Report of the Comptroller and Auditor General of India (Local Self Government Institutions)

for the year ended March 2011

Government of Kerala

Report No. 2

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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 up to 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 organisation, devolution and accountability framework of LSGIs. In Chapter II, Finances and Financial Reporting issues of LSGIs and 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 thematic 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 2010-11 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 2010-11 have also been included wherever necessary.

OVERVIEW

This Report comprises four chapters of which Chapters I and II contain an overview of structure, accountability, finances and financial reporting issues of Local Self Government Institutions (LSGIs) and comments arising from supplementary audit under the scheme of providing Technical Guidance and Supervision (TGS) arrangement. Chapters III and IV contain two thematic reviews and six transaction audit paragraphs. Copies of draft thematic reviews and transaction audit paragraphs were forwarded to the Government and replies wherever received have been duly incorporated.

Finances and financial reporting issues of LSGIs

The "Development Expenditure Fund to LSGIs" funded from State Budget constituted 22 per cent of the State Plan Outlay. As against revenue of ₹ 438.56 crore collected by LSGIs, the expenditure on establishment was ₹ 464.06 crore. The share of GOI grant in the total receipts increased from nine per cent in 2006-07 to 16 per cent in 2010-11. Out of ₹ 1888.38 crore released by Government of India/State Government for Centrally Sponsored Schemes, an amount of ₹ 670.94 crore was retained by SLNAs/PAUs. The LSGIs had completed only 30 per cent of the projects formulated during 2010-11. Most LSGIs were not adhering to the procedures relating to reporting monthly progress of expenditure. Defective preparation of Annual Financial Statements, non-preparation of Monthly Accounts, improper maintenance of asset register, etc., were noticed.

(Paragraph 2.1 to 2.8)

Collection of taxes in Kochi Corporation

There is no fair and transparent system for assessment of property tax. There were wide variations in computation of property tax for similar properties in the same area. Corporation has no mechanism to watch the stage of construction relating to lapsed permits. Due to lack of co-ordination between Town Planning Section and Revenue Section, property tax assessments were not made even though Occupancy Certificates were issued in respect of certain buildings. Due to dispensing with the need to obtain Occupancy Certificate issued by the Town Planning Section as the sole basis for getting water and electricity connection, a vital control mechanism to bring new buildings into tax net has been lost. The collection of profession tax has suffered due to lack of comprehensive database. Profession tax was not being realised from all traders/professionals in the Corporation area. The inspections as laid down for monitoring collection of Entertainment tax are not being carried out.

(Paragraph 3.1)

Waste Management in Thiruvananthapuram Corporation

The Solid Waste Management during the period 2000 onwards was not satisfactory due to several deficiencies in the operation of the plant by the operator and TMC. Though State Pollution Control Board, in its *authorisation, specifically mentioned that leachate treatment plant and sanitary land filling were to be provided before commissioning the plant, this was not done. Rupees 7.48 crore given to the operator towards cost of the plant and the operational loss incurred/suffered during seven years, was outside the scope of the agreement. Due to deficiencies in the plant set up by the operator a further substantial amount of ₹ 9.56 crore is required for upgradation of the facility. The plant was closed in December 2011 seriously affecting the Solid Waste Management in the city with adverse implication on environment.*

(Paragraph 3.2)

Transaction Audit

Audit of financial transactions subjected to test check in various LSGIs revealed instances of unfruitful expenditure, infructuous/unproductive expenditure, excess/avoidable payment, idle investment and other irregularities as mentioned below:

No benefits had accrued till date from a minor irrigation project of District Panchayat, Wayanad on which an expenditure of ₹ 36.56 lakh was incurred.

(Paragraph 4.1)

Failure of 40 Local Self Government Institutions in four districts to demand road restoration charges at prescribed rates led to short realisation of ₹ 15.32 crore from Kerala Water Authority, affecting their financial position.

(Paragraph 4.2)

Servicing of a loan of ₹ 2.48 crore borrowed for financing construction of a bus stand - cum - shopping complex by Manjeri Municipality increased as construction was not completed within the stipulated period of 18 months.

(Paragraph 4.3)

A market building consisting of 33 stalls completed in January 2007 by Kodungallur Municipality at Kavilkkadavu could not be let out even after five years for want of demand resulting in idle investment of ₹ 33.05 lakh. Consequently, a waste water treatment plant constructed at a cost of ₹ 23.30 lakh also remained idle for the past three years.

(Paragraph 4.4)

District Panchayat, Ernakulam paid more than 80 per cent of the total cost for installation of biogas plants in advance to the service provider in violation of Government orders, without ensuring feasibility of project and availability of land, resulting in Development Expenditure Fund of ₹ 66.40 lakh remaining with the service provider for over 44 months.

(Paragraph 4.5)

Madhuram, a project for production of honey implemented by District Panchayat, Pathanamthitta to provide income to BPL women resulted in net loss of ₹ 1.18 crore.

(Paragraph 4.6)

CHAPTER I

ORGANISATION, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

The Seventy third and Seventy fourth amendments of the Constitution of India giving constitutional status to Local Self Government Institutions (LSGIs), established a system of uniform structure, regular election, regular flow of funds, etc. Consequent to these constitutional amendments, the State Legislature passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) to enable LSGIs to work as third tier of the Government. The Government has also identified and amended other related laws to empower LSGIs. As a follow-up, the Government entrusted LSGIs with such powers, functions and responsibilities as to enable them to function as Institutions of Local Self Government. In particular, LSGIs are required to prepare plans and implement schemes for economic development and social justice including those included in the Eleventh and Twelfth Schedules of the Constitution.

1.1.1 Status of transfer of functions and functionaries

Under KPR Act and KM Act, it shall be the duty of LSGIs to meet the requirements of the area of their jurisdiction in respect of the matters enumerated in the respective Schedules of the Acts and LSGIs shall have the exclusive power to administer the matters enumerated in Schedules and to prepare and implement schemes relating thereto for economic development and social justice.

The Acts envisaged transfer of functions of various Departments of the Government to LSGIs together with the staff to carry out the functions transferred. The transfer of functions to different tiers of LSGIs was to be done in such a way that none of the functions transferred to a particular tier overlapped with that of the other.

The Eleventh Schedule of the Constitution contains 29 functions pertaining to the Panchayat Raj Institutions (PRIs). As mandated by KPR Act, the Government has transferred (September 1995) 26 of these functions to PRIs. The functions relating to minor forest produce, distribution of electricity and implementation of land reforms were yet to be transferred to PRIs. Like wise, the Twelfth Schedule of the Constitution contains 18 functions pertaining to Urban Local Bodies (ULBs). The Government has transferred 17 functions mandated under KM Act to ULBs and function relating to fire service is yet to be transferred. The services of related officers were also transferred to LSGIs. LSGIs also undertake agency functions on behalf of both Central and State Governments to implement development programmes.

1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1**. Kerala's rate of population growth is India's lowest and Kerala's decadal growth (9.4 *per cent* in 2001) is less than half the all-India average of 21.3 *per cent*. Women constitute 51.42 *per cent* of the population. Kerala has the highest literacy rate (90.86 *per cent*) among Indian states and life expectancy (74 years) is among the highest in India. The service sector along with the agricultural and fishing industries dominate Kerala's economy.

Table 1.1: Important statistics of the State

Sl No.	Indicator	Unit	State value	National value
1	Population	Crore	3.18	102.87
2	Population density	Sq Km	819	313
3	Urban population	Per cent	26	Not available
4	GSDP from primary sector	Per cent	14.47	20.01
5	Gender ratio	Females per 1000 males	1058	933
6	Population below poverty line	Per cent	15	27.5
7	Literacy	Per cent	90.86	64.84
8	Birth rate	1000 population	14.7	23.1
9	Infant mortality rate	1000 population	12	55
10	Unemployment rate	Per cent	13.7	Not available
11	Gross State Domestic Product	₹ in crore	265322	--

Source: Economic Survey 2010-11, Planning Commission

1.3 Size of LSGIs

As on 31 March 2011, there were 1209 LSGIs in the State. The details of the area, population etc., are presented in **Table 1.2.**

Table 1.2: Comparative position of LSGIs

Level of LSGIs	No.	No. of Wards	Average area per LSGI (Sq Km)	Average population per LSGI
District Panchayats (DPs)	14	332	26.51	1903357
Block Panchayats (BPs)	152	2095	244.24	175309
Grama Panchayats (GPs)	978[1]	16680	37.16	26674
Municipal Corporations	5	359	95.60	491240
Municipalities	60	2216	23.65	51664

1.4 Organisational set up in State Government and LSGIs

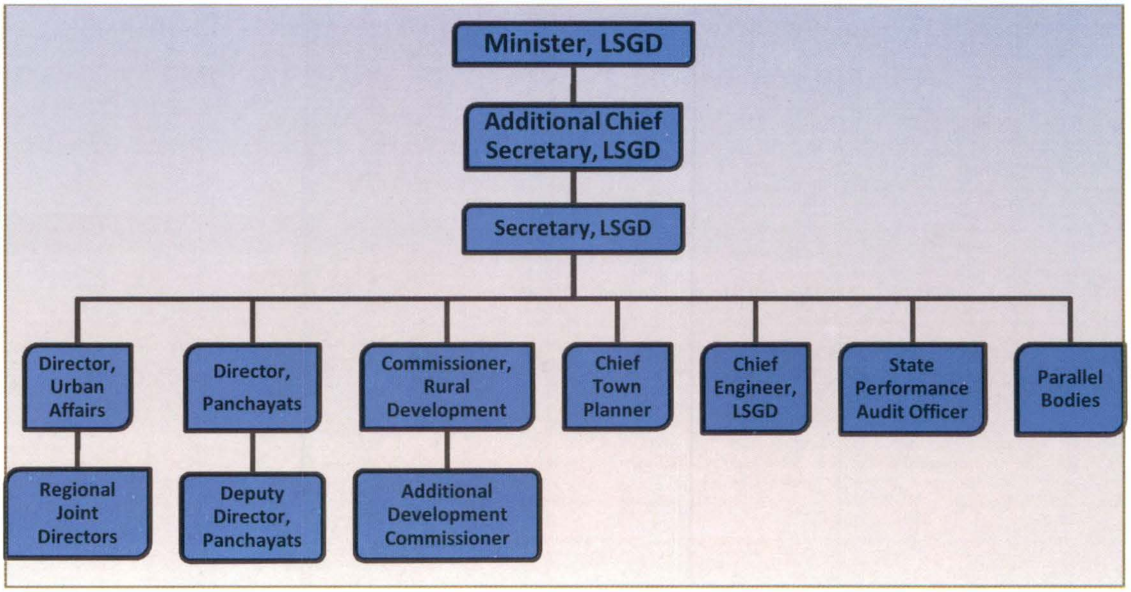
LSGIs constituted in rural and non-rural areas are referred to as Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. In the three-tier Panchayat Raj system in the State, each tier functions independently of each other. The Government in Local Self Government Department (LSGD) is empowered to issue general guidelines to LSGIs in accordance with the National and State policies in matters such as finance, maintenance of accounts, office management, formulation of schemes, selection of sites and beneficiaries, proper functioning of Grama Sabha, welfare programmes and environmental regulations and LSGIs have to comply with such directions.

[1] During 2010-11, some GPs were merged with Corporations /upgraded to Municipalities

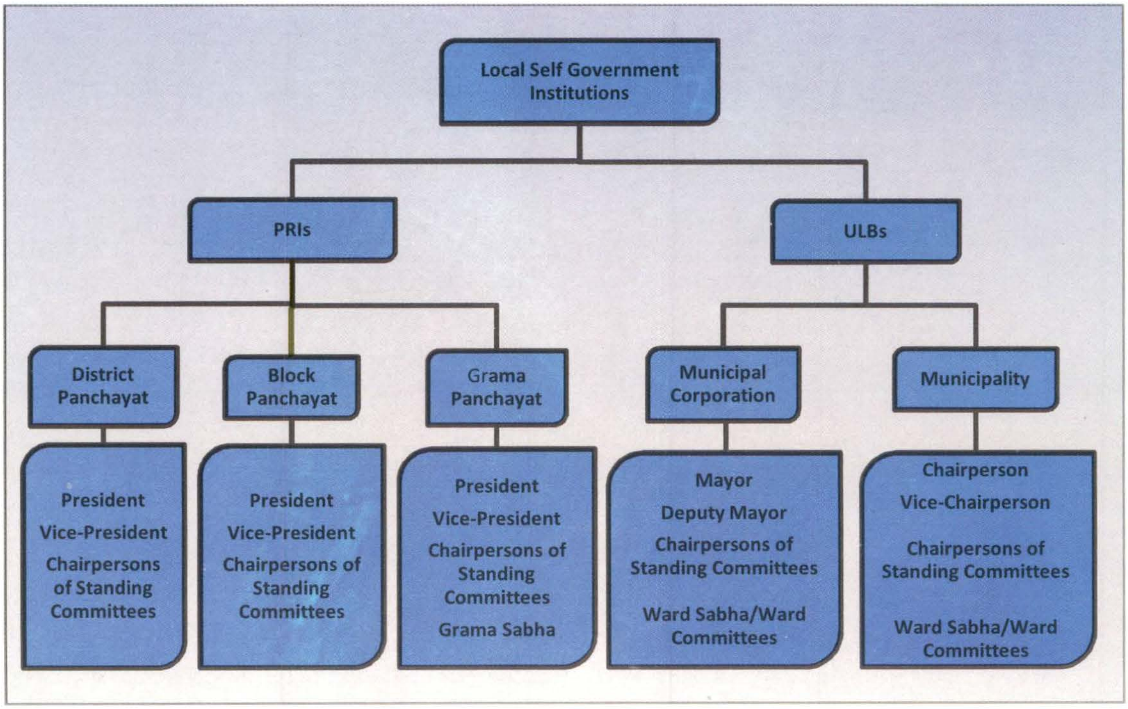
The Government also conducts periodical performance audit in respect of the administration of LSGIs. **Chart 1.1** depicts the organisational set up (as at the end of 31 March 2011) in LSGD and LSGIs to execute the functions of the Government and that of LSGIs.

Chart 1.1: Organisation chart of LSGD and LSGIs

State Level



LSGIs Level



The members of each tier of PRIs 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. The President/Chairperson/Mayor is the Chief Executive Head of LSGIs. Each LSGI has a Secretary who is the Chief Executive Officer. While the Secretaries of LSGIs and employees of PRIs are Government servants, the employees of ULBs belong to Municipal Common Service.

1.4.1 Standing Committees

To execute the various functions of LSGIs, Standing Committees have been constituted (four each for GPs & BPs, five for DPs, six for Municipalities and eight for Corporations) with elected representative as the Chairperson and the Secretary as the Chief Executive Officer. The type, roles and responsibilities of Standing Committees are given in **Appendix I.**

1.5 Decentralised Planning

1.5.1 District Planning Committees

In pursuance of Article 243ZD of the Constitution of India and Section 53 of KM Act, the Government constituted District Planning Committees (DPC) in each district. The procedure to be followed in the meeting of the Committee is governed by Kerala District Planning Committee (Election of Members and Proceedings of Meeting) Rules, 1995. The tenure of DPC is five years. The Committee consists of 15 members of whom:

- 12 members are from among the elected members of Panchayats at district level and of Municipalities in the district in proportion to the ratio between the population of rural areas and of urban areas in the district;
- President of District Panchayat in that district;
- District Collector;
- one person having considerable experience in the administration of planning nominated by the Government.

The members of the House of the People and members of the Legislative Assembly of the State, representing any area comprised in a district are permanent invitees to DPC. A member of the Council of States (Rajya Sabha) representing the State is a permanent invitee to the DPC of the district in which he is registered as elector in the electoral roll of any Municipality or Panchayat. A member nominated to the Legislative Assembly of the State is a permanent invitee to the DPC of the district in which he ordinarily resides. The President of District Panchayat is the Chairman and District Collector is the Secretary of the DPC.

The functions of the DPC include scrutiny and approval of annual plans of LSGIs, consolidation of plans prepared by LSGIs and preparation of draft development plan for the district. The DPC is to monitor the quantitative and qualitative progress, especially its physical and financial achievements in the implementation of the approved district plan schemes and State plan relating to the district and is to evaluate the action programmes already completed. The

Government, while preparing the State plan, considers the proposals and priority included in the draft development plans prepared for each district by DPC.

As per orders issued by the Government, each LSGI is required to prepare its annual plan in a twelve step process beginning from situation analysis by working groups to DPC approval. DPCs are constitutionally responsible to consolidate the plans prepared by LSGIs in the district and to prepare a draft development plan for the district as a whole for onward transmission to the Government.

DPCs are expected to play a crucial role in the planning process. From the data made available to audit by the 14 DPCs, we noticed deficiencies in their activities during 2010-11 as mentioned below:

- None of the 14 DPCs prepared the draft development plan for the year 2010-11 and forwarded to the Government.
- Annual plans of LSGIs were approved without the help of expert member, who was required to give valuable advice in planning.
- District Collector has a key role as Member Secretary to ensure that the tasks assigned to the DPC are carried out promptly. District Collectors failed to attend many of the DPC meetings in all the 14 Districts except in Idukki and Kasaragod. In Ernakulam (19 meetings) and Thiruvananthapuram (13 meetings), the District Collectors did not attend any meeting.

In order to examine the effectiveness of the functioning of DPCs, audit examined the district planning process by DPC, Alappuzha and noticed the following:

- Even though statutory DPC was constituted in February 2011, Government nominated expert members only in November 2011. Even after his appointment the expert member did not attend any meeting.
- The District Collector who is the Member Secretary of DPC did not attend 17 out of the 27 meetings during 2009-11.
- Development report and vision document for the district were not prepared as instructed (May 2007) by the Government.
- 21 projects with an outlay of ₹ 1.21 crore relating to two LSGIs approved by DPC during 2009-11 related to functions not entrusted to that particular tier of LSGI. This was tantamount to grant of approval for diversion of funds for unauthorised functions, which is fraught with the risk of duplication.
- As per Government orders (May 2007) DPC shall not give conditional or temporary approval to projects. But Alappuzha DPC has accorded conditional approvals to 385 projects of five LSGIs with an outlay of ₹ 31.62 crore during 2009-10 and 2010-11 with conditions such as accounts be examined and reported to Planning Officer, verification of the

project by Technical Advisory Group, project to be implemented as per Government order etc. Allowing LSGIs which formulated the projects to comply with conditions was dilution of statutory authority of DPC.

- As per instructions issued (July 2008) by the Government, ceiling limits were prescribed for projects formulated by LSGIs, based on which DPs and BPs shall not formulate projects below ₹ 10 lakh and ₹ five lakh respectively. In violation to this direction, DPC approved 189 projects of Alappuzha DP, each below ₹ 10 lakh with a total outlay of ₹ 7.99 crore and 106 projects of two BPs each below ₹ 5 lakh with a total outlay of ₹ 2.59 crore. Taking up of small projects covering smaller areas by DP/BP will be detrimental to the interest of the remaining population under their jurisdiction.

1.6 Accountability Framework

1.6.1 Internal control system at the level of LSGIs

The internal control system at the level of each LSGI has been designed by the Government through KPR Act, KM Act, Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997, application of State Government's own rules and policies relating to finance, budget, personnel matters. The significant provisions are given in **Appendix II.**

1.6.2 Authority and Responsibility of the Government with regard to LSGIs

In accordance with KPR Act and KM Act, the Government exercises its powers in relation to LSGIs as detailed in **Appendix III.**

The KPR Act and KM Act entrust the Government with the following powers so that it can monitor the proper functioning of LSGIs.

- Call for any record, register, plan, estimate, information from LSGIs;
- Inspect any office or any record or any document of LSGIs;
- Arrange periodical performance audit of the administration of LSGIs;
- Inspect the works and development schemes implemented by LSGIs;
- Take action for default by an LSGI President or Secretary.

In addition, the KPR Act and KM Act, *inter alia*, empower the Secretary, LSGD who is the State Performance Audit Authority (SPAA) at the State level with the following powers:

- Rectification of defects and pointing out mistakes after inspecting the accounts, money transactions, office functioning and public works of LSGIs;
- To give necessary instructions to LSGIs to take follow up actions on the performance audit report;
- To ensure that the performance audit teams are conducting tri-monthly performance audit in all LSGIs.

Further, the Secretary of an LSGI may adopt the following procedure to assist the Government in preventing passing of resolutions which are not in conformity with the Act:

- The Secretary shall request in writing to LSGI to review any resolution passed by them, if he is of the opinion that the resolution passed by LSGI has not been legally passed or is in excess of the powers conferred by the Act;
- After discussion of the subject, if LSGI resolves to uphold its earlier decision, the Secretary shall forward LSGI resolution and his opinion thereon to the Government for its decision;
- The Secretary shall inform the President/Chairperson any direction received from the Government and shall take further action in accordance with the said direction.

Despite the above mentioned duties and powers vested in the Government for the enhancement of quality of public service and governance, Audit noticed numerous deficiencies in the implementation of schemes, matters relating to finance, selection of beneficiaries etc., as mentioned in Chapters II, III and IV of this Report.

1.6.3 Liability of elected representatives for loss, waste etc

As per Section 547 of KM Act, elected representatives of ULBs shall be liable for the loss, waste or misapplication of any money or other property owned by or vested in a ULB if such loss, waste or misapplication is a direct consequence of their neglect or misconduct and a suit for compensation may be instituted against them by ULB or by any tax-payer of ULB area.

Section 253 of KPR Act which contained similar provision for fixing the liability of elected representatives was deleted from the Act through an amendment with effect from 01 October 2000. This has resulted in lack of safeguards against loss, waste etc.

1.6.4 Role of the Government of India as sanctioning authority

The Government of India (GOI) transfers funds to LSGIs under devolved grants on the recommendation of Finance Commission and development grants directly or through the State budget. Both the grants enjoin upon sanctioning authorities in the GOI the responsibility to ensure proper utilisation of grant money. This is achieved through receipt of progress reports, Utilisation Certificates and internal audit of scheme accounts in LSGIs by the Internal Auditors of line ministries. Each sanction of grant is to contain certain conditions of grant-in-aid mentioned in General Financial Rules, 2005.

1.7 Vigilance mechanism

1.7.1 Ombudsman for LSGIs

As envisaged in the KPR Act and KM Act, an Ombudsman for LSGIs was set up in the State in May 2000. The Ombudsman is a high powered quasi-judicial body functioning at the State level. A former judge of High Court is appointed as Ombudsman. The Ombudsman can conduct investigations and enquiries into instances of maladministration, corruption, favouritism, nepotism, lack of integrity, excessive action, inaction, abuse of position, etc., on the part of officials and elected representatives of LSGIs. He can even register cases *suo moto* if instances of the above kind come to his notice. During the period 2010-11, out of 3793 cases (including 1769 old cases), 1619 cases were disposed of by the Ombudsman.

1.7.2 Tribunal for LSGIs

As envisaged in KPR Act and KM Act, a judicial tribunal for LSGIs was set up in the State in February 2004, with a District Judge as the Tribunal to consider appeals/revisions by citizens against decisions of LSGIs taken in exercise of their regulatory functions like issue of licenses, grant of permits etc. All the appeals/revisions filed in the Tribunal are required to be considered and disposed of within two months of filing. As on 31 March 2011, 198 appeals and 20 revisions were pending before the Tribunal.

1.8 Role of State Performance Audit Authority

The Principal Secretary to Government in LSGD is the Performance Audit Authority at the State Level for conducting the performance audit. The State Performance Audit Officer assists the Performance Audit Authority. The performance audit teams constituted under Regional Performance Audit Officers conduct performance audit in Municipalities and PRIs. The Performance Audit Authority shall submit annual reports to the Government which contain common defects in the assessment of tax and the fluctuation in the collection of tax of LSGIs, details regarding mobilisation of more resources, approximate figure of liability of LSGIs and progress regarding refund thereof, problems connected with Panchayat/Municipal administration to which Government may draw attention and remedies thereof.

1.9 Quality control systems in financial attest audit by DLFA

Director of Local Fund Audit (DLFA) is the Statutory Auditor of LSGIs as per Kerala Local Fund Audit Act, 1994, KPR Act and KM Act. Apart from LSGIs, other local funds such as Universities, Devaswom Boards, Religious and charitable institutions are also audited by DLFA. The Local Fund Audit Department under State Finance Department is headed by a Director and has District offices in all the districts headed by Deputy Directors. DLFA is to carry out a continuous audit of the accounts of LSGIs and shall send a report to LSGIs concerned and a copy thereof to the Government. DLFA is to specify in the report all cases of irregular, illegal or improper expenditure or of failure to recover money or other property due to the LSGIs. The Acts empower the DLFA to disallow any illegal payment and surcharge the person making or authorising such payment. DLFA can also charge any person responsible for the loss or deficiency of any sum which ought to have been received. DLFA has adopted the Auditing Standards for LSGIs prescribed by Comptroller and Auditor General of India (CAG). The guidelines issued by CAG for financial attest audit have been accepted by DLFA.

