

Local Fund Audit Department

Kerala Local Fund Audit Rules, 1996

Government of Kerala Finance (Establishment 'D') Department Notification
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G.O (P). No. 180/96/Fin. Dated, Thiruvananthapuram, 9th February, 1996

S.R.O. No. 176/96 -In exercise of the powers conferred by section 28 of the Kerala Local Fund Audit Act, 1994 (14 of 1994) the Government of Kerala hereby make the following Rules, namely :-

Rules

1. Short title and commencement: -

- (1) These rules may be called the Kerala Local Fund Audit Rules, 1996.
- (2) They shall come into force at once.

2. Definitions: -

In these rules, unless the context otherwise requires, -

- (a) 'Act' means the Kerala Local Fund Audit Act, 1994;
- (b) 'Form' means the form appended to these rules'
- (c) 'Local audit' means audit conducted at the office of any institution in the schedule as per the approved programmes of auditors;
- (d) 'Report' means report sent under section 13 of the Act and includes reports sent by the auditor on conduct of special or test audit of accounts of any institution, for a specified period, included in the schedule
- '(e) 'Section' means a section of Act'
- (f) Words and expressions used but not defined in these rules shall have the meanings assigned to them in the Act.

3. Audit of accounts:-

The accounts of local authorities whose accounts are subject to audit under section 4 and 5 and the schedule to the Act shall be audited by auditors of Kerala Local Fund Audit Department, who are empowered to perform the functions of an auditor under clause (a) of section 2 of the Act, under the direction and control of the Director of Local Fund Audit:Provided that nothing in this rule shall prevent the Director from carrying out himself an inspection or audit of accounts of any local authority included in the schedule at his discretion.

4. Audit of accounts of stock and store and verification of cash balance:

The auditor shall have authority to audit and report on the accounts of stock and stores relating to public work plant and machinery, money value, forms etc. kept by the local authorities specified in the schedule, by virtue of powers conferred under, section 6 of the Act. At the commencement of, or during, the audit, or at the time of inspection, the auditor shall verify the cash balances including the unspent balance of permanent or other advances and the securities held by the local authority specified in the schedule.

5. Notice of commence of audit -

Notice of audit under sub-section (3) of section 11 of the Act, shall be given in Form I or I (A) as the case may be at least fourteen days in advance.

6. Procedure of audit-

- (1) Except in cases where the Director, or the officers authorised by him, in consultation with the Head of Office of the local authority, decides otherwise, the auditor shall, for the purpose of conducting audit, attend the office of the local authority during office hours.
- (2) The local authority shall make suitable arrangements to enable the auditor to conduct the audit.
- (3) The auditor shall not remove any book, voucher or document from the office of the local authority whose accounts are being audited by him. Provided that if, in case of fraud or for other genuine reasons, he considers it necessary to keep any book, voucher or other document in his possession, he may remove it after giving a receipt thereof and shall forthwith report the matter to his Controlling authority.

7. Manner of audit:-

- (1) The system of concurrent audit shall be followed in the case of the local authorities/local funds where such system of audit was in vogue at the commencement of this Act. In the case of all other local authorities/local funds the accounts shall be audited annually in arrears during local audit: Provided that the Government shall, in consultation with the Director introduce the system of concurrent audit in such of those local authorities/local funds as are found necessary under the provisions of any law governing them.
- (2) The audit of accounts of local authority/local fund shall be a detailed audit unless otherwise decided by the Director: Provided that the Director shall when the circumstances so warrant dispense with detailed audit of any account or a class of transactions and apply such limited check in relation to such accounts or class of transactions as he may deem fit.
- (3) The auditors shall take up the audit of any local authority/local fund for a period shorter than one accounting year or the audit of any particular transaction or a series of transactions as they may deem fit if the circumstances so warrant
- (4) The auditors shall look into any other matter relating to the accounts of a local authority/local fund as may be required by the Government and a report thereon shall be furnished to the officer authorised to receive it.
- (5) The auditors shall have authority to visit any unit/Zonal/division/ sub-division office or any other institution under the control of a local authority/local fund and to verify the books of accounts, stock and stores and connected records.
- (6) The auditors shall have authority to audit the accounts of any special fund maintained by a local authority/local fund and kept separate from the general funds of the institutions.
- (7) In the case of Panchayats and Municipalities whose accounts are audited annually in local audit, the auditors shall at the time of such local audit check the details of collection of revenue, remittance of collection and withdrawals from accounts upto the date of commencement of audit and shall incorporate in the audit report the defects or loss of money detected in audit.
- (8) The accounts of receipts and expenditure of Orphanages and poor homes are audited with a view to ascertain the extent of eligibility of the institutions for receiving grant from Government in each year and hence the audit of accounts of such institutions is confined to that extent
- (9) The accounts of Hindu Religious and Charitable Endowment Institutions in Malabar and Kasargod area whose annual income is not less than Ten thousand rupees shall be audited by the Director.8

