yojana (SJSRY)	11.28	6.81	2.27	9.08	20.36	6.90	13.46	33.89
National Slum Development Programme (NSDP)	16.08	10.33	---	10.33	26.41	14.48	11.93	54.82
Valmiki Ambedkar Awas Yojana (VAMBAY)	22.27	10.27	15.14	25.41	47.68	9.32	38.36	19.55
Total	49.63	27.41	17.41	44.82	94.45	30.70	63.75	32.50
Grand Total	126.51	331.49	101.12	432.61	559.12	413.60	145.52	73.97

Appendix-III
List of Local Self Government Institutions audited under Supplementary
Audit during 2005-06
(Reference to Paragraph 2.8.1)

Name of LSGIs	Year of Audit
Grama Panchayats	
1. Aikaranadu	2002-2003
2. Alagappa Nagar	1998-1999
3. Amballur	2002-2003
4. Anad	2000-2001
5. Chathannur	2001-2002
6. Chelakara	2001-2002
7. Chempakulam	2000-2001
8. Cherthala (South)	1998-1999
9. Chirayinkeezhu	2001-2002
10. Dharmadom	2001-2002
11. Edapatta	2001-2002
12. Edavanakad	2000-2001
13. Elamad	1999-2000
14. Ezhukone	2001-2002
15. Kadakkarapally	2001-2002
16. Kadampanad	2001-2002
17. Kadappuram	2001-2002
18. Kainakari	2000-2001
19. Kanjiramkulam	2001-2002
20. Kanjirappally	1999-2000
21. Kattur	2001-2002
22. Kavalangad	2001-2002
23. Kodumon	2002-2003
24. Koodali	2001-2002
25. Koothattukulam	2001-2002
26. Kootickal	2001-2002
27. Kottackal	2002-2003
28. Kottamkara	2000-2001
29. Kottopadam	2001-2002
30. Krishapuram	2001-2002
31. Kundara	2001-2002
32. Kunnathur	2001-2002
33. Kuttoor	2000-2001
34. Kuzhoor	2002-2003
35. Maneed	2002-2003
36. Mangalapuram	2001-2002
37. Mararikulam	2000-2001
38. Mokeri	1999-2000
39. Mulamkunathkavu	2000-2001
40. Muriyad	2001-2002
41. Muthuthala	1999-2000
42. Mylam	2002-2003
43. Nagaroor	2000-2001
44. Nediyririp	2001-2002
45. Nedumpuram	2002-2003
46. Nenmara	2001-2002
47. Nilamel	2000-2001
48. Othukkungal	2001-2002

49. Palakuzha	2002-2003
50. Pampady	2000-2001
51. Parasala	2001-2002
52. Pathanapuram	2000-2001
53. Pattambi	2000-2001
54. Punnayurkulam	1999-2000
55. Puthige	2000-2001
56. Thiruvamkulam	2001-2002
57. Valavannur	2000-2001
58. Vattiyoorkavu	2001-2002
59. Vechoor	1999-2000
60. Veliyam	2002-2003
61. Vettoor	2001-2002
62. Vilakudy	2000-2001
63. Vizhinjam	2001-2002
Block Panchayats	
1. Anchal	2001-2002
2. Chalakudy	2001-2002
3. Chengannur	1999-2000
4. Vaikom	2001-2002
5. Vettikavala	2001-2002

Appendix-IV
List of LSGIs which did not close cash book daily
(Reference to Paragraph 2.9.1)

- 1) Amballor GP
- 2) Chathannur GP
- 3) Chengannur BP
- 4) Dharmadom GP
- 5) Edavanakkad GP
- 6) Ezhukone GP
- 7) Kadakarapally GP
- 8) Kadappuram GP
- 9) Kavalangad GP
- 10) Kadampanad GP
- 11) Koodali GP
- 12) Koothatukulam GP
- 13) Kottapadam GP
- 14) Kundara GP
- 15) Kuzhoor GP
- 16) Maneed GP
- 17) Mokeri GP
- 18) Nagaroor GP
- 19) Nenmara GP
- 20) Nilamael GP
- 21) Parasala GP
- 22) Punnayurkulam GP
- 23) Puthige GP
- 24) Vechoor GP