1.10 Role of Comptroller and Auditor General of India

CAG conducts audit of substantially financed local bodies under Section 14 (1) of CAG’s (DPC) Act, 1971 and audit of specific grants to local bodies under Section 15 of the Act *ibid* in the office of sanctioning authority. The nature of audit by CAG is compliance, performance audit and assessment of internal control system. The attestation of accounts is entrusted to DLFA. The State Government has entrusted technical guidance and support role of DLFA (Primary External Auditor) to CAG in October 2002 under Section 20(1) of CAG's (DPC) Act, 1971 for a period of five years. Government extended (December 2007) the scheme of Technical Guidance and Support for a further period of five years up to March 2013.

CHAPTER II

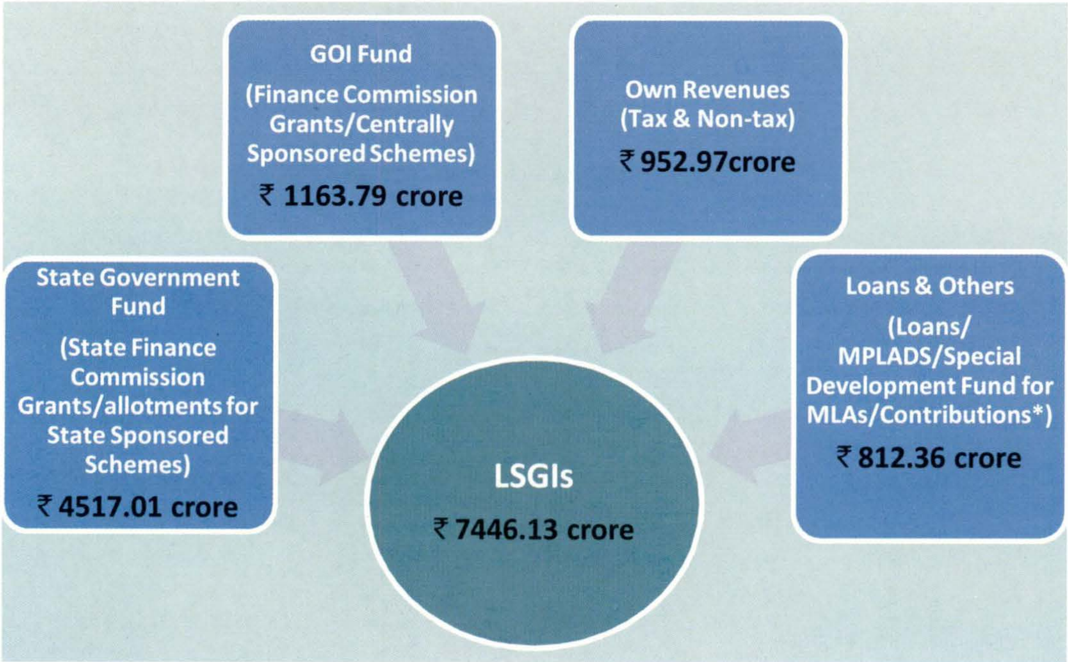
FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 Funds flow to LSGIs

The resource base of LSGIs consists of funds devolved by State Government, Government of India (GOI) Grants, Own Revenues and Loans from financial institutions. **Diagram 2.1** below depicts the fund flow to LSGIs during 2010-11.

Diagram 2.1: Fund flow to LSGIs during 2010-11



*Details of MPLADS/Special Development Fund for MLAs and contributions not included

2.1.1.1 Transfer of funds from the Government and associated audit issues

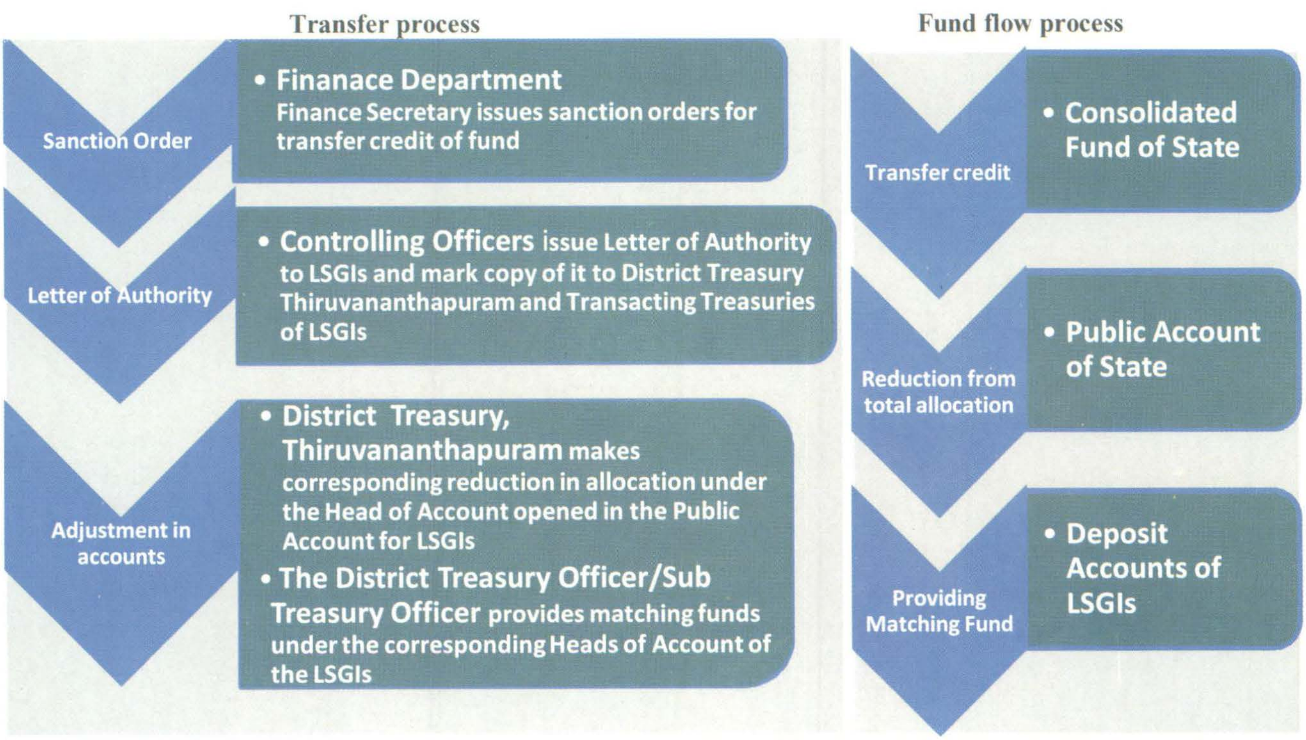
The Government provides three types of funds to LSGIs from the Consolidated Fund – grants, funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes (CSSs). Appendix IV to the Detailed Budget Estimates of the Government gives the LSGI-wise allocation of two types of funds (i) funds as per the recommendation of State Finance Commission and (ii) funds for implementation of State Sponsored Schemes. The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund along with the releases made during 2010-11, are given in **Table 2.1.**

Table 2.1: Three categories of funds and their release to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2010-11 (₹ in crore)	Release mechanism
1	Grants and Road Renovation Schemes	3604 – Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	2786.61	Routed through Public Account
		3054 – Roads and Bridges	192.94	
		5054 – Capital Outlay on Roads and Bridges	179.22	
Total			**3158.77**	
2	State Sponsored Schemes	14 Major Heads	1165.30	Routed through State Level Nodal Agencies[*]/ Poverty Alleviation Units
3	State share for CSSs	4 Major Heads	146.79	
Grand total			**4470.86**	

A flow chart of the above categories of funds is given in **Appendix IV.** The Grants and the fund for Road Renovation Scheme are transfer credited to the Public Account by Finance Department in monthly instalments to enable LSGIs to draw money from treasuries. The various procedures involved in the transfer of these funds from the Government to LSGIs are shown in **Diagram 2.2**.

Diagram 2.2: Transfer/ Fund flow process



[*] Kudumbashree, Kerala Sustainable Urban Development Project, Suchitwa Mission

Table 2.2 gives the details of funds released by the Government under various categories during 2010-11.

Table 2.2: Release of the Government Fund under different categories during 2010-11

(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Road Renovation Scheme Fund	Amount released (Total)
District Panchayats (DPs)	292.12	52.26	12.91	144.00	501.29
Block Panchayats (BPs)	291.56	28.20	17.89	85.56	423.21
Grama Panchayats (GPs)	1130.12	280.28	321.65	----	1732.05
Corporations	128.93	35.40	53.22	19.92	237.47
Municipalities	165.77	44.44	34.80	19.74	264.75
Total	**2008.50**	**440.58**	**440.47**	**269.22**	**3158.77**

Audit noticed following points in the release of the Government funds:

- Use of wrong account heads: The Government grant to LSGIs included an amount of ₹ 269.22 crore provided by XII Finance Commission under maintenance of Roads and Buildings. The Government released the amount under the nomenclature 'Road Renovation Scheme' under two heads of accounts, viz., Major Heads 3604 and 5054. Major Head 5054 being a Capital Head was operated under Maintenance Head for the first time though the fund was released for maintenance of roads. Accounting the amount released for maintenance of Roads and Buildings under capital head of account was not in order.

- Delayed release: Monthly transfer-credit of fund from Consolidated Fund to Public Account was devised as a means to ensure availability of fund for incurring expenditure by LSGIs. The State Finance Department is required to transfer funds on the first working day of the month. Delay ranging from two to 20 days was noticed in 32 out of 65 transfer credits made during 2009-10 and 2010-11.

- There was also delay in issuing Letter of Authority (LoA) by the Controlling Officers. Delay was noticed in 181 out of 246 instalments of LSGI funds released during 2009-10 and 2010-11. This included 49 instances where the delay was more than a month.

- Short credit of funds to LSGIs: Audit noticed that ₹ 2.04 crore in one instalment to District Panchayat, Thiruvananthapuram and ₹ 51.94 lakh in three instalments under Maintenance Expenditure (for Road and Non-Road) and one instalment of ₹ 6.48 lakh under General Purpose Fund to District Panchayat, Pathanamthitta were not credited.

- Non release of full provision to LSGIs: Supplementary Nutrition Programme (SNP) is implemented by LSGIs utilising Development Expenditure Fund. From 2005-06 onwards, GOI reimburses 50 *per cent* of the expenditure on SNP to the Government who in turn transfers the money to LSGIs through Child Development Project Officers of Social Welfare Department. During 2010-11, the Government received ₹ 80.71 crore towards reimbursement of SNP from GOI, out of which ₹ 53.50 crore only was transferred to LSGIs.

From the balance amount of ₹ 27.21 crore, the Government diverted ₹ 6.38 crore for another scheme, viz., Wheat Based Nutrition Programme and retained ₹ 20.83 crore.

A comparison of funds released to LSGIs for implementation of annual plans along with the State Plan Outlay for the first four years of XI Plan is given in **Table 2.3.**

Table 2.3: State Plan vis-à-vis Development Expenditure of LSGIs

(₹ in crore)

Year	State Plan Outlay	Development Expenditure Fund	Percentage to State Plan Outlay
2007-08	6950.00	1538.44	22.13
2008-09	7700.47	1670.23	21.69
2009-10	8920.00	1842.29	20.65
2010-11	10025.00	2277.72	22.72
Total	**33595.47**	**7328.68**	**21.80**

Development Expenditure Fund to LSGIs constituted 22 *per cent* of the State Plan Outlay.

2.1.1.2 Receipts from GOI

A flow chart showing the transfer of funds from Government of India (GOI) to LSGIs for implementation of CSSs is given in **Appendix V.** GOI provided grants amounting to ₹ 1163.79 crore to LSGIs for implementation of 10 CSSs. The grants are provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/ Poverty Alleviation Units (PAUs). The details of GOI grants transferred to LSGIs during 2010-11 are given in **Table 2.4.**

Table 2.4: Release of GOI grants during 2010-11

Sl. No.	Authority/ Agency through which the grant was released	Details of scheme	Amount (₹ in crore)
1	State Budget	Jawaharlal Nehru National Urban Renewal Mission –Urban Infrastructure and Governance (JNNURM-UIG)	25.99
		Basic Services to Urban Poor (BSUP)	55.19
2	Directly to SLNA	Integrated Housing and Slum Development Programme (IHSDP)	37.29
		Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	5.39
		Total Sanitation Campaign (TSC)	22.86
		Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	80.39
3	Directly to PAU	Swarnajayanti Gram Swarozgar Yojana (SGSY)	41.47
		Indira Awaas Yojana (IAY)	185.91
		Integrated Wasteland Development Programme (IWDP)/ Hariyali	5.07
		Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	704.23
Total			**1163.79**

The Government provided ₹ 146.79 crore as its share for implementation of above GOI schemes. Thus the total fund available for implementation of CSSs during 2010-11 was ₹ 1310.58 crore. Compared to 2009-10, the GOI grant was ₹ 331.30 crore more. Substantial increase was noticed in the release of funds for MGNREGS, BSUP, UIDSSMT schemes.

2.1.1.3 Own funds

Own fund consists of tax[†] and non-tax revenue[‡] collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994/Kerala Municipality Act, 1994 and allied Acts. This category also includes income derived from assets of LSGIs, beneficiary contributions, earnest money deposits, retention money etc. The details of own fund are not compiled and consolidated by Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. Though all LSGIs were requested to furnish the details of own revenue in a pro forma, many of the LSGIs did not respond. As per the details obtained from respective controlling officers, the own revenue of 1193 out of 1209 LSGIs amounted to ₹ 952.97 crore.

2.1.1.4 Loans availed by LSGIs

LSGIs raise loans as per provisions of Kerala Local Authorities Loans Act, 1963 from Kerala Urban and Rural Development Finance Corporation, Co-operative Banks etc. **Table 2.5** gives the details of loans availed by LSGIs during 2010-11 and the loans outstanding as at the end of March 2011.

Table 2.5: Loans availed during 2010-11

(₹ in crore)

Source of loan	ULBs	PRIs	Total	Loans outstanding as at the end of March 2011
Cooperative Banks (EMS housing scheme)	42.20*	688.30*	730.50	640.69
KSUDP	71.00	-------	71.00	------
KURDFC	6.42	4.44	10.86	29.54
Total	**119.62**	**692.74**	**812.36**	**670.23**

*Details of loan availed by five Corporations & 14 District Panchayats not made available.

2.1.1.5 Resources: Trends and Composition

Table 2.6 below shows the composition of resources of LSGIs for the period 2006-07 to 2010-11. Source-wise and category-wise receipts are given in **Chart 2.1.**

† Property tax, Profession tax, Entertainment tax, Advertisement tax etc.

‡ Licence fee, Registration fee etc.

Table 2.6: Time series data on Resources of LSGIs

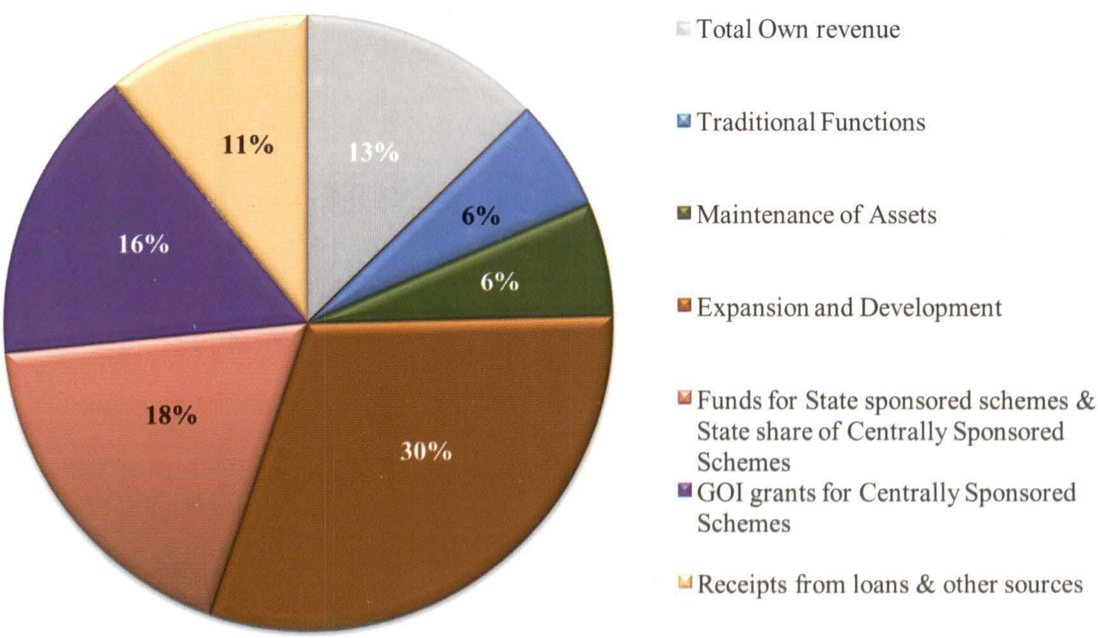
(₹ in crore)

Resources	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Own Revenue : (i) Tax Revenue	357.41	334.42	385.36	450.76	952.97#	3753.05
(ii) Non Tax Revenue	230.25	315.08	349.37	377.43		
Total Own Revenue	**587.66**	**649.50**	**734.73**	**828.19**	**952.97**	**3753.05**
State Grant: Traditional Functions	299.96	329.98	363.98	399.31	440.47	1833.70
Maintenance of Assets	350.00	404.98	397.52	448.04	440.58	2041.12
Expansion and Development	1400.36	1538.44	1670.23	1842.29	2277.72	8729.04
Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	585.84	976.71	807.44	840.80	1358.24	4569.03
Total State Grant	**2636.16**	**3250.11**	**3239.17**	**3530.44**	**4517.01**	**17172.89**
GOI grants for Centrally Sponsored Schemes	323.09	454.68	811.12	832.49	1163.79	3585.17
Receipts from loans & other sources	160.42	23.14	7.81	72.35	812.36	1076.08
Total Receipts	**3707.33**	**4377.43**	**4792.83**	**5263.47**	**7446.13**	**25587.19**

Source: Finance Accounts of respective years, details of own funds furnished by LSGIs, information from Commissioner of Rural Development, KURDFC, KSUDP, Kudumbashree

\# break up of Tax & Non tax revenue not provided by the LSGIs

Chart 2.1: Source-wise receipts of LSGIs



- During the five year period (2006-11), the increase in total receipts of LSGIs was 101 *per cent.*

- The share of GOI grant in the total receipts increased from nine *per cent* in 2006-07 to 16 *per cent* in 2010-11.
- The share of State grant in the total receipts decreased from 71 *per cent* in 2006-07 to 60 *per cent* in 2010-11.

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure is composed of expenditure on productive sector, infrastructure sector, service sector and other expenditure. **Table 2.7** below shows the composition of application of resources of LSGIs on these components for the period from 2006-07 to 2010-11.

Table 2.7: Application of resources

(₹ in crore)

Sector	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Productive Sector	361.82	411.79	443.94	511.49	447.69	2176.73
Infrastructure Sector	402.42	548.84	589.58	656.11	936.05	3133.00
Service Sector	983.95	1336.56	1463.55	1842.91	2139.26	7766.23
Total Development Expenditure	**1748.19**	**2297.19**	**2497.07**	**3010.51**	**3523.00**	**13075.96**
Other Expenditure	1478.36	1607.70	1951.94	2125.96	1798.26	8962.22
Total Expenditure	**3226.55**	**3904.89**	**4449.01**	**5136.47**	**5321.26**	**22038.18**

Source: Details furnished by Information Kerala Mission

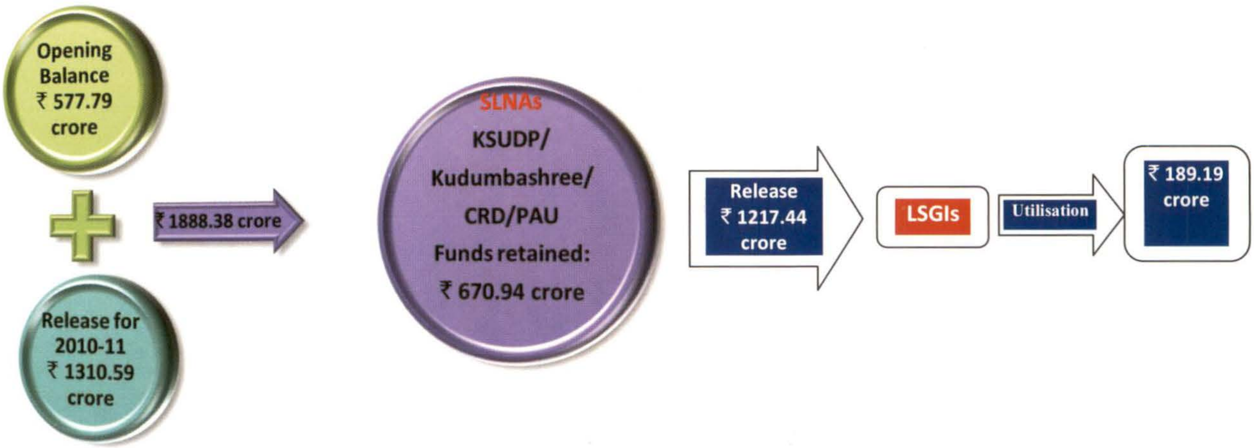
- Productive sector expenditure accounted for only 8.41 *per cent* of the total expenditure during 2010-11 indicating works of development nature received lower priority.
- Infrastructure sector expenditure accounted for 17.59 *per cent* of the total expenditure. There was poor utilisation of funds given under Road Renovation Scheme. Out of ₹ 263.94 crore given to 195 LSGIs during 2010-11 as one-time special assistance for Road Maintenance as per XII Finance Commission Award, only ₹ 96.82 crore (36.68 *per cent*) were spent by 160 LSGIs. Thirty-five LSGIs (25 BPs, one DP, eight Municipalities and one Corporation) did not spend any amount out of ₹ 28.95 crore received (December 2011) by them.
- Under Other Expenditure, establishment and other expenses were very high in ULBs. The establishment expenses (including salary) of ULBs are to be met from own revenue. During 2010-11, revenue collected from various tax and non tax items was ₹ 438.56 crore (64 *per cent* of total receipts). As against this, ₹ 464.06 crore was spent towards establishment and other expenses. This had adverse implications for development works.

2.1.1.7 Public investment in social sector and rural development through major centrally sponsored schemes – Poor utilisation of funds

Public investment in social sector and rural development through major CSSs are made to LSGIs through agencies such as PAUs and SLNAs -Kudumbashree, KSUDP, Suchitwa Mission etc. The grants for CSSs enjoin upon sanctioning authorities in GOI the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs. The details of funds released by

GOI and State Government and utilisation of fund during 2010-11 are given in **Chart 2.2** below.

Chart 2.2: Flow chart on funds released and utilised during 2010-11



Out of ₹ 1888.38 crore released by GOI/State Government, substantial portion of the funds amounting to ₹ 670.94 crore was lying unspent with SLNAs/ PAUs (35 *per cent*) thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Total expenditure incurred by LSGIs was ₹ 189.19 crore (10 *per cent*)[§] for all the CSSs during 2010-11. The balance of ₹ 1028.25 crore was lying with LSGIs.

2.1.1.8 Quality of expenditure

The Thirteenth Finance Commission has made recommendations on the need for improvement in the quality of expenditure to obtain better outputs and outcomes. The availability of better infrastructure in the social, educational and health sector in the country generally reflects the quality of its expenditure. In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. **Table 2.8** below shows the key parameters for evaluating the quality of expenditure of LSGIs.

Table 2.8: Components of expenditure with relative share

(₹ in crore)

Year	Total Expenditure	Development Expenditure (DE)	Percentage of DE to total	Social Sector Expenditure (SSE)	Percentage of SSE to total
2006-07	3226.55	1748.19	54.18	983.95	30.50
2007-08	3904.89	2297.19	58.83	1334.89	34.19
2008-09	4449.01	2497.07	56.13	1461.28	32.85
2009-10	5136.47	3010.51	58.61	1841.65	35.85
2010-11	5321.26	3523.00	66.21	2139.26	40.20

Source: Data furnished by LSGIs and IKM

Note: The amounts do not include expenditure of nine DPs which did not furnish the details for 2010-11

[§] Figures furnished by IKM

The percentage of Development Expenditure to total expenditure increased from 54.18 in 2006-07 to 66.21 in 2010-11. The percentage of Social Sector Expenditure to total expenditure increased from 30.50 in 2006-07 to 40.20 in 2010-11.

2.1.2 Poor implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 199378 projects with a total estimate/outlay of ₹10500.96 crore during 2010-11. Of these, the LSGIs had taken up 147222 projects for implementation and had spent ₹ 3521.88 crore on the projects. Of the projects taken up, LSGIs completed only 60495 projects. Thus LSGIs had completed only 30 *per cent* of the projects formulated during 2010-11. The tier-wise performance given in **Table 2.9** shows that the largest shortfall in plan performance was by Corporations, followed by Municipalities, GPs, BPs and DPs.