Manner of making requisition under section 11-

- (1) The requisition referred to in clause (a) of sub-section (1) of section II of the Act, shall be made by the auditor in Form No II and shall be sent to the Executive authority of local authority/local fund in duplicate. An acknowledgment from the officer concerned with date of receipt, shall be obtained in the duplicate copy.
 - (2) A notice referred to in clause (b) of sub-section (1) of section 11 for personal appearance addressed to an employee of a local authority/local fund shall be made by the auditor in Form No. III, and shall be sent through the Executive authority, if addressee is not the Executive authority.
 - (3) The invitation issued in pursuance of clause (c) of sub-section (1) of Section 11 to any officer or member of a local authority/local fund shall be in the form of a letter addressed to such officer or member. A copy of every such letter shall be retained in the case file. The letter shall be sent either by registered post or by messenger, and in the latter case, an acknowledgment duly signed and dated shall be obtained in transit book. Every requisition or invitation under section 11 shall be signed and dated by the auditor and shall specify a period not less than three days, within which it shall be complied with.9
- Report of non-compliance with requisition-** If a notice under clause (a) or clause (b) of sub-section (1) of section 11 is not complied with, within the period specified therein the auditor shall send the papers to his Controlling authority, with a brief statement of facts, for further action.

10. Penalty for disobeying requisition under section 11: -

The proceedings in a court of law against an employee of local authority/local fund for imposing the punishment referred to in section 12 of the Act shall be initiated by the auditor who is in charge of audit of the institution concerned. For initiating the proceedings, such officer shall file a written statement of facts constituting the offence before the Court having jurisdiction over the area in which the headquarters of this institution concerned is situated. The show cause notice under section 12 of the Act shall be issued by the officer who is in charge of audit of accounts of the institution concerned but who shall not be below the rank of a Deputy Director. The show cause notice issued under section 12 shall be in Form IV appended to these rules

11. Objection statement and replies there of: -

- (1) All enquiries which are necessary for the auditor to make in the course of audit and all remarks shall be made through an objection statement Form V appended to these rules.
- (2) The auditor shall issue such objection statements with his dated signature day by day, as the audit proceeds and shall obtain an acknowledgement from the Head of Office of the local authority/local fund with date of receipt.
- (3) The auditor shall as far as practicable, issue separate objection statements for each department of The local authority/local fund so that the department concerned can proceed to take action as soon as objection statement is received: Provided that the procedure in sub-rules (1) and (2) above shall be relaxed in The case of Municipalities, Panchayats and other local bodies where only local audit is conducted
- (4) The objection statements, shall be returned within the time specified by the auditor with dated signature of the Head of Office of the local authority together with an explanation to the objection, or a statement of the action taken or proposed to be taken to settle the objections raised and, where necessary, shall also contain replies to the enquires made by the auditor.
- (5) On receipt of the replies to the points raised by the auditor, he shall, wherever necessary re-issue for further action, any items on which final or sufficient action has not been taken or on which enquires made have not been satisfactorily answered. Such re-issues shall be marked for further 'remarks' in the Objection Statement in Form V
- (6) All objection statements issued during the course of audit shall be returned to the auditor within the time/specified irrespective of the question whether all the objections have been fully answered or not.

12. Manner of Report of fraud or misappropriation or serious irregularities: -

- (1) When a fraud or misappropriation is detected or may reasonably be inferred from any suspicious circumstances, or there is very strong evidence to raise suspicion thereof, or where any serious irregularity is noticed in accounts, the auditor shall at once confidentially report the circumstances, in writing to executive authority (ie, President, Vice-President, Chairman or Vice Chairman of the local authority as the case may be) and also to the Director of Local Fund Audit.
- (2) When a fraud or misappropriation has been fully investigated by the auditor, he shall submit a complete report on the case to the Director, who shall send copies thereof either to the Controlling Authority or the Government as the case may be: Provided that where the Executive Authority (President/Vice President Chairman/Vice Chairman etc) or the Head of Office of a local authority is involved or there are grounds for suspecting his complicity in the fraud or misappropriation or the serious irregularities, neither the preliminary nor the complete report shall be sent to any of these officers.

