

## **PREFACE**

This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

2. This Report sets out the results of audit under various sections of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971, in respect of financial assistance given to urban local bodies and panchayat raj institutions.

3. Matters arising from the Finance and Appropriation Accounts for the year 2005-06, together with other points arising out of audit of transactions of the Government of Tamil Nadu are included in a separate volume of the Report (Civil) of 2005-06.

4. The Report containing the observations arising out of audit of Statutory Corporations, Boards and Government Companies and the Report containing such observations on Revenue Receipts are presented separately.

5. The cases mentioned in this Report are among those which came to notice in the course of test check of accounts of local bodies during the year 2005-06, as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports on the Government of Tamil Nadu. Matters relating to the period subsequent to March 2006 have also been included wherever considered necessary.

## OVERVIEW

This Audit Report, dealing with the results of audit of accounts of local bodies, is presented in two parts, Part I - urban local bodies and Part II - panchayat raj institutions with six chapters. While two chapters contain the overview of the accounts and finances of the urban local bodies and panchayat raj institutions, the remaining four chapters contain three performance reviews, three mini reviews and 16 audit paragraphs. A synopsis of important audit findings is presented in this overview.

### *I Accounts and finances of urban local bodies*

There were six corporations and 152 municipalities in Tamil Nadu as on 31 March 2006. The urban population of the State as per the 2001 census was 2.75 crore comprising 44 *per cent* of the State population. While the growth rate of the total population in the State was 11 *per cent* during 1991-2001, it was 43 *per cent* for the urban population.

Out of 18 functions listed in the Twelfth Schedule of the Constitution to be devolved on urban local bodies, only 13 functions were transferred. Government is yet to transfer the remaining functions and the required functionaries for carrying out the transferred functions.

During 2005-06, 'own revenue' of all the urban local bodies amounted to Rs 1235.43 crore (Tax revenue: Rs 764.33 crore and non-tax revenue: Rs 471.10 crore). The percentage of revenues raised by the urban local bodies to their total receipts decreased from 47 in 2003-04 to 45 in 2005-06.

Property Tax is the major source of tax revenue of urban local bodies. While the percentage of collection of Property Tax by the municipalities declined from 53 to 50 during the period 2003-04 to 2005-06, in respect of town panchayats it increased from 59 in 2004-05 to 62 in 2005-06. In the case of Profession Tax, the percentage of collection during the period 2003-04 to 2005-06 was on an increasing trend in five corporations and town panchayats, but declined from 67 to 54 in municipalities.

The assigned revenue of urban local bodies out of the proceeds of Entertainment Tax in corporations (except Chennai) and in municipalities was on a declining trend during 2003-06 whereas the same relating to Chennai City Municipal Corporation was fluctuating. While the Stamp Duty Surcharge for five corporations declined since 2003-04, in respect of municipalities after increasing from Rs 86.57 crore in 2003-04 to Rs 96.24 crore in 2004-05, it decreased to Rs 78.95 crore in 2005-06.

Against the demand for user charges (mainly water charges) aggregating Rs 77.21 crore raised by the municipalities during 2005-06, Rs 53.04 crore (69 *per cent*) only were collected.

The Director of Local Fund Audit is the statutory auditor for all the urban local bodies. As of September 2006, while audit of two municipal corporations was pending from 2002-03, in three municipal corporations, it was pending from 2003-04. The audit in respect of most of the municipalities and town panchayats was pending from 2004-05.

Despite directions of the Public Accounts Committee for furnishing prompt replies to their pending recommendations arising from the audit paragraphs in the Reports of the Comptroller and Auditor General of India, 133 recommendations relating to nine reports for the years 1985-86 to 1996-97 of the Municipal Administration and Water Supply Department were pending as of March 2006.

(Paragraphs 1.1 to 1.12)

## **II Performance reviews in urban local bodies**

### **1 Computerisation of functions in Chennai City Municipal Corporation**

A review on computerisation of functions in Chennai City Municipal Corporation revealed the following:

- Due to deficient planning, the Integrated On-line Information Processing System initiated in 1997 could not be implemented and was abandoned in February 2004 after incurring an expenditure of Rs 1.60 crore.
- Incorrect classification of non-residential properties as residential or partly residential resulted in short assessment of Property Tax of Rs 41.79 crore.
- Demands of Rs 4.65 crore for Property Tax were not raised due to deficient systems and *ad hoc* procedures followed.
- Demand for Property Tax of Rs 52.39 crore was raised short due to deficiency in the computer system.
- Property Tax demand of Rs 33.70 lakh was reduced without corresponding collections due to lack of access controls.
- Short-assessment of Property Tax of Rs 1.21 crore was noticed but reasons could not be ascertained due to lack of audit trail.
- Absence of appropriate input controls led to a shortfall of 20.53 *per cent* in capture of birth data and 32.89 *per cent* in capture of death data. Data on births and deaths also lacked integrity due to non-availability of input controls.

(Paragraphs 2.1.6 to 2.1.11)

### **2 Functioning of health care system in urban local bodies**

A review on functioning of the health care system in urban local bodies revealed the following:

- The Urban Health Care Policy announced by the State Government in September 2002 has not yet been implemented. Due to non-adoption of the norms prescribed in the above policy, Urban Health Centres could not be established in needy urban local bodies and, as a result, identified surplus staff could not be redeployed.
- There was inadequate disease surveillance, in nine out of 14 test checked urban local bodies.

- The birth rate and maternal mortality rate were higher than the State's average in four and three of the test checked urban local bodies respectively.
- Ambattur and Dharmapuri Municipalities did not utilise Rs 29.55 lakh released by Government of India under Reproductive and Child Health Project II but kept the entire sum in their bank accounts.
- In the State, in 63 out of 102 municipalities (excluding Grade III) the post of Municipal Health Officer had not been created.

*(Paragraphs 2.2.7 to 2.2.10)*

### **3 Financial management in municipalities**

A review on financial management in municipalities revealed the following:

- Budgets were not drawn based on annual action plans by the municipalities and did not serve the purpose of expenditure control.
- Three municipalities diverted Rs 2.96 crore from Elementary Education Fund up to March 2004.
- Kumbakonam Municipality did not take action to collect Property Tax of Rs 5.98 crore as it failed to include 456 cases already decided under collectable demands.
- Installation of new turbines for augmenting water supply at a cost of Rs 58.43 lakh by Thanjavur Municipality did not result in intended savings in electricity charges.
- The revenue loss on account of the cost on quantity of water lost due to leakage was Rs 3.77 crore during 2003-06 in Pollachi Municipality.
- Failure of three municipalities to utilise the offer for conversion of high cost loans resulted in avoidable interest liability of Rs 3.54 crore.

*(Paragraphs 2.3.6 to 2.3.8)*

### **III Audit of transactions in urban local bodies**

Failure to verify the correctness of Surcharge on Stamp Duty transferred and to take action to claim the surcharge short-transferred, resulted in short-realisation of revenue of Rs 1.06 crore in 42 urban local bodies.

*(Paragraph 3.1.1)*

Failure of the Hosur Municipality to levy Property Tax and Education Tax on vacant land owned by the Tamil Nadu Housing Board resulted in non-realisation of revenue amounting to Rs 92.43 lakh for the period October 2003-April 2006.

*(Paragraph 3.1.2)*

Due to adoption of lower rates of tariff and lower number of rooms than actual for arriving at the gross income of lodging houses, the Chennai City Municipal Corporation has foregone revenue of Rs 92.01 lakh.

*(Paragraph 3.1.3)*

Construction of shopping complex, shops, godowns and stalls in remote areas resulted in non-realisation of anticipated revenue of Rs 54.47 lakh in Komarapalayam and Kathivakkam Municipalities.

***(Paragraph 3.1.4)***

Irregular handing over of land to a Club without authorisation by the Council, failure to resume the land and collect the lease rent periodically resulted in loss of revenue of Rs 34.26 lakh to Chennai City Municipal Corporation.

***(Paragraph 3.1.5)***

Two maternity and child welfare centres and a health post constructed by Chennai City Municipal Corporation at a cost of Rs 44.98 lakh could not be made functional as adequate public health care activities were already being provided by various Government and municipal agencies in the area.

***(Paragraph 3.2.1)***

A community hall of Chengalpattu Municipality remained unutilised for more than six years due to non-provision of basic amenities. Expenditure of Rs 16.39 lakh incurred on its construction was thus unfruitful.

***(Paragraph 3.2.2)***

Failure of Salem City Municipal Corporation to discharge high cost loans with soft loan assistance from Tamil Nadu Urban Finance Infrastructure Development Corporation Limited resulted in incurring of avoidable interest liability of Rs 4.31 crore.

***(Paragraph 3.3.1)***

Irregular utilisation of services of temporary Junior Assistants meant for deployment in field offices of Government departments by Madurai City Municipal Corporation resulted in an avoidable expenditure of Rs 87.14 lakh.

***(Paragraph 3.3.2)***

Failure of Usilampatti Municipality to collect the enhanced deposit of Rs 69.14 lakh and utilise the money towards Government loan resulted in avoidable liability of Rs 28 lakh.

***(Paragraph 3.3.3)***

By not deleting the provision for steel in the revised estimate for lining the riverbed, the Superintending Engineer of Salem City Municipal Corporation incurred avoidable expenditure of Rs 21.40 lakh.

***(Paragraph 3.3.4)***

Due to lack of concerted efforts, the Chennai City Municipal Corporation is yet to realise Rs 1.98 crore being the value of land transferred over ten years ago to Chennai Metropolitan Water Supply and Sewerage Board.

***(Paragraph 3.4.1)***

#### ***IV Accounts and finances of panchayat raj institutions***

There were 12,618 village panchayats, 385 panchayat unions and 29 district panchayats in the State as of March 2006.

Though all the 29 functions listed for devolution to panchayat raj institutions were reported as transferred, Government had not transferred the functionaries required for carrying out these functions.

The revenues of all the panchayat unions and village panchayats had increased during 2003-06 mainly due to the increased receipt of grants.

During 2005-06, own revenue of panchayat unions and village panchayats amounted to Rs 240.14 crore as against Rs 228.99 crore during 2004-05.

The Local Cess assigned to village panchayats and the Local Cess Surcharge assigned to panchayat unions had declined during 2005-06 as compared to 2003-04, mainly due to waiver of land revenue because of drought. While the Entertainment Tax assigned to panchayat unions declined, the same assigned to village panchayats during 2003-06 was fluctuating. The Stamp Duty Surcharge assigned to village panchayats during the same period was also fluctuating. The Director of Rural Development and Panchayat Raj had not ascertained the specific reasons for the decline/fluctuation of assigned revenues from the concerned departments *viz.*, Commercial Tax and Registration Departments.

The expenditure incurred by all the three tiers showed a rising trend during 2003-06.

The envisaged data base creation in panchayat raj institutions was only partial. The Director of Local Fund Audit is the statutory auditor for the district panchayats and panchayat unions. The village panchayats were audited by the Deputy Block Development Officers of the concerned panchayat unions. The audit of accounts of district panchayats and panchayat unions was pending for 2005-06.

Despite directions of the Public Accounts Committee for furnishing prompt replies to the pending recommendations arising out of the discussion of the Reports of the Comptroller and Auditor General of India, 240 recommendations of 10 Audit Reports relating to the period 1982-83 to 1996-97 were pending final settlement for want of required particulars from the Rural Development Department.

*(Paragraphs 4.1 to 4.9)*

## **V Performance reviews in panchayat raj institutions**

### **1 Distribution and utilisation of local bodies incentive**

The State Government released local bodies incentive to the local bodies which registered increased collection in small savings in the previous year. A review of distribution and utilisation of the incentive revealed the following:

- Rupees 9.60 crore was allocated to ineligible districts.
- The local bodies utilised Rs 3.49 crore for new works instead of on repair works.
- Two districts spent Rs 47.19 lakh on ineligible items of work.
- Out of the incentive released during 2001-06, Rs 2.36 crore was kept unutilised.

*(Paragraph 5.1.5)*

## **2 State Finance Commission grants to Coimbatore, Thanjavur and Vellore District Panchayats**

As per the recommendation of the Second State Finance Commission, the State Government adopted the ratio of 47:45:8 for devolution of funds to village panchayats, panchayat unions and district panchayats. A review of allocation and utilisation of the above grants revealed the following:

- As the ratio for distribution of grant recommended by the Second State Finance Commission was not adopted there was short-release of grant of Rs 5.50 crore to Coimbatore District during 2002-06.
- There was delay of more than a month in release of grant in 24 *per cent* of the releases from Director of Rural Development to Collectors and in 25 *per cent* of the releases from Collectors to district panchayats.
- Though there was delay of more than three months in respect of 38 works executed, no penalty was levied on the contractors.

*(Paragraph 5.2.5)*

## **3 Utilisation of local body grants in 24 panchayat unions**

Government of India released grants to panchayat raj institutions during 2000-05 based on the recommendations of the Eleventh Finance Commission. The grants were to be distributed to village panchayats and panchayat unions as per the recommendations of the State Finance Commission. A review of release and utilisation of the grants revealed the following:

- The State Government did not adopt the formula recommended by the State Finance Commission for distribution of the grants.
- The local bodies spent Rs 11.23 crore on ineligible items of work.

*(Paragraph 5.3.6)*

## **VI Audit of transactions in panchayat raj institutions**

Due to deficient assessment of demand, 34 community halls constructed in five panchayat unions at a cost of Rs 1.03 crore remained largely unused.

*(Paragraph 6.1.1)*

Failure of Kuttalam Panchayat Union in providing essential facilities resulted in a community hall renovated at a cost of Rs 46.60 lakh remaining unutilised for more than five years.

*(Paragraph 6.1.2)*

Advances of Rs 2.97 crore drawn from the General Fund by four panchayat unions in Tiruchirappalli District were pending adjustment, of which Rs 2.05 crore was pending for more than five years.

*(Paragraph 6.2.1)*

Funds amounting to Rs 2.94 crore meant for the Empowerment and Poverty Reduction Programme were not utilised in three District Rural Development Agencies and Panchayat Unions.