Table 2.9: Details of projects taken up and expenditure incurred

Type of LSGIs	No of projects			Amount (₹ in crore)		
	Formulated	Taken up	Per cent	Outlay of project formulated	Expenditure	Per cent
Grama Panchayats	157242	119049	75.71	6589.84	2134.71	32.39
Block Panchayats	16011	11932	74.52	1285.56	606.20	47.15
District Panchayats	10815	5196	48.04	1150.68	390.96	33.98
Municipalities	11883	8937	75.21	709.65	220.55	31.08
Corporations	3427	2108	61.51	765.23	169.46	22.14
Total	**199378**	**147222**	**73.84**	**10500.96**	**3521.88**[**]	**33.53**

Of the 147222 projects taken up for implementation, 17442 projects with an outlay of ₹ 804.47 crore related to certain important socially relevant projects, viz., Solid Waste Management (SWM) projects, welfare of women, welfare of children, poverty alleviation, drinking water schemes, scheduled caste welfare, sanitation, welfare of aged persons. As at the end of March 2011, ₹ 318.96 crore was incurred on these projects, the percentage of expenditure being 39.65. The lowest expenditure was incurred on sanitation (17 *per cent*) and SWM projects (18 *per cent*). The details are given in **Appendix VI.**

2.1.2.1 Poor execution of SWM projects

Government has approved 23 service providers for implementing solid waste management schemes of LSGIs. As per details received from five service providers, 35 LSGIs have paid ₹ 3.09 crore for installation of solid waste processing plants, out of which 16 plants were installed at a cost of ₹ 1.52 crore. Three service providers who received ₹ 36.05 lakh from five LSGIs[††], though started the works had not completed them. The solid waste processing plants installed in four LSGIs at a cost of ₹ 21.70 lakh by three service providers were not commissioned (January 2012).

[**] Expenditure of ₹ 3521.88 crore included ₹ 543.33 crore relating to 29425 spill over projects of previous years

[††] Aikkaranad GP, Parassala GP, Poothrikka GP, Vilakkudy GP, Kannur Municipality

2.1.3 Database on LSGIs' Finances

Based on the recommendations of the Eleventh Finance Commission (EFC), CAG had prescribed database formats for capturing the finances of all LSGIs. The database formats were prescribed with a view to have a consolidated position of the sector-wise resource and application of funds by LSGIs, details of works executed by LSGIs and their physical progress, etc. Government accepted (September 2004) the formats prescribed by CAG and a database of LSGIs for the year 2009-10 was created. Information for the year 2010-11 was yet to be uploaded by LSGIs (March 2012).

2.1.4 Maintenance of community assets

Eleventh/ Twelfth Schedules of the Constitution read with KPR Act, 1994 and KM Act, 1994 devolve the responsibility of maintenance of community assets to LSGIs. The Third State Finance Commission had recommended the maintenance grant for the period 2006-07 to 2010-11 applying 10 *per cent* annual growth rate. Government accepted the recommendations for the first four months of 2006-07. For the remaining period Government decided that the horizontal distribution of funds among the LSGIs would be based on the value of actual assets transferred and the need for maintaining such assets for which a separate formula would be evolved. No such formula has been finalised so far pending collection of data regarding type, area, age, etc., of assets under the control of LSGIs. The Government also did not call for any return on nature of asset, year of creation and monetary value of the asset, etc. During 2010-11, the Government released ₹ 247.63 crore to LSGIs as maintenance fund for non-road assets. The maintenance norms adopted by State Public Works Department (PWD) are made applicable to LSGIs. However, it could not be ensured that the norms of PWD were adhered to by LSGIs because of poor maintenance of asset registers.

2.1.5 Liabilities of LSGIs

Kerala Financial Code stipulates incurring of expenditure only after obtaining financial sanction, ensuring availability of funds and immediate requirement of goods and services. Test check of 135 LSGIs in 14 districts revealed that liabilities as detailed in **Table 2.10** were outstanding.

Table 2.10: Outstanding liabilities of LSGIs

Nature of liability	No. of LSGIs	Amount (₹ in lakh)	Since when
Salary and DA arrears	25	198.21	2004-05
Work bills	35	1295.13	1979-80
Electricity charges of street lights	18	64.96	2008-09
Water charges of public taps	45	1658.12	1996-97
Audit fee	4	40.52	1997-98
Library cess	5	24.87	2007-08
EMS housing scheme	968	64068.57	2009-10
KURDFC	50	2954.02	2009-10
Other items	11	86.33	2002-03
Total	**1161**	**70390.73**	

Source: Details furnished by LSGIs & Controlling officers

2.1.6 Misappropriations, losses, defalcations, etc

The Kerala Financial Code stipulates that each DDO should report all cases of loss, theft or fraud to the Accountant General and to the Government. The Government is required to recover the loss, fix responsibility and remove systemic deficiency, if any. A consolidated statement of the details of loss, theft and fraud is not available with the Government.

2.2 Legal framework for maintenance of accounts

According to Section 215 of KPR Act, 1994 and Section 295 of KM Act, 1994, LSGIs shall prepare annual accounts for every year. The PRIs maintain accounts on cash basis. In respect of the accounting formats based on National Municipal Accounts Manual (NMAM) for ULBs, the Government has issued new accounting rules. The accrual system of accounting has been implemented in all the ULBs as of March 2012.

2.3 Financial Reporting Issues

Financial reporting in LSGIs is a key element to ensure accountability of executives. The financial administration of LSGIs including budget preparation, maintenance of accounts, monitoring of expenditure, etc., is governed by the provisions of KPR Act, 1994, KM Act, 1994, Kerala Panchayats (Accounts) Rules, 1965, Kerala Municipal Accounts Manual, Kerala Financial Code, guidelines, standing orders and instructions.

2.3.1 Monthly Progress Reports

A condition for sanctioning funds to LSGIs for subsequent months was included in orders issued in April 2006, according to which, each LSGI shall prepare a Monthly Progress Report of Expenditure (MPR). MPR is to indicate budget provision, up to date allotment and expenditure and percentage of expenditure to allotment. LSGIs are required to forward it to designated authorities (Deputy Director of Panchayats for GPs, Assistant Development Commissioner (General) for BPs, Regional Joint Director for Municipalities) by the 10^{th} of subsequent month in respect of Development Expenditure Fund and Maintenance Expenditure Fund. Such authorities are to consolidate them and forward to Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs respectively by the 15^{th} day of the month. These State level authorities are then required to make State wise consolidated progress reports of expenditure and forward them to the Secretary to Government, Local Self Government Department (LSGD) and to the Secretary, Finance (Expenditure) Department by 20^{th} of the month. District Panchayats and Corporations are required to forward their Monthly Progress Reports by 10^{th} of the succeeding month to Secretary, LSGD and to Secretary, Finance (Expenditure) Department. Funds for the subsequent months are not to be allotted to those LSGIs which fail to forward the MPRs. These conditions were not adhered to by most LSGIs as mentioned below:

- Out of 456 MPRs due from District Panchayats and Corporations, during 2009-10 and 2010-11, Finance Department received only two MPRs from Palakkad District Panchayat for August 2010 and March 2011. But Finance

Department continued to allot funds for the subsequent months to District Panchayats and Corporations (which did not forward the MPRs) in contravention of its own orders.

- On a scrutiny of MPRs submitted by District Panchayats and Corporations to LSGD, Audit noticed that out of 456 MPRs due during 2009-10 and 2010-11, only 330 reports were received, resulting in a shortfall of 126.
- As per instructions, District Panchayats and Corporations were to forward MPRs to LSGD directly. But Corporations submitted the MPRs directly to the Director of Urban Affairs (DUA), which were consolidated and forwarded to LSGD by DUA. Due to adopting a procedure different from that prescribed, MPRs of Corporations for three months (October 2009, November 2009 and March 2011) only were received on due dates during 2009-10 and 2010-11 and the remaining 21 were delayed.
- Secretary, Finance (Expenditure) Department was to receive 72 consolidated MPRs during 2009-10 and 2010-11 from Director of Panchayats, Commissioner of Rural Development and Director of Urban Affairs, but the Secretary did not receive any consolidated MPRs so far.

2.3.2 Results of Supplementary Audit

CAG conducted supplementary audits under Section 20(1) of the CAG's DPC Act on the accounts of 96 GPs, four BPs, one DP, four Municipalities and one Corporation during the year 2010-11. The findings of such audits are given in subsequent paragraphs.

2.3.2.1 Quality of Annual Financial Statements

The Kerala Panchayat Raj Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the Kerala Municipality Act, 1994 read with the Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the PRIs/ULBs shall prepare Annual Financial Statements (AFS) containing all receipts and payments and Demand, Collection and Balance (DCB) Statements and forward them to the Director of Local Fund Audit (DLFA) after approval by the Panchayat/ Municipal Council/ Corporation Council not later than 31 July/31 May respectively of the succeeding year. The Kerala Local Fund Audit Rules, 1996 also empower the DLFA to return the defective AFS submitted for audit. Deficiencies noticed in the preparation and submission of AFS were the following:

- In 51 LSGIs (GP: 49, BP: one, Corporation: one) there was delay of two to 25 months in forwarding the AFS to DLFA. Of this, delay was 12 months and above in 27 cases as detailed in **Appendix VII**.
- Section 214(1A) of the KPR Act, 1994 and Section 287 and 289 of KM Act, 1994 stipulate that each PRI/ ULB should prepare the budget estimate for the next financial year and present before the Committee/ Council by 15 January and first week of March. There was delay in presentation of budget in 66 GPs, three BPs and four Municipalities. It was also noticed that budget was not presented in prescribed format in 17 GPs and two BPs (**Appendix VIII**).

- Appending statements of AFS were not prepared and submitted by 38 GPs, two BPs and two Municipalities (**Appendix IX**).
- In 12 GPs & one BP opening balance/closing balance of AFS did not agree with the opening balance/closing balance of the cash book for the period 2004-05 to 2008-09 (**Appendix X**).

2.3.2.2 Preparation of Monthly Accounts

As per Government guidelines for the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare monthly accounts for every month and place it before the Panchayat committee/Council at its first meeting held after the 10^{th} day in every month. Monthly Accounts was not prepared in 46 GPs, three BPs and one Municipality during 2004-05 to 2007-08 (**Appendix XII**).

2.3.2.3 Maintenance of primary financial records

(a) Cash Book

Guidelines for maintenance of Panchayat accounts and Municipal Accounting Manual issued by the State Government stipulate that all moneys received and payments made should be entered in the cash book and it should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank pass book balance under proper authentication were to be done. Supplementary audit review revealed the following deficiencies in maintaining cash book by LSGIs listed in **Appendix XI**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 34 GPs during the period 2004-05 to 2008-09.
- 14 GPs and one Municipality did not maintain cash book in proper format.
- Daily closing of cash book was not carried out by 63 GPs, two BPs and four Municipalities.
- 60 GPs, two BPs and three Municipalities did not close the cash book even monthly and annually.
- 54 GPs, two BPs and one Municipality did not reconcile cash book with pass book.

(b) Register of Advances

Guidelines for maintenance of Panchayat accounts stipulate that all advances paid are to be recorded in the Register of Advances. Two BPs and 21 GPs did not maintain Register of Advances during the period covered in audit - 2004-05 to 2007-08 (**Appendix XII**).

(c) Asset Register

Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipal Accounts Manual and Government Order (December 2005) stipulate that each LSGI should maintain an asset register in prescribed form containing particulars of assets owned by it. The particulars include description of asset, year of acquisition and amount of acquisition. The scheme guidelines in respect of Sarva Shiksha

Abhiyan, Mid Day Meal, Mahatma Gandhi National Rural Employment Guarantee Scheme, etc., also stipulate recording of assets created in implementing projects under the scheme. Further, Kerala Financial Code stipulates annual physical verification of assets.

- Asset register was not maintained properly by 25 GPs and one Municipality (**Appendix XIII**).
- Physical verification of stock was not done by 22 GPs, one Municipality and one Corporation **(Appendix IX).**
- Physical verification of cash was not done in 67 GPs, one BP and three Municipalities during the period covered in audit-2004-05 to 2008-09 (**Appendix IX**).

2.4 Consolidation of accounts of LSGIs

KPR Act, 1994 and KM Act, 1994 stipulate that an officer authorised by Government should consolidate audited accounts of LSGIs. Government stated (May 2010) that the State Government (LSGD) finalised the formalities for collection and consolidation of audited accounts of PRIs and authorised the Additional Secretary to Government (FM) to complete the process. Information with regard to progress in the collection and consolidation of accounts is awaited.

2.5 Administration Reports

According to the Kerala Panchayat Raj Act, 1994 and the Kerala Municipality Act, 1994, the LSGIs were to prepare Administration Report every year by 30 September of the succeeding year and forward them to the officers authorised by the Government for consolidation and submission to the Government and the Legislative Assembly. If the report is not received within the said time limit, Government may withhold the payment of grants due to LSGIs. However, the Government (LSGD) has not nominated any officer to ensure preparation and consolidation of the Administration Reports. Though the Act requires Government to place the consolidated Administration Report before the Legislative Assembly, it was not done in any year.

2.6 Arrears in accounts

According to Kerala Local Fund Audit Act, 1994 (KLFA Act) it was mandatory for LSGIs to submit their accounts to DLFA for audit by 31 July every year. Further, Rule 16 of Kerala Local Fund Audit Rules, 1996, empowers DLFA to carry out proceedings in a Court of Law against the Secretaries of LSGIs who default in the submission of accounts.

As on 31 July 2011, 221 accounts pertaining to the period from 1996-97 to 2010-11 were in arrears. However, DLFA did not take any action against the defaulting LSGIs.

2.7 Arrears in audit and issue of audit reports

As per KLFA Act, DLFA is to complete the audit of accounts submitted by LSGIs within six months of receipt of accounts and issue audit report within three months from the date of completion of audit.

DLFA received 18024 accounts up to July 2011. Of these Audit Reports were issued in respect of 13552 accounts (October 2011). The arrears in the issue of Audit Reports were 4472 (24.81 *per cent*).

As per KLFA Act, the DLFA is required to send to Government annually a consolidated report of the accounts audited by him and the Government is required to place the report before the Legislative Assembly.

The Kerala Local Fund Audit Rules, 1996 stipulate that the DLFA shall, not later than 30 September every year, send to the Government a consolidated report of the accounts audited by him during the previous financial year, containing such particulars which he intends to bring to the notice of the Government. The Committee on Local Fund Accounts deliberates on this report. Scrutiny of records in DLFA's office revealed that such report had been submitted to the Government up to the year 2008-09 and reports up to the year 2006-07 were presented to State Legislature.

2.8 Conclusions

As against revenue of ₹ 438.56 crore collected by LSGIs establishment expenses was ₹ 464.06 crore. Out of ₹ 1888.38 crore released by GOI/State Government for CSSs, an amount of ₹ 670.94 crore was retained by SLNAs/PAUs. LSGIs spent only 10 *per cent* of the fund available for implementation of CSSs. LSGIs were not adhering to the procedures relating to reporting monthly progress of expenditure.

CHAPTER III
THEMATIC REVIEWS

3.1 COLLECTION OF TAXES IN KOCHI CORPORATION

3.1.1 Introduction

As per Section 230 of the Kerala Municipality (KM) Act, 1994 Corporations are empowered to levy and collect local taxes like Property tax, Profession tax, Entertainment tax, Advertisement tax, etc., and fees like licence fee on business establishments and permit fee on construction of buildings from individuals and institutions located within their jurisdictional area. The revenues so mobilised which constitute a substantial portion of the resources of the Corporations are utilised for developmental and maintenance activities as well as for administrative purposes. The tax revenue items of the Corporation are given in **Table 1**.

Table 1: Tax revenue items of the Corporation

Revenue items	Manner of levy
Property tax	Recurring tax levied on buildings based on its Annual Rental Value, payable half-yearly.
Profession tax	Recurring tax payable by employees based on their salary, and also by professionals, traders, institutions etc. The tax is payable half yearly.
Entertainment tax	Tax levied by Local Bodies on entertainments including cinemas, exhibitions, amusements, games, sports, etc., as a percentage of the price of tickets sold.
Advertisement tax	Tax levied on advertisements displayed on boards, hoardings, banners, etc., in municipal area.

The share of the above tax items in the total tax revenue of the Corporation during 2006-07 to 2010-11 is given in **Appendix XIV**. A summary of the nature, incidence, periodicity, authority, etc., relating to various taxes levied by the Corporation is given in **Appendix XV.**

The objective of the audit was to verify whether there was a proper system for assessment and collection of taxes in the Corporation. Audit was conducted during November 2011 to January 2012 covering the period 2006-07 to 2010-11. Audit methodology included scrutiny of basic records, registers and files maintained in the office, collecting information from other offices, issue of audit enquiries and getting replies, interaction with officials, site verification, etc.

3.1.2 Organisational structure

The Secretary of the Municipal Corporation (Secretary) is the administrative head of the Corporation. The Revenue Officer, who is head of Revenue Section, is responsible for the levy and collection of tax. The Revenue Officer is assisted by Revenue Inspectors, Bill Collectors and other administrative staff.

Audit findings

3.1.3 Property tax

As per provisions of KM Act, 1994, property tax is levied as a percentage of the annual value (probable rent that the building may fetch, if let out annually) of buildings at the time of their completion. The Act was subsequently amended with effect from October 2009 to levy property tax based on plinth area of the buildings. This new methodology for assessment has not been brought into effect till date (March 2012). The annual tax once assessed is payable in half yearly instalments, until it is further revised, as provided in KM Act, 1994.

3.1.3.1 Comprehensive database of all assessable units

Corporation lacked comprehensive database of all taxable units in its jurisdiction

Complete and accurate data on all assessable public and private properties such as residential and non-residential properties, Central and State Government properties, properties of autonomous bodies is a pre requisite for raising demand and collection of property tax. Audit, however, observed that Kochi Corporation had no comprehensive database of all assessable properties. Demand Register/Arrear Demand Register maintained by the Corporation was not updated and complete, and details like year wise arrears, or the arrears of individual assessees, were not readily available. Audit further observed that several buildings have escaped assessment, as detailed in succeeding paragraphs. A system of providing prior permissions for construction of buildings was already in place in the Town Planning Wing. Such information could have served as an effective aid for creating a centralised database for property tax but was not being utilised to create a database.

3.1.3.2 Raising of Demand

Oversight role of Government in property tax process

(a) As per Section 234 (4)[1] of KM Act, 1994, the Government was to frame rules regarding levy and collection of property tax. The Government, however, framed the rules only with effect from 1 April 2011. In the absence of rules, there was no fair and transparent system in the fixation of annual value (i.e. the tax base) resulting in wide disparities in assessment as discussed in the succeeding paragraph. Further, as per Section 238[2] of KM Act, 1994, property tax was to be revised once in five years (amended as four years with effect from 23 April 1999). The Government issued orders revising the rate of property tax only in April 2011. In the absence of rules which would have enabled periodic revision of rates, the revenue earning potential of the

[1] Existed up to October 2009

[2] Existed up to October 2009

Corporation was adversely affected as the rates remained unchanged for a long period.

(b) The Occupancy Certificate issued by the Town Planning Section is the basis for getting electricity or water connections. This served as a control measure to bring all new constructions under the tax net. However, the Government relaxed (July 2011) the rules and permitted to provide electricity and water connections based on alternate documents like possession certificate from Village Officer, residential certificate by local bodies, voters ID cards, ration cards, etc. This weakened the assessment process as the Occupancy Certificate had earlier served as an effective control mechanism to bring new buildings into tax net.

Absence of fair and transparent system in fixing the annual value of buildings

There were wide variations in the annual values fixed for similar buildings

Property tax was levied at 15 *per cent* of the annual value from 1994 onwards. Audit, however, found that there were no fair and transparent criteria for fixing the annual value. At present, the Revenue Inspector verifies the building, and taking into account the location, size of building, nature of construction, amenities provided, category (whether residential or commercial), etc., fixes the annual value and tax thereon. The Corporation had not fixed any zone-wise bench marks for calculating the annual value of buildings. As a result, there was no uniformity in fixing the annual value of buildings. For example, in Divisions 27 & 39 (assessments made in 2010-11), Audit observed that there were wide variations in the annual value fixed for buildings of same shape and size assessed during same periods, as given in **Table 2.**

Table 2: Variations in the annual value fixed for buildings assessed during same periods

Building No.	Category	Floor area (m^2)	Annual Value (₹)	Annual Tax (₹)	Remarks
27/2723-I7	Residential	194.77	4,800	720	Similar flats on the same floor
27/2723-I8	,, ,,	194.77	63,600	9540	
39/2026A	Commercial	5303.80	2,40,000	36,150	Adjacent buildings
39/2029	,, ,,	360.00	1,63,200	24,660	
39/2061 A to Z	,, ,,	2820.95	2,44,253	36,544	Buildings in the same area
39/2037-	,, ,,	59.00	56,415	8,462	
27/3064 A	Residential	72.75	56,400	8,460	Two apartments in same building
27/3064 B	,, ,,	72.75	12,000	1,800	
58/356 C	,, ,,	142.39	1,47,100	22,065	Two apartments in same building
58/356 D	,, ,,	168.00	54,300	8,145	
27/1493 C	,, ,,	47.04	36,000	5,400	Portions in the same building
27/1493 D	,, ,,	40.20	7,200	1,080	
27/1493 E	,, ,,	46.10	8,400	1,260	

In the absence of specific norms for fixing the annual value of buildings, rent received or the PWD mode of calculation could have been relied upon as a basis for fixing the annual value of buildings. But it was seen that actual rent of these buildings was not being taken into account for fixing the annual value. On verifying the assessments relating to Division 27 for the year 2010-11, it was found that the annual value adopted for assessments were far less than the annual value as per PWD norms. Revenue loss due to non-adoption of annual value as per Public Works Department norms in the case of Division 27 for one year worked out to ₹ 5.36 lakh.

Also, it was seen that in the case of buildings which have been let out, addition of 25 *per cent* to property tax, as specified in Section 234(3) of KM Act, 1994, was not being made.

The Secretary stated (April 2012) that the variations were on account of not calculating the annual value based on plinth area.

Inadequate mechanism for identifying new buildings for tax assessment

Non-follow up of lapsed permits resulted in revenue loss to the Corporation

(i) The validity of the permit for construction (building permit) is for three years and it has to be renewed in case the construction continues beyond that period. However, in many cases, construction/alteration continues after three years without renewal of the permit. Since the Corporation has no mechanism to watch the progress of construction/monitor validity of the permits, it had to depend totally on the owner to report the completion. Audit conducted (November 2011) site verifications of 21 lapsed permits (issued in 2007) pertaining to Division 27, and found that the construction had already been completed in 12 cases (57 *per cent*). Non-reporting of completion of works indicated substantial revenue loss to the Corporation. The Secretary stated (April 2012) that necessary instructions had been issued to the Town Planning Officer to ascertain the position regarding all lapsed permit cases and assessment would be made in respect of all the buildings completed.

(ii) As and when the owner of the building approaches the Town Planning Section with the completion certificate, he is issued an Occupancy Certificate. This forms the basis of tax assessment. The Revenue Section assesses the property and notes it in the Assessment register. Audit checked (November 2011) the records of Town Planning Section and Revenue Section with reference to permits issued in Division 27 during the year 2007, and found that out of 147 Occupancy Certificates issued, 31 cases (21 *per cent*) with a total floor area of 4442.33 square meter (sq.m) were yet to be assessed. Audit estimated the loss to be around ₹ 1.35 lakh annually. Delayed assessment has large revenue loss implications. The Secretary stated (April 2012) that instructions had been issued to Revenue Inspectors to examine and assess these cases retrospectively.

Kera Bhavan

Scrutiny of the records further revealed that the building not listed by the Corporation for taxation included a ten storied building (Kera Bhavan; Floor area 48420 square feet) constructed by Coconut Development Board in 1997 at a cost of ₹ 3.33 crore. Annual tax loss in respect of this building was ₹ 9.67 lakh and the total tax dues up to 2010-11 was ₹ 1.35 crore[3].

As per Section 539 of KM Act, 1994, demands for tax claims cannot be made beyond three years after it has fallen due. Thus tax dues beyond 2008-09 amounting to ₹ 1.16 crore relating to Coconut Development Board Building has become time barred.

The Secretary stated (April 2012) that action had since been initiated to assess the Coconut Development Board building.

Non-assessment of property tax of identified buildings

Audit noticed that the Corporation had failed to assess certain buildings/ portions of certain buildings which had already been identified. Some of the important buildings that were not assessed are mentioned below:

(a) Mini Muthoot Towers

Mini Muthoot Towers is a 22 storied commercial building with plinth area 11527.80 sq.m in Division 36 constructed on a permit issued in November 2005. Even though the validity period of the permit was over in November 2008, the party failed to apply for renewal of the permit. The owner had not furnished the completion report even as of January 2012 on the grounds that clearance had not been obtained from Fire and Rescue Department. The 14th and 15th floors of the above building were assessed to tax with effect from 01 October 2006 and the 12th floor from 01 April 2008, treating them as unauthorised constructions. Audit noticed (November 2011) during site verification that the construction of the entire building had already been completed. Thus the entire building was assessable under Section 242 with effect from 01 October 2006. Failure to obtain Fire and Rescue clearance was not a valid reason for non-assessment of the building from the date of its completion. If the rental value adopted for assessing the 15th floor was taken as the basis for assessing the unassessed portion also, half yearly tax for the unassessed portion works out to ₹ 11.39 lakh (including Library Cess). The estimated revenue loss due to non-assessment of the entire building with effect from the date of completion amounted to ₹ 1.03 crore. Out of this, tax amounting to ₹ 56.96 lakh has become time barred.