13. Objections settled to be included in report in certain circumstances: -

Objections which have been settled on the spot shall be included in the report if the irregularities are of a serious nature or point to any defect in procedure or error in principle.

14. Draft audit report to be shown to the Executive authority on the close of Audit:

Draft Audit reports of all institutions included in the Schedule shall be shown to the Executive authority of the respective institutions on the close of audit and proper acknowledgement shall be obtained in the draft audit report itself.

15. The form and the manner in which the accounts are to be prepared and presented for audit:-

- (1) (a) The annual accounts of a local authority /local fund prepared or caused to be prepared by the Executive authority under sub-section (1) of section 9 of the Act shall be in Form VI and VI (A) appended to these rules. The same shall contain the following details:-
- (a) the opening balance for the year showing the balance in each bank treasury account ;
 - (b) a statement of receipt and payment under each head of account ;
 - (c) the amount at the credit of the local authority/local fund at the end of the year showing the balance in each bank/treasury account;
 - (d) a statement showing the demand , collection and balance or revenue collection including arrear collection;
 - (e) a statement of investments made;

- (f) a list of grants received during the year;
 - (g) a list of loans availed;
 - (h) a statement showing the outstanding debts at the beginning of the year, repayments made during the year and outstanding debts at the end of the year; and
 - (i) a statement of assets and liabilities as on the close of the accounting year.
- (b) The annual account presented for audit by Panchayats, Municipal Councils and Municipal Corporations shall include:-
- (i) Statement of grants received and utilised:-
 - (ii) a statement of loans availed and utilised;
 - (iii) a statement showing the details of public works undertaken during the financial year concerned, amount expended for each work and balance of fund, if any, available;
 - (iv) the statement of grants and statement of loans shall be prepared in Form VI and VI (A) appended to these rules
- (c) The annual accounts presented for audit by the University shall include:-
- (i) a Demand Collection Balance Statement of examination fee collected by the Controller;
 - (ii) a Demand Collection Balance Statement of University Union fee and sports affiliation fee to be collected by the Principals of affiliated colleges and remitted to University fund: and
 - (iii) a Demand Collection Balance Statement of fees and other dues collected by the teaching departments of the University
- (2) Where the amount at the credit of a local authority/ local fund at the end of a year as per the pass book differ from the amount shown in the books of accounts maintained by the said local authority/local fund, a reconciliation statement shall be attached with the annual accounts presented for audit.
- (3) the accounts relating to a financial year shall be presented for audit within four months from the close of the financial year concerned : Provided that in cases where the accounting year followed by a local authority/ local fund differs from a financial year, the annual accounts of such institutions shall be presented for audit within four months from the close of the accounting year.
- (4) The proforma accounts and statements of expenditure relating to the grants sanctioned to the Universities by the University Grants Commission or the State Government or other Financial Agencies for specified schemes shall be presented for audit as the work relating to the scheme is finalised. In the case of continuing schemes, the accounts of such schemes shall be presented for audit as required by the Financing Agency.
- (5) In the case of grants sanctioned by the State committee of Science and Technology, the accounts relating to the research schemes shall be presented for audit as soon as the research work is finalised or the grant received is utilised as the case may be.
- (6) The Director shall have authority to require the preparation and presentation of any further statement of accounts which he considers necessary for the proper conduct of audit of accounts of a particular local authority/local fund.
- (7) The annual accounts or such other accounts due for audit shall be presented to the officers concerned as shown below:-
- (a) Accounts relating to the institutions To the head of concurrent audit wing where concurrent audit wings function
 - (b) Accounts of Hindu Religious and Charitable To the Deputy Director ,Hindu Endowment Institutions in Malabar and Religious Endowment Audit, Palakkad Kasargod area
 - (c) Other Institutions To the Deputy Director of the concerned district

16. Default in the preparation an presentation of annual accounts for audit:-

- (1) Proceedings in Court of law against an Executive authority who has not presented for audit the annual accounts of local authority /Local Fund concerned within the time limit specified under sub-section(1) of the section 9 of the Act, shall be carried on by the Joint Director /Senior Deputy Director/Deputy Director who is in charge of audit of accounts of the local authority /Local fund concerned . For initiating the proceedings such officer shall file a complaint in writing of the facts constituting the offence in the court having jurisdiction in the area in which the headquarters of the local authority/ local fund is situated.
- (2) The show cause notice under sub-section (3) of section 9 of the Act shall be issued by an officer not below the rank of Deputy Director who is in charge of audit of accounts of the institution concerned in Form VII appended to these rules.