***(Paragraph 6.2.2)***



**PART I**  
**URBAN LOCAL BODIES**

---

**CHAPTER I**  
**AN OVERVIEW OF THE**  
**ACCOUNTS AND FINANCES OF**  
**URBAN LOCAL BODIES**

## CHAPTER I

### AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

#### Highlights

Out of 18 functions listed for devolution to urban local bodies as per Seventy-fourth Constitutional Amendment, 13 functions were transferred. Government is yet to transfer functionaries for carrying out the functions already transferred.

No nodal agency exists for monitoring submission of accounts and for their consolidation.

Collection of property tax was only between 50 and 53 per cent in municipalities and municipal corporations and between 59 and 62 per cent in town panchayats.

The audit of the accounts of most of the municipalities and town panchayats was pending from the year 2004-05. While the audit of two and three municipal corporations was pending due to submission of defective accounts, for the years 2002-03 and 2003-04 respectively, audit is yet to be taken up for all the six municipal corporations for the years 2004-05 and 2005-06.

#### 1.1 Introduction

**1.1.1** Consequent to the Seventy-fourth amendment of the Constitution, the State Government amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to urban local bodies in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

**1.1.2** The number of urban local bodies at each level as on 31 March 2006 is given below along with the average population covered by each type of urban local body, as per the 2001 census.

|                    |                              | Number of local bodies | Average population covered per local body (as per 2001 census) |
|--------------------|------------------------------|------------------------|--|
| Urban local bodies | Municipal corporations       | 6                      | 13,18,810  |
|                    | Municipalities               | 152                    | 80,319   |
|                    | Town panchayats <sup>1</sup> | 561                    | 15,672   |

An overview of the accounts and finances of urban local bodies is presented in this Chapter. A similar overview of the finances of panchayat raj institutions (PRIs) is presented in a separate Chapter.

<sup>1</sup> These town panchayats for the period from June 2004 to July 2006 were reclassified as special village panchayats.

**1.1.3** With a view to enabling town panchayats (TPs) to access Central funding under Rural Development Programmes, Government reclassified (June and July 2004), 561 out of 611 TPs as special village panchayats. However, subsequently in July 2006, these 561 special village panchayats have been reclassified again as TPs. The balance 50 TPs were simultaneously upgraded as Third Grade municipalities. The urban population of the State as per the 2001 census was 2.75 crore constituting 44 *per cent* of the total State population (6.24 crore). While the decadal growth rate of total population was 11 *per cent* during 1991-2001, the urban population grew at 43 *per cent*.

**1.1.4** The municipalities and town panchayats are classified into different grades based on the annual income as follows:

| Category of ULB | Grade           | Annual income  | Number     |
|-----------------|-----------------|--|------------|
| Municipalities  | Special grade   | Above Rs 5 crore   | 13         |
|                 | Selection grade | Rs 2 crore and above but below Rs 5 crore                    | 28         |
|                 | First grade     | Rs 1 crore and above but below Rs 2 crore                    | 36         |
|                 | Second grade    | Below Rs 1 crore   | 25         |
|                 | Third grade     | (Erstwhile town panchayats with population exceeding 30,000) | 50         |
|                 | <b>Total</b>    |  | <b>152</b> |
| Town panchayats | Special grade   | Above Rs 20 lakh   | 13         |
|                 | Selection grade | Above Rs 16 lakh   | 245        |
|                 | Grade I         | Above Rs 8 lakh  | 221        |
|                 | Grade II        | Above Rs 4 lakh  | 82         |
|                 | <b>Total</b>    |  | <b>561</b> |

## 1.2 Administrative arrangements

**1.2.1** The overall administration of urban local bodies (ULBs) vests with the Secretary to Government, Municipal Administration and Water Supply (MAWS) Department at Government level. An organisational chart on the administration of ULBs is given in **Appendix I**.

The Mayor is the elected representative of the Corporation and a Chairperson is elected for each municipality.

## 1.3 Accounting arrangements

**1.3.1** Accrual-based system of accounting is being followed in all municipal corporations, municipalities and town panchayats, as per the orders of the Government of Tamil Nadu.

**1.3.2** Apart from the General Fund Account, the following accounts are maintained under the accrual-based system of accounting by all the municipalities, five municipal corporations (excluding Chennai) and town panchayats:

- Revenue Fund and Capital Fund,
- Water Supply and Drainage Fund (except town panchayats),
- Elementary Education Fund (except town panchayats) and
- Provident Fund Account (by town panchayats only).

The cash balance of each of the above funds is maintained in a separate bank account.

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund.

### **1.3.3 Database formats**

The State Government accepted (February 2005) the database formats on finances of urban local bodies approved by the Comptroller and Auditor General of India and directed that they be adopted by all the ULBs with effect from 1 April 2004. The Commissioner of Municipal Administration (CMA) stated (March 2007) that a web-based software was designed and developed based on the approved format and launched during January 2006 after testing. The CMA also instructed all the Commissioners to implement the same from the financial year 2005-06 after the completion of audit.

## **1.4 Audit arrangements**

**1.4.1** The Director of Local Fund Audit (DLFA) is the statutory auditor for ULBs (including town panchayats). Fifty *per cent* of the actual cost of audit<sup>2</sup> of DLFA is paid by the ULBs out of the Municipal fund. The municipal corporations and municipalities were yet to pay Rs 6 crore towards audit fees as of March 2006. Year-wise details are given in **Appendix II**.

**1.4.2** The Principal Accountant General (PAG) audits the ULBs under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Further, PAG provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu order of March 2003.

## **1.5 Devolution of functions, functionaries and funds**

In terms of the Seventy-fourth Amendment to the Constitution of India (June 1993), out of the 18 functions to be devolved on the municipalities and municipal corporations, Government stated (November 2006) that 10

---

<sup>2</sup> As per G.O. Ms. No. 62 dated 17.1.1994 of Finance (Local Fund) Department.

functions were statutory and were already vested in the ULBs while three other functions were transferred after the enactment of the Seventy-fourth amendment. In respect of Chennai City Municipal Corporation, out of 13 functions, water supply for domestic, industrial and commercial purposes was vested with Chennai Metropolitan Water Supply and Sewerage Board. In respect of town panchayats, 12 out of 18 functions were transferred. Transfer of the remaining functions to these local bodies was stated to be under the consideration of the State Government (**Appendix III**).

Urban planning including town planning was one of the functions reported as transferred to the ULBs. It was seen during audit that while the ULBs were delegated with powers to accord planning permission for residential buildings upto 200 sq.m. (ground floor and first floor) and commercial buildings upto 100 sq.m., all other powers of development such as zone regulation usage, parameters of development, detailed development plan scheme and layout conditions were still with the Town and Country Planning Department under the State Government.

Government in the Finance Department stated (November 2006) to Audit that transfer of functionaries is a major problem faced by Government, which could only be solved in a phased manner in due course of time. Government is yet to transfer functionaries to ULBs (November 2006).

Government also reported that plan and non-plan discretionary grants were being transferred to local bodies outside State Finance Commission devolution. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc., entrusted to local bodies. The local bodies were also empowered to revise and levy local taxes such as Property/House Tax, Professional Tax based on the recommendations of the State Finance Commission (SFC) as accepted by the Government and as per the Local Body Acts.

Based on the announcement made on the floor of Legislative Assembly on 11 August 2006, Government ordered (February 2007) the constitution of a High Level Committee under the Chairmanship of the Minister for Rural Development and Local Administration in January 2007 for examining further devolution of powers and responsibilities to the ULBs and to give suitable recommendations. Government further stated that after the receipt of its recommendations, further devolution of powers to the local bodies would be considered.

## **1.6 Preparation of budget**

The Second State Finance Commission (SSFC), in its Report, among other things, had stated that in the case of ULBs, detailed guidelines regarding preparation and presentation of the budget have been enumerated in Sections 70 and 71 of the Tamil Nadu Urban Local Bodies Act, 1998 and reiterated those guidelines as their recommendations. Though the operation of the whole of the said Act 1998 was suspended by Government in August 2000 through an Ordinance, the Government had accepted the above recommendations of the SSFC and included them in the Action Taken Report presented by the Finance Department in the Legislative Assembly. The CMA, when consulted by Government, had reported that the provisions made in the existing Tamil

Nadu District Municipalities Act, 1920 regarding preparation of budget by the municipalities was insufficient and requested the Government to issue fresh orders in this regard. Based on this, Government in the Municipal Administration and Water Supply Department, issued (December 2005) fresh instructions to all the municipalities for the preparation and presentation of the annual budget, duly prescribing the provisions and procedures to be adopted.

The preparation of the budget in certain selected municipalities was reviewed among other functions, under “Financial management in municipalities” and certain observations noticed are included under Paragraph 2.3.1

## 1.7 Source of revenue

**1.7.1** Own revenue resources of ULBs (including town panchayats) comprise tax and non-tax revenues realised by them. Property Tax is the major source of tax revenue. Other resources comprise (a) funds released by the State Government based on the recommendation of SFC and (b) loans obtained by them for implementation of various schemes relating to urban development, water supply, roads, etc., and (c) Government of India grants released (i) on the basis of Central Finance Commission recommendations and (ii) for implementation of specific schemes including poverty alleviation programmes etc. A chart depicting various sources of revenues of ULBs is given in **Appendix IV**.

## 1.8 Receipts and expenditure of urban local bodies

**1.8.1** A consolidation of audited accounts of all the ULBs in the State is essential for accurate presentation of a comprehensive picture of the finances of the ULBs. There is no nodal agency to monitor the submission of accounts and its consolidation which is a major shortcoming.

**1.8.2** The details of receipts and expenditure (provisional) of ULBs (including town panchayats) during 2003-06, as reported by the CMA, Chennai City Municipal Corporation and Director of Town Panchayat (DTP) are given below in a table. However, the accuracy of these figures could not be authenticated in the absence of data compiled from the audited accounts of the ULBs by the Department/Government.

(Rupees in crore)

|                                    | 2003-04        |                | 2004-05        |                | 2005-06        |                |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                    | Receipts       | Expenditure    | Receipts       | Expenditure    | Receipts       | Expenditure    |
| Chennai City Municipal Corporation | 611.81         | 573.99         | 588.99         | 643.63         | 654.61         | 727.41         |
| Other municipal corporations       | 377.67         | 365.39         | 409.57         | 369.89         | 463.77         | 488.12         |
| Municipalities                     | 888.93         | 946.31         | 924.97         | 906.32         | 1029.14        | 935.21         |
| Town panchayats                    | 492.45         | 310.72         | 476.03         | 461.05         | 602.94         | 479.46         |
| <b>Total</b>                       | <b>2370.86</b> | <b>2196.41</b> | <b>2399.56</b> | <b>2380.89</b> | <b>2750.46</b> | <b>2630.20</b> |

The data in the above table reveal the following:

While the total receipts of municipalities, five municipal corporations and town panchayats showed an increasing trend during 2003-06, the receipts of Chennai City Municipal Corporation which had decreased from Rs 611.81 crore in 2003-04 to Rs 588.99 crore in 2004-05 increased to Rs 654.61 crore in 2005-06 mainly because of the increase in assigned revenue and Central Finance Commission grant. Similarly the receipts of town panchayats decreased from Rs 492.45 crore in 2003-04 to Rs 476.03 crore in 2004-05 mainly because of decline in the receipt of grants and loans during 2004-05. However, the total receipts of town panchayats increased steeply to Rs 602.94 crore in 2005-06 mainly because of the increase in grants and assigned revenue.

**1.8.3** The component-wise details of receipts and expenditure are given in the succeeding paragraphs.

## **1.9 Receipts of urban local bodies**

### **1.9.1 Own revenue realised**

Details of own revenue realised by ULBs (including town panchayats) during 2003-06 as furnished by the CMA are given below:

(Rupees in crore)

| Category of ULB                        | 2003-04       |                            |                | 2004-05       |                            |                | 2005-06       |                            |                |
|--|---------------|----------------------------|----------------|---------------|----------------------------|----------------|---------------|----------------------------|----------------|
|  | Tax           | Non-tax and other revenues | Total          | Tax           | Non-tax and other revenues | Total          | Tax           | Non-tax and other revenues | Total          |
| Chennai City Municipal Corporation (1) | 236.88        | 50.69                      | 287.57         | 267.42        | 54.22                      | 321.64         | 272.82        | 65.81                      | 338.63         |
| Other municipal corporations (5)       | 111.82        | 84.06                      | 195.88         | 115.87        | 89.50                      | 205.37         | 125.53        | 98.24                      | 223.77         |
| Municipalities                         | 222.12        | 179.40                     | 401.52         | 238.78        | 191.83                     | 430.61         | 250.36        | 190.82                     | 441.18         |
| Town panchayats                        | 105.73        | 117.69                     | 223.42         | 113.42        | 117.79                     | 231.21         | 115.62        | 116.23                     | 231.85         |
| <b>Total</b>                           | <b>676.55</b> | <b>431.84</b>              | <b>1108.39</b> | <b>735.49</b> | <b>453.34</b>              | <b>1188.83</b> | <b>764.33</b> | <b>471.10</b>              | <b>1235.43</b> |

The percentage of own revenue of the ULBs to total receipts decreased from 47 per cent in 2003-04 to 45 per cent in 2005-06. Details of own revenue of various categories of local bodies revealed that in respect of five municipal corporations, the percentage of own revenue to total receipts decreased from 52 per cent in 2003-04 to 48 per cent in 2005-06 and that of Chennai City Municipal Corporation increased from 47 per cent in 2003-04 to 52 per cent in 2005-06.

### **1.9.2 Tax revenue**

Property Tax is the major source of tax revenue of ULBs. Some of the other significant components of tax revenue are Profession Tax, Company Tax and Advertisement Tax.