Mini Muthoot Towers

[3] The annual Property tax leviable for the building has been worked out based on PWD mode of calculation, adopting land value @ ₹ 10 lakh /cent

(b) Cochin Port Trust buildings

Audit noticed that three buildings[4] of Cochin Port Trust were not assessed even though the assessment process was initiated in December 2009. The Corporation stated that the assessment was delayed due to delay in collecting necessary information from the Port Trust. The estimated revenue loss based on annual value assessed by the Corporation amounted to ₹ 16.80 lakh. Out of this, tax amounting to ₹ 12.81 lakh relating to period up to 2008-09, has become time barred.

Cochin Port Trust Building

(c) Buildings of M/s Konkan Storage Systems Private Limited

Construction of buildings owned by M/s Konkan Storage Systems in Division 24 of Mattanchery Zone was completed in 2003-04. But the Property tax assessment was done only in April 2011 and the tax assessed for the period from 2003-04 (2^{nd} half) to 2010-11 (2^{nd} half) amounted to ₹ 39.21 lakh, out of which ₹ 28.76 lakh has become time barred. The reasons for the delay in assessments were not available and the assessee had not paid the tax till date.

3.1.3.3 Collection and Accounting

Short levy of Property tax

(i) Cochin Port Trust buildings

As per the agreement entered into (March 2000) between Cochin Port Trust (a central autonomous body) and Kochi Corporation, the Cochin Port Trust was liable to pay only 30 *per cent* of Property tax from 01 April 1993 onwards on the ground that the Port Trust was not relying on the Corporation for any civic amenities. However, this agreement was not valid as it was signed without obtaining prior sanction from the Government as stipulated in Section 235(2) of KM Act, 1994.

The agreement (March 2000) valid for the period 1993 to 2013, permits the Corporation to enhance the rate up to 15 *per cent* every five year based on joint physical verification within six months of the agreement. However, the joint physical verification could not be conducted due to lapses on the part of the Corporation in deputing necessary staff. The Port Trust accepted the first increase of 15 *per cent,* effected by the Corporation from April 1998 without conducting joint verification. However, it did not accept further enhancements to be effected in 2003 and 2008 as there was no joint verification. Hence the revision of tax to ₹ 12.26 lakh demanded by the Corporation could not be effected from 01 April 2003 onwards. Loss incurred by the Corporation due to non-revision of property tax in 2003-04 and 2008-09 worked out to ₹ 20.02 lakh approximately. This included ₹ 3.29 lakh towards property tax in respect of certain buildings for which Property tax was being paid by the lessees and

[4] Main Port Trust Building (4129.80 sq.m), Port Trust Training Institute (1064.28 sq.m), Port Trust Marine Buildings (3316.32 sq.m)

later came back to the Port Trust on expiry of the lease period. Details are given in **Appendix XVI.** Out of the above, tax amounting to ₹ 10.45 lakh pertaining to the period up to 2008-09 has become time barred.

The Secretary stated (April 2012) that action has since been initiated for conducting joint verification of all Port Trust Buildings and assess all buildings which have been left out including those taken back from the lessees. The Secretary added that if any amount becomes irrecoverable due to lapse of the officials, it will be recovered along with interest thereon from the concerned officials as provided in the Act.

(ii) Malabar Hotel building

Malabar Hotel situated in Wellington Island, Kochi was functioning in the building leased out by Cochin Port Trust. In 1988, the lessee had made additional constructions including 63 rooms to the hotel, as part of raising it to five star category, the property tax relating to which was being paid by Cochin Port Trust. Audit noticed that the Port Trust was paying only ₹ 90,161 (i.e. 30 *per cent* of normal property tax of ₹ 3,00,535) for the above constructions. As per the agreement entered into between the Corporation and Cochin Port Trust, reduced rate of 30 *per cent* was applicable only to buildings owned by Cochin Port Trust. In the case of buildings constructed by Malabar Hotel (lessee) full property tax was payable by the lessee. Loss of revenue on account of non-realisation of property tax for the period 1988-89 to 2010-11 at full rate worked out to ₹ 48.39 lakh. Out of this, tax amounting to ₹ 44.18 lakh pertaining to period up to 2008-09 has become time barred.

Malabar Hotel Building

The Secretary stated (April 2012) that Malabar Hotel building was assessed in the name of Cochin Port Trust, as an occupier. The reply is not acceptable because as per the agreement entered into between Cochin Port Trust and Malabar Hotel, the ownership of additional construction done by Malabar Hotel rests with Malabar Hotel and the ownership will be transferred to Cochin Port Trust only on termination of the lease. Hence Malabar Hotel is liable to pay full property tax on these constructions.

(iii) Central Autonomous Bodies/Public Sector Undertakings

In addition to Port Trust, Kochi Corporation area has buildings belonging to a number of central autonomous bodies and PSUs like BSNL, Spices Board, Rubber Board, etc., which have the obligation to pay full property tax as these are not Central Government buildings.

BSNL Buildings – Buildings of Postal and Telegraph Department were transferred to BSNL, while the PSU was formed on 01 October 2000. However, the Corporation had not identified the buildings of BSNL till date and assessed them to tax. Audit identified 145 staff quarters of BSNL at Thevara. Corporation had been charging only annual Service charge of ₹ 1.17

lakh (10 *per cent* of annual value of ₹ 11.70 lakh) on them, considering these as Government of India (GOI) buildings. However, once these became BSNL staff quarters, full property tax of ₹ 2.19 lakh was realisable. Thus the total amount realisable from BSNL in this regard worked out to ₹ 23.03 lakh. Out of this, tax amounting to ₹ 18.64 lakh has become time barred as it relates to period prior to 2008-09.

The Secretary stated (April 2012) that action will be taken to identify and bring to tax net all BSNL buildings in the Corporation area, and to realise full property tax, including arrears from them.

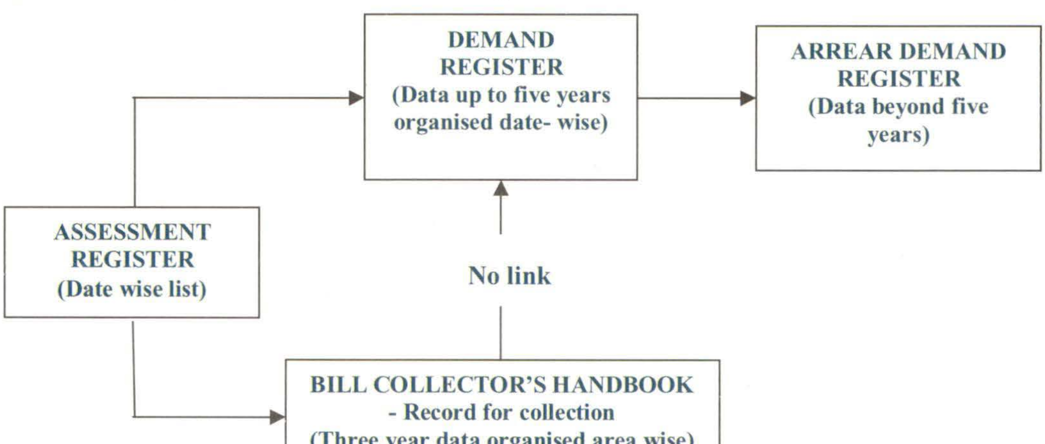
Spices Board - Being an autonomous body, Spices Board is liable to pay full Property tax of ₹ 1.71 lakh per year. However, the Corporation had realised only Service charge of ₹ 1.28 lakh (i.e. 75 *per cent* of property tax of ₹ 1.71 lakh) during the period 1993-94 to 2005-06. From 2006-07 onwards, Spices Board stopped paying the above Service charge claiming exemption as a Central Government Institution. The plea was incorrect and the total tax dues of the Board for the period 1993 to 2010-11 amounted to ₹ 12.42 lakh, out of which ₹ 9.85 lakh has become time barred. The Board is also liable to pay penalty at the rate of two *per cent* per month up to 23 August 2005 and at one *per cent* per month thereafter, on the defaulted amount as per Section 538(2) of KM Act, 1994.

The Secretary stated (April 2012) that Spices Board had remitted (March 2012) ₹ 2.70 lakh and that the Corporation had issued notice to Spices Board for remitting the balance amount.

Improper maintenance of records

Corporation lacks a proper accounting system for tax collected

On completion of assessment, details of assessment are to be noted in the Assessment Register, and the demand created in the Demand Register. When collections are made, the amounts collected are to be entered in the Demand Register, and balance, if any, is to be carried to the Arrear Demand Register. But it was seen that postings were not being made in the Demand Register systematically and the Register did not show the actual position of arrears relating to individual assessees. When collections were made by Bill Collectors, these were entered in the 'Bill collectors Hand Book' (an area-wise record of buildings given to Bill Collectors for tax collection), and no postings were being made in the Demand Register.



Thus the Bill Collector's Hand Book was the only record which contained the tax record of individual cases. The entries made in the Hand Book by Bill Collectors were not being checked by any superior officer to confirm its genuineness.

The Secretary stated (April 2012) that postings could not be made in Demand Register/Arrear Demand Register due to rush of work and instructions will be issued to Bill Collectors for collecting all arrears.

Slackness in collection of arrears of Property tax

The Act provides for stringent action like levy of penalty, initiation of Revenue Recovery procedures, prosecution, etc., for realising arrears. As on 31 March 2011, the Corporation records show arrears of ₹ 25.61 crore[5]. As the Demand Register/Arrear Demand Register maintained by the Corporation was not updated and complete, details like year-wise arrears, or the arrears of individual assessees, were not readily available. As a result, the Corporation could not take any effective steps for realising arrears in individual cases. Some major cases of pending arrears that came to the notice of audit are given below:

(1) In two divisions (Divisions 27 and 39) arrears of ₹ 97.87 lakh ranging from two to 28 half-years were pending collection in 911 cases. Even though penalty was being levied in delayed remittance cases, revenue recovery or prosecution procedures were not resorted to in any of the arrear cases. The Secretary stated (April 2012) that instructions had been issued to Revenue Inspectors to realise the arrears.

(2) The property tax of the Government Guest House building (4515.26 sq.m) is ₹ 12.23 lakh half yearly from 01 October 2005. But the tax was demanded only in April 2009[6]. Even though the assessee did not remit the tax, the Corporation did not pursue the case or take further action for recovering the amount. Total tax due up to 2010-11 worked out to ₹ 1.67 crore, in addition to penalty leviable under Section 538(2). Out of the above, tax amounting to ₹ 12.23 lakh, pertaining to period up to 2008-09, is time barred. The Secretary stated (April 2012) that demand notice has been issued (March 2012) to the Regional Director of Tourism Department.

Unauthorised remissions/ exemptions/ deductions

(a) Section 239 and Section 241 of KM Act, 1994 provide for exemption/ remission in cases where the building is vacant or if it is demolished. The remission for vacancy is limited to two half years at a time and a fresh application is needed for every subsequent exemption. After verification, remissions granted are to be noted in the Vacancy Remission Register maintained in the Revenue Section. The exemption/remission can be granted by the Corporation Secretary.

[5] As per the DCB statement for 2010-11, property tax amounting to ₹ 25.61 crore was pending collection as on 31 March 2011. Out of this, ₹ 18.26 crore represented dues relating to previous years

[6] The tax due for the period from 2005-06 (2nd half) to 2008-09 amounting to ₹ 89.90 lakh (including library cess) was demanded in April 2009

Audit, however, noticed that in two Divisions test checked (Divisions 27 & 39), Bill Collectors had granted unauthorised exemptions, without sanctions from the Secretary and had not collected tax amounting to ₹ 57.21 lakh pertaining to period 2006-07 to 2010-11 in 435 cases (vacancy: 153, demolition: 282). Audit also noticed that the remissions given were not entered in the Assessment Register. Thus these remissions/exemptions were also included in the dues of the Corporation, thereby inflating the demand to that extent. The Secretary replied that even though applications for remission were submitted in these cases, they were not processed. The reply emphasizes the fact that the exemptions given were unauthorised.

(b) Although GOI buildings are exempt from Property tax, the Corporation can realise Service charge from them depending on the extent of service provided by the Corporation. But, the Corporation failed to collect annual Service charge of ₹ 57.22 lakh relating to buildings of 24 GOI Offices, and buildings of Navy in the Corporation area. Arrears of Service charge in the above cases amounted to ₹ 3.94 crore, which pertained to period from 2006-07 onwards in majority of cases, and earlier years also in certain cases. The Secretary stated (April 2012) that the matter will be brought to the notice of the Council and necessary action will be taken to realise the arrears.

Lack of transparency in allowing deductions in appeals

Under Section 509 of the KM Act, 1994, any person aggrieved by an order of assessment of Property tax can file an appeal before the Appeal Standing Committee. Lack of transparency in assessment as well as absence of specific norms gave scope for a rise in the number of appeal cases. Out of 1364 appeal cases disposed by the Appeal Standing Committee during 2010-11, deductions ranging from 5 *per cent* to 20 *per cent* on tax amount were allowed in 1288 cases. The committee allowed these deductions without citing any specific reasons. The fact that such a high percentage of reductions was being allowed points out to the need for a fair and transparent system of fixing the annual value.

3.1.4 Profession tax

The Government has prescribed slab rates of tax payable by employees, ranging from ₹ 120 to ₹ 1,250 per half year, and ₹ 1,250 per half year by traders/professionals. The onus of assessing and remitting tax is on the tax payer or on the employer. Thus every head of office or employer including self drawing officer is bound to recover Profession tax and remit it along with details of income.

3.1.4.1 Absence of Database of all assessees and assessable institutions

The Corporation was not having an integrated database to facilitate collection of Profession tax from all categories of employees, traders and professionals. In this connection audit observed the following:

(i) Section 257 of KM Act, 1994 stipulates that the Municipality shall maintain a ward-wise demand register, by providing separate pages for each institution. Audit found that the register was incomplete without full particulars of all institutions, as well as details of employees together with their half yearly income, amount of tax demanded and collected, etc.

(ii) Section 253 of KM Act, 1994 stipulates that the Secretary

- shall, during the month of April every year, by notice, require heads of offices or persons liable to recover Profession tax, to furnish the name and addresses of the offices/ institutions under their control;
- may require any employers, heads of institutions, hotels, clubs, etc., to furnish a list of all persons employed by them, along with details of their salary/ income and also to furnish the names and profession of all persons occupying such places.

In the absence of comprehensive database, no notices were being issued each year by the Secretary. The Secretary stated (April 2012) that the stipulated procedures will be followed in future.

Corporation did not have a comprehensive database of all institutions/ self-drawing officers liable to pay Profession tax

(iii) Section 254 of KM Act, 1994 stipulates that the Secretary of the Municipal Corporation shall, during the month of May and November in every half year, by notice, require every Head of Office or employer to assess every employee in his institution liable to pay Profession tax and every self drawing officer to remit the Profession tax due as per rules. But notices are being sent in this regard only in very few cases. In the absence of comprehensive database, notices were not issued to heads of private institutions.

(iv) In the absence of a comprehensive database of all institutions or self-drawing officers and issue of notices, it could not be ensured that all institutions and self-drawing officers had filed returns and remitted tax. Even in cases where the Revenue Inspectors were collecting tax directly it could not be ascertained whether all traders had paid Profession tax as it was not recorded in the prescribed registers. Audit noticed that there were omissions in collecting Profession tax from certain categories of assessees, the details of which are given in **Table 3**.

Table 3: Categories of assessees who escaped assessment of tax

Sl. No.	Category	No. of assessees who escaped assessment	Annual tax loss for the period 2006-07 to 2010-11 (₹ in lakh)	Remarks
1	Ration dealers	205	5.13	Audit collected details from the City Rationing Offices I & II, Ernakulam
2	Contractors registered in Kochi Corporation	210	5.25	Details of contractors taken from the records of Engineering Section of the Corporation for 2010-11
3	Traders working in Corporation area	94	2.35	Revenue Inspectors were collecting Profession tax directly from traders based on the traders list prepared by them. Comparison of the details of traders included in one out of four D&O registers (relating to Division 40) maintained by Health Section with the traders list of the Revenue Inspector revealed that 94 traders were not listed for payment of Profession tax.
Total			**12.73**	

The Secretary stated (April 2012) that action will be taken to levy Profession tax from Ration dealers and Contractors.

3.1.4.2 Raising of Demand

Defence personnel, subject to the Army Act, 1950, Navy Act, 1957 and Air Force Act, 1950 are exempt[7] from municipal or cantonment taxes on salaries. But, GOI is to compensate the loss suffered by the Municipality from Defence Services Estimates[8]. In accordance with the above provisions in the Act and Rules, the employees of Southern Naval Command, Kochi were not paying Profession tax to Kochi Corporation. But the Corporation did not get reimbursement from the Defence Service Estimates for the loss suffered on this account.

3.1.4.3 Collection and Accounting

Details of profession tax collected during the five year period 2006-11 were as given in **Table 4.**

Table 4: Collection of Profession tax during 2006-07 to 2010-11

(₹ in lakh)

Year	Profession tax	Yearly increase/decrease	
		Amount	Percentage
2006-07	816.53	--	--
2007-08	1288.39	471.86	58
2008-09	1464.53	176.14	14
2009-10	1000.77	(-)463.76	(-) 32
2010-11	834.01	(-)166.76	(-) 17

During 2007-08, profession tax collection showed 58 *per cent* increase over the previous year. But during 2009-10 and 2010-11 reduction in tax collection of 32 *per cent* and 17 *per cent* respectively were noticed over the corresponding previous years. These huge variations indicated the deficiencies in accounting of Profession tax.

Profession tax income for the year 2008-09 amounted to ₹ 14.64 crore, whereas the corresponding figure for 2009-10 was only ₹ 10 crore. Such variation in Profession tax is not likely because all assessees/institutions/traders who paid profession tax during a year are liable to pay the same next year also, even though there may be certain additions or deletions, the effect in respect of which will only be compensatory. Since each assessee is paying same amount of Profession tax during each half-year, the half yearly income of the Corporation in this regard will be more or less same. During 2008-09, Profession tax income of professionals/institutions for each half-year was ₹ 7.23 crore. But during 2009-10, profession tax income of professionals/institutions for first half-year was ₹ 8.32 crore whereas the amount for the second half-year was only ₹ 1.66 crore. On verification, Audit found that there were misclassifications and wrong adjustments in the accounts and the figure for 2nd half-year was adjusted to make it agree with the Demand-Collection-Balance Statement.

[7] Section 3 of Municipal Taxation Act, 1981

[8] Rule 288A of Financial Regulations – Part I (Volume I)

3.1.5 Entertainment tax

Entertainment tax is the tax levied by Local Bodies on entertainments including cinemas, exhibitions, amusements, sports, games, etc., as a percentage (25 *per cent* in Kochi Corporation) of the price for admission tickets. The tax is collected in advance based on anticipated ticket sale and finally adjusted based on actuals.

The primary control exercised by the Corporation in the case of Entertainment tax is affixing seal on tickets. The Corporation was maintaining proper records showing the details of theatres (19 numbers), number of seats in each class, etc. Accounts relating to number of tickets sealed, details of returns filed, tax due and collected, etc., were also being maintained. Section 9 of Kerala Local Authorities Entertainments Tax Act, 1961 provides that inspections of the premises of theatres and other shows may be conducted by Local Bodies to see whether the provisions of the Act or the Rules made there under are being complied with. But in Kochi Corporation, there were no records to show that inspections were being conducted in theatres or other entertainment premises by the Corporation officials, as specified in the Act. No records were available in the Corporation to verify the correctness of returns filed by theatre owners. Due to non observance of the above provisions of the Act, the risk of theatre owners using unsealed/bogus tickets exists.

For shows conducted in places other than theatres, the risk of evasion of Entertainment tax is higher. The Corporation has neither listed the places/open spaces/halls where such shows can be conducted nor assessed the number of seats in those places.

3.1.6 Advertisement tax

Advertisement tax is the tax levied by local bodies on advertisements[9] displayed on boards, hoardings, banners, etc., in its area of jurisdiction. The rates applicable to various types of advertisements are fixed by the Corporation Council with the approval of Government. Unlike other taxes, where the Corporation directly collects the tax, the right for collection of Advertisement tax (except fixed hoardings, theatre slides etc) is entrusted to contractors by inviting competitive tenders. Common tender is invited for all zones and the tender is awarded to the highest bidder.

The benefit of competitive bidding is derived when a number of parties submit quotations. The rates of advertisement tax were revised several folds in 2009-10 (approximately 10 times). Audit observed that during 2009-10 and 2010-11 only single tenders were received but no attempt was made to retender. During 2011-12 when retendering was resorted to, the Corporation could finalise the tender at 85 *per cent* above previous year's rate. The amounts for which collection of Advertisement tax for the years 2006-07 to 2011-12 were auctioned, are given in **Table 5.**

[9] Section 271 of KM Act. 1994

Table 5: Collection of Advertisement tax

Year	Advertisement tax (₹ in lakh)
2006-07	33.10
2007-08	33.12
2008-09	34.50
2009-10	41.00
2010-11	42.00
2011-12	82.60

There was no proportionate increase in tax amount for 2009-10 and 2010-11 commensurate with the enhanced rate introduced by the Corporation.

The Secretary stated (April 2012) that based on the recommendation of Finance Standing Committee, the Council decided not to retender the right to collect the advertisement tax. However, the decision of the Council was not in conformity with the rules and financial prudence.

3.1.6.1 Non- levy of tax on advertisements displayed on motor vehicles

Corporation was not levying tax on advertisements displayed on motor vehicles

Rules[10] provide for levy of Advertisement tax at the rate of ₹ 100 per day in respect of advertisements displayed on motor vehicles plying in Corporation area. Even though advertisements were being displayed on large number of buses operating in the Corporation area, the Corporation was not levying any tax on advertisements displayed on vehicles. It was ascertained from the District Transport Office, Kerala State Road Transport Corporation (KSRTC), Ernakulam that during 2010-11, advertisements were being displayed on 100 KSRTC buses which commence operation from Ernakulam Depot. The details of private vehicles that display advertisements were not available. The Advertisement tax realisable annually from KSRTC buses alone for 2010-11 amounted to ₹ 36.50 lakh. Details regarding number of buses on which advertisements were displayed during previous years were not available.

3.1.7 Conclusion

There is no fair and transparent system for assessment of property tax. On account of lack of comprehensive computerised database, the present mechanism is grossly inadequate to ensure that all the revenue due to the Corporation is promptly collected and accounted. Due to dispensing with the need to obtain Occupancy Certificate issued by the Town Planning Section as the sole basis for getting water and electricity connection, a vital control has been lost. Failure to raise demand has been noticed in large number of cases.

The collection of profession tax has suffered due to lack of comprehensive database.

The inspections as laid down for monitoring collection of Entertainment tax are not being carried out.

3.1.8 Recommendations

- **The Corporation should develop maps of city areas, identify and list all properties and tax all eligible properties. The information available with Town Planning Section with regard to permits issued should be**

[10] Section 271 of KM Act, 1994 read with SRO 528/2009 dated 23 June 2009

utilised. Government should make the Occupancy Certificate compulsory for getting electricity and water connection as a control measure to bring all constructions under tax net. Cases relating to non-assessment of property tax may be investigated and remedial action taken.

- **In all the four revenue generating areas reviewed by Audit, proper mechanism should be put in place for frequent site verification so as to ensure accuracy of the data in the records. Comprehensive IT enabled database of all assessees should be created to facilitate proper collection and accounting of revenue.**

- **For collection of Entertainment tax, the Corporation should adopt IT enabled ticketing using bar code reader for theatres as in Thiruvananthapuram.**

3.2 WASTE MANAGEMENT IN THIRUVANANTHAPURAM CORPORATION

3.2.1 Introduction

Thiruvananthapuram Municipal Corporation (TMC) established (July 2000) a Municipal Solid Waste (MSW) processing plant at the nearby Vilappil Grama Panchayat (VGP), through a private agency, *viz.*, M/s Poabs Envirotech Private Limited (operator) on Build Own Operate and Maintain (BOOM)[1] basis for a period of 30 years. If the operator decides to stop the activity he can remove the plant and handover the vacant possession of the land to TMC without any claims. Audit was undertaken to assess the operation of the plant. Audit observed the following deficiencies.

3.2.2 Operation of the contract

Inadequate capacity of plant for treatment of MSW

(i) The estimated MSW generation in the Corporation was approximately 250 metric tonnes per day. The operator was required to establish a MSW processing plant of 300 metric tonne capacity. Against this requirement, the plant established by the operator had only a capacity of 156 metric tonne. TMC, however, did not take any action against operator for establishing a plant of lesser capacity.

(ii) Waste was to be processed through aerobic composting, *i.e.,* conversion of bio-degradable waste to soil enricher (manure) aerobically in windrows[2]. However, the plant did not adhere to the specifications as tabulated in **Table 1.**

Table 1: Deficiencies in operation of windrows

Item	Requirement	Implementation	Remark
Width	3 metre	5 metre	Proper aerobic composting was not possible leading to anaerobic conditions which caused fly nuisance, generation of excessive leachate and bad odour that was felt about 1.5 km radial distance.
Height	1.5 metre	6 metre	
Length	3 metre	18 metre	
Periodicity of turning	once in six days	not done regularly	

The anaerobic condition in the plant reduced the conversion efficiency of the plant from 50 *per cent* to 12 *per cent* as per the standards[3] . This prolonged the processing period of the waste leading to ineffective utilisation of the installed capacity of the plant. Due to improper and inefficient operation of the plant, the quantity of rejects deposited in the plant premises was about 80 *per cent* of the MSW supplied to the plant. The anaerobic conditions caused bad odour and environmental problems and thus adverse public opinion about the working of the plant leading to permanent conflicts and protests.