Appendix-V
List of LSGIs which prepared unrealistic Budget
(Reference to Paragraph 2.10.2)

- 1) Chathannur GP
- 2) Chempakulam GP
- 3) Cherthala (South) GP
- 4) Chirayinkeezhu GP
- 5) Dharmadom GP
- 6) Elamad GP
- 7) Ezhukone GP
- 8) Kadakarapally GP
- 9) Kadampanad GP
- 10) Kadappuram GP
- 11) Kainakari GP
- 12) Kanjiramkulam G.P.
- 13) Koothali GP
- 14) Kootickal GP
- 15) Kottamkara GP
- 16) Krishnapuram GP
- 17) Kundara GP
- 18) Kunnathur GP
- 19) Kuttoor GP
- 20) Mangalapuram GP
- 21) Mararikulam (North) GP
- 22) Mylam GP
- 23) Nagaroor GP
- 24) Nenmara GP
- 25) Nilamel GP
- 26) Puthige GP
- 27) Thiruvamkulam GP
- 28) Vattiyoorkavu GP
- 29) Vettoor GP

Appendix-VI
Activity Mapping of LSGIs
(Reference to Paragraph 3.3.6.1)

Sl. No.	Activity	Distribution of functions			
		Grama Panchayat	Block Panchayat	District Panchayat	Urban Local Bodies
1	Agriculture	i. Waste land cultivation ii. Land utilization iii. Soil Protection iv. Production of Organic manure v. Establishment of Nurseries vi. Group farming vii. Organising Self help groups among farmers viii. Vegetable cultivation ix. Fodder development. x. Plant protection xi. Seed protection xii. Farm mechanization xiii. Management of Krishi Bhavan	i. Farmers training ii. Arranging agricultural inputs. iii. Agricultural exhibitions iv. Management of watersheds v. Mobilisation of agricultural loans vi. Encouragement of sericulture.	i. Agriculture farms ii. Integrated watershed management iii. Providing agricultural inputs iv. Soil testing v. Pest control vi. Marketing of agri products vii. Cultivation of ornamental plants viii. Agricultural Co-operatives ix. Promotion of Commercial crops x. Application of bio-technology xi. Popularisation of Innovative field trails and Pilot projects xii. Conduct of locally appropriate research and development.	i. Barren land cultivation ii. Land utilization iii. Soil conservation iv. Production of Organic manure v. Establishment of nurseries vi. Group farming vii. Organising self help groups among farmers viii. Vegetable cultivation ix. Fodder development x. Plant protection xi. Seed production xii. Farm mechanization xiii. Running of Krishi Bhavan xiv. Agricultural Exhibitions
2	Animal Husbandry and Dairy farming	i. Cattle Development ii. Dairy farming iii. Poultry farming, Bee keeping, goat rearing, etc. iv. Running of Veterinary Hospitals v. Running of ICDP Sub Centres vi. Preventive Health Programmes for animals vii. Prevention of cruelty to animals viii. Fertility improvement programmes ix. Control of diseases of animal origin.	i. Running of veterinary Polyclinics and Zonal artificial insemination Centres ii. Speciality services in animal husbandry iii. Cattle and poultry shows	i. Running of district level veterinary hospitals and laboratories ii. Running of dairy extension units iii. Milk Co-operatives iv. Running of farms v. District level training vi. Disease prevention programmes vii. Field trials and pilot projects viii. Locally relevant research and development	i. Cattle Development ii. Production of milk iii. Poultry farming, Bee keeping, goat rearing etc. iv. Running of Veterinary Hospitals v. Running of ICDS sub-Centres vi. Preventive health programme of animals vii. Prevention of cruelty to animals viii. Fertility improvement ix. Control of animal origin disease x. Veterinary poly clinics and Regional Artificial insemination Centres xi. Providing speciality services in animal husbandry xii. Cattle & Poultry shows
3	Minor Irrigation	i. Minor irrigation projects within the area of Grama Panchayat ii. Micro irrigation projects iii. Water Conservation	i. Lift Irrigation Schemes and Minor Irrigation Schemes covering more than one G.P.	i. Development of ground Water resources ii. Minor irrigation schemes covering more than one B.P iii. Command Area Development	i. Minor and lift irrigation projects within the Municipal areas ii. Micro- Irrigation Projects iii. Water Conservation iv. Ground water resources development

