

### 1. I. FUNCTIONING OF THE DEPARTMENT

#### A. Basic Functions

1. The basic function of the department is the audit of accounts of the institutions under its audit control by virtue of the Kerala Local Fund Audit Act 1994.
2. Proper Management of the Corpus of the various Charitable Endowments is also done by this department.
3. Matters relating to Financial administration of Local bodies and other auditee Institutions referred to this department by Government are also being attended to and remarks offered there of.
4. A consolidated report on accounts audited by the Director of Kerala State Audit Department in an year consisting of observations and serious irregularities detected is submitted to the Government to get its attention vide section 23 of the Kerala Local Fund Audit Act 1994 and Rules 25 of the Kerala Local Fund Audit Rules 1996.
5. The power to issue charge and surcharge certificate for the recovery of losses sustained by Local Fund Institutions as disclosed in audit is vested with the Director of Local Fund Audit vide section 16 of the Kerala Local Fund Audit Act 1994 and Rule 20 of the Kerala Fund Audit Rules 1996.
6. Detects irregular /illegal payments, waste or misappropriation of money.
7. Verify the stores and stock accounts.
8. Issuance of Audit Report.
9. Issue of further remarks/further reports of the audit report issued and issue of charge/surcharge proposal.
10. Preparation of report on financial soundness of the auditee Institution.
11. Approval of pay fixation of Panchayat /Municipal Employees/Employees of Cultural Institutions/Universities/Devasom Board/Housing Board etc.
12. Verification and recommendation of pensionary claim of Municipal Employees/Employees of Cultural Institutions/Universities/Devaswom Boards.

#### A. Details of Accounts Audited during 2013-14

Annual audit of accounts of 2010 institutions have been completed by this department, besides issuing audit notes and objection slips in the major concurrent audit Institutions during 2013-14.

### B. Audit Report Issued/Closed

A total of **2054** Audit reports/Audit notes were issued and **1325** Audit reports were also closed. **28346** number of Audit reports are pending closure as on 31.3.2014.

### C. Audit Certificates Issued

**2044** numbers of Audit Certificates were issued involving a total amount of Rs. **13342708863.7/-** during the year 2013-14 .

### D. Misappropriation and serious Irregularities

During the year, irregularities were noticed in Grama Panchayats, Block Panchayats, Municipalities, Corporations, Universities, Devaswoms etc. In addition to this misappropriation cases were noticed in some of the institutions.

### E. Pension Papers disposed off

The verification and certification of pensionary claims of Municipal employees, Employees of Development authorities, Corporations, Devaswom, HR&CE institutions, Universities, KSHB, SIEP, SIL etc are also done by the department. A total of 2841 Pension papers has been verified and certified by the department during 2013-14.

### 1. F. Result of Audit

The magnitude of the expenditure incurred by all the institutions which are subjected to audit during 2013-14 amount to Rs. **1076940.862** lakhs.

As a result of audit, transactions to the tune of Rs. **44750.19** lakhs were held under objection and Rs. **443373.02** lakhs disallowed.

### G. Audit Charge

The department earns revenue to Government in the form of audit fee from the auditee Institutions. An amount of Rs. **367079952.96/-** is pending collection towards audit charges at the end of 31.3.2014. An amount of Rs. **3858546** is demanded and Rs. **87.9/-** is collected during 2013-14 **18774735/-**

Orphanages and other charitable Institutions receiving grant from the Government are exempted from the payment of audit charges vide No. G.O.(Ms) 11/2002/Social Welfare Department dated: 7.5.2002. The District Tourism Promotion Council are not exempted from the payment of audit charges vide G.O.(Rt) 6458/2003/Fin. dated: 1.8.2003 whereas the District/Taluk Library Councils are exempted vide Government Lr. No. 34912/Estt. D1/Fin dated: 18.6.2002. Military Benevolent Fund and Flag Day Fund have been exempted from payment of Audit charges from 2008-09 onwards vide G.O (Ms.) No. 43/11/Fin.dated: 19.1.2011. Government have granted exemption to Kerala Police Welfare and Amenity Fund (Central) from the payment of Audit Charges with effect from 2004-2005 vide G.O. (P) 121/2005/ fin. dated: 15.3.2005 (SRO No. 245/2005), G.O.(P) 327/2005/Fin. dated: 16.7.2005 and G.O.(P) 561/2005/Fin. dated: 29.12.2005.