[1] The contractor has to construct, own, operate and maintain the plant for the contract period

[2] Production of compost by piling organic matter or biodegradable waste in long rows (windrows). This method is suited to producing large volumes of compost

[3] Prescribed in the Manual on MSW management published by the Central Public Health and Environmental Engineering Organisation

The Government stated (April 2012) that the plant was functioning with reduced capacity and that windrows had to be piled much higher than normal so as to accommodate additional quantity of waste reaching the plant.

Statutory obligations were not complied with

(iii) As per the agreement the operator was to obtain sanction/permission from various authorities/ agencies for operating the plant. However, the plant was operated from the very beginning without licence from the two mandatory agencies, *viz.,* State Pollution Control Board (SPCB) and VGP as mentioned in **Table 2.**

Table 2: Working of the plant without requisite licence

Authority	Rule position	Audit remarks
VGP	As per Kerala Panchayat Raj (Dangerous and Offensive Trade and Factories) Rules 1996, the operator had to obtain licence from the Secretary, VGP for the establishment of the waste processing plant.	The Secretary, VGP issued licence initially up to 2004. The plant was continued to be operated beyond 2004 without renewal of licence.
SPCB	As per Section 25 of Water (Prevention & Control of Pollution) Act, 1974 and Section 21 of the Air (Prevention & Control of Pollution) Act, 1981 the operator/TMC has to obtain a Consent (Authorisation) from SPCB for establishing the plant.	SPCB had issued an Authorisation for establishing the plant in March 2000, stipulating certain conditions such as provision for treatment of leachate, disposal of rejects and segregated waste, reprocessing of plastic waste, etc., to be complied by the operator. The operator did not comply with these conditions.
	As per Rule 6(3) of MSW Rules, 2000 the operator/TMC has to obtain Consent/Authorisation for operating the plant.	The plant was commissioned in July 2000 and operation continued without Authorisation till July 2006. Though the operator did not comply with the conditions set forth in the Rule, SPCB issued Authorisation to operate the plant from 24 July 2006 to February 2009. This Authorisation was subject to fulfillment of the condition set forth in the Authorisation issued in March 2000. SPCB had not issued the Authorisation after February 2009 as the operator did not comply with the conditions. Thus the plant was functioning without observing any of the conditions required for the functioning of the waste processing plant.

The Government stated (April 2012) that the plant was established and operated with the authorisation issued by SPCB. The Government reply was, however, silent about the fact that the plant was functioning without fulfilling the conditions specified by the SPCB.

Leachate treatment plant was not established

(iv) Leachate is the liquid that forms as water trickles through waste/ contaminated areas. Movement of leachate from landfills and waste processing sites may result in hazardous substances entering surface water, ground water or soil. The operator did not comply

Leachate collected in temporary ponds

with the requirement to treat the leachate in a well designed treatment plant though as per the agreement he was to operate the plant in an eco-friendly manner. Consequently, the leachate from the garbage and storm water runoff from the plant, collected unscientifically in temporary ponds, was allowed to flow to the nearby water bodies causing health problems to the people.

Sanitary Land Filling was not established

(v) Development and operation of Sanitary Land Filling (SLF) is an integral part of solid waste processing. The remnants from processing and unusable waste were required to be disposed of in SLF on daily basis. MSW Rules prescribe time schedule for identification and making the site ready for operation. The operator did not establish a SLF resulting in piling up of rejects/remnants in an area of 2.5 acres with an average height of about nine metres over a period of seven years. This had caused severe environmental problems such as water pollution, bad odour, fugitive emission, fire hazard, health hazards etc.

Waste piled up to a height of nine meters

The Government stated (April 2012) that the agreement signed between TMC and the operator did not mention about the establishment of a leachate treatment plant and SLF and hence the operator was not under any obligation to establish both the above facilities. The Government reply is not acceptable as the agreement provided that the operator was to dispose of the waste in an efficient manner which was vital from the point of protecting the environment. Non-inclusion of a definite clause regarding establishment of leachate treatment plant and SLF in the agreement itself is a lapse on the part of TMC. More over, in the authorisation issued to the operator, SPCB had specifically mentioned that leachate treatment plant and SLF were to be provided before commissioning the plant.

3.2.3 Solid waste management by TMC

Installed capacity of the plant was less than the agreed capacity

The plant was to be operated by the operator without any financial commitment on the part of TMC. There was no clause relating to compensation to be paid to the operator in case the operator discontinues the operation. Moreover, the plant established by the operator was of lesser capacity and deficient as mentioned in the earlier paragraphs. However, TMC took over the plant costing ₹ 6.82 crore in March 2008 after paying ₹ 7.48 crore[4] to the operator who was unsuccessful in running the plant. The Government stated (April 2012) that the additional compensation was paid for bridging the viability gap for running the plant for seven years. The Government contention is not acceptable. The operator was to be primarily blamed for setting up a plant of capacity 156 metric tonnes as against the capacity of 300 metric tonnes stipulated in the agreement. Due to deficiencies

[4] Towards value of the plant (₹ 6.82 crore) and operational loss (₹ 66 lakh)

in the plant set up by the operator a further amount of ₹ 9.56 crore was estimated to be required to upgrade the facility.

The task of collection, segregation and transportation was handled by TMC right from the inception of the operation of the plant in July 2000. The following deficiencies were noticed:

TMC entrusted Kudumbashree workers for collecting waste from households in 71 wards and commercial establishments. The Kudumbashree workers collected ₹ 40 per month from households and at different rates from commercial establishments depending on the quantity of waste collected. In the remaining 29 wards TMC had made no arrangement for collecting waste from households and commercial establishments.

Segregation of waste into non-biodegradable and biodegradable is essential as biodegradable can be used as a source of manure or energy. The non-biodegradable waste can be recycled or reused and thus minimise the burden on land filling. Kudumbashree workers collected the segregated waste from households, hotels and commercial establishments. There was no segregation of waste from markets and other places. The Government replied (April 2012) that during the last six months before closure of the plant the level of segregation had gone beyond 95 *per cent*. The Government reply was not in consonance with the findings in the impact monitoring study conducted by SPCB during August 2011 which revealed that wastes were not properly segregated.

There were enormous delays in transportation of waste to the plant leading to decomposition of waste in closed containers and consequent bad odour emission throughout transportation in addition to forming of leachate.

TMC continued the operation without observing MSW Rules

After takeover of the plant by TMC, the operation continued without effluent treatment plant and Scientific Sanitary Land Filling as was done by the previous operator and the environmental problems persisted. The rejects dumped all over the plant site contained plastic waste in huge quantity causing threat to environment and increased burden on land filling.

VGP forcibly closed the plant on 21 December 2011 and as a result, TMC stopped collection of waste from households, hotels and commercial establishments for the last 112 days (as on 31 March 2012). Thus approximately 250 metric tonnes waste is added daily, littering the city roads and open spaces and its disposal has become a major issue of TMC. The accumulated waste during this period is about 28000 (250 x 112 days) metric tonnes.

As a temporary solution, TMC adopted methods such as burning of waste on the road sides, office compounds, burial of waste in unauthorised places, etc., to dispose of waste littered by the public. We also noticed that the waste collected by the Corporation was being burnt in the Corporation Office Complex situated in the city. The drainages of the city are blocked with littered wastes by hoteliers, households and other commercial establishments causing threat to public health.

Further, construction of leachate treatment plant, Scientific SLF and other facilities like fencing, water supply etc., taken up by TMC under JNNURM at a cost of ₹ 9.56 crore was at standstill since December 2011 after incurring ₹ 2.63 crore.

3.2.4 Environmental impact

The failure of the operator/TMC to implement the mandatory requirements had the following adverse impact:

River water got polluted due to leachate generated from waste

(i) Surface and ground water contamination takes place when waste reach water bodies. Residues from waste can change the water chemistry, which can affect all levels of an ecosystem. MSW Rules envisage that the leachate arising out of garbage storage/processing area of the plant as well as the surface water runoff shall be collected and treated in a well designed treatment plant, before allowing to flow to inland surface waters. However, the operator or TMC did not comply with this prime requirement of establishing a treatment plant in a time bound manner. The leachate generated from the heaps of untreated/semi-treated wastes and rejects affected drinking water supply. As there was no proper system for collection and scientific treatment of leachate formed, the leachate generated mixed with water bodies/natural stream and finally reached Karamana river and the river water got polluted. Kerala Water Authority was operating seven Pumping Stations from the downstream side of the treatment plant for supply of water to the city. Of these, one pumphouse very close to the treatment plant was closed (May 2007) as the test results of water samples[5] near the above pump house showed high pollution.

(ii) MSW (M&H) Rules prescribe that baseline data of ground water quality in area of landfill site shall be collected and kept in record for future reference. Periodical monitoring at different seasons is also to be carried out to ensure that ground water is not contaminated beyond the acceptable limit as decided by the Ground Water Department. However, no baseline data study had been conducted or periodical monitoring of ground water quality conducted either by TMC or Ground Water Department. Ground Water Department had conducted an evaluation study of drinking water during May-December 2010 throughout Kerala under National Hydrology Project. Under this project, water samples of two wells near to the plant site were also analyzed for general parameters, trace metals and bacteria and found that the water was highly bacteriologically contaminated. Further, water sample from a nearby well collected by the Health Supervisor, Vilappil Primary Health Centre and got tested (February 2011) at Government Analytical Laboratory also revealed that the water was contaminated and unfit for human purposes. The Government stated (April 2012) that there was bacteriological contamination of water in the State and that in the absence of a baseline data of the area it could not be clearly established that the bacteriological contamination was due to the existence of the plant. The fact, however, remains that the water in the wells near to the plant is unfit for human consumption due to contamination.

(iii) Report furnished (February 2011) to the Director of Health Services by the District Medical Officer stated that the functioning of the plant resulted in adverse environmental and health hazards such as skin disease, itching/allergy,

[5] Test conducted at Public Health Laboratory by the Medical Officer, Vattiyoorkavu

respiratory diseases etc., to inhabitants in the surrounding area of the plant. The Government stated (April 2012) that the health problems reported were relatively minor. The Government contention is against the study report of SPCB which revealed that the incidence of serious respiratory and skin diseases in and around the plant locality persisted in large numbers.

3.2.5 Conclusion

The Solid Waste Management during the period 2000 onwards suffered due to several deficiencies in the operation of the plant by the operator and TMC. The capacity of the plant (156 metric tonne) was much less than the daily generation of MSW (250 metric tonne) in the Corporation. Rupees 7.48 crore given to the operator towards cost of the plant and the operational loss incurred/suffered during seven years, was outside the scope of the agreement. Though SPCB, in its authorisation, specifically mentioned that leachate treatment plant and sanitary land filling were to be provided before commissioning the plant, this was not done. Due to deficiencies in the plant set up by the operator, a substantial amount of ₹ 9.56 crore is required for upgradation of the facility. The plant was closed in December 2011 seriously affecting the Solid Waste Management in the city with adverse implication on environment.

CHAPTER IV
TRANSACTION AUDIT

4.1 Nugatory expenditure on an irrigation project

No benefits had accrued till date from a minor irrigation project on which an expenditure of ₹ 36.56 lakh was incurred.

District Panchayat (DP), Wayanad constructed a minor irrigation project (project) comprising of a Vent Cross Bar (VCB) and a canal across Muttil Puzha at Chilanjichal in Muttil Grama Panchayat (Grama Panchayat) to irrigate 35 hectares of paddy field at a cost of ₹ 36.56 lakh (VCB: ₹ 29.63 lakh, canal: ₹ 6.93 lakh). The project was intended to raise the income of 45 families by increasing the frequency of paddy cultivation to twice a year.

The construction of VCB, a project of Annual Plan 1999-2000, was completed in March 2002. The canal, which was necessary to make VCB functional, was not included in original project. The construction of the canal was taken up separately in Annual Plan 2004-05 and was completed in March 2005. The project, after construction, was to be handed over to Grama Panchayat for operation and maintenance through a beneficiary committee. The DP, however, initiated the process of transfer of the project after a delay of four years for which no recorded reasons were available. In the meanwhile, side-walls of VCB got damaged and deposition of waste and mud at the bottom of VCB affected the free flow of water.

View of Vent Cross Bar

A joint inspection conducted by audit with Grama Panchayat officials revealed damages to the side-walls of VCB and accumulation of silt. It also confirmed the fact that there was no paddy cultivation in the area and the cultivation was of coconut and arecanut palms only.

View of the canal and the surrounding areas

The Government stated (September 2011) that due to shooting up of production cost of the paddy, farmers were compelled to switch over to other crops. However, the project could be utilised for other crops also. Government reply is not acceptable as Grama Panchayat had refused (March 2010) to take over the project as there was no demand for the project either from beneficiaries or from Grama Panchayat and the coconut and arecanut palm cultivation do not require the irrigation facility. Thus no benefits had accrued till date from a project on which an expenditure of ₹ 36.56 lakh was incurred.

4.2 Short levy of road restoration charges

Failure of 40 Local Self Government Institutions in four districts to demand road restoration charges at prescribed rates led to short levy of ₹ 15.32 crore from Kerala Water Authority, affecting their financial position.

Construction and maintenance of District /village roads vested with the Local Self Government Institutions (LSGIs) in their jurisdiction is a function of the respective LSGIs[1]. Whenever these roads are excavated the agency excavating has to restore the roads or pay restoration charges to LSGIs. The rates are prescribed by Public Works Department (PWD) of Government in its Schedule of Rates.

Kerala Water Authority (KWA) had to excavate roads in the jurisdiction of LSGIs in five districts, viz., Thiruvananthapuram, Kollam, Kottayam, Kozhikode and Kannur, during 2008-09 under a project of Japan Bank for International Co-operation (JBIC). In Thiruvananthapuram District, road restoration works were done by KWA itself, whereas in the remaining four districts the works were executed during 2010-11 by the LSGIs concerned. Hence the KWA was liable to pay restoration charges for 1022 roads in 40 LSGIs in the four districts.

The PWD rates applicable with effect from 01 April 2009 were ₹ 868 per square metre and ₹ 534 per square metre respectively for roads having Black Topped (BT) surfaces and Water Based Macadam (WBM) respectively. However, KWA paid (December 2009) road restoration charges at rates varying from ₹ 227 per square metre to ₹ 580 per square metre for BT and from ₹ 283 per square meter to ₹ 593 per square metre for WBM in these four districts instead of prescribed rates. LSGIs should have demanded the PWD rates instead of accepting lesser rates from KWA. As a result, against ₹ 32.40 crore to be received from KWA, LSGIs received only ₹ 17.08 crore, resulting in short levy of ₹ 15.32 crore. The details are given in **Appendix XVII**.

Further analysis revealed that the rates paid by KWA were insufficient in the case of 54 roads in Kozhikode District as three LSGIs had to spend ₹ 80.76 lakh more than the amount received from KWA. As all LSGIs were not maintaining records on the expenditure incurred for restoration of each road work separately, audit could not verify the actual amount spent by LSGIs towards restoration works.

Thus failure of Secretaries of 40 LSGIs in four districts for raising the demand at revised rates led to short levy of ₹ 15.32 crore towards restoration charges affecting the financial position of these bodies.

The Government stated (December 2011) that instructions have been issued to adjust the amount to be received from KWA against the water charges due to be paid by LSGIs to KWA.

[1] As per Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994

4.3 Delay in completion of a bus stand - cum - shopping complex

Interest liability on a loan of ₹ 2.48 crore borrowed for financing construction of a bus stand - cum - shopping complex by Manjeri Municipality increased as construction was not completed within the stipulated period of 18 months.

Manjeri Municipal Council (MMC) took up (February 2005) a project for 'construction of a third bus stand along with a three storied shopping and office complex' (bus terminal), at Arukizhaya, in 3.02 acres of paddy fields donated by 17 persons. A private consultant prepared the plan, estimate and structural design of the project and National Institute of Technology, Kozhikode (NIT) scrutinised the structural design of the building. The project cost was estimated at ₹ 3.35 crore (as per 2004 SoR), which required technical sanction from Chief Engineer. But the Superintending Engineer, Greater Cochin Development Authority accorded (February 2007) technical sanction for the project, though the cost exceeded his financial limit of ₹ 45 lakh. Municipality incurred ₹ 9.27 lakh towards preparation, scrutiny and approval of the plan, estimate and design of the project.

MMC awarded (April 2007) the work to the lowest bidder at 15 *per cent* above estimate, stipulating the period of completion as 18 months. During execution of the project, engineering wing of the Municipality detected (October 2007) many defects such as (i) non-inclusion of items like electrical fitting, plumping and drainage (ii) insufficient size of the beam (iii) non-provision for land filling etc., in the design. This necessitated modifications in the plan and revision of estimates to ₹ 5.25 crore (as per 2004 SoR). Approval of defective design indicated lack of professional competence of the private consultant engaged by MMC as well as failure of NIT in detecting the defects during scrutiny of the structural design of the building.

Bus terminal under construction

After executing works worth ₹ 2.49 crore, the contractor refused to continue the balance work[2] as per original contract based on 2004 SoR, and demanded 20 *per cent* increase above 2009 SoR for the balance work costing ₹ 3.89 crore. The Government accorded (August 2011) sanction to execute balance work as per 2009 SoR with 15 *per cent* tender excess. Municipality entered (September 2011) into a supplementary agreement with the contractor for the balance work for ₹ 4.38 crore[3] with time of completion as six months. The work was in progress (October 2011). Thus total cost is expected to be ₹ 6.87 crore (₹ 2.49 crore + ₹ 4.38 crore). Additional commitment on the balance work due to revision of estimates as per 2009 SoR is ₹ 1.27 crore[4].

[2] Cost ₹ 2.76 crore as per 2004 SoR which works out to ₹ 3.89 crore as per 2009 SoR

[3] Cost of balance work as per 2009 SoR (₹ 3.89 crore) + 15 per cent tender excess = ₹ 4.38 crore

[4]

Cost of balance work at 2009 SoR	: ₹ 4.38 crore
Cost of balance work at 2004 SoR	: ₹ 3.11 crore
Difference	: ₹ 1.27 crore

Municipality anticipated annual revenue of ₹ 1.41 crore from the bus terminal. Due to delay in completion of the project, estimated loss of revenue works out to ₹ 4.47 crore for the period October 2008 to November 2011. Municipality had availed loan of ₹ 2.48 crore for the project from Kerala Urban Development Finance Corporation (KUDFC) at 11 *per cent* interest compounded quarterly. Delay in completion of the work would not only increase the interest liability but also affect the repayment of loan from KUDFC as the repayment of loan was critically dependent on income generated from the bus stand.

The Secretary of Manjeri Municipality accepted (August 2011) the audit observations.

The matter was referred to the Government in January 2012; reply has not been received (May 2012).

4.4 Idle investment on a market building

A market building consisting of 33 stalls completed in January 2007 by Kodungallur Municipality could not be let out even after five years for want of demand resulting in idle investment of ₹ 33.05 lakh. Consequently, a waste water treatment plant constructed at a cost of ₹ 23.30 lakh was also remaining idle for the past three years.

(i) Kodungallur Municipality undertook (October 1993) construction of a Market-cum-shopping Complex at Kavil Kadavu for improvement of shopping facility in the locality under Integrated Development of Small and Medium Towns Scheme. The land identified was 90 cents of Municipal land adjacent to Thrissur-Kodungallur State Highway. The Municipality also acquired 64.25 cents of private land for construction of the building, road, parking area etc. The project involved construction of a four storey building in two phases. The first two floors of the building were planned to be constructed in the first phase and the estimated cost of the first phase (₹ 2.85 crore) was to be met through loan (₹ two crore) from Kerala Urban Development Finance Corporation Limited (KUDFC) and the balance from Government grants. The estimated annual revenue from the project was ₹ 36.56 lakh. The work awarded (February 2003) to a contractor at 6.6 *per cent* below estimates was completed in January 2007 at a cost of ₹ 2.21 crore.

The shopping complex building with 61 rooms and 33 stalls of the market was proposed to be let out at auction. Out of the 33 stalls (cost: ₹ 33.05 lakh) of the market only two fish stalls and two fish counters could be let out. The Municipality, before embarking on such a project, was required to prepare a feasibility report after conducting a survey to ascertain whether there were enough parties willing to take the stalls on rent. Failure of the Municipality to assess the demand for stalls resulted in the available resources (₹ 33.05 lakh) being tied up in an idle asset. Further the Municipality was facing Revenue Recovery action for not repaying the outstanding loan of ₹ 3.98 crore including interest (November 2011) availed from KUDFC.

(ii) As part of the scheme for modernisation of fish markets implemented by Fisheries Department, Kodungallur Municipality took up (June 2007) a project to provide a waste water treatment plant and other amenities at an estimated cost of ₹ 17.50 lakh for the above market. A private consultant prepared a project report which included installation of waste water treatment plant, construction of drainage, road and rolling shutters for fish stalls. The Government sanctioned (June 2007) ₹ 12.08 lakh, excluding the cost of construction of road. However, Municipality, without obtaining administrative sanction including financial sanction and technical sanction tendered the project for execution. As no bids were received, Municipality split the project into two, viz. (i) construction of drain and rolling shutters and (ii) installation of waste water treatment plant. Municipality executed the work on the drain and rolling shutters through a contractor at a cost of ₹ 2.55 lakh. As there were problems in the design of the water treatment plant, College of Engineering, Thrissur prepared a fresh design costing ₹ 20.75 lakh. Additional amount required for the plant was decided to be met from own funds of the Municipality. The work was awarded (March 2008) at estimate rate to a firm based on open tenders and the plant was installed in December 2008. Municipality paid the entire amount of ₹ 20.75 lakh to the firm by December 2010. Due to non-functioning of the market, the treatment plant had not been operationalised. The firm's guarantee period for the plant expired in March 2010. As the parts of the plant have got rusted proper operation of the plant is doubtful. Failure of the Municipality in ensuring that the fish market would be fully functional by the time the work on treatment plant is completed led to idling of the plant constructed at a cost of ₹ 23.30 lakh for the past three years.

Parts of treatment plant got rusted

The Government replied (June 2012) that two fish stalls and two fish counters have been auctioned off, and that once all the remaining stalls are auctioned off the treatment plant would become operational. Reply of the Government is not acceptable as five years have elapsed since the completion of the market and only four stalls have been auctioned off so far. The treatment plant is yet to be functional.

4.5 Improper payment of advance to service provider without ensuring feasibility of project

District Panchayat, Ernakulam paid more than 80 *per cent* of the total cost for installation of biogas plants in advance to the service provider in violation of Government orders, without ensuring feasibility of project and availability of land, resulting in Development Expenditure Fund of ₹ 66.40 lakh remaining with the service provider for over 44 months.

District Panchayat (DP), Ernakulam formulated a project for decentralisation of waste management in their annual plan for 2007-08, which envisaged production of electricity by installing 17 biogas plants in 17 Grama Panchayats (GPs) and one biogas plant in pig breeding farm of the DP at

Angamali. The cost of construction per plant was ₹ 10.30 lakh, of which ₹ six lakh was to be met by DP, Ernakulam, ₹ 3.10 lakh by the GP concerned from their Development Expenditure Fund and the balance of ₹ 1.20 lakh from subsidy received from Government of India. DP, Ernakulam accorded administrative sanction for the project in September 2007 and the District Planning Committee approved the project in February 2008. In March 2008, DP, Ernakulam and ten GPs paid ₹ 1.19 crore[5] and ₹ 31 lakh respectively to the service provider.

Inappropriate disbursement of funds

DP, Ernakulam awarded the work to Biotech, a firm approved by the Government as service provider for Solid Waste Management for Local Bodies in the State. As per the agreement executed by the service provider, the biogas plants were to be commissioned within 90 days from the date of receipt of contribution from DP, Ernakulam or date of handing over of site along with contribution from the GPs whichever was later. As per Government order issued in April 2006, payment of advance from Development Expenditure Fund can be made only to those institutions, viz., Kerala State Electricity Board, Ground Water Department, Public Works Department, etc., mentioned therein. As Biotech is not included in the Government order, payment of advance to the firm was in violation of the above Government order. While making advance payment, no safeguards by way of bank guarantee from the service provider were put in place.

Non-availability of land/non-functioning of plants

Before entering into agreement with the service provider, DP, Ernakulam had not ensured availability of land or considered the environmental problems due to installation of the biogas plants. DP, Ernakulam subsequently abandoned the projects in six GPs as the GPs had failed to arrange and hand over the sites for construction of the biogas plants. In the pig breeding farm and in two GPs (Aikkaranad and Thiruvaniyoor) work was abandoned due to public protest. In Manjalloor GP work was not completed even as of October 2011. Thus, out of ₹ 1.50 crore paid by DP, Ernakulam and 10 GPs to the service provider, ₹ 66.40 lakh remains with the service provider for the past 44 months due to non-installation of nine biogas plants. DP, Ernakulam had also not taken any action to get the advance amount of ₹ 66.40 lakh refunded from the service provider.