4	Fisheries	<ul style="list-style-type: none"> i. Fish seed production and distribution of offsprings ii. Distribution of fishing implements iii. Assistance for fish marketing iv. Basic facilities for fishermen families v. Fishermen welfare schemes 	Development of Traditional landing Centres	<ul style="list-style-type: none"> i. Fish marketing ii. Management of fish farm development agency iii. Management of district level pisciculture Centres net making units, fish markets, feed mills, ice plants and cold storage iv. Fisheries schools v. Introduction of new technologies vi. Provide implements required for fishermen vii. Fishermen's Co-operatives 	<ul style="list-style-type: none"> i. Implementation of Pisci-culture in ponds, fresh water and brackish in water and development of marine Products ii. Fish seed production and distribution. iii. Distribution of fishing implements iv. Assistance for fish marketing v. Basic services for fishermen families vi. Fishermen welfare scheme vii. Development of traditional landing centres viii. Administrative control of fisheries schools
5	Social Forestry	<ul style="list-style-type: none"> i. Growing fruit trees and other trees ii. Campaigns for planting of trees and environmental awareness iii. Afforestation of waste land. 	Nil	Nil	<ul style="list-style-type: none"> i. Growing fruit trees and other trees ii. Campaign for planting of trees and environmental awareness iii. Afforestation of waste lands
6	Small Scale Industries	<ul style="list-style-type: none"> i. Cottage-village Industries ii. Handicrafts iii. Traditional and mini industries 	<ul style="list-style-type: none"> i. Mini Industrial-Estates ii. Industries with investment limit of 1/3rd of SSI limit. iii. Self employment schemes in Industrial sector. 	<ul style="list-style-type: none"> i. Management of District Industries Centre ii. Small Scale Industries iii. Industrial Estates iv. Exhibitions for sale of products v. Entrepreneur development programme vi. Marketing of products vii. Imparting training viii. Create input source and common facility Centres ix. Implementation of Industries development credit Schemes 	<ul style="list-style-type: none"> i. Cottage-village Industries ii. Handicrafts iii. Traditional and mini Industries iv. Mini Industrial estates v. Industries with investment of 1/3rd of SSI limit. vi. Self employment scheme in Industrial sector vii. Small scale industries viii. Entrepreneur development programme
7	Housing	<ul style="list-style-type: none"> i. House sites and houses for house less people. ii. Rural housing programme iii. Shelter upgradation programme 	<ul style="list-style-type: none"> i. Popularisation of low cost housing ii. Promotion of housing Co-operatives 	<ul style="list-style-type: none"> i. Housing complex and infrastructure development ii. Mobilisation of housing finance 	<ul style="list-style-type: none"> i. House site and houses for homeless people. ii. Housing programmes iii. Shelter rejuvenation programmes iv. Popularising the low cost housing v. Housing Co-operatives vi. Development of housing complex and infrastructure vii. Mobilise housing finance
8	Water supply	<ul style="list-style-type: none"> i. Management of Water supply schemes with in a G.P. ii. Setting up of water supply schemes within a G.P 	Nil	<ul style="list-style-type: none"> i. Implementation of water supply schemes covering more than one G.P ii. Taking over of water supply schemes covering more than one G.P 	<ul style="list-style-type: none"> i. Maintain water supply schemes within the Municipal area ii. Arrange water supply schemes within the respective Municipalities