### 1.9.3 Property Tax

The position of cumulative demand (including arrears), collection and balance of Property Tax during the last three years viz., 2003-04 to 2005-06 in the municipalities and municipal corporations (except Chennai City Municipal Corporation), as reported by CMA and DTP, is given below:

(Rupees in crore)

|   |         |              | Demand        | Collection        | Balance       |
|---|---------|--------------|---------------|-------------------|---------------|
| Municipalities                                  | 2003-04 | Arrear       | 135.72        | 61.53(45)         | 74.19         |
|   |         | Current      | 224.95        | 131.32(58)        | 93.63         |
|   |         | <b>Total</b> | <b>360.67</b> | <b>192.85(53)</b> | <b>167.82</b> |
|   | 2004-05 | Arrear       | 167.82        | 70.75(42)         | 97.07         |
|   |         | Current      | 233.15        | 139.52(60)        | 93.63         |
|   |         | <b>Total</b> | <b>400.97</b> | <b>210.27(52)</b> | <b>190.70</b> |
|   | 2005-06 | Arrear       | 190.70        | 83.15(44)         | 107.55        |
|   |         | Current      | 250.67        | 136.35(54)        | 114.32        |
|   |         | <b>Total</b> | <b>441.37</b> | <b>219.50(50)</b> | <b>221.87</b> |
| Five municipal corporations (excluding Chennai) | 2003-04 | Arrear       | 94.55         | 27.16(29)         | 67.39         |
|   |         | Current      | 98.92         | 75.69(77)         | 23.23         |
|   |         | <b>Total</b> | <b>193.47</b> | <b>102.85(53)</b> | <b>90.62</b>  |
|   | 2004-05 | Arrear       | 90.62         | 25.65(28)         | 64.97         |
|   |         | Current      | 109.54        | 78.14(71)         | 31.40         |
|   |         | <b>Total</b> | <b>200.16</b> | <b>103.79(52)</b> | <b>96.37</b>  |
|   | 2005-06 | Arrear       | 96.37         | 40.40(42)         | 55.97         |
|   |         | Current      | 128.16        | 72.35(56)         | 55.81         |
|   |         | <b>Total</b> | <b>224.53</b> | <b>112.75(50)</b> | <b>111.78</b> |
| Town panchayats                                 | 2003-04 | <b>Total</b> | <b>72.38</b>  | <b>42.76 (59)</b> | <b>29.62</b>  |
|   | 2004-05 | <b>Total</b> | <b>75.11</b>  | <b>44.15 (59)</b> | <b>30.96</b>  |
|   | 2005-06 | <b>Total</b> | <b>75.77</b>  | <b>46.94 (62)</b> | <b>28.83</b>  |

(Break-up details for the demand, collection and balance were not furnished by the DTP)

The above position indicates that in terms of percentage of Property Tax collected *vis-à-vis* that demanded, the performance of municipalities and five municipal corporations was the same. The percentages of collection compared to the total demand during the last three years in these bodies were 53, 52 and 50 respectively, and thus on a declining trend. Further scrutiny of data given revealed that

- in municipalities, the percentage of collection against arrear demands was relatively poor and ranged only between 42 and 45, whereas the percentage of collection against current demand was between 54 and 60 during the period 2003-06 and
- in five municipal corporations, the percentage of collection of arrear demand was poor as compared to the percentage of collection of current demand. During audit it was noticed that the CMA had been holding frequent meetings with the Commissioners of all the five



municipal corporations and municipalities to monitor and improve the collection of Property Tax by them in addition to the monthly review meetings conducted by the RDMA in their regions. Seven officers of Commissionerate of Municipal Administration had been nominated as Zonal (Nodal) Officers for supervising the entire activities of ULBs including tax collection. The absence of any tangible progress indicates that such meetings did not have the desired impact as arrears of Property Tax due for collection in municipalities and municipal corporations actually increased during 2003-06.

- In town panchayats, the percentage of collection increased from 59 in 2004-05 to 62 in 2005-06.

The CMA stated (December 2006) that the main reason for poor collection was the litigation in Courts relating to assessment of Property Tax, non-payment of Property Tax by State Government departments resulting in mounting arrears and the involvement of the field staff of ULBs in urgent works like election and flood relief works during 2005-06. The CMA further stated that necessary instructions had been issued in April 2006 to identify the defaulters and issue warrant notices for collecting the arrears and all the Regional Directors were instructed to review the collection of arrears during their monthly review meetings.

The Commissioner, Chennai City Municipal Corporation intimated that Rs 206.61 crore, Rs 220.55 crore and Rs 218.07 crore were collected towards Property Tax during the last three years 2003-04 to 2005-06. However, no details for the demand issued during these three years and the balance at the end of each year (both for arrear and current demands) were furnished to Audit (December 2006).

In response to an audit enquiry, the DTP stated (December 2006) that no periodical meetings with the Executive Officers of town panchayats were conducted so far, for discussing the collection of revenues including tax revenues. Such periodical meetings are necessary for monitoring the extent of revenues realised and for taking further action in collecting the revenue.

#### 1.9.4 Profession Tax

The position of demand (inclusive of arrears), collection and balance of Profession Tax as reported by CMA and DTP during the last three years are given below:

(Rupees in crore)

| Year    | Chennai City Municipal Corporation |       |    | Other municipal corporations (except Chennai) |           |      | Municipalities |            |       | Town panchayats |           |      |
|---------|------------------------------------|-------|----|---|-----------|------|----------------|------------|-------|-----------------|-----------|------|
|         | D                                  | C     | B  | D   | C         | B    | D              | C          | B     | D               | C         | B    |
| 2003-04 | NA                                 | 29.48 | NA | 13.94   | 8.97(64)  | 4.97 | 43.97          | 29.37 (67) | 14.60 | 18.58           | 14.33(77) | 4.25 |
| 2004-05 | NA                                 | 46.22 | NA | 17.29   | 12.08(70) | 5.21 | 48.35          | 28.51 (59) | 19.84 | 20.19           | 16.54(82) | 3.65 |
| 2005-06 | NA                                 | 54.25 | NA | 17.75   | 12.78(72) | 4.97 | 57.65          | 30.86 (54) | 26.79 | 21.61           | 18.20(84) | 3.41 |

(D: Demand, C: Collection, B: Balance, NA: Not Available)

(Figures in brackets indicate the percentage of collection during the year)

The above data clearly reveal that the percentage of collection of Profession Tax by five municipal corporations and town panchayats was on the increase while for municipalities it declined from 67 in 2003-04 to 54 in 2005-06.

The Town Panchayats, Municipalities and Municipal Corporations (Collection of Tax on Professions, Trades, Callings and Employments) Rules, 1999 require all these ULBs to maintain a master register containing details relating to traders, professionals and employers within their municipal limits. The failure of the Chennai City Municipal Corporation to maintain such a register resulted in demand notices not being issued.

### 1.9.5 Non-tax revenue

Non-tax revenue of ULBs includes fees from building licence, market, survey, parking, encroachment, bays in bus stand, slaughter house, cart stand, fishery rights, etc.

The position of demand, collection and balance of non-tax revenue during the last three years in respect of municipalities, five municipal corporations and town panchayats, as reported by CMA and DTP is given below:

**(Rupees in crore)**

| Year    | Municipalities |                |       | Five municipal corporations (excluding Chennai) |               |       | Town panchayats |               |       |
|---------|----------------|----------------|-------|---|---------------|-------|-----------------|---------------|-------|
|         | D              | C              | B     | D   | C             | B     | D               | C             | B     |
| 2003-04 | 154.39         | 109.71<br>(71) | 44.68 | 32.37   | 21.97<br>(68) | 10.40 | 117.69          | 99.18<br>(84) | 18.50 |
| 2004-05 | 160.36         | 114.40<br>(71) | 45.96 | 41.57   | 24.83<br>(60) | 16.74 | 117.79          | 98.26<br>(83) | 19.53 |
| 2005-06 | 171.64         | 117.64<br>(69) | 54.00 | 45.70   | 26.15<br>(57) | 19.55 | 116.23          | 98.09<br>(84) | 18.14 |

(D: Demand, C: Collection, B: Balance)

The percentage of collection of non-tax revenues both by municipalities and five municipal corporations was on the decline. Consequently, the quantum of pending non-tax revenue at the end of each year during 2003-06 increased. In respect of town panchayats, the percentage of collection after decreasing from 84 to 83 *per cent* in 2004-05, again increased to 84 *per cent* in 2005-06.

Rupees 170.72 crore were collected as non-tax revenue by Chennai City Municipal Corporation during 2003-06. The break-up details for the collected non-tax revenue were not furnished by the Chennai City Municipal Corporation.

The CMA, to increase the collection of both tax and non-tax revenues, had issued orders (December 2006) that the Commissioners of municipalities have to fix daily/monthly target to field officers for collecting the dues and to have weekly reviews to enhance the progress of collection.

### 1.9.6 Assigned revenue

A portion of the proceeds arising from (a) Entertainment Tax (ET) and (b) Stamp Duty Surcharge on transfer of property (SS) are assigned to ULBs. The amounts reported as assigned to ULBs during 2003-06 as reported by CMA, Commissioner, Chennai City Municipal Corporation and DTP are shown below:

(Rupees in crore)

| Category of ULBs                   | 2003-04 |        |        | 2004-05 |       |        | 2005-06 |        |        |
|------------------------------------|---------|--------|--------|---------|-------|--------|---------|--------|--------|
|                                    | ET      | SS     | Total  | ET      | SS    | Total  | ET      | SS     | Total  |
| Chennai City Municipal Corporation | 6.42    | 112.75 | 119.17 | 20.09   | 75.27 | 95.36  | 13.06   | 105.12 | 118.18 |
| Other municipal corporations       | 14.06   | 48.02  | 62.08  | 13.96   | 41.67 | 55.63  | 7.27    | 35.76  | 43.03  |
| Municipalities                     | 24.42   | 86.57  | 110.99 | 18.77   | 96.24 | 115.01 | 15.92   | 78.95  | 94.87  |
| Town panchayats                    | *       | *      | 89.68  | *       | *     | 90.49  | *       | *      | 112.31 |

\* Break-up details not made available

The above table shows that the proceeds of ET in municipal corporations (except Chennai) and in municipalities were on a declining trend since 2003-04. No specific reasons for the decline in ET were furnished by the CMA (November 2006). Similarly, the assigned SS for the five municipal corporations was on a declining trend since 2003-04 and the decline was attributed by CMA to reduction in the rate of surcharge from five to two *per cent* with effect from November 2003. In respect of municipalities, the SS after increasing from Rs 86.57 crore in 2003-04 to Rs 96.24 crore in 2004-05, declined again to Rs 78.95 crore in 2005-06. No specific reasons were given for this decline.

### 1.9.7 Grants and loans released to local bodies

Apart from the devolution-grants<sup>3</sup> based on the recommendations of SSFC, various grants were given to ULBs by the Central and State Government for implementation of schemes under Municipal Urban Development Fund (MUDF), Integrated Development of Small and Medium Towns, Integrated Urban Development Programme, National Slum Development Programme (NSDP), National River Conservation Programme, Swarna Jayanthi Shahari Rozgar Yojana (SJSRY), etc. Besides, loans were also obtained by ULBs from Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) and Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) for these schemes.

The assistance provided by way of grants and loans to ULBs during 2003-06, as compiled and reported by the CMA and DTP, are given below:

<sup>3</sup> SSFC grants to the extent of actual receipts after adjustment.

(Rupees in crore)

| Year    | Chennai City Municipal Corporation |       |        | Other municipal corporations |       |        | Municipalities |       |        | Town panchayats |       |        |
|---------|------------------------------------|-------|--------|------------------------------|-------|--------|----------------|-------|--------|-----------------|-------|--------|
|         | Grants                             | Loans | Total  | Grants                       | Loans | Total  | Grants         | Loans | Total  | Grants          | Loans | Total  |
| 2003-04 | 139.75                             | 65.32 | 205.07 | 109.17                       | 7.32  | 116.49 | 308.22         | 71.26 | 379.48 | 168.97          | 10.38 | 179.35 |
| 2004-05 | 156.59                             | 15.40 | 171.99 | 144.49                       | 4.08  | 148.57 | 318.25         | 61.10 | 379.35 | 150.45          | 3.88  | 154.33 |
| 2005-06 | 159.70                             | 38.10 | 197.80 | 173.40                       | 23.57 | 196.97 | 436.81         | 56.28 | 493.09 | 255.97          | 2.81  | 258.78 |

The CMA stated (November 2006) that the utilisation certificates for grants up to 2003-04 had been issued while the utilisation certificates from 2004-05 were yet to be issued.

### 1.9.7.1 State Finance Commission grants

In the Budget speech for 2002-03, Government accepted (March 2002) the following recommendation of SSFC for devolution of State's own tax revenues:

- The rural and urban local bodies would receive eight *per cent* of the State's own tax revenues after excluding the Entertainment Tax receipts. The vertical sharing of resources between rural and urban local bodies would be in the ratio of 58:42.
- Of the total devolutions to the ULBs, the resources would be shared between the municipal corporations, municipalities and town panchayats in the ratio 31:34:35.