Issues relating to operation of completed projects

The biogas plants were to be operated and maintained under the direct supervision of the service provider for the first five years. For the day-to-day operation of the biogas plants, the service provider was required to appoint a plant operator and a part-time supervisor, whose wages were to be paid by the GPs. As and when the projects are completed, the service provider and the GP concerned are to enter into a separate agreement in this regard for future operation and maintenance.

[5] Share of DP, Ernakulam: ₹ six lakh each for 17 GPs and ₹ 9.10 lakh for Angamali Pig Breeding Farm, contribution of ₹ five lakh from Piravam GP and ₹ three lakh from Nayarambalam GP

The service provider completed (2008-09) the construction of the plants in eight GPs out of which only five[6] were working satisfactorily. The remaining three plants constructed at a cost of ₹ 27.20 lakh were not commissioned as the GPs had not executed separate agreement with the service provider for future operation and maintenance.

View of the non-commissioned biogas plants

Maradu

Nayarambalam

Cheranalloor

Thus, payment of major portion of the cost of the project in advance to the service provider in violation of Government orders and without ensuring availability of land and feasibility of project resulted in Development Expenditure Fund of ₹ 66.40 lakh remaining with the service provider for over 44 months without any benefit to the general public. Further, expenditure of ₹ 27.20 lakh incurred on the three completed biogas plants remains unfruitful.

The Secretary, DP, Ernakulam stated (September 2011) that action had been taken to achieve the objective of the project.

The matter was reported to the Government in September 2011; reply has not been received (May 2012).

4.6 Implementation of a project without proper planning

A project for production of honey implemented by District Panchayat, Pathanamthitta to provide income to BPL women resulted in net loss of ₹ 1.18 crore.

With a view to create regular employment to 10,000 BPL women in 54 local bodies in the district, the District Panchayat, Pathanamthitta approved (September 2007) a project named 'Madhuram' (estimated outlay: ₹ 36.27 crore) for production and processing of 2000 tonnes of honey annually. The period of implementation of the project was three years and District Mission Co-ordinator of Kudumbashree[7] was the implementing officer. The honey produced was to be marketed as Agmark honey (five lakh kg) and value added products of honey (15 lakh kg). Administrative Approval and Technical Sanction were accorded in September 2007 and December 2007 respectively. The District Planning Committee also approved the project in December 2007. Under the project, 200 beehives and accessories (estimated cost: ₹ 2.50 lakh) for the production of honey were to be supplied to each activity group[8]. The cost of the items was to be met by the beneficiaries through bank loan. The project envisaged backend subsidy of 44 *per cent* of project cost subject to a

[6] Piravam, Paingottur, Amballoor, Udayamperoor and Pallippuram GPs

[7] State Poverty Eradication Mission (Kudumbashree) launched by the State Government aims at the empowerment of women, through forming self help groups and encouraging their entrepreneurial or other wide range of activities

[8] Group consisting of 10 women

maximum of ₹ 1.10 lakh per activity group for repayment of bank loan. The implementing officer was to release the subsidy amount to the banks for adjustment against bank loan.

During the period 2007-08 to 2009-10, eight Block Panchayats and 47 Grama Panchayats and State Kudumbashree Mission contributed ₹ 4.14 crore[9] for the implementation of the programme. Against the target of 1000 activity groups to be established in the 54 Grama Panchayats, the implementing officer could establish (May 2008 to October 2008) only 215 activity groups in 26 Grama Panchayats. Of these, five groups had become defunct. Activities like establishment of the Agmark laboratory, processing plants, bottling units and District production unit which were part of the project were not taken up on the ground of non-availability of building for the installation of machinery. District Panchayat returned (January 2011/ March 2011) the unutilised portion of the shares (₹ 1.16 crore) of Block Panchayats and Grama Panchayats as decided by District Panchayat Committee.

Following points were noticed in audit:

- The project was expected to generate annual income of ₹ 31.40 crore through the production of 2000 tonnes of honey (by 1000 activity groups). Against this, the average annual production of honey was only 33.98 tonne which fetched average annual income of ₹ 0.66 crore to 210 activity groups (11 *per cent* of the targeted income).
- Out of 8262 women trained after incurring expenditure of ₹ 25.06 lakh[10], only 2100 had come forward to form the groups. This indicated that the project was formulated without proper assessment of its feasibility and acceptability among the beneficiaries.
- Till March 2011, the loan liability of the activity groups was ₹ 3.16 crore. Though the backend subsidy to be released to the banks was only ₹ 1.39 crore (44 *per cent* of ₹ 3.16 crore), the implementing officer released ₹ 2.30 crore. The excess subsidy paid amounted to ₹ 91 lakh.
- The project envisaged net annual income of ₹ 6.40 crore to 1000 activity groups. Against this targeted income, 210 activity groups had sustained net loss of ₹ 1.18 crore during the three years from 2008-09 to 2010-11. Further, the project had created loan liability of ₹ 1.77 crore[11] to the groups.

For the effective implementation of a project of such massive nature involving all the three tiers of Panchayats, a pilot project to ascertain its feasibility and viability should have been conducted. Failure of the District Panchayat to assess the viability of the project resulted in non-achievement of its objective of providing employment to 10000 women through the production and processing of 2000 tonnes of honey.

After the deficiencies were pointed out (November 2010) by Audit, District Panchayat Committee made an assessment of the project in January 2011 and concluded that the implementation of the project was a failure as it was not

[9] Block Panchayats: ₹ 29.97 lakh; Grama Panchayats: ₹ 1.08 crore; Kudumbashree Mission: ₹ 2.77 crore
[10] Including honorarium of ₹ 2.97 lakh paid to resource persons
[11] Loan availed: ₹ 3.16 crore minus Subsidy admissible : ₹ 1.39 crore

implemented as envisaged in the project report. Audit also noticed that due to adverse climatic conditions and diseases a large number of bees died. As of December 2011, the number of live beehives decreased to 28 *per cent.*

As regards the excess subsidy released to the banks, the Government stated (February 2012) that the project was implemented through a project of Kudumbashree known as Rural Micro Enterprises and the groups had to spend their own money to protect the beehives besides the loan amount that they had received. Reply of the Government was not in consonance with the project report which provided for subsidy of ₹ 1.10 lakh per group (Kudumbashree share: ₹ 1,00,000; Grama Panchayat share : ₹ 10,000) which constituted 44 *per cent* of the project cost of ₹ 2.50 lakh. As the expenditure on the project by each group was less than the project cost, the subsidy element should have been scaled down accordingly. Failure to do so resulted in excess release of ₹ 91 lakh as back-end subsidy to the bank.

Sunder Raja

Thiruvananthapuram,
The 14 SEP 2012

(G.N.SUNDER RAJA)
Principal Accountant General (Social and General Sector Audit), Kerala

Countersigned

V Rai

New Delhi,
The 13 SEP 2012

(VINOD RAI)
Comptroller and Auditor General of India

Appendix I
Functions of Standing Committees
(Reference: Paragraph 1.4.1; Page 4)

(a) Standing Committees in a Grama Panchayat

(i) Standing Committee for Finance shall deal with the subjects of finance, tax, accounts, audit, budget, general administration, appeal relating to tax and subjects not allotted to other Standing Committees.

(ii) Standing Committee for Development shall deal with the subjects of development planning, socio-economic planning, spatial planning, agriculture, soil conservation, social forestry, animal husbandry, dairy development, minor irrigation, fisheries, small-scale industry, public works, housing, regulation of building construction, electricity etc.

(iii)Standing Committee for Welfare shall deal with the subjects of development of scheduled caste / scheduled tribe, development of women and children, social welfare, social security, slum improvement, poverty alleviation, public distribution system, public health sanitation, education, art and culture and entertainment, water supply (drinking water), sewerage and environment.

(iv) Standing Committee on Health & Education shall deal with subjects like public health and education.

(b) Standing Committees in a Block Panchayat

(i) Standing Committee for Finance shall deal with the subjects like finance, accounts, audit, budget, general administration and subjects not allotted to other Standing Committees.

(ii) Standing Committee for Development shall deal with the subjects like development planning, socio-economic planning, agriculture, animal husbandry, minor irrigation, fisheries, small scale industry, public works, housing, electricity and maintenance of water shed.

(iii)Standing Committee for Welfare shall deal with the subjects like development of scheduled caste/scheduled tribe, development of women and children, social welfare, poverty alleviation, public health, education, art, culture and entertainment and environment.

(iv) Standing Committee on Health & Education shall deal with subjects like public health and education.

Appendix I (Contd…)

(c) Standing Committees in a District Panchayat

(i) Standing Committee for Finance shall deal with the subjects like finance, accounts, audit, budget, general administration and subjects not allotted to other Standing Committees.

(ii) Standing Committee for Development shall deal with the subjects like development planning, socio-economic planning, agriculture, soil conservation, animal husbandry, minor irrigation, fisheries, small scale industry, electricity etc.

(iii)Standing Committee for Welfare shall deal with the subjects like social welfare, development of women and children, development of scheduled caste/scheduled tribe and eradication of poverty.

(iv) Standing Committee for Public Works shall deal with the subjects like public works, housing, spatial planning and environment.

(v) Standing Committee for Health shall deal with subjects like public health.

The Standing Committees of Panchayats may perform such other powers and functions of Panchayat as may be entrusted to it by the Panchayat in addition to the powers and duties conferred on it by rules made in this behalf.

(d) Standing Committees in a Municipality

(i) Standing Committee for Finance

- shall supervise the utilisation of the budget grants and watch carefully the timely assessment and collection of taxes, fees, rents and other sums due to the Municipal Council;
- shall inspect frequently the accounts of the Municipal Council;
- shall watch carefully the release of grants by the Government and its proper utilisation;
- shall conduct monthly audit of accounts and check the monthly demand, collection and balance and abstract of receipts and expenditure of the preceding month as furnished by the Secretary;
- shall scrutinise the annual accounts, demands, collection and balance;
- shall prepare and present the budget estimate before the council under Section 286;

Appendix I (Contd...)

- shall verify whether any amount proposed to be expended by the Municipal Council is within the budget provisions approved by the Council and whether there is sufficient fund for this purpose;
- may, subject to such rules as may be prescribed, write off such sums due to the Council as appear to the Committee as irrecoverable.

(ii) Standing Committee for Development shall deal with matters of agriculture, soil conservation, social forestry, animal husbandry, dairy development, minor irrigation, fisheries, small scale industry, co-operation and institutional finance and shall prepare the development plans for the Municipal Council integrating the proposals of other Standing Committees.

(iii)Standing Committee for Welfare shall deal with matters relating to the welfare of women and children, development of scheduled castes / scheduled tribes, social welfare, social security pension and financial assistance, poverty alleviation, slum improvement and public distribution system.

(iv) Standing Committee for Public Works shall deal with the subjects like public works, housing, town planning including regulation of building constructions, environment, electricity, water supply, drainage and sewerage.

(v) Standing Committee for Health shall deal with the matters of public health and health services, sanitation and control of dangerous and offensive trade.

(vi) Standing Committee for Education, Arts & Sports shall deal with matters of education, arts and sports.

(e) Standing Committees in a Municipal Corporation

(i) Standing Committee for Finance

- shall supervise the utilisation of the budget grants and watch carefully the timely assessment and collection of taxes, fees, rents and other sums due to the Municipal Corporation;
- shall inspect frequently the accounts of the Municipal Corporation;
- shall watch carefully the release of grants by the Government and its proper utilisation;
- shall conduct monthly audit of accounts and check the monthly demand, collection and balance and abstract of receipts and expenditure of the preceding month as furnished by the Secretary;

Appendix I (Concld…)

- shall scrutinise the annual accounts, demands, collection and balance;
- shall prepare and present the budget estimate before the Council under Section 286;
- shall verify whether any amount proposed to be expended by the Municipal Corporation is within the budget provisions approved by the Council and whether there is sufficient fund for this purpose;
- shall enquire into the allegations against the employees of the Municipal Corporation if directed by the Council and bring the result of it to the notice of the Council;
- may, subject to such rules as may be prescribed, write off the sums due to the Council as appears to the Committee as irrecoverable.

(ii) Standing Committee for Development shall deal with matters of agriculture, soil conservation, social forestry, animal husbandry, dairy development, minor irrigation, fisheries, small scale industry, co-operation and institutional finance and shall prepare the development plans for the Municipal Corporation integrating the proposals of other Standing Committees.

(iii)Standing Committee for Welfare shall deal with the matters of welfare of women and children, development of scheduled castes/scheduled tribes, social welfare, social security pension and financial assistance, slum improvement, poverty eradication and public distribution system.

(iv) Standing Committee for Public Works shall deal with matters of public works, housing, electricity, water supply, drainage and sewerage.

(v) Standing Committee for Health shall deal with the matters of public health and health services and sanitation.

(vi) Standing Committee for Town planning shall deal with matters of town planning including regulation of building constructions, environment, urban beautification, promotion of art and culture and preservation of monuments and places and buildings of archaic importance, heritage value and natural beauty.

(vii) Standing Committee for Appeal relating to Tax shall dispose of appeals on taxation and give directions to the Secretary to levy tax in respect of cases which escaped assessment and to reassess under-valued cases.

(viii) Standing Committee on Education and Sports shall deal with matters connected with education and sports.

Appendix II

Rules and policies relating to finance, budget, personnel matters

(Reference: Paragraph 1.6.1; Page 6)

Provision	Authority	Applicability to LSGI	Gist of the provision
Accounts	Section 215 of KPR Act Sections 294 & 295 of KM Act	PRIs ULBs	The Panchayats and the Municipalities shall maintain such books of accounts and other books in relation to its accounts and prepare an annual statement of accounts.
Reporting of loss due to fraud, theft or negligence	Article 297 of Kerala Financial Code	PRIs & ULBs	When any fact indicating that defalcation or loss of public moneys, stamps, stores or other property has occurred come to the notice of the Government servant he should inform the head of office immediately. The head of office should send a preliminary report immediately to the Accountant General and to the Head of the Department.
Asset register	Kerala Panchayat Accounts Rules, 1965 and Government order issued in December 2005 Kerala Municipal Accounts Manual	PRIs ULBs	A record shall be maintained for the movable and immovable fixed assets. The Panchayat and the Municipality shall have a system of conducting physical verification of fixed assets at least once in a year.
Works manual	KPR (Execution of Public Works) Rules, 1997 KM (Execution of Public Works and purchase of materials) Rules, 1997	PRIs ULBs	• Procedure for execution of public works • Power of various authorities to give administrative sanction • Fixing of rates for preparation of estimates • Preparation of plan and estimates • Invitation of tender • Execution of works directly by LSGIs and through beneficiary committees • Control and supervision • Purchase of materials
Budget	Section 214 of KPR Act, 1994 Section 293 of KM Act, 1994	PRIs ULBs	Budget proposals shall be prepared by the respective standing committees before 15 January every year and shall be submitted to the Standing Committee for Finance (SCF). The SCF shall prepare a budget for the ensuing year and present the same not later than the first week of March before the Panchayat/ Municipality for approval.
Internal audit	Rule 3 of KPR (Manner of Inspection and Audit System) Act, 1997 Rule 3 of KM (Manner of Inspection and Audit System) Act, 1997	PRIs ULBs	There shall be a Performance Audit Authority at the State Level for conducting performance audit. State Performance Audit Officer shall assist the Performance Audit Authority. The Regional Performance Audit Officers shall conduct performance audit once in three months in the LSGIs.

Appendix II (Concld…)

Provision	Authority	Applicability to LSGI	Gist of the provision
Inspection	Section 188A of KPR Act, 1994 Section 56(i) of KM Act, 1994	PRIs ULBs	Government or any officer empowered by Government may inspect any office under the control of any Panchayat/ Municipality.
External Audit	Section 215(3) of KPR Act, 1994 Section 295(3) of KM Act, 1994	PRIs ULBs	Director of Local Fund Audit shall be the auditor of Panchayats/ Municipalities.
Ombudsman	Section 271F to R of KPR Act	PRIs and ULBs	There shall be an authority for LSGIs at State Level known as 'Ombudsman' for making investigations and enquiries in respect of charges on any action involving corruption or maladministration or irregularities in the discharge of administrative functions by LSGIs and public servants working under them.
Citizen charter	Section 272A of KPR Act, KPR (Preparation of citizen charter) Rules, 2004 Section 256A of KM Act, KM (Preparation of citizen charter) Rules, 2000	PRIs ULBs	Every Panchayat/ Municipality shall formulate and publish citizen charter regarding the different categories of services rendered to the citizens by the Panchayat/Municipality. Citizen charter shall be renewed and updated periodically at least once in a year.
Right to Information	Section 271A to E of KPR Act Section 517 A to E of KM Act	PRIs ULBs	Every person bona fide requiring any information shall have the right to get such information from the Panchayat/ Municipality in accordance with the procedure prescribed.

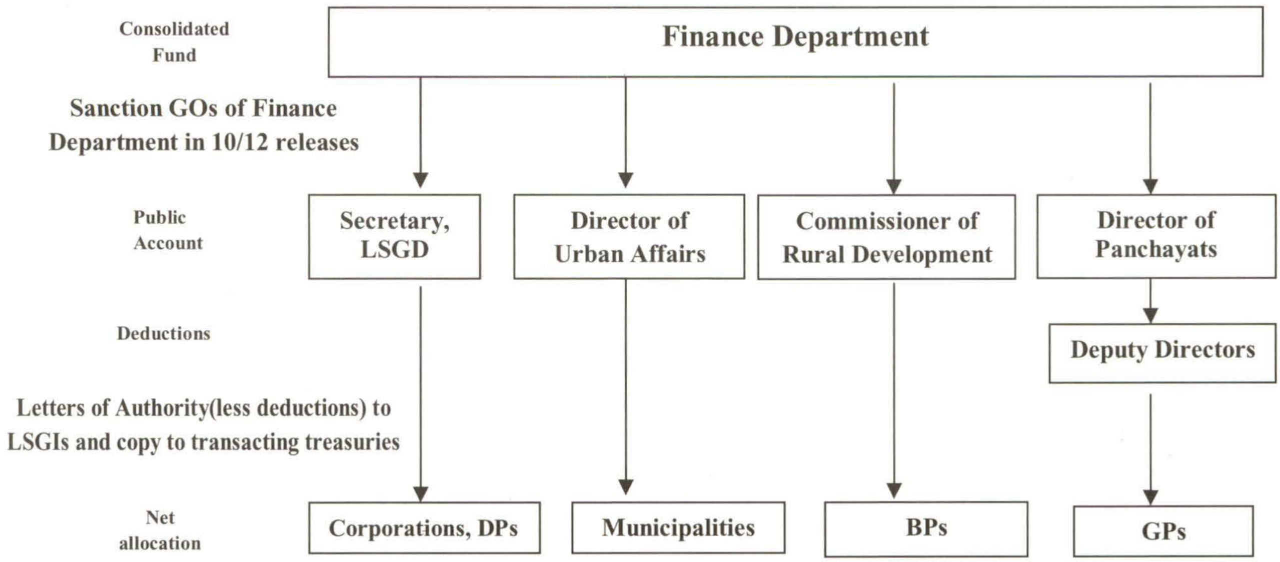
Appendix III

Powers of State Government over LSGIs

(Reference: Paragraph 1.6.2; Page 6)

Act/Rule/Authority	Powers exercised by Government
Section 254 of KPR Act & Section 565 of KM Act	**Power to frame rules** Government may, by notification in Gazette, make rules to carry out all or any purpose of KPR Act and KM Act subject to approval by the State Legislature.
Section 193 of KPR Act & Section 64 of KM Act	**Power to dissolve LSGIs** Government shall by notification in the gazette dissolve the LSGIs, if the LSGIs fail to pass the budget of the LSGIs for the succeeding financial year before the end of the financial year which causes financial crisis. Government may dissolve LSGIs if the Government is of the opinion that the LSGIs persistently make default in performing the duties imposed on it by law.
Section 191 of KPR Act & Section 57 of KM Act	**Power to cancel and suspend a resolution or decision taken by LSGIs** Government may cancel a resolution or decision taken by LSGIs if Government is of the opinion that it is not legally passed or in excess of the power conferred by KPR Act /KM Act / any other law or likely to endanger human life, health, public safety or communal harmony or in violation of directions issued by Government.
Sections 179,180 & 181 of KPR Act and Sections 48 & 227 of KM Act	**Power of appointment, cadre control, transfer etc.** The Secretaries of LSGIs and the employees of the PRIs are Government servants. The Government shall regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the Secretaries of the LSGIs. Government may at any time transfer the Secretary from an LSGI. The Government shall lend the service of Government officers and employees of the Panchayats as may be necessary for the implementation of any scheme, project or plan assigned to the Panchayat. An appeal against any order of the Panchayat imposing any minor penalty on any officer or employee shall lie with Government.
Sections 189 of KPR Act & 58 of KM Act	**Power to issue guidelines and to conduct enquiry** Government shall have the power to issue general guidelines to the LSGIs in matters such as finance, maintenance of accounts, formulation of schemes, proper functioning of Grama Sabha, selection of sites and beneficiaries, etc. If there is any default in the implementation of the schemes or maintenance of accounts or complaint is received in the matter, Government may arrange enquiry into the matter and the Panchayat shall co-operate with such enquiry.

Appendix IV
Fund flow chart of LSGIs
(Reference: Paragraph 2.1.1 ; Page 11)



Appendix IV (Contd…)

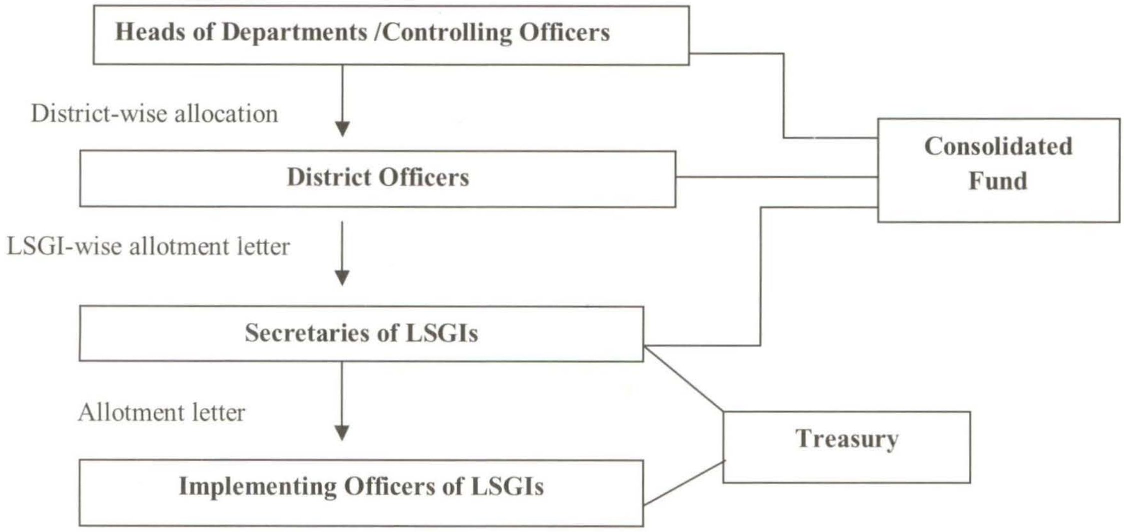
	CATEGORY A (DEVELOPMENT FUND)				
	Corporations	Municipalities	DPs	BPs	GPs
SFC devolution	3604-00-200-97-01	3604-00-200-97-02	3604-00-200-97-03	3604-00-200-97-04	3604-00-200-97-05
12th Central FC	3604-00-200-96-01	3604-00-200-96-02	3604-00-200-96-03	3604-00-200-96-04	Nil
13th Central FC	3604-00-200-95-01	3604-00-200-95-02	Nil	Nil	3604-00-200-95-05
Road Renovation	5054-80-800-72	5054-80-800-72	5054-80-800-72	5054-80-800-72	Nil
	↓	↓	↓	↓	↓
Public Account	8448-00-102-94-01	8448-00-102-94-02	8448-00-109-93-01	8448-00-109-93-02	8448-00-109-93-03

	CATEGORY C (MAINTENANCE FUND (Road & Non road))				
	Corporations	Municipalities	DPs	BPs	GPs
Consolidated Fund	3604-00-200-98-01 (NR)	3604-00-200-98-02 (NR)	3604-00-200-98-03 (NR)	3604-00-200-98-04 (NR)	3604-00-200-98-05 (NR)
	3054-80-191-40 (R)	3054-80-192-40 (R)	3054-80-196-40 (R)	Nil (R)	3054-80-198-40 (R)
	↓	↓	↓	↓	↓
Public Account	8448-00-102-94-01	8448-00-102-94-02	8448-00-109-93-01	8448-00-109-93-02	8448-00-109-93-03

	CATEGORY D (GENERAL PURPOSE FUND)				
	Corporations	Municipalities	DPs	BPs	GPs
Consolidated Fund	3604-00-200-99-01	3604-00-200-99-02	3604-00-200-99-03	3604-00-200-99-04	3604-00-200-99-05
	↓	↓	↓	↓	↓
Public Account	8448-00-102-94-01	8448-00-102-94-02	8448-00-109-93-01	8448-00-109-93-02	8448-00-109-93-03

Appendix IV (Concld…)