9	Electricity and Energy	<ul style="list-style-type: none"> i. Installation and maintenance of street lights ii. Encourage the consumption of Bio-gas 	<ul style="list-style-type: none"> i. Development of Conventional energy sources 	<ul style="list-style-type: none"> i. Taking over micro-hydel projects ii. Determining priority areas for extension of electricity 	<ul style="list-style-type: none"> i. Install street lights ii. Encourage the consumption of bio-gas iii. Promote the non-conventional energy sources
10	Education	<ul style="list-style-type: none"> i. Management of Govt. Pre-Primary schools and Primary Schools ii. Implementation of literacy programmes iii. Management and promotion of reading rooms and libraries 	<ul style="list-style-type: none"> i. Management of Govt. Industrial Training Institutions 	<ul style="list-style-type: none"> Management of i. Govt. High Schools ii. Govt Higher Secondary Schools iii. Govt. Technical Schools iv. Govt. Vocational Training Centres and Polytechnics v. Govt Vocational Higher Secondary Schools vi. District Institutions of Education and Training vii. Co-ordination of centrally and State sponsored programmes related to education 	<ul style="list-style-type: none"> Run i. the Govt Pre-Primary, Primary schools and High schools ii. the Govt. Higher Secondary schools in Municipal area iii. the Govt Industrial Training Centres in Municipal Area iv. the Govt. Technical schools in the Municipal area v. the Govt. Vocational Training Centres and Polytechnics in the Municipal area vi. Implement Literary Programmes
11	Public Works	<ul style="list-style-type: none"> i. Village roads in a G.P ii. Construction of buildings for institutions including those transferred from the Govt. 	<ul style="list-style-type: none"> i. Village roads connecting more than one G.P within the Block Panchayat and other roads vested in B.P ii. Construction of buildings for transferred institutions. 	<ul style="list-style-type: none"> i. All district roads vested with the District Panchayat other than major district roads ii. Construction of building for institutions transferred 	<ul style="list-style-type: none"> i. Construct and maintain the roads except National Highways state Highways and Major district roads within the Municipality ii. Construction of building for institutions including those were transferred from Govt.
12	Public Health and Sanitation	<ul style="list-style-type: none"> i. Dispensaries Primary Health Centres and sub Centres. ii. Maternity and child welfare centres iii. Immunization and other preventive measures iv. Family welfare programme v. Sanitation programme 	<ul style="list-style-type: none"> Community Health Centre and Taluk Hospitals medicine with in B.P 	<ul style="list-style-type: none"> i. Management of district hospitals ii. Setting up of centres for care of special categories of handicapped and mentally disabled people iii. Co-ordination of centrally and state sponsored programmes at district level 	<ul style="list-style-type: none"> i. Dispensaries Primary Health Centres and Sub Centres ii. Child welfare centres and mother care homes iii. Remedial and other preventive measures against diseases iv. Family welfare programmes v. Sanitation programme vi. Public Health Centres and Taluk hospitals under all system of medicine in Municipal area
13	Social welfare	<ul style="list-style-type: none"> i. Anganwadis ii. Pension to destitutes, widows, handicapped and Agricultural labourers iii. Unemployment wages iv. Financial assistance for the marriage of the daughters of widows v. Group insurance scheme for the poor 	<ul style="list-style-type: none"> i. Management of ICDS 	<ul style="list-style-type: none"> i. Provide grants to orphanages ii. Welfare centres for the handicapped and destitutes 	<ul style="list-style-type: none"> i. Anganwadis ii. Pension to destitutes, widows handicapped and agricultural labourers. iii. Unemployment wages iv. Financial assistance for the marriage of the daughters of widows v. Group Insurance scheme to the poor.