17. Procedure to be followed when the annual accounts presented for audit are

defective/incomplete: -

The annual accounts of a local authority/ local fund presented for audit in a defective or incomplete manner shall be returned to the Executive authority concerned for rectification of the defects detected on scrutiny or for supplying omissions noticed. Such annual accounts shall be deemed to have been presented for audit only on the date of receipt of the annual accounts after rectification of the defects/ omissions pointed out by the audit.

18. Issue of Audit Report -

(1) As soon as practicable after the completion of audit, but not later than three months thereafter the auditor shall send to the Head of the local authorities / local funds concerned , a report on the accounts audited and examined by him and the copies of the report shall also be sent to the Controlling authorities /Government or as may be specified under the law governing the local fund. The report shall be, as concise as possible but shall contain all the relevant facts.

(2) The audit report shall be sent to the Head of the local authorities local funds concerned either in person or by registered post with acknowledgement due.

(3) When the audit report is delivered in person , dated acknowledgement of the Head of the local authorities / local funds for the receipt of the same shall be obtained in the transit book.

19. Form and contents of the audit reports:-

Unless otherwise provided in these rules, the audit of accounts of the local authorities / local funds shall be conducted by the auditors in such manner as may be specified by the Director . The instructions issued by the Director from time to time with regard to the form of audit report , drafting of audit paras, compilation of audit report, contents of the audit report, and the enclosures to the audit report shall be followed unless otherwise specified in these rules or in the Act. In the case of institutions which are bound to meet the audit charges under section19 of the Act and rule 24 of these rules , a separate para showing the computation of audit charges due may be incorporated in the audit report.

There shall be two separate parts in the audit reports.

(1) Part showing the details of clear cases of loss on receipt side in which shall be incorporated,

(i) cases in which the amount if any received which is required to be brought into account but has not been brought into account by any person;

(ii) the case of misappropriation of collections made; and

(iii) cases of any deficiency or loss of money due to short realisation/non-realisation of dues which appears to have been caused by the negligence or misconduct of any person.

(2) The part showing details of clear cases of loss payment side in which shall be incorporated.

(i) cases of misutilisation of funds;

(ii) cases of payments which appears to be contrary to law;

(iii) cases of any deficiency/loss of any property, stock etc;

(iv) cases of excess payment made and

(v) cases of avoidable expenditure;

20. Procedure for charge/surcharge proceedings:-

(1) The officer authorised to issue the report on the audit of accounts of a local authorities/local funds shall while issuing the further remarks under sub-rule (3) of rule 23 of these rules forward to the Director a proposal for charge / surcharge action in respect of the pending cases of losses pointed out in the audit report concerned . The charge / surcharge proposal shall be in Form VIII appended to these rules;

(2) On receipt of the proposals for charge/surcharge proceedings from the officer authorised to issue the audit report , the Director shall as early as practicable but before the completion of four months from the date of receipt of such proposals, issue, charge /surcharge notices to the officer(s) held responsible for the losses detected by the auditors.

(3) The charge / surcharge notices shall be in Form IX and IX (A) appended to these rules.

(4) The charge/ surcharge notices (in duplicate) along with extracts of the relevant objections in the audit report shall be communicated to the person against whom it is made by registered post with acknowledgement due.

(5) The duplicate copy of the charge/surcharge notice shall be returned , to the Director by the person receiving it, with his dated acknowledgement in proof of having received the notice.

(6) Copy of the charge/surcharge notice shall be issued to the Executive authority concerned.

(7) Unless the person served with a charge /surcharge notice remit to the Executive authority

concerned the amount involved in the notice and furnish the details thereon to the Director within two months, from the date of receipt of the notice, or furnish satisfactory explanations, such person shall be served with charge/surcharge certificate in Form X and X(A) appended to the rules, with copy to the Executive authority concerned.