Government have exempted Local Self Government Institutions from payment of audit charges including arrears as per G.O.(P) No. 124/2012/LSGD dated: 10.5.2012.

Section 19 (4) of Kerala Local Fund Audit Act empowers this department to collect the arrears of audit charges if it were not paid within one year from the date of its becoming due and where no grant or sum is payable by the Government to the local authority by effecting the provisions of Kerala Revenue Recovery Act 1968.

### **H. Accounts pending submission to audit**

A total of **5864** accounts are pending submission to audit.

#### **1. I. Charge and Surcharge action**

The power to issue charge and surcharge certificate for the recovery of losses sustained by Local Fund Institutions as disclosed in audit is vested with the Director of Local Fund Audit vide Section (16) of the Kerala Local Fund Audit Act 1994 and Rule 20 of the Local Fund Audit Rule 1996. As per the rules the executive authority of Local bodies has to send a rectification report to the auditor within a period of 2 months of receipt of the audit report.

On receipt of the rectification report, the issuing authority has to issue further remarks within a period of 2 months and to forward charge and surcharge proposals to the Director of Local Fund Audit for pending items. In the case, where no rectification report has been furnished by the executive authority after the expiry of 2 months, the report issuing authority will issue further report to the executive authority and charge/surcharge proposals to the Director of Local Fund Audit.

Even though earliest efforts are being made to recover the losses through the issue of charge and surcharge certificates and recoup the losses mentioned in the audit reports of Local Self Government Institutions etc, the act of recoupment is time consuming and much tardy. It is prescribed in Section 16 (4) of the Kerala Local Fund Audit Act that every sum certified to be due from any person by the auditor under this Act shall be paid by such person to the Executive authority within one month after the intimation to him of the decision of the Director under within that time such person has filed an application before the District Court against the decision under sub section (3) and such amount if not so paid or such amount as the District Court shall declare to be due shall be recoverable under the provisions of the Kerala Revenue Recovery Act 1968 (Act 15 of 1968) for the time being in force as if it were an arrear of public revenue due on land. It is to be noted here that very little is being recouped through charge and surcharge

action.

As such during the year 2013-14, **12** number of charge certificates and **88** number of surcharge certificates has been issued and the total amount involved came to Rs.

**3,43,248**

/- and Rs.

**41,72,233**

/- respectively in which Rs.

**1,17,645**

/- has been recouped.

In addition to above **100** numbers of charge notices and **700** numbers of surcharge notices were issued during the year. The total amount involved came to Rs.

**72,93,042**

/- and Rs.

**19,86,36,988**

/- respectively. The amount recouped in case of charge notice was Rs.

**1,21,752**

/- and in case of Surcharge Notice was Rs.

**6,98,762**

/- respectively.

### 1. J. Charitable Endowment

There are 1317 Endowments vested with the Treasurer of Charitable Endowments, Kerala as on 31.3.2014 within the provisions of the Act. The total amount of corpus vested with the Treasurer of Charitable Endowments as on 31.3.2014 comes to Rs. **11,38,52,662/-**. During the year under report, a sum of Rs.

**17,54,300/-**

has been received by way of interest and a total amount of Rs.

**9,45,381/-**

released to various administrators on demand. An amount of Rs.

**8,06,00,000/-**

has been invested for amalgamated fund. Rs.

**90,03,744/-**

has been received as interest on various fixed deposits and Rs.