					<ul style="list-style-type: none"> vi. Provide grant to orphanage vii. Start institutions for the welfare of handicapped, destitutes etc.
14	Poverty alleviation	<ul style="list-style-type: none"> i. Identifying the poor ii. Self employment and group Employment schemes for the poor. iii. Providing community assets of continuing benefits to the poor 	<ul style="list-style-type: none"> i. Planning and implementation of employment assurance schemes in Co-ordination with G.P ii. Skill up gradation of poor for self employment and giving wage employment for people below poverty line 	<ul style="list-style-type: none"> i. Providing infrastructure facilities for self employment programme 	<ul style="list-style-type: none"> i. Identify the poor ii. Self employment and group employment schemes for the poor especially for women iii. Create Community assets to get continuing benefit to the poor iv. Develop the skills of those below poverty line to do self employment and for remunerative employment v. Basic facilities for self employment schemes.
15	Scheduled Caste-Scheduled Tribe Development	<ul style="list-style-type: none"> i. Beneficiary oriented scheme under SCP/TSP ii. Nursery schools for SCs and STs iii. Arrange basic facilities in SC/ST colonies iv. Assistance to SC/ST students v. Discretionary assistance to SC/ST when necessary 	<ul style="list-style-type: none"> i. Management of Pre-matric hostels ii. Promotion of Co-operatives meant for SC/STs 	<ul style="list-style-type: none"> i. Management of Post metric hostels ii. Promotion of Vocational training centres for SC/ST. 	<ul style="list-style-type: none"> i. Beneficiary oriented schemes under SCP/TSP ii. Nursery schools for SC/STs iii. Provide basic facilities in SC/ST colonies. iv. Assistance for the SC/ST students v. Discretionary assistance to the SC/STs. vi. Run Pre metric hostels. vii. Develop SC/ST Co-operatives. viii. Run Post metric hostels. ix. Run Vocational Training Centres for the SC/ST.
16	Sports and Cultural Affairs	<ul style="list-style-type: none"> i. Construction of play grounds ii. Establishment of Cultural centres 	Nil	<ul style="list-style-type: none"> i. Construction of stadia 	<ul style="list-style-type: none"> i. (1) Construct play grounds and studios
17	Public Distribution system	<ul style="list-style-type: none"> i. Examining the complaints against Public Distribution system and find out and implement remedial measures ii. Campaign against offences relating to weights and measures iii. General supervision and guidance of Ration shops and other public distribution systems and start new public distribution centres, if necessary 	Nil	Nil	<ul style="list-style-type: none"> i. Examine complaints against PDS and to find out and implement remedial measures ii. Campaign against offences relating to weights and measures iii. General supervision of Ration shops and other public distribution systems and to provide guidance and start new PD centres if necessary

18	Natural Calamities Relief	<ul style="list-style-type: none"> i. Protection of Relief Centres ii. Conduct works relating to natural calamity. 	Nil	Nil	<ul style="list-style-type: none"> (1) Maintain relief centres (2) Organise relief activities
19	Co-operation	<ul style="list-style-type: none"> i. Organise Co-operatives within the boundaries of GP. ii. Strengthen the existing Co-operative Institutions 	<ul style="list-style-type: none"> i. Organise Co-operatives with in the jurisdiction of B.P ii. Strengthening of Co-operative institutions. 	<ul style="list-style-type: none"> (1) Organisation of Co-operatives within the limits of DP (2) Strengthening of the Co-operative institutions 	<ul style="list-style-type: none"> (1) Organise Co-operatives within the Municipal area (2) Distribute government grant and subsidies

Appendix-VII
Details of Institutions transferred to LSGIs
(Reference to Paragraph 3.3.7)