Fund flow State Sponsored Schemes

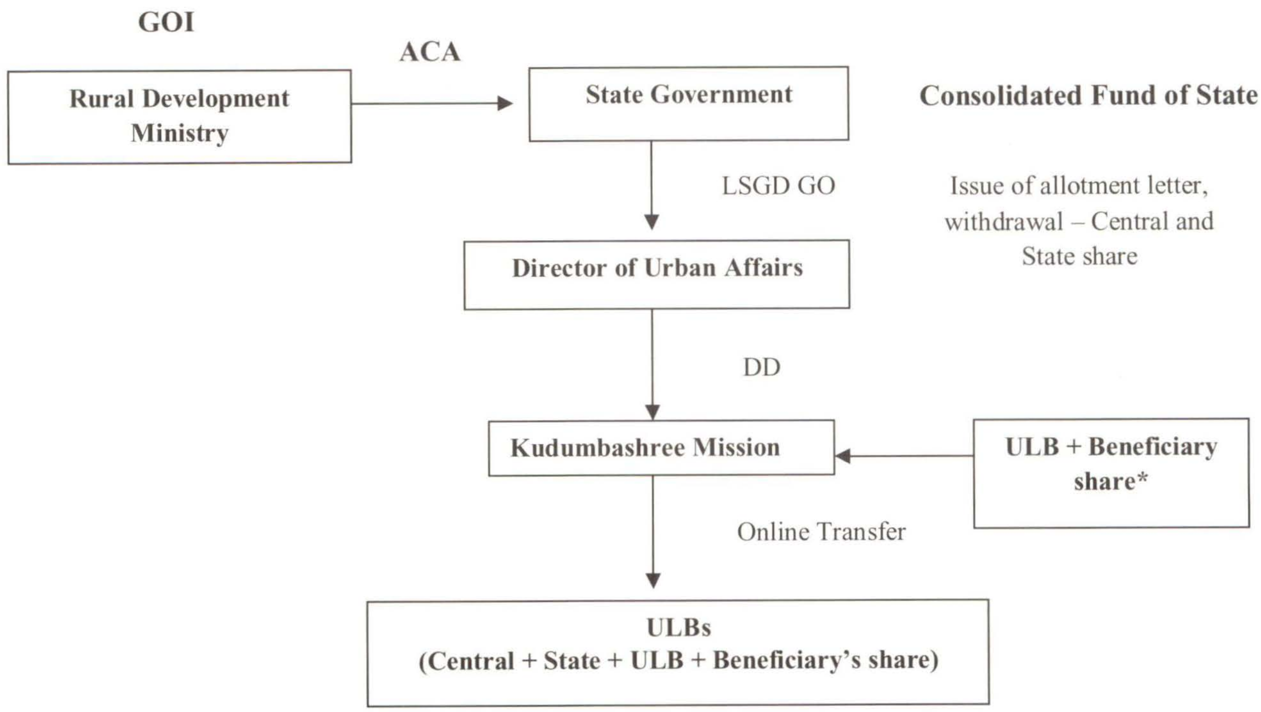


Sl. No.	Function	Grant No.	Major Head
1	General Education	17	2202
2	Medical & Public Health	18	2210
3	Urban Development	22	2217
4	Labour & Employment	24	2230
5	Welfare of SC/ST	25	2225
6	Crop Husbandry	29	2401
7	Soil & Water conservation	29	2402
8	Agriculture Research & Education	29	2415
9	Animal Husbandry	31	2403
10	Dairy Development	32	2404
11	Special Programmes for Rural Development	36	2501
12	Rural Development	36	2505
13	Village & Small Industries	37	2851
14	Social Security and Welfare	56	2235

Appendix V
Fund flow of Centrally Sponsored Schemes
(Reference: Paragraph 2.1.1.2 ; Page 13)

Method 1

Through Kudumbashree Mission; Schemes: IHSDP & BSUP



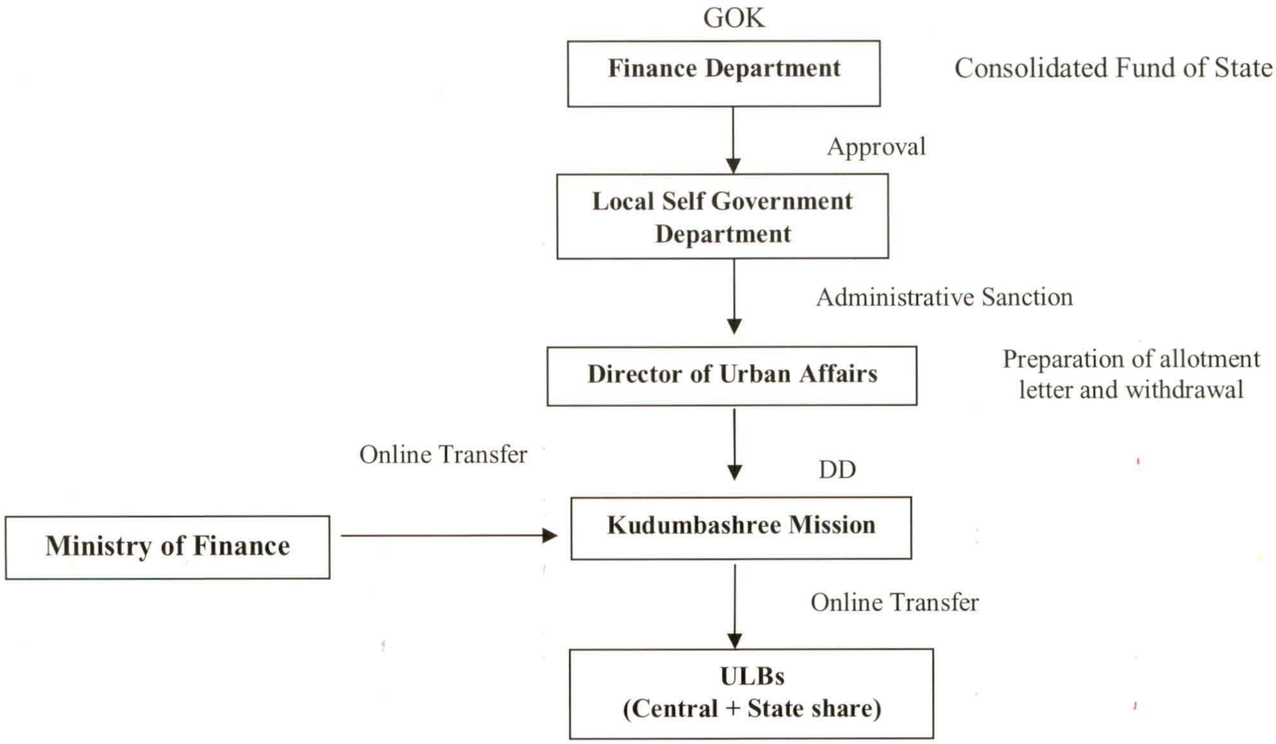
*IHSDP – ULB share and beneficiary share are deposited in Bank account and the supporting statement is furnished along with the requirement of fund, head of account being 2217-05-191 (Corporation) and 2217-05-192 (Municipality)

* BSUP – ULB share and beneficiary share are given in the form of DD, head of account being 2217-05-191 (Corporation)

Appendix V (Contd…)

Method 2

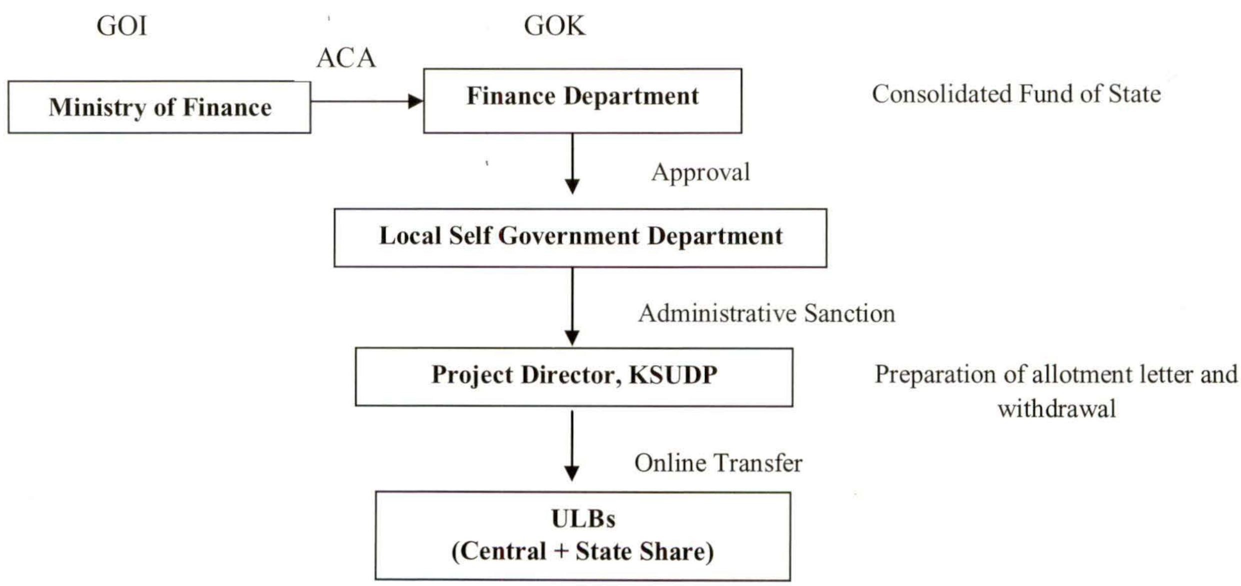
Through Kudumbashree Mission; Scheme: SJSRY



Method 3

Through KSUDP; Schemes : JNNURM, UIDSSMT

Head of account: 2217-05-191 (JNNURM), 2217-05-192 (UIDSSMT)

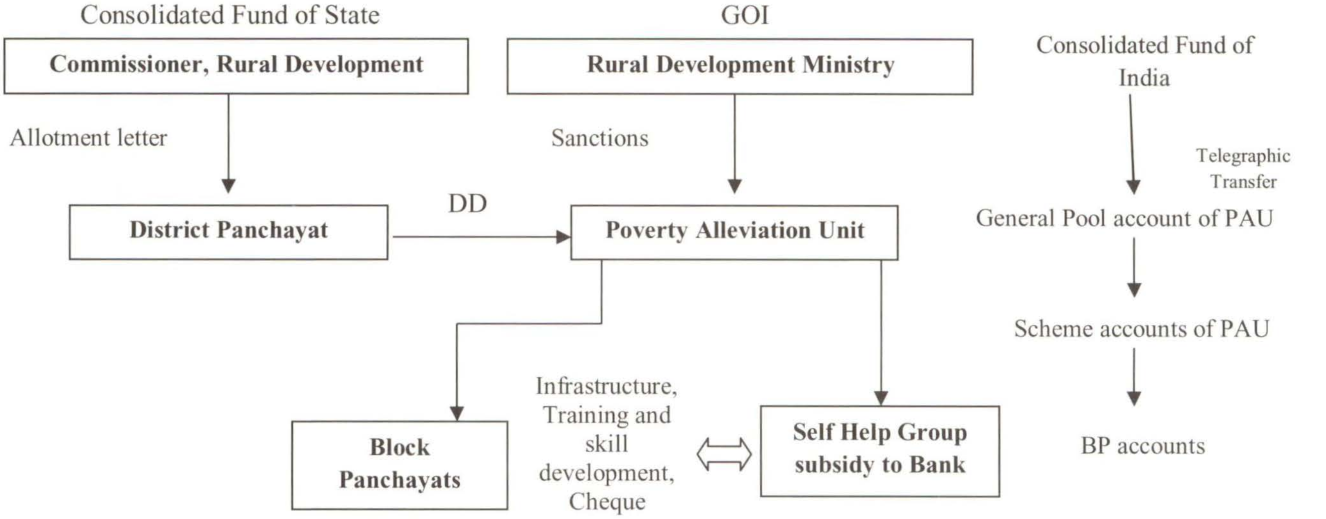


Appendix V (Contd...)

Method 4

Through PAU; Scheme : SGSY

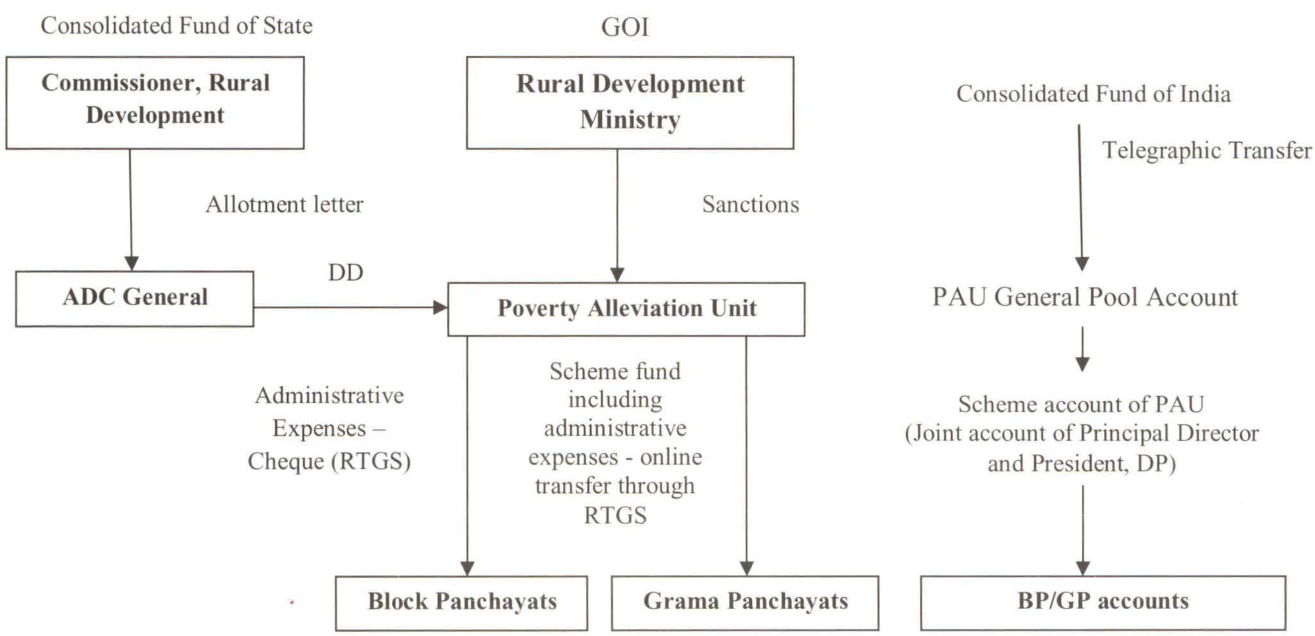
Head of account (State Share): 2501-06-197-48(gl) , 2225-01-197-50 (SCP), 2225-02-197-50 (TSP)



Method 5

Scheme : MGNREGS

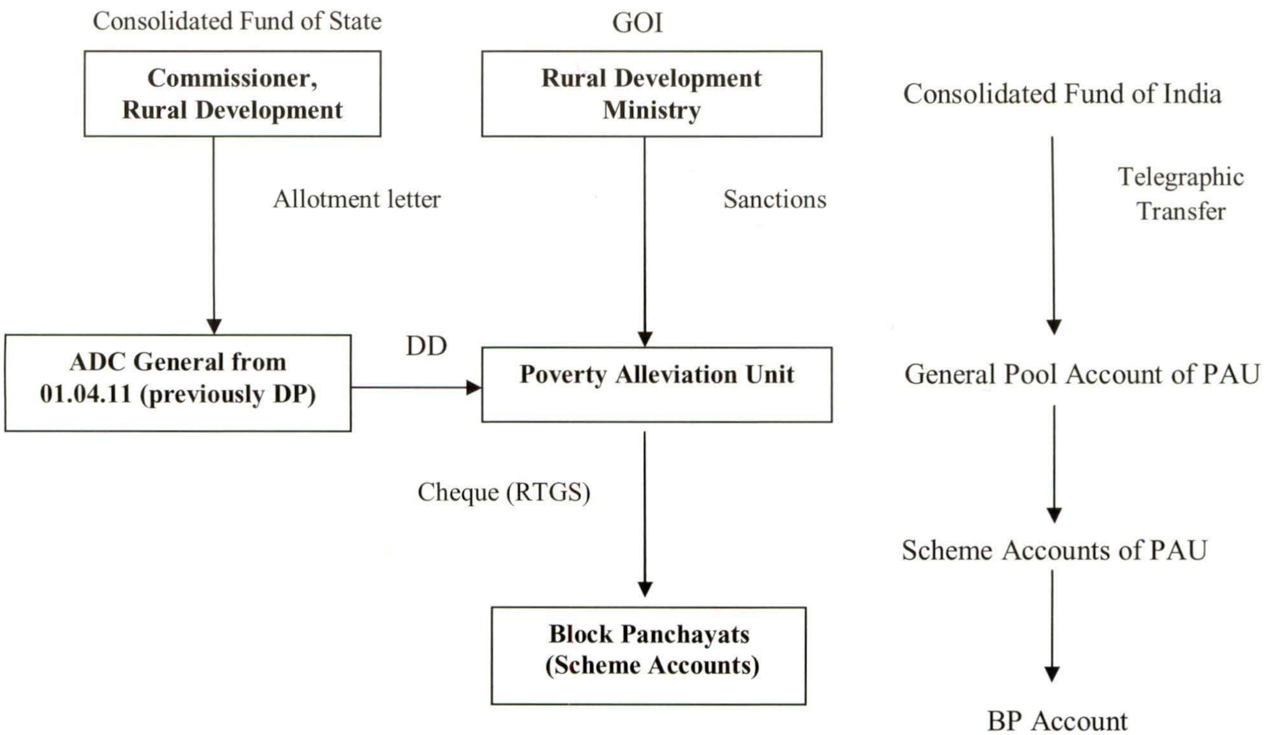
Head of account: 2505-01-800-99



Appendix V (Concld..)

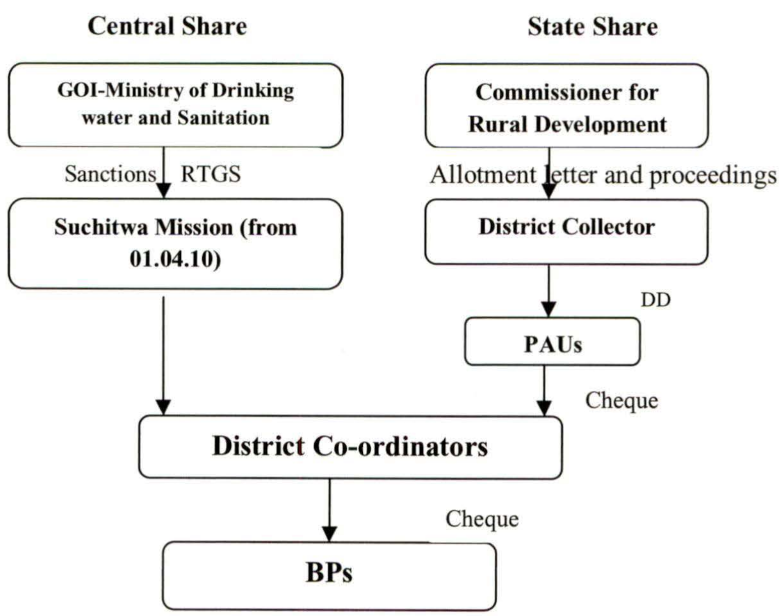
Method 6

Through PAU; Scheme: IAY
Head of account (state share): 2501-06-197-48



Method 7

Through Suchitwa Mission; Scheme: TSC
Head of account (state share): 2515-00-102-61 CRSP plan



Appendix VI

Expenditure incurred on socially relevant projects

(Reference: Paragraph 2.1.2; Page 18)

Sub sector	No. of projects			Amount (₹ in crore)		
	Formulated	Taken up	Percentage	Outlay	Expenditure	Percentage
Solid Waste Management	1090	392	35.96	63.82	11.59	18.16
Welfare of women	1396	951	68.12	54.02	18.05	33.41
Welfare of children	588	400	68.03	7.53	3.13	41.57
Poverty alleviation projects	438	340	77.63	27.21	12.17	44.73
Drinking Water schemes	10313	6396	62.02	229.31	129.01	56.26
SC schemes	9248	6894	74.55	322.12	124.25	38.57
Sanitation	2434	1569	64.46	79.23	13.61	17.18
Welfare of Elderly	787	500	63.53	21.23	7.15	33.68
Total	**26294**	**17442**	**66.33**	**804.47**	**318.96**	**39.65**

Appendix VII

List of LSGIs which delayed sending of AFS to DLFA

(Reference: Paragraph 2.3.2.1 ; Page 21)

Sl.No.	Name of LSGI & year of Audit	Due date	Date of sending	Delay in months
Grama Panchayats				
1	Thariod 2005-06	31/7/2006	1/9/2008	25
2	Engandiyoor 2004-05	31/7/2005	August 2007	24
3	Puthukkad 2004-05	31/7/2005	31/7/2007	24
4	Thiruvali 2004-05	31/7/2005	25/7/2007	24
5	Nannamukku 2004-05	31/7/2005	28/7/2007	23
6	Edathiruthy 2004-05	31/7/2005	20/6/2007	22
7	Kadukutty 2004-05	31/7/2005	30/5/2007	22
8	Mangalam 2004-05	31/7/2005	11/6/2007	22
9	Mathilakom 2004-05	31/7/2005	8/6/2007	22
10	Pothukal 2004-05	31/7/2005	23/5/2007	22
11	Sreekantapuram 2004-05	31/7/2005	5/6/2007	22
12	Sreenarayanapuram 2004-05	31/7/2005	29/6/2007	23
13	Thanalur 2004-05	31/7/2005	31/5/2007	22
14	Nenmanikkara 2004-05	31/7/2005	29/3/2007	20
15	Kulukkallur 2004-05	31/7/2005	15/2/2007	19
16	Oorakam 2004-05	31/7/2005	8/2/2007	18
17	Poyya 2004-05	31/7/2005	15/2/2007	19
18	Keezhuparamba 2004-05	31/7/2005	29/11/2006	16
19	Mannar 2005-06	31/7/2006	28/11/2007	16
20	Kayanna 2006-07	31/7/2007	12/11/2008	15
21	Muttil 2005-06	31/7/2006	2/11/2007	15
22	Methala 2004-05	31/7/2005	9/10/2006	13
23	Puthunagaram 2008-09	31/7/2009	26/9//2009	2
24	Velukkara 2005-06	31/7/2006	October 2007	14
25	Ambalavayal 2005-06	31/7/2006	21/8/2007	13
26	Thalakkulathur 2005-06	31/7/2006	6/8/2007	12
27	Mullankolly 2005-06	31/7/2006	29/6/2007	11
28	Nenmeni 2006-07	31/7/2007	20/7/2008	12
29	Pookkottukavu 2005-06	31/7/2006	25/5/2007	10
30	Chapparappadavu 2005-06	31/7/2006	17/5/2007	10
31	Pulppally 2005-06	31/7/2006	18/5/2007	10
32	Karulai 2006-07	31/7/2007	29/3/2008	8
33	Muppainad 2006-07	31/7/2007	2/4/2008	8
34	Kakkur 2006-07	31/7/2007	27/2/2008	7
35	Kokkayar 2005-06	31/7/2006	14/2/2007	6
36	Thodiyoor 2005-06	31/7/2006	2/3/2007	7
37	Kodanchery 2006-07	31/7/2007	13/2/2008	6
38	Panamaram 2007-08	31/7/2008	2/2/2009	6
39	A.R.Nagar 2006-07	31/7/2007	10/1/2008	5
40	Cherupuzha 2006-07	31/7/2007	17/12/2007	5
41	Kunnamangalam 2007-08	31/7/2008	29/11/2008	4
42	Narikkuni 2006-07	31/7/2007	5/1/2008	5
43	Panoor 2005-06	31/7/2006	22/1/2007	6
44	Vazhikkadavu 2005-06	31/7/2006	5/1/2007	5
45	Muthuvalloor 2005-06	31/7/2006	1/12/2006	4
46	Padanna 2007-08	31/7/2008	30/12/2008	5
47	Udumbannoor 2006-07	31/7/2007	29/11/2007	4
48	Kizhakkoth 2006-07	31/7/2007	2/11/2007	3
49	Puthuppady 2007-08	31/7/2008	22/10/2008	3
Block Panchayat				
1	Edakkad 2006-07	31/7/2007	12/11/2007	3
Corporation				
1	Kollam 2007-08	31/5/2008	30/7/2009	14

Appendix VIII

List of LSGIs which did not prepare budget in prescribed format/ delayed presentation of budget

(Reference: Paragraph 2.3.2.1 ; Page 21)

Sl.No.	Name of LSGI & year of Audit	Nature of defect	
		Budget not in prescribed format	Delay in presentation of Budget
Grama Panchayats			
1	Kulukkallur 2004-05		■
2	Puthukkad 2004-05		■
3	Thiruvali 2004-05		■
4	Oorakam 2004-05	■	■
5	Mannar 2005-06		■
6	Ezhikkara 2007-08		■
7	Edappatta 2006-07	■	■
8	Kanjirappuzha 2006-07		■
9	Thodiyoor 2005-06	■	■
10	Kumily 2005-06	■	■
11	Muppainad 2006-07		■
12	Pookkottukavu 2005-06		■
13	Kumaramputhur 2006-07		■
14	Thiruvambadi 2006-07		■
15	Thariod 2005-06		■
16	Muttil 2005-06		■
17	Udumbannoor 2006-07		■
18	Pulppally 2005-06	■	■
19	Kizhakkoth 2006-07		■
20	Kokkayar 2005-06		■
21	Kayanna 2006-07		■
22	Chengottukavu 2007-08		■
23	Kakkur 2006-07	■	■
24	Mangalam 2004-05	■	
25	Kottur 2005-06	■	■
26	Kadukutty 2004-05		■
27	Valavannur 2004-05		■
28	Adat 2005-06		■
29	Ozhur 2004-05		■
30	Mathilakom 2004-05		■
31	Thavanoor 2004-05		■
32	Perumanna 2005-06		■
33	Keezhuparamba 2004-05		■
34	Mullankolly 2005-06		■
35	Kodanchery 2006-07		■
36	Pothukal 2004-05	■	■
37	Koorachundu 2006-07		■
38	Ambalavayal 2005-06	■	■
39	Nenmanikkara 2004-05	■	■
40	Nenmeni 2006-07		■
41	Padanna 2007-08		■

Appendix VIII (Concld....)