The details of SSFC grant released to ULBs during 2003-04 to 2005-06 is given below:

### Municipal corporations (including Chennai City Municipal Corporation)

(Rupees in crore)

| Year    | Grants sanctioned | Adjusted before release | Net release | Released to                        |                             |        |
|---------|-------------------|-------------------------|-------------|------------------------------------|-----------------------------|--------|
|         |                   |                         |             | Chennai City Municipal Corporation | Five municipal corporations | CMWSSB |
| 2003-04 | 186.12            | 36.57                   | 149.55      | 78.90                              | 61.58                       | 9.07   |
| 2004-05 | 182.34            | 34.02                   | 148.32      | 79.98                              | 59.45                       | 8.89   |
| 2005-06 | 216.41            | 16.99                   | 199.42      | 97.58                              | 91.00                       | 10.84  |

### Municipalities

(Rupees in crore)

| Year    | Grants sanctioned | Adjusted before release | Net grant released to municipalities |
|---------|-------------------|-------------------------|--------------------------------------|
| 2003-04 | 202.83            | 71.27                   | 131.56                               |
| 2004-05 | 201.72            | 82.94                   | 118.78                               |
| 2005-06 | 235.35            | 84.79                   | 150.56                               |

**Third grade municipalities**

(Rupees in crore)

| Year    | Grants sanctioned | Adjusted before release | Net grant released to municipalities |
|---------|-------------------|-------------------------|--------------------------------------|
| 2003-04 | 23.50             | 5.98                    | 17.52                                |
| 2004-05 | 46.20             | 6.77                    | 39.43                                |
| 2005-06 | 48.60             | 7.12                    | 41.48                                |

**Town panchayats**

(Rupees in crore)

| Year    | Grants sanctioned | Adjusted before release | Net grant released |
|---------|-------------------|-------------------------|--------------------|
| 2003-04 | 93.15             | NIL                     | 93.15              |
| 2004-05 | 83.49             | 0.21                    | 83.28              |
| 2005-06 | 105.82            | 0.65                    | 105.17             |

The devolution of funds through SSFC grants was meant to cover the salary and wages of the sanctioned staff of the local bodies and maintenance of assets, office maintenance, etc. Audit scrutiny of records relating to the release of funds revealed that Government had deducted at source most of the funds to be released to cover dues on account of library cess, pension payment, electricity consumption charges, principal and interest on Government/TUFIDCO loans, maintenance charges to Tamil Nadu Water Supply and Drainage Board towards water supply, etc. Such deduction automatically reduced the availability of grants devolved by SSFC to the local bodies.

**1.9.7.2 Central Finance Commission grants**

The details of grants received from Government of India by the State Government during 2003-04 to 2005-06 are given below:

(Rupees in crore)

| Year    | Grants released to     |                |                 | Total  |
|---------|------------------------|----------------|-----------------|--------|
|         | Municipal corporations | Municipalities | Town panchayats |        |
| 2003-04 | 11.95                  | 16.21          | 13.53           | 41.69  |
| 2004-05 | 11.95                  | 16.21          | 10.78           | 38.94  |
| 2005-06 | 35.46                  | 46.84          | 32.10           | 114.40 |

CMA and DTP reported that the entire grant received in this connection during the last three years was utilised.

**1.9.8 Position of outstanding loans**

As of March 2006, the CMA reported that loan to the tune of Rs 788.49 crore (Principal: Rs 446.02 crore and Interest: Rs 342.47 crore) was outstanding against the consolidated Government loan relating to ULBs (except Chennai City Municipal Corporation) as indicated below:

(Rupees in crore)

| Sl. No. | Nature of local bodies                          | Position of consolidated loan      |               |                                    |                               |              |                                     |               |
|---------|---|------------------------------------|---------------|------------------------------------|-------------------------------|--------------|-------------------------------------|---------------|
|         |   | Opening balance as on 1 April 2005 |               | Fresh loans availed during 2005-06 | Repayment made during 2005-06 |              | Closing balance as on 31 March 2006 |               |
|         |   | Principal                          | Interest      |                                    | Principal                     | Interest     | Principal                           | Interest      |
| 1.      | Municipalities                                  | 275.66                             | 211.82        | -                                  | 5.10                          | 11.88        | 270.56                              | 199.94        |
| 2.      | Five municipal corporations (excluding Chennai) | 202.15                             | 150.77        | -                                  | 26.69                         | 8.24         | 175.46                              | 142.53        |
|         | <b>Total</b>                                    | <b>477.81</b>                      | <b>362.59</b> | <b>-</b>                           | <b>31.79</b>                  | <b>20.12</b> | <b>446.02</b>                       | <b>342.47</b> |

Though this consolidated loan amount was directed to be repaid in 40 half yearly instalments with effect from 1 April 1998, due to the precarious financial position of many ULBs, the repayment of loans was not made by those ULBs. The quantum of such outstanding loan as of 31 March 2006, as reported by CMA, is given below:

(Rupees in crore)

|  | Over due loan amount |          |        |
|--|----------------------|----------|--------|
|  | Principal            | Interest | Total  |
| Municipalities   | 81.58                | 199.65   | 281.23 |
| Municipal corporations (Other than Chennai City Municipal Corporation) | 55.52                | 142.53   | 198.05 |

The CMA reported that recovery towards repayment of consolidated Government loans in respect of the concerned ULBs is being adjusted from the SSFC grants payable to those ULBs. However, as other deductions such as pension payment, recovery towards loans obtained from TUFIDCO, TNUDF, etc., were also being made from the SSFC grants, the entire loans outstanding in respect of the concerned ULBs could not be adjusted because of non-availability of sufficient funds for recovery in most of the cases of ULBs.

### 1.9.9 Outstanding loan

The position of outstanding loan in respect of town panchayats at the end of 2005-06 as reported by DTP is given below:

(Rupees in crore)

|                                     |        |
|-------------------------------------|--------|
| Opening Balance as on 1 April 2005  | 171.45 |
| Loans availed during 2005-06        | 2.81   |
| Loans repaid during 2005-06         | 19.63  |
| Closing Balance as on 31 March 2006 | 154.63 |

Specific reasons for pendency and the action taken for collecting the outstanding loan were not furnished by DTP (November 2006).

### 1.9.10 Loans from financial agencies

Position of loans obtained by municipalities and five municipal corporations from various financial agencies and pending repayment as of 31 March 2006 are given below:

(Rupees in crore)

|   | Loan obtained from | Opening balance as on 1 April 2005 |             | Amount of loans availed during the year | Repaid during the year |              | Closing balance as on 31 March 2006 |             |
|---|--------------------|------------------------------------|-------------|---|------------------------|--------------|-------------------------------------|-------------|
|   |                    | Principal                          | Interest    |   | Principal              | Interest     | Principal                           | Interest    |
| Five municipal corporations (excluding Chennai) | TUFIDCO            | 126.09                             | 0.11        | 13.25                                   | 17.04                  | 10.07        | 122.30                              | 9.54        |
|   | TNUDF              | 0.48                               | -           | 10.32                                   | 0.17                   | -            | 10.63                               | -           |
| <b>Total</b>                                    |                    | <b>126.57</b>                      | <b>0.11</b> | <b>23.57</b>                            | <b>17.21</b>           | <b>10.07</b> | <b>132.93</b>                       | <b>9.54</b> |
| Municipalities                                  | TUFIDCO            | 178.74                             | 1.95        | 27.59                                   | 11.69                  | 15.61        | 194.64                              | 1.07        |
|   | TNUDF              | 28.96                              | -           | 15.91                                   | 4.46                   | -            | 40.41                               | -           |
| <b>Total</b>                                    |                    | <b>207.70</b>                      | <b>1.95</b> | <b>43.50</b>                            | <b>16.15</b>           | <b>15.61</b> | <b>235.05</b>                       | <b>1.07</b> |

DTP had not furnished the details of loans received from the financial agencies.

### 1.9.11 User charges

Details of user charges (mainly water charges) collected during the last three years, as reported by CMA, are given below:

#### Municipal corporations (excluding Chennai City Municipal Corporation)

(Rupees in crore)

| Year    | Demand |         |       | Collection |           |           | Balance |         |       |
|---------|--------|---------|-------|------------|-----------|-----------|---------|---------|-------|
|         | Arrear | Current | Total | Arrear     | Current   | Total     | Arrear  | Current | Total |
| 2003-04 | 18.86  | 24.07   | 42.93 | 10.83(57)  | 18.16(75) | 28.99(68) | 8.03    | 5.91    | 13.94 |
| 2004-05 | 13.94  | 28.68   | 42.62 | 9.39(67)   | 18.83(66) | 28.22(66) | 4.55    | 9.85    | 14.40 |
| 2005-06 | 14.40  | 32.09   | 46.49 | 11.01(76)  | 23.27(73) | 34.28(74) | 3.39    | 8.82    | 12.21 |

#### Municipalities

(Rupees in crore)

| Year    | Demand |         |       | Collection |            |            | Balance |         |       |
|---------|--------|---------|-------|------------|------------|------------|---------|---------|-------|
|         | Arrear | Current | Total | Arrear     | Current    | Total      | Arrear  | Current | Total |
| 2003-04 | 29.83  | 45.62   | 75.45 | 13.06 (44) | 33.55 (74) | 46.61 (62) | 16.77   | 12.07   | 28.84 |
| 2004-05 | 28.84  | 51.32   | 80.16 | 17.30 (60) | 39.01 (76) | 56.31 (70) | 11.54   | 12.31   | 23.85 |
| 2005-06 | 23.85  | 53.36   | 77.21 | 16.31 (68) | 36.73 (69) | 53.04 (69) | 7.54    | 16.63   | 24.17 |

The percentage of collection of water charges in municipal corporations (except Chennai City Municipal Corporation) and municipalities ranged between 66 and 74 and 62 and 70 respectively during 2003-06.

The minutes issued by CMA after the review of performance of municipalities towards collection of water charges for the year 2005-06 revealed that

- there were no water connections in three municipalities (Avadi, Kathivakkam and Madhavaram),
- one municipality (Tiruvottiyur) had not raised current demand; and
- the pendency under arrear demand was higher than the pendency under current demand in 70 municipalities.

CMA had mentioned (December 2006) that the quantum of Water Tax pending collection at the end of October 2006 was above Rs 4 crore in Tiruppur Municipality, Rs 3 crore in Thanjavur Municipality, Rs 1 crore in five municipalities (Kancheepuram, Tiruchengode, Dindigul, Vellore and Thoothukudi) and had instructed to take proper action for reducing the dues.

The Second State Finance Commission had recommended the revision of water charges through a cost-cum-water tariff fixation committee which is under consideration of the Government.

## 1.10 Expenditure of urban local bodies

### 1.10.1 Revenue expenditure

Revenue expenditure consists of expenditure on salaries and pension and operation and maintenance (O&M) expenditure. The reported revenue expenditure incurred by all ULBs during the last three years is given below:

(Rupees in crore)

|   | Year          |               |               |
|---|---------------|---------------|---------------|
|   | 2003-04       | 2004-05       | 2005-06       |
| <b>Municipalities</b>                     |               |               |               |
| Salaries and Pension                      | 237.61 (45)   | 236.08 (45)   | 252.94 (46)   |
| O & M expenditure                         | 290.52        | 283.82        | 292.49        |
| <b>Total</b>                              | <b>528.13</b> | <b>519.90</b> | <b>545.43</b> |
| <b>Five municipal corporations</b>        |               |               |               |
| Salaries and Pension                      | 128.94 (53)   | 140.40 (53)   | 142.30 (49)   |
| O & M expenditure                         | 112.81        | 124.38        | 145.72        |
| <b>Total</b>                              | <b>241.75</b> | <b>264.78</b> | <b>288.02</b> |
| <b>Chennai City Municipal Corporation</b> |               |               |               |
| Salaries and Pension                      | 200.00 (49)   | 207.05 (41)   | 224.05 (38)   |
| O & M expenditure                         | 205.78        | 301.19        | 360.20        |
| <b>Total</b>                              | <b>405.78</b> | <b>508.24</b> | <b>584.25</b> |
| <b>Town panchayats</b>                    |               |               |               |
| Salaries and Pension                      | 64.07 (31)    | 63.68 (25)    | 72.63 (27)    |
| O & M expenditure                         | 142.09        | 186.52        | 199.69        |
| <b>Total</b>                              | <b>206.16</b> | <b>250.20</b> | <b>272.32</b> |

(Figures in brackets indicate the percentage to total revenue expenditure)

### 1.10.2 Capital expenditure

The reported capital expenditure of all the ULBs during the last three years is given below:



(Rupees in crore)

| Year    | Capital expenditure |                             |                                    |                 |
|---------|---------------------|-----------------------------|------------------------------------|-----------------|
|         | Municipalities      | Five municipal corporations | Chennai City Municipal Corporation | Town panchayats |
| 2003-04 | 418.18              | 123.64                      | 168.21                             | 104.56          |
| 2004-05 | 386.42              | 105.11                      | 135.39                             | 210.85          |
| 2005-06 | 389.78              | 200.10                      | 143.16                             | 207.14          |

The capital expenditure of the municipalities and the Chennai City Municipal Corporation had decreased during 2005-06 as compared to the expenditure during 2003-04.

### 1.11 Audit of urban local bodies by Director of Local Fund Audit

**1.11.1** DLFA is the statutory auditor for all ULBs. The DLFA reported (August 2005) that all ULBs had compiled and submitted their annual accounts up to 2003-04.

**1.11.2** Audit of accounts of all ULBs was completed up to 2001-02. Position of arrears in completion of audit of ULBs as reported (October 2006) by DLFA as of 30 September 2006 is as given below:

|                               | Total number | Number wherein Audit not completed for |         |         |         |
|-------------------------------|--------------|--|---------|---------|---------|
|                               |              | 2002-03                                | 2003-04 | 2004-05 | 2005-06 |
| Municipal corporations        | 6            | 2*                                     | 3***    | 6       | 6       |
| Municipalities (I & II grade) | 102          | 1**                                    | 9       | 84      | 102     |
| Municipalities (III grade)    | 50           | -                                      | -       | 14      | 47      |
| Town panchayats               | 561          | -                                      | 25      | 194     | 519     |

\* Revised annual accounts of Madurai and Coimbatore City Municipal Corporations were not submitted to DLFA.

\*\* Annual accounts of Vridachalam Municipality were not furnished.

\*\*\* While the accounts of Coimbatore City Municipal Corporation were not received, the accounts of Madurai and Tiruchirappalli City Municipal Corporations returned for rectification of defects.

The main reasons attributed (October 2006) by DLFA for non completion of audit from 2003-04 were delayed submission of accounts by the ULBs and furnishing of defective accounts.

**1.11.3** The number of paragraphs relating to municipalities and municipal corporations included in the Inspection Reports (IRs) of DLFA that were pending settlement as of March 2006 aggregated to 2,05,246 (Appendix V) of which 1,22,616 related to periods prior to 1998-99. No action was taken on irregularities pointed out in various paragraphs.