Sl. No.	Name of Department	Institutions Transferred			
		Grama Panchayat	Block Panchayat	District Panchayat	Municipality/Corporation
1	Agriculture	Krishi Bhavan	Office of the Assistant Director, Agriculture.	i. Soil testing Lab ii. District Marketing Office iii. District farms	Krishi Bhavan
2	Animal Husbandry	i. Veterinary Dispensary ii. ICDP Sub Centre.	i. Veterinary Poly Clinic ii. Zonal Artificial Insemination Centre	i. District Veterinary Hospital and Training Centres ii. Mobile Veterinary Dispensary/farm unit iii. Clinical Lab not attached with District Veterinary Hospital iv. ICDP Area Office	i. Veterinary Sub Centre ii. Veterinary Dispensary/Hospital iii. Veterinary Poly Clinic
3	Public Health	i. Primary Health Centre/ Rural Dispensary ii. Maternity and Child Welfare Centre iii. Sub Centre	i. Block level Primary Health Centres. ii. Community Health Centre iii. Taluk Hospital/Govt. Hospital	District Hospitals except at Trivandrum, Ernakulam and Kozhikode	i. Community Health Centre ii. Taluk Hospital iii. Govt. Hospital
4	Indian System of Medicine (Ayurveda)	Ayurveda Hospital/ Dispensary	Taluk Ayurveda Hospital	District Ayurveda Hospital	i. Ayurveda Dispensary/Hospital ii. Taluk Ayurveda Hospital
5	Homeopathy	Homeo Dispensary/Hospital	Taluk Homeo Hospital	District Homeo Hospital	Homeo Dispensary/Hospital/Taluk Hospital
6	General Education	Govt. Pre Primary School, Lower Primary School, Upper Primary School	---	High School, LP/UP School attached with High School Higher Secondary School, Teachers Training Centre and Special School.	i. Govt. Pre Primary School ii. Lower/Upper Primary School iii. High School iv. Higher Secondary school
7	Scheduled Caste/ Scheduled Tribe Development	Balavadi, Balavadi Feeding Centres, Nursery School, Seasonal Day Care Centre Midwifery Centres, Dormetry, Ayurveda Dispensary	i. Block level Scheduled Caste Development Office ii. Tribal Extension Office iii. Pre matric hostel	---	i. Nursery School ii. Pre matric Hostel
8	Rural Development	Rural Development Office	Block Development Office	---	---
9	Social Welfare	Aganawadi	Care Homes and Old age Homes	---	i. Aganawadi ii. Day care Centres
10	Fisheries	Matsya Bhavan	---	Fisheries School	Matsya Bhavan
11	Industries	---	---	District Industries Centre	---

Appendix-VIII
Details of functionaries transferred to LSGIs
(Reference to Paragraph 3.3.10.2)