(8) The report showing details of remittance of amounts involved in the charge/surcharge notices to be furnished by the person(s) responsible under sub-rule (7) above shall be forwarded to the Director through the Executive authority concerned. The Executive authority shall transmit the same to the Director with a certificate to the effect that the details furnished have been verified by him and found correct.

(9) The charge/surcharge certificate (in duplicate) shall be communicated to the person against whom it is made, by registered post with acknowledgement due.

(10) The duplicate copy of the charge / surcharge certificate shall be returned to the Director by the person receiving it with his/ her dated acknowledgement affixed on it.

(11) The charge / surcharge certificate shall be served on the persons responsible within a period of four months from the date of receipt of the charge/ surcharge notice by such person.

(12) The Director shall serve on the person responsible for any loss to a local authority/ local fund supplementary charge / surcharge notice or charge/surcharge certificate relating to the audit report if the circumstances so warrant.

(13) Every sum charge/ surcharged by the Director on any person shall be remitted by such person to the Executive Authority within one month from the date of receipt of such charge/ surcharge certificate, unless within that time such person files an application before the District Court against the decision of the auditor. Such amount if not so paid or such amount as the District Court shall declare to be due under sub-section (3) of section 16 of the Act shall be recoverable under the provisions of the Kerala Revenue Recovery Act, 1968 (15 of 1968) for the time being in force, as if it were arrears of public revenue due on land.

21. Auditor to name the persons responsible for the loss detected and the extent of responsible of such person:-

The person responsible and the extent of responsibility of such person for the loss detected by the auditor during the course of audit of accounts of a local authority/ local fund shall be fixed correctly by the time of audit by verifying the records concerned. The name(s) of the person(s) held responsible shall be incorporated in the audit reports as well as in the proposal for charge /surcharged action to be forwarded to the Director.

22. Executive authority to ascertain and intimate the addresses of the persons held responsible:-

As soon as the audit of accounts of a local authority / local fund is completed, the auditor shall require the Executive authority of the institution concerned to intimate the address of the persons held responsible for the losses detected in audit. The addresses of such persons shall be ascertained and intimated to the auditors by the Executive authority concerned within one month or a shorter period as may be required by the auditor.

23. Procedure to be followed after getting the report of Director under section 13.-

(1) On receipt of a report under section 13, the Executive authority concerned shall remedy the defects or irregularities pointed out in the report and send to the auditor within two months of receipt of report, a rectification report in regard to the defects or irregularities.

(2) On receipt of such rectification report, the auditor shall send within two months. 'Further remarks' to the Executive authority, with copies to the Officers to whom audit reports are issued. He shall either-(a) accept the intimation or explanation of the Executive authority and drop the objection; or(b) hold the defects or irregularities pointed out in the report and specify whether the amounts involved in such defects or irregularities should be charged / surcharged and if so, against whom.

(3) if no such rectification reports are received from the Executive authority within two months of receipt of the audit report, the auditor shall send a 'Further report' on expiry of the two months in the manner of further remarks and shall state in his report.

(i) whether the defects or irregularities can be regularised by any method.

(ii) whether they can be condoned by any authority, if not admitted of being regularised;

(iii) whether the amounts to which defects or irregularities relate, should be charged/surcharged/and if so against whom.

In the case of charge/surcharge mentioned in sub-rule (b) and item (iii) of sub-rule (c) charge/

surcharge proposals as contemplated in rule 24 of these rules shall be forwarded to the Director for further action.

24. Payment of charges for audit -

(1) Charges for audit of accounts mentioned in sub- section (1) of section 19 of the Act payable by all local authorities included in the schedule shall be 0.75 % of the annual income excluding debt head accounts and sums borrowed from SRO No. 18/98 Dt.7-1-98 Amended as 1% Government and other financing institutions.

(2) the collection of revenue by way of audit charges shall be a responsibility vested with the Local Fund Audit Department . For prompt and correct recording of the demand and collection of charges for audit from various institutions, necessary department institutions shall be issued from time to time.

(3) In order to adjust the charges for audit from the grants or other sums payable to local authority by Government under sub- section (3) of section 19 of Act, details of amount due by way of audit charges from such local bodies shall be reported to Government when proposals for grants or other sums due to the local bodies are recommended by Director , and as when required by Government.

25. Laying of Audit Report:-

The Director shall, not later than 30th 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 he Government.