**50,00,000/-**

has been released for amalgamated fund meant for the welfare of Ex-service men.

### K. Local Fund Accounts Committee Reports

Local Fund Accounts Committee was constituted by Rule 261(G) and (4) of Rule of Procedure and Conduct of Business in the Kerala Legislative assembly vide Notification No. 27/Legn.2/2002/Leg. dated: 18.2.2003 and the first Local Fund Accounts Committee was constituted on 27.06.2003.

The Chairman of Local Fund Accounts Committee is Shri.Varkala Kahar and the members are as follows.

1. Shri.A.P.Abdullakutty
2. Shri.K.Achuthan
3. Shri.M.Chandran
4. Shri.K.K.Jayachandran
5. Shri.Mullakara Ratnakaran
6. Shri.N.Shamsudeen
7. Shri.K.Sivadasan Nair
8. Shri.P.SreeRamakrishnan
9. Shri.G.Sudhakaran
10. Shri.M.A.Waheed.

The main responsibility of the Committee is to examine the Consolidated Audit Reports of the accounts audited by the Director of Kerala State Audit Department which is laid annually before the Legislative Assembly. In addition to this, Committee also examines the Audit Report on Local Self Government Institutions submitted by the Comptroller and Auditor General of India by amending the Rule 261(G) of the rules of procedure and Conduct of Business in the Legislative Assembly.

Altogether the Honourable Local Fund Accounts Committee has considered the consolidated reports of accounts audited by the Director of Local Fund Audit for the years 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08,

2008-09, 2009-10, 2010-11, 2011-12.

20 sittings of the Local Fund Accounts Committee (2011-14) and the first meeting of the Local Fund Accounts Committee (2014-16) were held during the year 2013-14 and gave its recommendations for the smooth and proper functioning of the Local Self Government Institutions and other Institutions.

Local Fund Accounts Committee (2011-14) has submitted following reports before the Legislative Assembly during the year 2013-14.

Sl. No.

Year of Local Fund Accounts Committee

Report No.

Subject

Date

of submission to Legislative Assembly

1

2011-14

14

Report on Thiruvananthapuram Municipal Corporation

22.06.2013

2

2011-14

18

Report on Municipalities of Wayanad and Malappuram

09.04.2013

3

2011-14



19

Report on Kerala and Mahatma Gandhi University

09.04.2013

4

2011-14

20

Report on Kochi Corporation

09.05.2013

5

2011-14

21

Report on District Panchayats of Kottayam and Idukki

09.04.2013

6

2011-14

23

Report on Village Panchayats of Malappuram

23.01.2014

### 1. L. Settlement of objections

Sub rule (1) of the Rule 21 of the Kerala Panchayat Raj (Procedure for verification and audit of accounts) Rules 1997 envisages that the Executive authority of Grama Panchayats on the decision of the Panchayat should furnish a rectification report to the auditor after rectifying the irregularities and defects observed in the audit report with copy to the Government within 2 months of the date of receipt of audit report. In spite of the above statutory requirements follow up action on the part of the Local bodies for the settlement of objections raised in audit is not satisfactory resulting in huge accumulation of audit objections over the years. In the same manner as stated above, the Municipal Authorities are also required to furnish compliance report to the audit within two months.

### **M. General State of Accounts**

The standards of maintenance of the books of accounts of institutions which were subjected to audit during the year under report also remain far from the satisfactory as stated in the administration reports of previous years. Instructions from Audit in the successive audit reports of the institutions highlighting the need for the proper up keep of the books of accounts have not been complied with. Hence a proper picture about the state of funds of the auditee Institutions is not available. Due to non-submission of accounts for audit, the very purpose of accounting and auditing itself is defeated. The deficiency in the maintenance of books of accounts should be rectified to a considerable extent had regular and periodical inspections been conducted by the performance audit wing as stipulated in the concerned local body's Act.