**1.11.4** Despite formation of District High Power Committees, based on the recommendation of SSFC accepted by Government, the continued existence of huge number of audit objections indicates inadequate response from the local bodies. The CMA had instructed all the Regional Directors of Municipal Administration and Municipal Corporation Commissioners to pay personal attention and prepare replies to all pending paragraphs immediately and to organise periodical joint sittings to reduce pendency. The CMA had

mentioned in the Review meeting held on 12 November 2005 that 1,10,994 paragraphs of Local Fund Audit Department relating to municipalities involving Rs 1,076 crore are pending on that date and the number of paragraphs settled through joint sittings for the past six months was very meagre.

**1.11.5** The number of paragraphs included in the IRs on town panchayats of DLFA, which were pending settlement as of March 2006, as reported by DLFA in June 2006, is given below:

| Year           | Number of paragraphs pending |
|----------------|------------------------------|
| Upto 1999-2000 | 47,691                       |
| 2000-2001      | 8,613                        |
| 2001-2002      | 10,859                       |
| 2002-2003      | 15,424                       |
| 2003-2004      | 14,301                       |
| 2004-2005      | 2,479                        |
| <b>Total</b>   | <b>99,367</b>                |

No action was taken on the irregularities pointed out.

## **1.12 Response to Audit**

Audit Reports up to the year 1996-97 were discussed by the Committee on Public Accounts (PAC) and recommendations were issued. Despite the directions of the PAC for furnishing prompt replies to pending recommendations, the response from the MAWS Department was poor. As of March 2006, there were 133 recommendations (9 C&AG Reports) relating to 1985-86 to 1996-97 of the MAWS Department pending final settlement. Of these, 83 recommendations related to the Audit Report for 1992-93.

## **1.13 Conclusion**

Out of 18 functions to be devolved to urban local bodies as per the Seventy-fourth Amendment to the Constitution of India, 13 functions alone were transferred. However, Government had not transferred the functionaries required to carry out these functions. During the period 2003-04 to 2005-06, the percentage of collection of Property Tax as against the demands raised ranged from 50 to 53 in municipalities and five municipal corporations and from 59 to 62 in town panchayats, and needs improvement. Chennai City Municipal Corporation had not furnished the details of demands raised and the balance to be collected towards Property Tax. The collection of Profession Tax by the urban local bodies was relatively satisfactory. While the accounts of a large number of municipalities and town panchayats were pending audit by the Director of Local Fund Audit from 2004-05, mainly due to delayed submission of accounts and submission of defective accounts, the audit of accounts of two and three municipal corporations was pending from 2002-03 and 2003-04 respectively and of all the six municipal corporations from 2004-05.

#### **1.14 Recommendations**

- A nodal agency for monitoring the submission of accounts and for its consolidation needs to be nominated.
- A specific drive should be conducted to reduce the arrears in collection of various taxes and dues.
- To ensure the collection of Profession Tax from all eligible persons, a master register containing details of all traders, professionals and employers in the local body area has to be maintained by the Chennai City Municipal Corporation, as prescribed.
- Arrangements for speedy settlement of audit objections and inspection paragraphs of Local Fund Audit Department should be made and the pendency reduced in a phased manner.

## CHAPTER II

### PERFORMANCE REVIEWS (URBAN LOCAL BODIES)

This chapter presents three performance reviews dealing with (a) Computerisation of functions in Chennai City Municipal Corporation, (b) Functioning of health care system in urban local bodies and (c) Financial management in municipalities.

### MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

### CHENNAI CITY MUNICIPAL CORPORATION

#### 2.1 Computerisation of functions in Chennai City Municipal Corporation

##### *Highlights*

- Due to deficient planning, the Integrated On-line Information Processing System initiated in 1997 could not be implemented and was abandoned in February 2004 after incurring an expenditure of Rs 1.60 crore.

(Paragraph 2.1.6.2)

- Incorrect classification of non-residential properties as residential or partly residential resulted in short-assessment of Property Tax of Rs 41.79 crore.

(Paragraph 2.1.6.4)

- Demands of Rs 4.65 crore for Property Tax were not raised due to deficient systems and *ad hoc* procedures followed.

(Paragraph 2.1.7.1)

- Demand for Property Tax of Rs 52.39 crore was raised short due to deficiency in the computer system.

(Paragraph 2.1.7.2)

- Property Tax demands of Rs 33.70 lakh were reduced without corresponding collections due to lack of access controls.

(Paragraph 2.1.7.6)

- **Incorrect application of unapproved basic rental rates resulted in over assessment of Property Tax by Rs 52.03 lakh.**

(Paragraph 2.1.8.1)

- **Short-assessment of Property Tax of Rs 1.21 crore was noticed but reasons could not be ascertained due to lack of audit trail.**

(Paragraph 2.1.10.1)

- **Absence of general control led to a shortfall of 20.53 per cent in capture of birth data and 32.89 per cent in capture of death data.**

(Paragraph 2.1.11.1)

- **Data on birth and death lack integrity due to absence of input controls.**

(Paragraph 2.1.11.3)

## 2.1.1 Introduction

The Chennai City Municipal Corporation (Corporation) started the computerisation of its functions with a UNIX<sup>1</sup> based system in 1988. In 1997, an Integrated Online Information Processing System (IOLIPS) (IRIX<sup>2</sup> platform using Oracle/D2K<sup>3</sup> in client-server architecture) was conceived to cover 41 functions<sup>4</sup> for which hardware and software were acquired at a cost of Rs 1.60 crore. Implementation of IOLIPS was discontinued in 2004. Subsequently, a web-based application was developed in-house using Linux/Oracle for a limited number of functions<sup>5</sup>.

Data was captured in 10 zonal offices and the central office. The data was stored in two servers at the main office connected with the zonal offices, through dedicated telephone lines. The computer wing is presently headed by an Assistant Executive Engineer, supported by a Systems Analyst, a Programmer and an Assistant Programmer.

## 2.1.2 Objectives of computerisation

An integrated computer system was launched in 1997 with funds provided by the World Bank. The objective was to improve the efficiency in the discharge of their responsibilities, elimination of human error in maintenance of records and to speed up the functions.

---

<sup>1</sup> **Unix** (officially trademarked as **UNIX®**) is a computer operating system.

<sup>2</sup> **IRIX** is an operating system developed by Silicon Graphics, Inc.

<sup>3</sup> Developer 2000- a front end tool developed by Oracle.

<sup>4</sup> 1. Services (10 functions), 2. Personal management (eight functions), 3. Projects (six functions), 4. Asset management (two functions), 5. Inventory management (seven functions) and 6. Finance accounts (eight functions).

<sup>5</sup> Property Tax, Birth and Death, Professional Tax, Company Tax, etc.

### **2.1.3 Audit objectives**

A review of the “computerisation” in the Corporation was undertaken with the objective of ascertaining whether

- the Corporation had a well defined policy and plan for computerisation,
- the systems were complete and dependable,
- the system had adequate access, input and validation controls,
- Property Tax assessments done through the system were in accordance with the rules and rates and
- the demands raised/collections made against the assessments were complete and correct.

### **2.1.4 Audit criteria**

The audit criteria adopted were the

- Madras City Municipal Corporation Act,
- Instructions issued by the Government of India and Government of Tamil Nadu,
- Instructions issued and rates approved by the Council of the Corporation,
- Information available on the Website and Statistical Cell of the Corporation and
- Best practices for a computerised system.

### **2.1.5 Audit methodology and coverage**

A general study of the computer policies of the institution and the systems available was conducted. The acquisition of hardware/software and infrastructure was examined followed by a check of the application software for its completeness and adequacy of controls. The review covered the specific fields of Property Tax and birth and death registration. The entire data for the period 1998-2006 relating to the subjects taken up, was downloaded and examined using SQL Queries and specially developed programs.

## **Audit Findings**

### **2.1.6 General controls**

General controls are the controls that regulate the environment in which the IT operations are run. These cover areas like system hardware and software acquisition and maintenance, application system development and maintenance, data centre operation and access security. Main examples include IT practices pertaining to IT security and information protection,

software change management, segregation of duties, business continuity planning and system documentation.

#### **2.1.6.1 IT policy and planning**

A clearly laid out IT policy combined with adequate planning are the essential pre-requisites for successful computerisation. A review of the computerisation process in Corporation disclosed the following lapses in planning.

#### **2.1.6.2 Failure of IOLIPS**

**IOLIPS proposed for computerising 41 functions did not fructify due to improper planning and non-development of application software.**

In 1997, when IOLIPS was planned, Corporation attempted to computerise 41 subjects in one go, without conducting any studies to assess the requirement, feasibility, etc. Equipment and system software were purchased for Rs 1.44 crore and installed in March 1999.

The development of application software was entrusted to Electronics Corporation of India Limited (ECIL), Hyderabad in an open bid, based on their lowest offer of Rs 16 lakh, while all other five bidders had quoted Rs 70 lakh or more. As a result of the inadequate systems study combined with the frequent changes of user requirements by Corporation, the developer could not complete the software even after the lapse of seven years, as against the agreed 15 months. The contract was terminated (June 2004) and implementation of IOLIPS was called off.

Under IOLIPS, the entire operation was dependent on a single central server. The server purchased (March 1999) at a cost of Rs 29.69 lakh recorded 18 *per cent* down time<sup>6</sup> during the period from April 1999-July 2002 due to frequent hardware problems. The server was decommissioned from February 2004 as maintenance of such an unreliable server was considered uneconomical. Though the operation of the server was mission critical, Corporation had failed to consider the risk of attempting to have their entire computerisation dependant on a single server.

Thus, attempt to computerise too many subjects in one go and the incorrect choice of server led to the abandonment of IOLIPS rendering the entire expenditure of Rs 1.6 crore incurred on the project unfruitful, besides contributing to a seven year delay in the computerisation activities of the Corporation.

#### **2.1.6.3 Unplanned development of computerisation - failure of system development controls**

After abandoning IOLIPS, the Corporation continued its computerisation with a set of existing stand-alone applications and in-house developed web-based applications for Property Tax collection, birth/death registration systems etc., using two new servers purchased at a total cost of Rs 6.46 lakh. Documentation regarding various manuals, systems design etc., in respect of the in-house developed software, was not done. Absence of documentation

---

<sup>6</sup> Time during which the server was not functioning.

reflects poor business continuity planning and lack of system development controls.

#### 2.1.6.4 *Misclassification of properties in terms of usage – Short-assessment Rs 41.79 crore*

**Lack of inbuilt controls to identify properties resulted in misclassification of properties leading to short-assessment of Property Tax (Rs 41.79 crore).**

There was no system to monitor the changes in the manner of utilisation of a property if it was not reported by the owner. Such control is pertinent as the Property Tax assessed for a non-residential property is at least three times higher than that of an identical residential property. A comparison of classification of properties in Corporation with respect to that in Chennai Metro Water Authority revealed differences in classification of non-residential properties either as fully or partly residential properties resulting in difference in assessment of Property Tax to the extent of Rs 41.79 crore (September 2006), as shown below:

| Sl.No.   | Actual status of the property | Status as per assessment of Property Tax      | Number of cases | Short-assessment (Rupees in crore) |
|--|-------------------------------|---|-----------------|------------------------------------|
| <b>(a) In respect of assessments made before GRS</b> |                               |   |                 |                                    |
| 1.   | Fully non-residential         | Fully Residential                             | 2,279           | 16.91                              |
| 2.   | -do-                          | Partly residential and partly non-residential | 2,709           | 16.43                              |
| <b>(b) In respect of assessments made after GRS</b>  |                               |   |                 |                                    |
| 3.   | Fully non-residential         | Fully Residential                             | 346             | 2.28                               |
| 4.   | -do-                          | Partly residential and partly non-residential | 914             | 6.17                               |
| <b>Total</b>   |                               |   |                 | <b>41.79</b>                       |

Besides, there were 11,042 properties that are partly non-residential and partly residential as per Chennai Metro Water Authority, but were treated as fully residential by the Corporation for taxation purpose. As data relating to the area under non-residential usage was not available, the resultant short-assessment could not be quantified.

The misclassifications are also confirmed by the fact that, against some of these properties, treated as residential for property tax purposes, trade licences have also been issued by Corporation.

#### 2.1.7 **Property Tax assessment/collection systems**

The 'Assessment of Property Tax' has been fully computerised from the last General Revision Survey (GRS)<sup>7</sup> (October 1998). The Property Tax collection system including raising of demands and watching of their collection, developed in-house after abandoning IOLIPS is functioning since 2004 and is

<sup>7</sup> The revision of Property Tax of all available assesses by the Corporation is known as 'General Revision Survey'.



being used in the assessment/revision of property tax in respect of all the 5.63 lakh properties in Chennai city. The annual collection of Property Tax was of the order of Rs 220.55 crore (2004-05) forming 82 *per cent* of the total tax revenue, making the system mission critical to the functioning of the Corporation. The Property Tax system maintains the details about the assesseees and the tax assessed/revise as master information and the tax due from them in the form of a Demand, Collection and Balance register (DCB) in respect of each half year. The details of collections made are separately maintained with effect from June 2004 for subsequent transfer to the accounts of respective assesseees in the DCB. Lack of referential integrity<sup>8</sup> is noticed among the master, DCB and the collection details. The discrepancies due to the lack of referential integrity are listed below.

### **2.1.7.1            *Non-raising of demands for live assesseees***

An examination of the DCB and the assessment records disclosed that demands relating to 695 assesseees aggregating to Rs 71.43 lakh per half year and to Rs 4.65 crore till date (September 2006) were not brought under the DCB accounting system. The existence of these properties was confirmed by the fact that some of them were actually paying their taxes, which were collected and accounted for under suspense.

It was also noticed that details about 850 intervening half-yearly demands amounting to Rs 14.33 lakh were found missing in respect of another 398 assesseees.