Sl. No.	Name of Department	Officers Transferred			
		Grama Panchayat	Block Panchayat	District Panchayat	Urban Local Bodies
1	Agriculture	Staff of Krishi Bhavan including Agriculture Officer.	Assistant Director of Agriculture and staff.	i. District Principal Agriculture officer and staff. ii. Deputy Director of Agriculture and his staff iii. Assistant Executive Engineer (Agriculture) and staff.	i. Agriculture Officer & Staff ii. Agriculture field officer and staff iii. Deputy Director of Agriculture and staff.
2	Animal Husbandry	Staff of Veterinary Dispensary and ICDP Sub Centre including veterinary surgeon.	Assistant Director/ Senior Veterinary Surgeon and staff of Veterinary Poly Clinic and Zonal Artificial Insemination Centre	Deputy Director of Animal Husbandry and Staff of District Veterinary Hospital and Training Centres, Mobile Veterinary Dispensary farm unit, Clinical Lab not attached with District Veterinary Hospital and ICDP Area Office.	Veterinary Surgeon and Staff of Veterinary Sub Centre, Veterinary Dispensary/Hospital and Veterinary Poly Clinic
3	Public Health	Medical officer and staff of Primary Health Centre/ Rural Dispensary, Maternity and Child Welfare Centre and Sub Centre	Medical officer and staff of Block level Primary Health Centres, Community Health Centers and Taluk Hospital/Govt. Hospital	District medical officer and staff of District Hospitals except at Trivandrum, Ernakulam and Kozhikode	Medical officer and staff of Community Health Centre, Taluk Hospital and Govt. Hospital
4	Indian System of Medicine (Ayurveda)	Medical officer and staff of Ayurveda Hospital/ Dispensary	Medical officer and staff of Taluk Ayurveda Hospital	District medical officer and staff of District Ayurveda Hospital	Medical officer and staff of Ayurveda Dispensary/Hospital and Taluk Ayurveda Hospital
5	Homeopathy	Medical officer and staff of Homeo Dispensary/Hospital	Medical officer and staff of Taluk Homeo Hospital	District medical officer and staff of District Homeo Hospital	Medical officer and staff of Homeo Dispensary/Hospital/Taluk Hospital
6	General Education	Head master and staff of Govt. Pre Primary, Lower Primary and Upper Primary schools	Nil	Head master and staff of High School, LP/UP School attached with High School Higher Secondary School, Teachers Training Centre, Special School and Deputy Director of Education Officer and staff, Assistant Educational Officer and staff.	Head master and staff of Govt. Pre Primary School, Lower/Upper Primary School and High School and Higher Secondary School
7	Scheduled Caste/ Scheduled Tribe Development	Staff of Balavadi, Balavadi Feeding Centre, Nursery School, Seasonal Day Care Centre Midwifery Centres, Dormitory, Ayurveda Dispensary	Block level Scheduled Caste Development Officer and staff, Tribal extension Officer	District Scheduled Caste Development Officer and Staff	Staff of Nursery School, Pre matric Hostel and Scheduled Caste Development Officer and Tribal Development Officer.
8	Rural Development	Village Extension Officer and Lady Village Extension Officer and their staff.	Block Development Officer and his staff.	i. Staff of Poverty alleviation unit ii. District Functional Literacy Officer & Staff iii. Women Welfare Officer & Staff iv. Assistant Development Commissioner (General) and Staff	Nil
9	Social Welfare	ICDS Supervisor, Aganawadi worker and Helper	ICDS Project Officer and staff	District Social Welfare Officer and Staff / District Programme Officer (ICDS) and staff.	Aganawadi worker and Helpers, Child Development Assistant Project Officer, Child Development Project Officer (Corporation)

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10	Fisheries	Fisheries Sub Inspector and staff	Nil	Deputy Director of fisheries and staff and entire staff of fisheries School	Fisheries Sub Inspector & Staff
11	Public Works	Assistant Engineer & Staff	Assistant Executive Engineer & Staff	One Executive Engineer and connected staff	Nil
12	Industries	Nil	Industries Extension Officer	Manager and staff of District Industries Centre	Industries Extension Officer
13	Diary Development	Dairy Extension Officer	Dairy Extension Officer and staff	District Level Deputy Director of Dairy Development and staff	Deputy Director of Dairy Development and staff
14	Minor Irrigation	Nil	Nil	Assistant Executive Engineer & Staff	Nil
15	Technical Education	Nil	Nil	Staff of Tailoring and garment making centres/Training Centres and Commercial institute.	Nil
16	Co-operation	Nil	Nil	Assistant Registrar and one clerk	Nil
17	Khadi & Village Industries Board	Nil	Nil	District Project Officer and Staff.	

