

(13) 28.8.09

GOVERNMENT OF KERALA

Abstract

Rationalization of the annual income of the Local Bodies and Local Funds, and enhancement of audit fee payable to Local Fund Audit Department by the Local Bodies and Local Funds, from 0.5% to 1% of annual income - Superseding G.O (P) No.125/09/Fin dated 28.03.2009 - Orders issued.

FINANCE (ESTABLISHMENT-D) DEPARTMENT

G.O. (P) No.368/09/Fin.

Dated, Thiruvananthapuram, 28.08.2009.

Read: - 1. G.O (P) No.121/2005/Fin dated 15.10.2005
(SRO No.274/2005)

2. Letter No.LF.15839/R3/07 dated 28.09.2007 from the
Director of Local Fund Audit, Thiruvananthapuram.

3. G.O (P) No.125/2009/Fin dated 28.03.2009

ORDER

1. Government as per the Notification read as 1st paper above have amended sub rule (1) of Rule 24 of the Kerala Local Fund Audit Rules, 1996, by reducing the charges for audit of accounts mentioned in sub section (1) of Section 19 of the Kerala Local Fund Audit Act, 1994 payable by all local authorities included in the schedule to the Act from 1% to 0.5 % with effect from 15.03.2005. But even with the above reduction of audit fee there has been no substantive increase in audit fee collection.

2. The audit fee payable by Local Bodies is calculated at the rate of 0.75% / 0.5% of the amount of annual transactions of the respective Local Self Government Institutions. The Government also, vide its G.O(P) No.51/04/Fin dated 22.01.2004 while accepting the recommendation in the 3rd report of the Subject Committee VIII of the 11th Kerala Legislative Assembly, ordered that the arrears of audit fee due to Government from various Local Self Government Institutions will be adjusted from the monthly instalments of loan / grant released to them, invoking Section 19 (3) of the Kerala Local Fund Audit Act. In this context, the critical issue that arises is what constitutes the annual income of a Local Body or Local Fund.

3. At present, for computation of annual income of a Local Body, the total amount of annual transactions of the respective Local Bodies is taken, with regard to which the outstanding arrears of audit fee payable by Local Bodies are / have been estimated. But it is felt that Local Bodies should not be made to pay audit fee on the amount of annual transactions which they undertake for public good, i.e out of development and maintenance grants that they receive from the State Government as part of devolution of funds to them. These grants cannot be taken as annual income. The imposition of audit fee based on these grants thus does not seem to make sense as this work is essentially done by Local Bodies on the part of the State Government. In other words, the annual income of the Local Bodies should include only its own tax and non tax revenue and the general purpose grant that it receives from the Government for its traditional civil functions (general purpose grant being different from development and maintenance grants).

4. If Local Body's own tax and non-tax revenue and annual general purpose grant received by it from the State Government is taken as annual income, given this reduced size of their annual income, the rate at which charges for audit will have to be taken from Local Bodies should be 1% of such annual income instead of the present rate of 0.5%.

5. Local Funds have been defined in Section 2 (g) (i) and (ii) of Kerala Local Fund Act 1994. Local Funds in the schedule can be broadly classified into five groups. It is felt that grant received from Government plan and non plan by Local Funds should not be treated as Income for the purpose of audit fee to be computed. The Annual Income in respect of these Local Funds for the purpose of computation of Audit fee payable to Local Fund Audit Department should be reckoned as follows:-

Name of Local Fund	Components of Annual Income
1. Universities	a. Fees b. Consultancy charges
2. Devaswom Boards	a. Interest income b. Income from Commercial properties

3. Welfare Fund Boards	a. Usufructs b. Interest accrued/ earned on investments
4. Sports Council	a. Any capital / revenue receipt from any source other than grant from Government
5. Other Local Funds	a. Any capital / revenue receipt from any source other than grant from Government

6. The audit fee payable by Local Funds included in the schedule will also be 1% of the Annual Income as explained in para 5 above.

7. In order to give effect to this, it will be necessary to amend the Kerala Local Fund Audit Rules, 1996 and also to bring the matter to the notice of the Subject Committee of the Legislature. The new system of the audit fee payable by Local Bodies / Local Funds to Local Fund Audit Department will come into effect from a prospective date. Till such time the new system comes into effect, the audit fee will be realized from Local Bodies and Local Funds at the rates and practice followed till then, in suitable instalments. If arrears still persist, these will be adjusted against the monthly instalments of grant funds being given to Local Bodies / Local Funds.

8. The Local Self Government Department has agreed with the proposals stated above.

9. In the circumstances, Government is pleased to order the following:-

- i. The annual income of the Local Bodies and Local Funds for the purpose of computation of Audit fee would be as suggested in paras 3 and 5 above.
- ii. The audit fee payable to Local Fund Audit Department by all Local Bodies and Local Funds in the Schedule would be enhanced from existing 0.5% to 1% of annual income of a Local

Body / Local Fund with effect from a prospective date to be ordered by Government.

- iii. The arrears of audit fee prior to the date, to be ordered by Government as in (ii) above, will be realized from the Local Bodies and Local Funds at the rate and practice followed till then, in suitable instalments. If arrears still persist, these will be adjusted against the monthly instalments of grant funds being given to Local Bodies / Local Funds.

10. This Order is issued in supersession of the G.O (P) No.125/2009/Fin dated 28.03.2009.

11. Necessary amendments to sub rule (1) of Rule 24 of the Kerala Local Fund Audit Rules, 1996 to the above effect will be issued separately.

By order of the Governor.

L.C.GOYAL

ADDITIONAL CHIEF SECRETARY (FINANCE)

To

The Principal Accountant General (Audit), Kerala, Thiruvananthapuram
The Accountant General (A & E), Kerala, Thiruvananthapuram.
The GA (SC) Department vide item No.3610 of Council decision dated 19.08.2009

The Principal Secretary, Local Self Government (RD) Department

The Secretary, Local Self Government (Urban) Department

The Director of Treasuries, Thiruvananthapuram

The Director of Local Fund Audit, Thiruvananthapuram.

The Director of Panchayats, Thiruvananthapuram

The Director of Urban Affairs, Thiruvananthapuram

The commissioner for Rural Development, Thiruvananthapuram

All Local Self Government Institutions (through Director of Local Fund Audit)

All Local Bodies / Local Funds included in the schedule (through Director of Local Fund Audit)

Finance (SFC) Department

Stock file/Office Copy.

The Nodal Offices, WWW.finance.kerala.gov.in.

Forwarded/By Order,

Section Officer