### **2.1.7.2            *Demands not raised for increased Property Tax from due dates***

**Non-raising of demands in respect of revised assessments in respect of 11,573 assessments (Rs 52.39 crore).**

Whenever there is a change in the area of a building or its usage, the assessment made is revised. Absence of provision for simultaneous updation in the DCB resulted in non-raising of demands amounting to Rs 52.39 crore due to revised assessments of tax made after II half-year of 1998-99 in respect of 11,573 assessments/properties till the II half-year of 2006-07, and the assesseees continued to pay their taxes at the old rates. Only with effect from I half-year of 2007-08 the revised demands were found to be updated, prospectively, in DCB.

### **2.1.7.3            *Demands against non-identifiable assesseees***

**Identity details of 18,346 assesseees with an outstanding demand of Rs 33.92 crore of Property Tax were missing.**

The details of the assessments including name and addresses in respect of 18,346 assesseees with an outstanding demand of Rs 33.92 crore were not available in the database. It was also noticed that in respect of certain demands the assessee codes available in the DCB were not in the format as adopted in the assessment database. Thus, there was a risk of non-recovery of the outstanding demands.

---

<sup>8</sup> Ensuring the existence of data in one table with reference to the data already available in another.

### 2.1.7.4 Inconsistencies in posting of collections

Due to inconsistencies in posting of collection Rs 5.31 crore relating to 12,368 assesseees was posted in excess and Rs 5.63 crore relating to 11,984 assesseees posted short.

An analysis of the collection file disclosed the following discrepancies.

| Discrepancies noticed   | Number of Assesses | Amount (Rupees in crore) |
|---|--------------------|--------------------------|
| Amounts collected from June 2004 to November 2006 still held in the collection file and not posted to individual accounts | 49,275             | 18.32 <sup>9</sup>       |
| Collections posted in excess in individual accounts   | 12,368             | 5.31                     |
| Collections posted short in individual accounts   | 11,984             | 5.63                     |
| Amounts collected and kept in suspense as assessee codes furnished did not match with any existing assessee               | 14,681             | 8.83                     |

The lack of referential integrity between the collection and the DCB coupled with inconsistencies in the posting of the collection information led to the presence of the above cases, rendering the database unreliable.

### 2.1.7.5 Posting of collections without considering actual demands

The system of posting of collections of Property Tax was not correct.

The Property Tax collection system accepted any payment lesser or excess irrespective of the actual outstanding demand. When excess amounts were collected, the same were neither adjusted against future demands nor exhibited as excess in any of the reports generated through the software.

The results are as below:

| Discrepancies  | Number of instances |
|--|---------------------|
| Lump sum collections for more than one half-year, posted against a single half-year  | 1,455               |
| Lump sum collections for more than one half-year posted against all the related half-years <sup>10</sup> resulting in excess posting | 276                 |
| The amounts collected were in excess (by over Rs 100) of the demand for no apparent reason   | 1,49,842            |

The above discrepancies had the effect of rendering individual accounts incorrect.

<sup>9</sup> Age-wise break-up as of September 2006:  
 More than two years : Rs 0.54 crore (3,779 demands)  
 More than one year : Rs 10.48 crore (77,211 demands)  
 Less than a year but more than nine months : Rs 7.30 crore (26,836 demands)  
 Total : Rs 18.32 crore (1,07,826 demands)

<sup>10</sup> For example, if a half-yearly Property Tax for a property was Rs 100 and tax for three half-years was received, instead of posting Rs 100 in each half-year, Rs 300 was posted in all the three half-years.

**2.1.7.6            *Reduction of dues without corresponding collections – Rs 33.70 lakh***

**Details of collections amounting to Rs 33.70 lakh were not available in the database.**

A test check of collections posted to the DCB for the year 2006-07 disclosed that collections amounting to Rs 33.70 lakh were posted against 3,316 half-yearly demands relating to 2,360 assessments without corresponding details of collection data being available.

**2.1.8                *Change management controls***

A sound change management procedure ensures that the requisite changes are made into the software in an authorised, accurate and timely fashion and the changes made are properly documented.

**2.1.8.1            *Application of unapproved basic rates - excess assessment of Property Tax- Rs 52.03 lakh***

**Application of unapproved basic rates resulting in excess assessment of Property Tax of Rs 52.03 lakh.**

It was noticed that higher rates were used in the assessment of Property Tax during November 2004 to April 2005 and thereafter the assessments were done using older rates. However, no documents supporting the approval of higher rates during the period were available. This resulted in excess assessment of Property Tax in respect of 3,221 assessments with the resultant excess demand aggregating to Rs 52.03 lakh.

**2.1.9                *Lack of input/validation controls***

The objective of input control is to ensure that the data received for processing are genuine, complete, not previously processed, accurate and properly authorised and entered without duplication. Validation controls ensure the correctness and completeness of data entered into the system duly checking the same with respect to some other data/range available. These controls are essential in the software of Corporation considering the recurring financial impact such data is bound to have in respect of Property Tax assessment and collection. Analysis of the system revealed the following discrepancies.

**2.1.9.1            *Incorrect adoption of rental rates leading to erroneous calculation of Property Tax***

The city of Chennai is divided into several localities and different rental rates are prescribed for residential usage and non-residential usage in each locality. While the rates for residential properties vary from Re 0.50 to Rs 2 per sq. ft. the rates for non-residential properties vary from Rs 3 to Rs 9. While the system itself could assign these rental rates, assignment of the rates was being done manually. There was no validation control to guard against incorrect assignment of rental rates.

A test check revealed that two to six different rental rates were adopted, in 366 instances, for assessments in respect of properties situated in the same locality and street. There were several instances, where within the same property, the commercial portion was assigned the rate pertaining to one location, while the residential portion was assigned the rate pertaining to a different location. This had the risk of inconsistencies in the assessment of Property Tax.

### **2.1.9.2 Discrepancy in roof-type information**

Roofing in a building is classified into asbestos/tiled or RCC. While the former attracts a 20 *per cent* discount, the latter does not. In the data entry screen, the totals of RCC, asbestos and tiled roofing are first keyed in, followed by a floor-wise break-up therefor. As the totals and the components are independently keyed in, validation of one against the other is possible. The failure to provide for such a validation control may lead to incorrect assessment and also make the information undependable. An examination disclosed 3,491 instances, where the roof totals did not agree with the sum of their component values.

Amongst the above, there were 219 instances where the total area was put under 'RCC' with the entire break up under asbestos/tiled roofing and vice versa in 755 cases.

### **2.1.9.3 Discrepancy in ownership category information**

For the purpose of assessment to Property Tax, usage of a building is classified into four categories namely, residential owner or tenant and non-residential owner or tenant. In the data entry screen, the floor-wise areas under each type of usage are keyed in and stored along with their system-calculated aggregates. A check disclosed that in respect of 367 properties, the aggregate figures did not agree with their respective break-ups indicating lack of validation control between the aggregate and the break-up of the floor wise area.

## **2.1.10 Process controls**

Process controls ensure complete and accurate processing of input and generated data. The objectives of process controls are to ensure that the processing of transactions is correct, accurate and complete. Weak process controls would lead to inaccurate processing of transactions leading to wrong outputs/results. An analysis of Property Tax assessment system revealed the following.

### **2.1.10.1 Short-assessment of Property Tax – Rs 1.21 crore**

**The process controls inbuilt in the system were weak and the audit trails were also absent.**

In the Property Tax assessment system, only the basic data required for the calculation of tax viz. floor area, roof type, usage, the eventual annual value and the tax assessed are alone stored. In the absence of intermediate factors such as the rental value calculated, the different discounts allowed, the depreciation allowed, etc., a check of all the 79,306 assessments was made after GRS by Audit using the existing procedure to assess the Property Tax. The check revealed that in 465 cases the Property Tax was assessed short by Rs 23.12 lakh per half year and aggregating to Rs 1.21 crore till date (September 2006). Further it was noticed that the system did not contain any audit trail to analyse the wrong procedures adopted by Corporation in calculating the tax in these cases.

## 2.1.11 Birth and death registration system

Registration of birth and death is carried out through the computer system from 1998 and is presently functioning on a web-based application developed in-house. As on date, the system contains information on 22.28 lakh births and 6.81 lakh deaths. An examination of the data disclosed the following.

### General controls

#### 2.1.11.1 Shortfall in the capture of birth/death data

The statistical wing of the Health Department of the Corporation independently compiles the details of number of births and deaths in Chennai City, from the zonal offices as gathered from the number of applications received by them. The Health Inspector of respective zonal offices is responsible for providing information to both the statistical wing of the Health Department and for the capture of data in the computer wing. A comparison of data relating to births and deaths available in the database with the data in the statistical wing of the Health Department for the period 1999-2004 revealed the following:

| Details            | Statistical Wing<br>(Number in lakh) | Database<br>(Number in lakh) | Shortfall<br>(per cent) |
|--------------------|--------------------------------------|------------------------------|-------------------------|
| Birth registration | 15.60                                | 12.40                        | 20.53                   |
| Death registration | 6.11                                 | 4.11                         | 32.89                   |

Lack of appropriate input controls had led to incompleteness of data in the computerised system.

#### 2.1.11.2 Incorrect organisation of birth and death data

The Corporation, in order to accommodate additional information as required by the Government and to meet the requirement of new Oracle/Linux software developed for them by NIC, had reorganised (January 2004) their database structure. In the reorganised format, many items of information were codified. All data captured subsequently, got stored in the reorganised codified form, while the earlier data remained in the original form, which was not migrated to the current format. The new application software generated birth/death certificates from the revised data formats only and did not have a provision to accept and print data from the pre-revised format. Thus, Corporation had to resort to manual operation in case of data pertaining to earlier period.

### Lack of input/validation controls

#### 2.1.11.3 Incomplete capture of birth and death data

Registration of births and deaths is mandatory and facilitates the issue of relevant certificates apart from acting as a source of statistical information.

Data in this regard is keyed in from the respective zonal offices and stored in the central server. An examination of the data disclosed that vital information such as name of mother, name of father, sex of the child, place of birth and address of the parents etc., were not available (**Appendix VI**). In respect of death registration, information such as name of the deceased and cause of death were not available indicating lack of input control. Thus, the data was incomplete.

#### **2.1.11.4 Duplication in data on birth and death**

**There were instances of duplication in registration of births and deaths due to lack of input controls.**

Registration of births/deaths is compulsory and is done with reference to intimation received from hospitals or from other authentic sources. Registration of birth/death is identified by a unique serial number, which contains the year, number of the zone, number of the division and serial number of registration in that sequence. In the present system, the registration numbers are assigned manually.

An examination of the birth data disclosed that the same registration number had been assigned for more than one birth. This resulted in 3,36,842 different births being registered using only 1,57,274 different registration numbers<sup>11</sup> indicating that more than one birth was registered under the same registration number in many instances. Similarly, only 38,558 registration numbers<sup>12</sup> were assigned to 81,843 deaths. There were also instances where the same birth/death was registered under different registration numbers. This indicated lack of input controls.

#### **2.1.12 Conclusion**

Computerisation in Corporation that commenced in 1988 is still in an initial stage of implementation. Due to deficient planning, the IOLIPS project initiated in 1997 could not be implemented and was abandoned in February 2004 after incurring expenditure of Rs 1.60 crore. Lack of documentation and absence of controls made the database incomplete and unreliable. Weak process controls led to inaccurate processing of transactions leading to incorrect assessments of Property Tax. Lack of referential integrity among Property Tax assessment system, DCB and collection details coupled with inconsistencies in the posting of the collections made the database unreliable. The birth and death registration database was incomplete to the extent of 20.53 per cent and 32.89 per cent respectively for want of controls to ensure their completeness. Thus the overall objective of the computerisation in Corporation was yet to be achieved.

#### **2.1.13 Recommendations**

- Chennai City Municipal Corporation should formulate a clearly defined IT policy and put in place a monitoring system involving the top level management.

---

<sup>11</sup> Birth registration numbers repeated twice 1,42,660; repeated thrice 11,548; repeated from 4 to 12 times 3,066.

<sup>12</sup> Death registration numbers repeated twice 34,418; repeated thrice 3,616; repeated from 4 to 6 times 524.

- Development of systems should be planned for, documented and done under proper authority.
- Considering the criticality of the IT system, sufficient input and validation controls should be incorporated to ensure its reliability.
- A system should be evolved so that changes in rates etc., are adopted only under orders of competent authority.
- Considering the volume of revenue handled, the referential integrity among the assessment, demand and collection systems needs to be strengthened.
- Action may be taken to make the master data complete and accurate.

The above points were referred to Government in January 2007; reply had not been received (May 2007).

## **2.2 Functioning of health care system in urban local bodies**

### *Highlights*

*Tamil Nadu is a State with a relatively higher proportion of urban population. Urban local bodies shoulder the responsibility for providing health care in urban areas. Lack of policy initiatives, inadequate budgetary support, shortage and improper deployment of manpower and lack of proper disease surveillance were the major constraints in the functioning of the health care system.*

➤ **The Urban Health Care Policy announced by the State Government in September 2002 has not yet been implemented. Due to non-adoption of the norms prescribed in the above policy Urban Primary Health Centres could not be established in needy urban local bodies and accordingly identified surplus staff could not be redeployed.**

**(Paragraph 2.2.7.2)**

➤ **There was inadequate disease surveillance, in nine out of 14 test checked urban local bodies.**

**(Paragraph 2.2.8.1)**

➤ **Birth rate and maternal mortality rates were higher than the State's average in four and three of the test checked urban local bodies respectively.**

**(Paragraph 2.2.9.1)**

➤ **Ambattur and Dharmapuri Municipalities did not utilise Rs 29.55 lakh released by Government of India under Reproductive and Child Health Project II but kept the entire sum in their bank accounts.**

**(Paragraph 2.2.9.3)**

➤ **In the State, in 63 out of 102 municipalities (excluding Grade III) the post of Municipal Health Officer had not been created.**

**(Paragraph 2.2.10.1)**

### **2.2.1 Introduction**

In Tamil Nadu, the role of Government in health care activities in urban areas is largely advisory and supervisory in nature. Tamil Nadu Public Health Act, 1939 envisages that the Local Authorities<sup>1</sup> would carry out all such activities as may be necessary to safeguard public health as prescribed by Government

---

<sup>1</sup> The Act defines 'Local Authority' as Corporations and Municipalities.



for maternal and child health (MCH) and family welfare (FW) in local areas. These activities are carried through urban health posts, dispensaries and maternity homes.