APPENDIX-IX
Lack of internal control in LSGIs
(Reference to Paragraph 4.4)

(Rupees in lakh)

Sl No.	Nature of misappropriation	Amount	Year	Lapse in internal control	Name of LSGI
1	When tax was collected, duplicate copy of receipts issued to the tax payer contained the actual amount collected whereas the original copy retained by the LSGI contained a lesser amount.	3.64	1999-2000 to 2003-04	Non-maintenance of demand register.	Akathethara GP
2	Instead of issuing receipts prepared in duplicate in the prescribed form hand receipts in white paper were given for money received which were not taken in the accounts.	1.88	2001-02	Non-issue of receipt as prescribed.	Anchal GP
3	Non-accounting of receipts	0.14	2004-05 2005-06	Non-checking of receipts with entries in cash book	Chengalai GP
		0.15	2003-04		Kanhangad BP
		1.35	1997-98 to 2003-04		Palakkad Municipality
4	Amount drawn by self cheque not accounted.	0.59	2000-01	Non-checking of cash book entries and absence of bank/treasury reconciliation	Kozhuvanal GP
		0.26	1998-99		Ponnani Municipality
		3.55	1998-99 to 2000-01		Kozhinjampara GP
5	Embezzlement and Manipulation of vouchers.	2.25	1990-93	Non-scrutiny of vouchers with reference to sanction.	Thiruvananthapuram Corporation
		0.83	1996-2001		Keezhallur GP
		3.00	2003-04		Meenangadi GP
		1.61	2004-05		Piravom GP
		8.22	2004-05		Kochi Corporation
		0.56	2005-06		Pallikunnu GP
		0.09	2005-06		Thrikkalangode GP
6	Double drawal of funds for pension payments.	3.36	2004-05	Non-comparison of entries in cash book and pension payment register with reference to sanction.	Vallappuzha GP
7	Placing supply order with a non-existing society.	2.30	2003-04	Sanction without verifying credentials of supplier.	Kottayam DP
8	Excess/double drawal of allowances	0.09	2002-03	Payment without verification of sanction.	Thikkodi GP
	Total	33.87			

APPENDIX – X
Avoidable payment of surcharge and penal interest on water charges
(Reference to Paragraph 4.6)

Period			Water charges		Penal charges					Total	Remarks
From	To	Months	Rate	Amount	Surcharge	Fine on			Total penal charges		
						Delayed payment of water charges	Delayed payment of surcharge	Total			
October 1993	September 1995	24	16680	400320	---	230	---	230	230	400550	Hospital was under the Department
October 1995	May 1996	08	16680	133440	---	80	---	80	80	133520	Hospital was under the District Panchayat.
June 1996	May 1998	24	20850	500400	---	240	---	240	240	500640	
June 1998	November 1998	06	20850	125100	---	78003	---	78003	78003	203103	
December 1998	January 1999	02	20850	41700	20850	31543	209	31752	52602	94302	
February 1999	March 1999	02	20850	41700	41700	34502	1268	35770	77470	119170	
April 1999	May 2006	86	32037	2755182	2755182	2501932	2912214	5414146	8169328	10924510	
Total		152		3997842	2817732	2646530	2913691	5560221	8377953	12375795	

APPENDIX-XI
Statement showing expenditure on providing private water connections
(Reference to Paragraph 4.9)

Sl No	Item	Kollam			Kasaragod		
		Quantity	Rate (Rs)	Amount (Rs)	Quantity	Rate (Rs)	Amount (Rs)
1	Earthwork excavation in hard and ordinary soil for trenches to lay pipes.	2.25 m3	10.48/m3	23.58	---	---	---
2	Earthwork excavation in all classes of soil for trenches to lay pipes.	---	---	---	2.25 m3	30.50/m3	68.63
3	Cost of 20 mm PVC pipes	15 m	8.65/m	129.75	15 m	8.65/m	129.75
4	Laying pipes	15 m	5.97/m	89.55	15 m	5.97/m	89.55
5	20 mm SDB Tap	1	187/E	187.00	1	187.00	187.00
	Total Amount			429.88			474.93
6	No of private connections given	15161	429.88	6517411	20292	474.93	9637280

Gross expenditure = Rs.65,17,411 + Rs.96,37,280 = Rs.161,54,691 = Rs.1.62 crore.