Sl.No.	Name of LSGI & year of Audit	Nature of defect	
		Budget not in prescribed format	Delay in presentation of Budget
42	Chittaripparambu 2006-07		
43	Elavally 2004-05		
44	Puthupariyaram 2007-08		
45	Vazhakulam 2007-08		
46	Poyya 2004-05		
47	Peruvemba 2007-08		
48	Chapparappadavu 2005-06		
49	Karulai 2006-07		
50	Kondazhy 2004-05		
51	Pavaratty 2006-07		
52	Sreenarayanapuram 2004-05		
53	Vazhikkadavu 2005-06		
54	Moothedam 2005-06		
55	Chembilode 2007-08		
56	Tholoor 2004-05		
57	Kunnamangalam 2007-08		
58	Cheruvannur Nallalam 2008-09		
59	Methala 2004-05		
60	Panoor 2005-06		
61	Edathiruthy 2004-05		
62	Kattippara 2007-08		
63	Mangattidom 2006-07		
64	Vadavannur 2007-08		
65	Panamaram 2007-08		
66	Puthunagaram 2008-09		
67	Payam 2007-08		
Block Panchayats			
1	Mukhathala 2006-07		
2	Champakkulam 2006-07		
3	Parakkode 2007-08		
4	Edakkad 2006-07		
Municipalities			
1	Attingal 2006-07		
2	Aluva 2006-07		
3	Kalpetta 2006-07		
4	Thripunithura 2007-08		

Note: Shaded portion indicates occurrence of corresponding defect

Appendix IX
List of LSGIs in which deficiencies were observed
(Reference: Paragraph 2.3.2.1, 2.3.2.3; Pages 22, 23)

Sl. No.	Name of LSGI & year of Audit	Appending statement of AFS not prepared and submitted	Non-conducting of annual physical verification of Stock	Non-preparation of monthly accounts	Non-conducting of physical verification of cash at the end of every month	Lapsed deposits not credited to the General Account of the LSGI
Grama Panchayats						
1	Kulukkallur 2004-05	■			■	
2	Thiruvali 2004-05			■	■	
3	Oorakam 2004-05	■				
4	Mannar 2005-06				■	
5	Ezhikkara 2007-08			■	■	
6	Edappatta 2006-07		■		■	
7	Kanjirappuzha 2006-07	■	■	■	■	
8	Thodiyoor 2005-06				■	
9	Kumily 2005-06	■		■	■	
10	Thalakkulathur 2005-06		■		■	
11	Pookkottukavu 2005-06	■		■	■	
12	Kumaramputhur 2006-07			■	■	■
13	Thiruvambadi 2006-07				■	
14	Thariod 2005-06				■	
15	Muttil 2005-06				■	
16	Udumbannoor 2006-07	■			■	
17	Pulppally 2005-06	■		■		■
18	Kizhakkoth 2006-07	■		■	■	
19	Peruvalloor 2004-05				■	
20	Kayanna 2006-07	■			■	
21	Ponmundam 2005-06				■	
22	Muthuvalloor 2005-06	■				
23	Chengottukavu 2007-08				■	
24	Kakkur 2006-07			■	■	
25	Mangalam 2004-05	■	■		■	
26	Narikkuni 2006-07			■	■	
27	Kadukutty 2004-05			■	■	
28	Valavannur 2004-05		■		■	
29	Adat 2005-06	■		■	■	
30	Ozhur 2004-05	■	■			
31	Thanalur 2004-05	■		■		
32	Mathilakom 2004-05	■			■	
33	Thavanoor 2004-05	■	■			
34	Perumanna 2005-06	■		■	■	

Appendix IX (Contd….)

Sl. No	Name of LSGI & year of Audit	Appending statement of AFS not prepared and submitted	Non-conducting of annual physical verification of Stock	Non-preparation of monthly accounts	Non-conducting of physical verification of cash at the end of every month	Lapsed deposits not credited to the General Account of the LSGI
35	Keezhuparamba 2004-05					
36	Mullankolly 2005-06					
37	Kodanchery 2006-07					
38	Pothukal 2004-05					
39	Koorachundu 2006-07					
40	Sreekantapuram 2004-05					
41	A.R.Nagar 2006-07					
42	Ambalavayal 2005-06					
43	Vattavada 2006-07					
44	Nenmanikkara 2004-05					
45	Ulikkal 2004-05					
46	Nenmeni 2006-07					
47	Puthige 2006-07					
48	Aikaranadu 2006-07					
49	Chittaripparambu 2006-07					
50	Elavally 2004-05					
51	Engandiyoor 2004-05					
52	Puthupariyaram 2007-08					
53	Vazhakulam 2007-08					
54	Poyya 2004-05					
55	Peruvemba 2007-08					
56	Chapparappadavu 2005-06					
57	Karulai 2006-07					
58	Kondazhy 2004-05					
59	Pavaratty 2006-07					
60	Sreenarayanapuram 2004-05					
61	Vazhikkadavu 2005-06					
62	Mannur 2006-07					
63	Moothedam 2005-06					
64	Chembilode 2007-08					
65	Tholoor 2004-05					
66	Kunnamangalam 2007-08					
67	Cheruvannur Nallalam 2008-09					
68	Methala 2004-05					

Appendix IX (Concld…)

Sl. No	Name of LSGI & year of Audit	Appending statement of AFS not prepared and submitted	Non-conducting of annual physical verification of Stock	Non-preparation of monthly accounts	Non-conducting of physical verification of cash at the end of every month	Lapsed deposits not credited to the General Account of the LSGI
69	Edathiruthy 2004-05					
70	Velukkara 2005-06					
71	Kodiyathoor 2007-08					
72	Kattippara 2007-08					
73	Cherupuzha 2006-07					
74	Mangattidom 2006-07					
75	Vadavannur 2007-08					
76	Panamaram 2007-08					
77	Puthunagaram 2008-09					
78	Vandazhy 2004-05					
79	Udayagiri 2004-05					
80	Payam 2007-08					
81	Pattuvam 2006-07					
Block Panchayats						
1	Mukhathala 2006-07					
2	Champakkulam 2006-07					
3	Parakkode 2007-08					
Municipalities						
1	Attingal 2006-07					
2	Aluva 2006-07					
3	Kalpetta 2006-07					
4	Thripunithura 2007-08					
Corporations						
1	Kollam 2007-08					

Note : Shaded portion indicates occurrence of corresponding defect

Appendix X
List of LSGIs in which OB/ CB of AFS differed with that of cashbook
(Reference: Paragraph 2.3.2.1; Page 22)

(in ₹)

Sl.No.	Name of LSGI & year of Audit	Opening balance			Closing balance		
		AFS	Cash book	Difference	AF S	Cash book	Difference
Grama Panchayats							
1	Oorakam 2004-05	2347864.01	2328764.51	19099.50	2080848.66	1905464.41	175384.25
2	Ezhikkara 2007-08			0.00	8873079.10	8521136.10	351943.00
3	Ozhur 2004-05	3708439.00	3955495.00	-247056.00			0.00
4	Keezhuparamba 2004-05	4685921.22	4659197.97	26723.25	6324334.32	6354963.07	-30628.75
5	Sreekantapuram 2004-05	5157260.87	5157560.87	-300.00			0.00
6	Ulikkal 2004-05			0.00	1258385.67	1251355.67	7030.00
7	Aikaranadu 2006-07	8233313.54	8233013.54	300.00	9353505.54	9353205.54	300.00
8	Chittaripparambu 2006-07	3864314.06	3747988.96	116325.10	3926043.25	3848545.40	77497.85
9	Karulai 2006-07	200.00	11701.00	-11501.00			0.00
10	Pavaratty 2006-07	4518958.00	4693545.00	-174587.00			0.00
11	Tholoor 2004-05	2045450.00	2464396.00	-418946.00	2276487.00	2275762.00	725.00
12	Cheruvannur Nallalam 2008-09	5458401.00	5079831.40	378569.60			0.00
Block Panchayats							
1	Champakkulam 2006-07	829027.00	5257232.00	-4428205.00			0.00
	Total	40849148.70	45588726.25	**-4739577.55**	34092683.54	33510432.19	**582251.35**

Appendix XI

List of LSGIs in which various deficiencies were observed in maintenance of cashbook

(Reference: Paragraph 2.3.2.3; Page 22)

Sl.No	Name of LSGI & year of Audit	Erasure & overwriting in cash book	Absence of daily closing of cash book	Absence of monthly /Annual closing of cash book	Non reconciliation of cash book balance with pass book balance
Grama Panchayats					
1	Kulukkallur 2004-05				
2	Puthukkad 2004-05				
3	Thiruvali 2004-05				
4	Mannar 2005-06				
5	Ezhikkara 2007-08				
6	Edappatta 2006-07				
7	Kanjirappuzha 2006-07				
8	Thodiyoor 2005-06				
9	Kumily 2005-06				
10	Thalakkulathur 2005-06				
11	Pookkottukavu 2005-06				
12	Kumaramputhur 2006-07				
13	Thiruvambadi 2006-07				
14	Thariod 2005-06				
15	Muttil 2005-06				
16	Udumbannoor 2006-07				
17	Pulppally 2005-06				
18	Kizhakkoth 2006-07				
19	Peruvalloor 2004-05				
20	Nannamukku 2004-05				
21	Kayanna 2006-07				
22	Ponmundam 2005-06				
23	Muthuvalloor 2005-06				
24	Chengottukavu 2007-08				
25	Kakkur 2006-07				
26	Mangalam 2004-05				
27	Narikkuni 2006-07				
28	Kadukutty 2004-05				
29	Valavannur 2004-05				
30	Adat 2005-06				
31	Thanalur 2004-05				
32	Mathilakom 2004-05				
33	Thavanoor 2004-05				
34	Perumanna 2005-06				
35	Keezhuparamba 2004-05				
36	Mullankolly 2005-06				
37	Kodanchery 2006-07				
38	Pothukal 2004-05				
39	Koorachundu 2006-07				
40	Sreekantapuram 2004-05				
41	A.R.Nagar 2006-07				
42	Ambalavayal 2005-06				

Appendix XI (Concld.)

Sl.No	Name of LSGI & year of Audit	Erasure & overwriting in cash book	Absence of daily closing of cash book	Absence of monthly /Annual closing of cash book	Non reconciliation of cash book balance with pass book balance
43	Vattavada 2006-07				
44	Nenmanikkara 2004-05				
45	Ulikkal 2004-05				
46	Nenmeni 2006-07				
47	Puthige 2006-07				
48	Aikaranadu 2006-07				
49	Padanna 2007-08				
50	Chittaripparambu 2006-07				
51	Elavally 2004-05				
52	Engandiyoor 2004-05				
53	Puthupariyaram 2007-08				
54	Vazhakulam 2007-08				
55	Poyya 2004-05				
56	Peruvemba 2007-08				
57	Chapparappadavu 2005-06				
58	Karulai 2006-07				
59	Kondazhy 2004-05				
60	Pavaratty 2006-07				
61	Vazhikkadavu 2005-06				
62	Mannur 2006-07				
63	Moothedam 2005-06				
64	Chembilode 2007-08				
65	Tholoor 2004-05				
66	Kunnamangalam 2007-08				
67	Cheruvannur Nallalam 2008-09				
68	Methala 2004-05				
69	Edathiruthy 2004-05				
70	Kodiyathoor 2007-08				
71	Cherupuzha 2006-07				
72	Mangattidom 2006-07				
73	Vadavannur 2007-08				
74	Panamaram 2007-08				
75	Puthunagaram 2008-09				
76	Vandazhy 2004-05				
77	Udayagiri 2004-05				
78	Payam 2007-08				
79	Pattuvam 2006-07				
Block Panchayats					
1	Mukhathala 2006-07				
2	Champakkulam 2006-07				
Municipalities					
1	Attingal 2006-07				
2	Aluva 2006-07				
3	Kalpetta 2006-07				
4	Thripunithura 2007-08				

Note : Shaded portion indicates occurrence of corresponding defect

Appendix XII

List of LSGIs which did not maintain Advance Register (period in brackets)

(Reference: Paragraph 2.3.2.2, 2.3.2.3; Pages 22)

Grama Panchayats	
1.	Kulukkallur (2004-05)
2.	Thiruvali (2004-05)
3.	Mannar (2005-06)
4.	Ezhikkara(2007-08)
5.	Edappatta (2006-07)
6.	Kanjirappuzha (2006-07)
7.	Muppainad (2006-07)
8.	Pulppally (2005-06)
9.	Nannamukku (2004-05)
10.	Kakkur (2006-07)
11.	Thavanoor (2004-05)
12.	Perumanna (2005-06)
13.	Koorachundu (2006-07)
14.	Vattavada (2006-07)
15.	Puthuppady (2007-08)
16.	Poyya (2004-05)
17.	Sreenarayanapuram (2004-05)
18.	Vazhikkadavu (2005-06)
19.	Moothedam (2005-06)
20.	Tholoor (2004-05)
21.	Kunnamangalam (2007-08)
Block Panchayats	
1.	Champakkulam (2006-07)
2.	Edakkad (2006-07)

Appendix XIII
List of LSGIs which did not maintain various registers properly
(Reference: Paragraph 2.3.2.3; Page 23)

Sl.No.	Name of LSGI & year of Audit	Name of registers			
		Asset	Cashbook	Deposit	Advance
Grama Panchayats					
1	Kulukkallur 2004-05				
2	Puthukkad 2004-05				
3	Thiruvali 2004-05				
4	Mannar 2005-06				
5	Edappatta 2006-07				
6	Thodiyoor 2005-06				
7	Kumily 2005-06				
8	Muppainad 2006-07				
9	Kumaramputhur 2006-07				
10	Thariod 2005-06				
11	Muttil 2005-06				
12	Kizhakkoth 2006-07				
13	Kayanna 2006-07				
14	Muthuvalloor 2005-06				
15	Chengottukavu 2007-08				
16	Kakkur 2006-07				
17	Mangalam 2004-05				
18	Narikkuni 2006-07				
19	Valavannur 2004-05				
20	Ozhur 2004-05				
21	Perumanna 2005-06				
22	Mullankolly 2005-06				
23	Pothukal 2004-05				
24	Ambalavayal 2005-06				
25	Nenmanikkara 2004-05				
26	Nenmeni 2006-07				
27	Puthige 2006-07				
28	Chittaripparambu 2006-07				
29	Elavally 2004-05				
30	Puthupariyaram 2007-08				
31	Poyya 2004-05				
32	Peruvemba 2007-08				
33	Chapparappadavu 2005-06				
34	Karulai 2006-07				
35	Sreenarayanapuram 2004-05				
36	Vazhikkadavu 2005-06				
37	Moothedam 2005-06				
38	Tholoor 2004-05				
39	Kunnamangalam 2007-08				
40	Cheruvannur Nallalam 2008-09				
41	Methala 2004-05				
42	Edathiruthy 2004-05				
43	Kodiyathoor 2007-08				
44	Kattippara 2007-08				
45	Vadavannur 2007-08				
46	Panamaram 2007-08				
47	Udayagiri 2004-05				

Appendix XIII (Concld.)

Sl.No.	Name of LSGI & year of Audit	Name of registers			
		Asset	Cashbook	Deposit	Advance
48	Payam 2007-08				
Municipalities					
1	Attingal 2006-07				
2	Kalpetta 2006-07				
3	Thripunithura 2007-08				

Note: Shaded portion indicates occurrence of corresponding defect

Appendix XIV

Share of major tax items in tax revenue of the Corporation

(Reference: Paragraph 3.1.1; Page 25)

(₹ in lakh)

Year	Property tax	Profession tax	Entertainment tax	Advertisement tax
2006-07	2410.04 (62)	816.53 (21)	365.27(9)	17.76 (1)
2007-08	2708.37 (61)	1288.39 (29)	384.19 (9)	35.66 (1)
2008-09	2956.90 (61)	1464.53 (30)	340.46 (7)	35.39 (1)
2009-10	3058.13 (67)	1000.77 (22)	418.95 (9)	69.51 (2)
2010-11	4822.38 (77)	834.01 (13)	528.33 (8)	46.55 (1)

Figures in bracket represent the percentage of each item of revenue to total tax

Appendix XV

Summary of the nature, incidence, periodicity, authority etc., relating to various taxes levied by Kochi Corporation

(Reference: Paragraph 3.1.1; Page 25)

Item	Property Tax	Profession Tax	Entertainment Tax	Advertisement tax
Significance (*per cent* to total tax revenue)*	67	22	9	1.50
Nature	Tax on buildings and land attached to it	Tax on income of a person working/ staying for not less than 60 days in the municipal area	Tax on ticket price of entertainments including cinemas, exhibitions, amusements, sports, games, etc.	Tax on advertisements displayed on boards, hoardings, banners, etc. in the municipal area
Taxable unit	Each building with attached land	Employees, traders, professionals and institutions	Tickets issued for admission	Each advertisement
Periodicity	Annual tax payable half-yearly	Half-yearly	In advance before each show	Annually
Tax base	Annual Value	Half-yearly income	Price for admission to the show	Variable – mainly, area covered by advertisement
Tax rate/slab	15 *per cent* of Annual Value#	₹ 120 to ₹ 1,250 per half year, based on half yearly income	25 *per cent* of ticket price#	Variable
Who fixes the rate?	Municipal Council within the range specified in the Act	State Government	Municipal Council within the range specified in the Act	Municipal Council with the approval of State Government
Who has the liability to pay?	Individual	Individual/ Employer/Head of Office	The person who conducts show	Person who displays advertisement
Who assesses the tax?	Revenue Officer	Head of office/employer/self assessment	Self assessment	Auctioned to private individuals

* As per the accounts for the year 2009-10

\# In Kochi Corporation

Appendix XVI

Arrears of Property tax

(Reference: Paragraph 3.1.3.3; Page 31)

Door No./ Name of lessee	Date of surrender	Annual tax (₹)	Tax (₹) payable by Port Trust (30 *per cent)*	Period of Pendency	Amount pending (₹)
462 to 470/Central Warehousing Corporation	12.08.02	44,164	13,249	2002-03 to 2010-11	1,19,241
435/Sidharth Spices	06.08.05	25,500	7,650	2005-06 to 2010-11	45,900
422/Sri Jai Narayanan Traders	12.09.06	5,610	1,683	2006-07 to 2010-11	8,415
407/Tara Agencies	22.04.04	3,442	1,033	2004-05 to 2010-11	7,231
448/Mahavir Plantations	03.04.04	5,866	1,760	2004-05 to 2010-11	12,320
1551/Mahavir Plantations	22.03.05	11,476	3,443	2004-05 2nd half to 2010-11	22,380
1405 to 1408/Pilment Agents (P) Ltd.	20.04.05	11,108	3,332	2005-06 to 2010-11	19,992
1569/R.M. Parekh	25.05.04	5,356	1,607	2004-05 to 2010-11	11,249
1575/Coffee Board Ware House	31.05.06	14,662	4,399	2005-06 to 2010-11	26,394
1612 to 1616/Ram Bahadur Takur Kerala (P) Ltd.	23.02.05	10,198	3,059	2004-05 2nd half to 2010-11	19,884
1355/Bombay Tyres International Ltd.	27.02.04	9,754	2,926	2003-04 2nd half to 2010-11	21,945
1570/King Fisheries	03.12.04	7,650	2,295	2004-05 2nd half to 2010-11	14,918
TOTAL					**3,29,869**

Appendix XVII
Road Restoration charges received from KWA
(Reference: Paragraph 4.2; Page 47)

	Name of LSGI	Type of Road (BT/WBM)	Area as per JBIC (in m²)	Amount remitted by KWA	Amount receivable as per PWD rates	Short levy (₹)
1	Adichanallur GP	BT	2104	862640	1826272	963632
		Concrete	0	0	0	0
2	Chathannoor GP	BT	11787	4468691	10231116	5762425
3	Nedumpana GP	BT	23243	8411428	20174924	11763496
4	Anchal GP	BT	20210	7819788	17542280	9722492
5	Chirakkara GP	BT	11034	4148643	9577512	5428869
6	Paravoor Mun	BT	26011	10664510	22577548	11913038
7	Mayyanad GP	BT	17303	6332238	15019004	8686766
8	Poothakkulam GP	BT	12991	5019234	11276188	6256954
9	Veliyam GP	BT	7432	2474856	6450976	3976120
10	Poovappally GP	BT	7595	2647638	6592460	3944822
11	Edamulakkal GP	BT	5498	1830668	4772264	2941596
12	Karavallur GP	BT	6403	2160730	5557804	3397074
13	Kollam DP	BT	15900	6519000	13801200	7282200
14	Elathur GP	BT+WBM	7971	4623470	6919262	2295792
		BT	2626	779922	877084	97162
		WBM	616	174398	329076	154678
15	Thalakkulathur GP	BT + WBM	1556	902450	1350608	448158
		BT	6518	1935840	2177012	241172
		WBM	3238	916354	1729092	812738
16	Kakkodi GP	BT+ WBM	2792	1619592	2423803	804211
		BT	3014	895217	1006742	111525
		WBM	5528	1564514	2952122	1387608
17	Chelannur GP	BT + WBM	2708	1570930	2350978	780048
		BT	4997	1484227	1669130	184903
		WBM	655	185421	349876	164455
18	Balussery GP	BT + WBM	4932	2860705	4281193	1420488
		WBM	5368	1519166	2866554	1347388
19	Olavanna GP	BT + WBM	18486	10722344	16046542	5324198
		WBM	1732	490170	924914	434744
20	Perumanna GP	BT	2698	1564840	2341864	777024
21	Peruvayal GP	BT + WBM	2556	1482480	2218608	736128
		WBM	547	154942	292364	137422
22	Kunnamangalam GP	BT	5402	3133160	4688936	1555776
		WBM	4260	1205580	2274840	1069260
23	Beypore	BT + WBM	5533	3209488	4803164	1593676
		BT	999	296792	333766	36974

Appendix XVII (Concld.)

	Name of LSGI	Type of Road (BT/WBM)	Area as per JBIC (in m²)	Amount remitted by KWA	Amount receivable as per PWD rates	Short levy (₹)
24	Narikkuni GP	BT + WBM	7483	4340314	6495504	2155190
		BT	1743	517760	582262	64502
		WBM	4261	1206061	2275747	1069686
25	Kuruvattur GP	BT + WBM	5335	3094822	4631561	1536739
		WBM	7078	2003074	3779652	1776578
26	Cheruvannur Nallalam	BT + WBM	13739	7968939	11925929	3956990
27	Kadalundi GP	BT + WBM	6438	3734446	5588791	1854345
		BT	180	53460	60120	6660
		WBM	3720	1052859	1986666	933807
28	Nanminda GP	BT + WBM	13548	7858188	11760184	3901996
		BT	52	15681	17634	1953
		WBM	3553	1005725	1897568	891843
29	Kakkur GP	BT + WBM	4457	2585164	3868831	1283667
		BT	2777	824884	2410773	1585889
		WBM	2297	650070	1226635	576565
30	Pappinissery GP	BT + WBM	3202	1457092	2779683	1322591
31	Cherukunu GP	BT + WBM	3974	1808397	3449865	1641468
		BT	1608	260617	537322	276705
32	Thaliparamba GP	BT + WBM	6880	3130582	5972187	2841605
33	Pariyaram/Kuttieri	BT + WBM	1370	623395	1189246	565851
34	Pattuvam	BT + WBM	2305	1048775	2000740	951965
		BT	696	112752	232464	119712
35	Mattool	BT + WBM	1474	670897	1279865	608968
36	Ezhome	BT + WBM	6281	2858150	5452471	2594321
		BT	1064	172497	355642	183145
37	Kannapuram GP	BT + WBM	8131	3699969	7058402	3358433
		BT	1489	241355	497609	256254
38	Kalliassery GP	BT + WBM	6550	2980363	5685616	2705253
		BT	952	154305	318135	163830
		WBM	574	169134	306516	137382
39	Maravanthuruthu GP	BT + WBM	4210	660000	1406140	746140
		WBM	3300	1025000	1762200	737200
40	Velloor GP	BT + WBM	16877.25	6175000	14649453	8474453
		Total	**409841.25**	**1708117931**	**324048491**	**153236698**