### **2.2.2 Organisational set up**

The Commissioner of Municipal Administration (CMA) exercises administrative control and the Director of Public Health and Preventive Medicine (DPH&PM) and the Director of Family Welfare (DFW) provide technical support and monitor the activities. Municipal Health Officers (MHO)/City Health Officers (CHO), appointed by Government are responsible for health care activities in the urban local bodies (ULBs) and report to the Commissioners of the respective ULBs. In ULBs without MHO/CHO posts, the Sanitary Officers are responsible for health care activities. Medical Officers of Urban Health Posts and Maternity Centres are responsible for maternal and child health and family welfare activities including outreach services, which include provision of ante natal care, conducting delivery, post natal care, immunisation of children, promotion of family planning, etc. The Sanitary Officers are responsible for disease control activities such as mosquito control, control of stray animals, chlorination of water sources, etc. (**Appendix VII**).

### **2.2.3 Audit coverage**

The 561 Town panchayats (TPs) were not considered for the purpose of review in view of the low average coverage of population in each TP. Accordingly, the selection was made only from 158 ULBs (six municipal corporations and 152 municipalities). The health care delivery system including maternal and child health and family welfare activities and prevention and control of diseases was reviewed in 16 out of these 158 ULBs (**Appendix VIII**) selected through stratified random sampling. The review conducted between August and October 2006 in the Secretariat, offices of CMA, DPH & PM and DFW and in the selected ULBs, covered the period 2001-06.

### **2.2.4 Audit objectives**

Audit objectives were to assess the

- effectiveness of policy initiatives for providing health care in urban areas,
- efficiency and effectiveness of the ULBs in prevention and control of diseases,
- effectiveness of the urban health posts and maternity centres in maternal and child health and family welfare activities and
- adequacy of staff provided for carrying out health care activities.

### **2.2.5 Audit criteria**

The following audit criteria were adopted:

- policies formulated by Government for providing urban health care,

- targets fixed by Government for disease surveillance, collection of samples, immunisation, etc.,
- goals set by Government in respect of health indices such as birth rate, maternal mortality rate, maternal and child health and family welfare activities, etc. and
- norms prescribed for provision of staff.

### 2.2.6 Audit methodology

The audit objectives and audit criteria were discussed (August 2006) with the CMA before commencement of audit. Information on the health care activities of the ULBs was collected from the records of the respective ULBs, Government and *quasi*-Government publications and through written replies furnished by ULBs and departmental officers to audit enquiries issued to them.

### 2.2.7 Urban Health Care Delivery Policy

#### 2.2.7.1 Earmarking of funds for health care activities

**The average expenditure on health care activities during 2001-06 was less than six per cent of the total expenditure in the test checked ULBs.**

National Health Policy, 2002 envisages that the State Governments should earmark seven *per cent* of their budget for health care, of which 55 *per cent* would be for primary health care. However, the expenditure on health care activities in the State ranged from 2.87 *per cent* to 3.56 *per cent* of the total expenditure during 2002-06. Further, Government of Tamil Nadu did not give directions to the ULBs to make similar provisions in their budgets for health care activities. Accordingly, average percentage of expenditure for 2001-06 on health care activities to total expenditure was zero in respect of two ULBs, less than five in 10 ULBs and ranged from 5.16 to 5.81 in respect of three other ULBs out of the test checked ULBs. The low expenditure on health care activities in ULBs was mainly due to deployment of lesser staff than required as detailed in the succeeding paragraphs.

#### 2.2.7.2 Implementation of policy

**The Urban Health Care Delivery Policy announced by the State Government in September 2002 has not yet been implemented.**

Government announced the 'Urban Health Care Delivery Policy' in September 2002. The policy envisaged the following modalities for revamping the urban health care system:

- Establishment of health institutions as per the following norms:

| Population of the ULB | Number of Urban Primary Health Centres |
|-----------------------|--|
| Less than 1 lakh      | one A type <sup>2</sup> centre         |
| 1 to 1.5 lakh         | one B type <sup>3</sup> centre         |
| 1.5 to 2.5 lakh       | two B type centres                     |
| 2.5 to 3.5 lakh       | three B type centres                   |
| 3.5 to 4.5 lakh       | four B type centres and so on          |

<sup>2</sup> A type centre- with one female Medical Officer, one Multi Purpose Health Worker per 20,000 population and other staff.

<sup>3</sup> B type centre- with one male and one female Medical Officer, one staff nurse, one Multi Purpose Health Worker per 20,000 population and other staff.

- Surplus posts/staff from identified ULBs were to be phased out or redeployed.
- The DPH&PM and the Deputy Director of Health Services (DDHS) were to provide technical guidance and supervision at State and District levels.
- Expenditure on the revamped urban health care system was to be borne jointly by the ULBs and the Government.
- Administrative control of the staff and maintenance of buildings would be handled by the respective ULBs and CMA.

In April 2003, the CMA submitted a proposal to Government, wherein he indicated that 278 surplus staff including 38 Medical Officers and 188 Multi Purpose Health Workers (MPHWs) in 28 municipalities would have to be redeployed and a total of 81 staff would have to be shifted from corporations to needy municipalities.

The CMA had worked out that by diverting the surplus staff, 46 new Urban Primary Health Centres (UPHC) could be established in 46 municipalities, which did not have a proper health care system. Government sought for (December 2004) certain additional information regarding posts and vacancies in ULBs. Most of the ULBs concerned had not furnished (October 2006) the information and the CMA did not take any further action in the matter. Consequently the plan to revamp the urban health care system did not fructify resulting in non-establishment of the proposed 46 UPHCs.

**Non-implementation of Urban Health Care Delivery policy resulted in continuance of posts of MPHWS that could have been redeployed to cover needy ULBs.**

In eight of the test checked ULBs, non-implementation of the urban health care delivery policy had resulted in continuance of 18 posts of Medical Officers and 129 posts of MPHWS that could have been redeployed to cover needy ULBs.

As far as extending of technical guidance, the DDHSs were only obtaining periodical returns on health status from the ULBs and did not extend any technical guidance. Barring the 194 health posts maintained in 30 ULBs, the Government did not share the expenditure on urban health care in the other ULBs.

## **2.2.8 Prevention and control of diseases**

### **2.2.8.1 Disease surveillance**

**Nine test checked municipalities did not obtain information on incidence of various notified infectious diseases from Government and private medical institutions.**

Disease surveillance helps to understand the pattern of spread of communicable diseases so as to adopt suitable strategies of intervention to contain them. The surveillance mechanism includes collection, compiling and analysis of data on incidence of various diseases. As per the provisions of the Tamil Nadu Public Health Act, 1939 Government and private medical institutions in urban areas were to furnish reports to the MHOs/CHOs on the incidence of various notified infectious diseases treated by them. The ULBs were to compile them in order to monitor the health status and to initiate remedial action. However, out of 14 test checked municipalities, nine

municipalities<sup>4</sup> did not obtain the above details to monitor the health status in their towns.

Incidence of cases of malaria in the State was 43,604, 41,693 and 40,948 during the years 2003, 2004 and 2005 respectively. Under the revised National Tuberculosis Programme, 6.5 lakh persons were examined and 91,720 TB patients were diagnosed. Under the National Malaria Eradication Programme and Revised National Tuberculosis Programme, the medical institutions run by the ULBs were to collect blood smears from 15 *per cent* of the out patients and sputum samples from two *per cent* of the out patients. Of the 14 test checked municipalities, there was no out patient clinic in four municipalities<sup>5</sup>, seven municipalities<sup>6</sup> did not collect blood smears and none of the test checked ULBs except the two corporations collected sputum samples from out patients to enable surveillance of malaria and tuberculosis. Even where the samples for blood smears and sputum were collected, the percentage of collection of blood smears ranged from 0.67 to 12.47 and sputum sample was 1.47. The Medical Officers of dispensaries attributed various reasons such as shortage of staff and facilities and diversion of staff, for non-collection of samples of blood smear and sputum.

### 2.2.8.2 Immunisation

Immunisation against vaccine preventable diseases is an important activity of the urban health care system. Government seeks to achieve cent *per cent* immunisation against vaccine preventable diseases such as polio, diphtheria, tetanus, measles, childhood tuberculosis, etc. Government supplies the vaccines to carry out immunisation activities. Against the targets ranging from 11.57 lakh to 12.92 lakh under various vaccines i.e., TTM, DPT, Polio, BCG and Measles during 2001-06, the achievements ranged from 98 to 110 *per cent* in the State.

**Koothanallur Municipality did not carry out any immunisation activity for want of staff.**

Among the test checked ULBs, while Koothanallur Municipality did not carry out any immunisation activity for want of staff, Gobichettipalayam Municipality achieved less than 50 *per cent* immunisation coverage during 2001-06 under DPT vaccine. Thuraiyur Municipality achieved less than 50 *per cent* coverage under measles and DPT vaccines during 2001-06.

Government supplies Vitamin 'A' tablets for distribution to children below five years for prevention of blindness and iron tablets for distribution to adolescent girls and pregnant mothers for prevention of anaemia. Koothanallur Municipality did not distribute Vitamin 'A' and iron tablets during 2001-06. Ranipet Municipality and Salem City Municipal Corporation did not supply iron tablets during 2001-06, while seven other ULBs did not supply Vitamin 'A' and iron tablets for more than two years during the period covered by audit, thus failing in their role to prevent diseases afflicting the urban poor due to nutritional deficiencies.

<sup>4</sup> Ambattur, Chinnamanur, Karaikudi, Koothanallur, Pollachi, Pudukkottai, Puliangudi, Ranipet and Thuraiyur.

<sup>5</sup> Gobichettipalayam, Koothanallur, Pudukkottai and Puliangudi.

<sup>6</sup> Ambattur, Chinnamanur, Cuddalore, Dharmapuri, Karaikudi, Ranipet and Thuraiyur.

### 2.2.8.3 Vector borne diseases control

Malaria, filaria, dengue and Japanese encephalitis are the major vector borne diseases prevalent in urban areas of the State. Even though the urban population was only 44 *per cent* of the State's total population, urban areas account for about 74 *per cent* (2005-06) of the cases of malaria reported in the State, indicating the extent of mosquito menace in urban areas.

Control of mosquitoes, the vectors responsible for spreading these diseases, is carried out by ULBs through fogging operations to control adult mosquitoes, by spraying of larvicides to control mosquito larvae and also by avoiding water stagnation.

**Entomological reports in respect of six ULBs indicated that mosquito density exceeded tolerable limit.**

Entomological reports by Senior Entomologists heading the zonal entomological teams of Public Health and Preventive Medicine Department in respect of six ULBs<sup>7</sup>, where surveys were done (2001-06) disclosed that the mosquito density exceeded tolerable limit in all the 47 surveys conducted. Similarly, as per studies conducted in Coimbatore (2003) and Salem (2005 and 2006), the larval house index<sup>8</sup> was as high as 43 and 11.5 respectively against the tolerable limit of 10, indicating inadequate mosquito control operations.

The Commissioner, Cuddalore Municipality, a seashore town endemic to Japanese encephalitis, stated (October 2006) that mosquito control operations were not carried out during March 2002 to October 2005 due to vacancy of MHO post. Though the norms under National Malaria Eradication Programme for mosquito control operations provide for provision of one mazdoor per 5,000 population, the number of mazdoors employed by the six test checked ULBs<sup>9</sup> was at one per 25,000 population, which adversely affected the mosquito control operations in the municipality.

The quality of insecticide and larvicide used in mosquito control operations determines its effectiveness. Insecticides and larvicides for mosquito control operations were procured by the ULBs through tender system. The DPH & PM had short listed (2001) three laboratories, which were subsequently increased to five (2002) and instructed the ULBs to get the samples of insecticides and larvicides tested by the laboratories so as to ensure the quality of the chemicals procured. Four<sup>10</sup> out of 12 test checked ULBs required the supplier themselves to get a quality certificate from one of the short listed laboratories. Relying on the supplier to obtain certificates from the laboratories, resulted in lack of assurance on the quality of anti-mosquito chemicals. The value of purchases (2001-06) made by the above ULBs without ensuring the quality worked out to Rs 1.12 crore.

### 2.2.8.4 Water borne disease control

Incidence of water borne diseases like Cholera and Acute Diarrhoeal Disorder (ADD) was more in urban areas. The city of Chennai, which has eight *per cent*

---

<sup>7</sup> Coimbatore, Cuddalore, Karaikudi, Pollachi, Puliangudi and Salem.

<sup>8</sup> Number of searched houses having mosquito larvae in stored water.

<sup>9</sup> Coimbatore and Salem City Municipal Corporations, Cuddalore, Pollachi, Puliangudi and Karaikudi Municipalities.

<sup>10</sup> Coimbatore, Cuddalore, Ranipet and Thuraiyur.

of the State's population, accounted for 66 *per cent* of the Cholera cases reported in the State during 2002-05. Similarly, the prevalence rate<sup>11</sup> of Cholera and ADD was more in three of the test checked ULBs, when compared with the respective district level prevalence rate as given below, suggesting supply of poor quality of drinking water:

| Year | Prevalence rate of ADD and Cholera |                        |                |                   |                |                    |
|------|------------------------------------|------------------------|----------------|-------------------|----------------|--------------------|
|      | Coimbatore District                | Coimbatore Corporation | Salem District | Salem Corporation | Erode District | Erode Municipality |
| 2003 | 80                                 | 198                    | 142            | 546               | 137            | 1,073              |
| 2004 | 198                                | 535                    | 132            | 558               | 145            | 1,024              |
| 2005 | 212                                | 674                    | 130            | 561               | 87             | 545                |

The Water Analyst of the Public Health and Preventive Medicine Department conducts periodical testing of water samples and furnishes reports on the findings. Further, the ULBs also draw samples and get them tested by the Tamil Nadu Water Supply and Drainage Board.

**Test reports of water in respect of seven ULBs indicated that the water supplied by them was not potable.**

Five of the test checked ULBs<sup>12</sup> did not test water samples to ensure quality. Scrutiny of 15 water test reports relating to 2001-06 in respect of seven ULBs<sup>13</sup> disclosed that the water supplied by all of them was not potable due to poor organic and chemical qualities and presence of numerous micro-organisms. The Water Analysts attributed the poor quality of water to non-cleaning of storage reservoirs, filter beds and service reservoirs and lack of systematic chlorination.

As per the norms, the residual chlorine level in the water should be between 0.2 to 0.4 mg/litre. However, six test reports (March 2001 to March 2006) relating to five ULBs indicated that the residual chlorine level in the water samples of Cuddalore, Karaikudi and Pollachi Municipalities was found to be below the minimum limit and the residual chlorine level exceeded the maximum limit in Erode and Gobichettipalayam Municipalities. The quality of bleaching powder, which is used in chlorination, was also found to be below the standard. As against the minimum required chlorine content of 32 *per cent* in the bleaching powder, the actual chlorine content in the bleaching powder used by Cuddalore, Erode and Gobichettipalayam Municipalities was found (March 2001 to May 2005) to be less than 10 *per cent* and 10 to 30 *per cent* in Erode (in November 2005), Karaikudi and Pollachi Municipalities (2001-06).

The above failures on the part of ULBs in ensuring the quality of water had resulted in supply of poor quality of drinking water and consequent increase in the incidences of water borne diseases.

#### 2.2.8.5 Zoonotic diseases control

Anthrax, rabies, leptospirosis etc., are zoonotic diseases, which are transmitted by animals to humans. Under section 241 of Tamil Nadu District

<sup>11</sup> Number of cases per one lakh population.

<sup>12</sup> Salem City Municipal Corporation and Ambattur, Cuddalore, Koothanallur and Ranipet Municipalities.

<sup>13</sup> Coimbatore City Municipal Corporation and Cuddalore, Dharmapuri, Erode, Gobichettipalayam, Karaikudi and Pollachi Municipalities.

Municipalities Act, 1920 the ULBs have the power to kill stray dogs and pigs. However, several ULBs stopped killing of stray animals, reportedly due to a ban on killing of stray dogs under the provisions of Prevention of Cruelty to Animals Act (PCA Act), 1960. Under the Act, Government of India framed the Animal Birth Control Rules, 2001 so as to prevent increase in the population of stray animals. Though non-Government Organisations like Blue Cross of India and People for Animals came forward to assist the ULBs in performing animal birth control to control stray dog menace, none of the test checked municipalities adopted such measures during 2001-06.

Coimbatore City Municipal Corporation killed 16,438 dogs during 2001-04 and stopped the practice from October 2004. While no death due to rabies was reported from Coimbatore city during 2001-04, six and 18 human deaths due to rabies were reported in 2005 and 2006 (upto June) respectively, which can be attributed to non-adoption of animal birth control measures.

#### **2.2.8.6 School Health Programme**

The School Health Programme (SHP) is implemented by ULBs with the objective of early detection of diseases and timely medical treatment to prevent major health problems among school going children. Under the SHP, medical teams from ULBs visit all the schools in the local area thrice in an academic year to screen the students to diagnose their health problems and to provide treatment for minor ailments. The State Government sanctioned one medical team each to selected 40 ULBs in the State.

During 2004-05 out of 40,308 schools targeted in the State 37,324 schools were visited once, 20,042 schools twice and 4,564 schools thrice. However, no school health camp was conducted in Koothanallur Municipality for five years from 2000-01 to 2005-06 and Gobichettipalayam Municipality for two years during 2004-05 and 2005-06. The percentage of schools covered by Chinnamanur Municipality was less than 50 during 2001-06. The Commissioners of the ULBs generally attributed the deficiency in coverage to shortage of manpower, non-cooperation of schools, diversion of staff for other works such as Tsunami relief, flood relief, etc., and belated/short supply of medicines.

Government proposed (July 1999) to spend Rs 10 per student per year for medicines under SHP. The DPH&PM, however, released a fixed amount of Rs 70,000 each to ULBs having school medical inspection teams and Rs 63,000 each to other ULBs per year towards supply of medicines. However, the ULBs did not come forward to supplement the funds provided by Government resulting in little availability of funds for medicines in ULBs with higher student population. The expenditure on SHP medicines was less than one rupee per student per year in Coimbatore City Municipal Corporation and ranged from Rs 1.10 to Rs 6.38 per student per year in the remaining ULBs. The injudicious allotment of funds by DPH&PM and the failure of ULBs to supplement the efforts of Government resulted in ineffective functioning of the SHP, as medicines are a pre-requisite.

## 2.2.9 Maternal and Child Health and Family Welfare activities

Maternal and Child Health activities are aimed at providing ante natal and post natal care to women. Family Welfare activities are aimed at ensuring small family norms. These activities are carried out through the network of Urban Health Posts (UHP).

### 2.2.9.1 Maternal and Child Health and Family Welfare performance

During 2003-05, the birth rate in Dharmapuri, Karaikudi, Puliangudi and Ranipet Municipalities ranged from 18.79 to 37.86, while the State level achievement was 17.1 to 18.3. The maternal mortality rate in Salem City Municipal Corporation and Nagercoil and Ranipet Municipalities ranged from 1.30 to 2.57 during 2004-05 as against the State's rate of 1.1. It was 3.04 in Ranipet Municipality during 2003-04 as against the State's rate of 1.1.

### 2.2.9.2 Outreach services

**In four test checked municipalities one MPHWS covered a population of 33,678 to 65,000 as against the prescribed norm of 20,000.**

Maternal and Child Health (MCH) and Family Welfare (FW) outreach services are extended by the MPHWS attached to the UHPs or Municipal Clinics. In Koothanallur and Thuraiyur Municipalities, MCH and FW outreach services were not provided to the public due to non-availability of staff. In Dharmapuri, Gobichettipalayam, Puliangudi and Ranipet Municipalities, one MPHWS had to cover a population of 33,678 to 65,000 as against the norm of 20,000. The number of pregnant women registered by Gobichettipalayam Municipality was as low as 30 *per cent*. In Salem City Municipal Corporation an area with a population of about 50,000 comprised in Corporation Divisions 29, 30, 31 and 32 was totally left out of coverage due to non-availability of staff.

In four of the test checked ULBs<sup>14</sup>, the MPHWS visited their area only once in a month as against the norm of once in a fortnight. No day-wise programme chart indicating area to be visited by the MPHWS was prepared by the test checked ULBs. In four of the test checked ULBs<sup>15</sup>, the MPHWS/Maternity Assistants were not provided with even the basic equipments like BP apparatus, haematology kits, etc. None of the test checked ULBs had facilities for blood grouping and Rh typing, which were essential details to be recorded in ante natal registration cards so as to arrange for blood in case of emergencies during delivery.

### 2.2.9.3 Non-implementation of Reproductive and Child Health Project

Government of India launched (2003) the Reproductive and Child Health Project II (RCHP II) with the objective of providing an integrated and sustainable system for primary health care services in urban areas. Government of India was to meet the expenditure on urban health care for a period of five years and Government of Tamil Nadu and the ULBs concerned

<sup>14</sup> Ambattur, Chinnamanur and Ranipet Municipalities and Salem City Municipal Corporation.

<sup>15</sup> Ambattur, Gobichettipalayam, Puliangudi, and Ranipet.



were to provide funds for sustenance of the project beyond the initial period of five years.

**Reproductive and Child Health Project II has not been implemented in Ambattur and Dharmapuri Municipalities though Rs 29.55 lakh was released by Government of India for this project.**

Government of India allocated (June to October 2003) a sum of Rs 5.24 crore for five years for implementation of the project in six cities<sup>16</sup> with a population over 10 lakhs and released (June to October 2003) Rs 82.72 lakh as the first instalment. Government of Tamil Nadu, however, released the grants to the ULBs concerned only in March 2005. The Project Director did not give any reason for the delay in release of funds. The Project Director did not also have the details of expenditure incurred by the municipalities except in respect of Thiruchengode Municipality (March 2007).

Ambattur and Dharmapuri Municipalities did not utilise the funds to establish UHCs but kept the entire sum of Rs 29.55 lakh released to them in their bank accounts (September 2006). The Commissioner, Ambattur Municipality stated (October 2006) that the project could not be implemented due to non-approval of the proposals for utilisation of the funds submitted to CMA.

As per the conditions of the grant, second and subsequent instalments would be released only after utilisation of 60 *per cent* of the assistance already released. Due to non-utilisation of the funds already released, Government of India did not release additional funds. Further, even though Government of India was ready to provide funds for implementation of the project in all the cities with a population of one to 10 lakh, the Project Director, RCHP II did not forward further proposal for implementation of RCHP due to non-utilisation of the funds already released by the Government of India.

#### **2.2.9.4 Functioning of dispensaries and Urban Health Posts**

In addition to the outreach services extended by them, Urban Health Posts (UHP), Maternity Centres and Dispensaries run by 12 of the ULBs audited, also provided medical treatment for minor ailments and conducted deliveries and sterilisation surgeries. Such facilities were not provided by the remaining four ULBs<sup>17</sup> audited.

Coimbatore City Municipal Corporation maintained 22 UHPs where out patient treatment, delivery and sterilisation services were available. Audit scrutiny of performance of six UHPs<sup>18</sup> disclosed that the number of deliveries declined from 3,187 in 2001 to 1,452 in 2005 and sterilisations from 1,607 in 2001 to 562 in 2005. The CHO, Coimbatore City Municipal Corporation stated (August 2006) that the number of deliveries and sterilisation came down due to non-availability of Anaesthetists. The reply is not tenable as Government had a scheme to provide financial assistance for hiring of Anaesthetists and the CHO had failed to hire Anaesthetists under that scheme.

---

<sup>16</sup> Ambattur, Avadi, Dharmapuri, Komarapalayam, Madhavaram and Thiruchengodu.

<sup>17</sup> Gobichettipalayam, Koothanallur, Pudukottai and Puliangudi.

<sup>18</sup> CTM Home, MM Home, RK Bai Home, Singanallur Home, SLM Home and UVM Home.

**In two UHPs in Cuddalore Municipality, Health Visitors provided out patient treatment due to non-availability of Medical Officers.**

While Cuddalore Municipality maintained five UHPs, without Medical Officers, in two of the UHPs, the Health Visitors provided out patient treatment during 2003-06 and the remaining three did not provide out patient treatment. Allowing the Health Visitors to handle out patient treatment amounted to a serious compromise on the quality of services as the Health Visitors were not qualified Physicians.

During 2001-06, the Medical Officers of (i) Anna Hospital, Salem, (ii) UHP, Shevapet, Salem and (iii) Maternity Centre, Dharmapuri discharged all the 7,614 mothers and their babies within three hours of delivery. The Medical Officers stated that the immediate discharge of delivered mothers was 'against medical advise'. The Medical Officer, Maternity Centre, Dharmapuri stated (September 2006) that the delivered mothers refused to stay back till complete recovery due to non-availability of sufficient medicines and food supply to in patients. Immediate discharge of delivered mothers denied them proper post natal care.

## **2.2.10 Staff**

### **2.2.10.1 Municipal Health Officer**

The review by Audit revealed serious shortcomings in the health care delivery systems in ULBs on account of staffing issues. The following comments relating to deployment and availability of staff have been made in the foregoing paragraphs:

- No redeployment of staff contrary to the 'Urban Health Care Policy'.
- School health teams could not be formed due to non-availability of staff.
- MCH and FW services suffered in two municipalities due to paucity of staff.
- Lack of trained staff adversely affected the number of deliveries and sterilisations in six UHPs in Coimbatore City Municipal Corporation.
- Quality of services was seriously compromised due to utilisation of non-qualified staff in handling out patient treatment in UHPs in Cuddalore Municipality.

Further, Section 71(2) of Tamil Nadu District Municipalities Act, 1920 provides that Municipal Councils of Municipalities may create a post of Municipal Health Officer (MHO) with the approval of Government. The Act authorises the Government to fill up that post. Of the 102 municipalities (excluding Grade III) in the State, 63 including six test checked municipalities, did not have MHO posts. In the absence of a MHO, the entire Health Department, including the primary health care activities of the ULBs, is headed by Sanitary Officers. In Ranipet Municipality, even though four Medical Officers were employed in the UHPs, the Sanitary Officer headed the primary health activities. Similarly, in Cuddalore Municipality, the Manager officiated in the MHO's post despite the availability of one Medical Officer in the UHP.

Non-availability of professionally qualified persons and non-utilisation of the services of the available professionally qualified officers to head the primary health activities denied proper leadership to the urban health care system.

#### **2.2.10.2 Government of India assistance for staff**

**Salem City Municipal Corporation did not claim the assistance for staff salaries in respect of seven UHPs created under Urban Revamping Scheme.**

Salem City Municipal Corporation was eligible for assistance from Government of India towards salaries for staff of seven UHPs established under Urban Revamping Scheme. The Corporation had not claimed the grant from the year 1998. The Government of India assistance foregone for the period 2001-06 worked out to Rs 2.61 crore with reference to the minimum of the time scales of the staff.

#### **2.2.11 Conclusion**

Due to non-adherence to the norms prescribed in the Urban Health Care Delivery Policy, Urban Primary Health Centres could not be established in needy urban local bodies and accordingly identified surplus staff could not be redeployed. The expenditure on health care activities was less than six *per cent* in most of the test checked urban local bodies due to deployment of lesser staff than required. Sixty three municipalities did not have the post of Municipal Health Officers. Delivery of urban health care services suffered due to paucity of qualified staff. The School Health Programme was adversely affected due to inadequate allocation of funds by the Government and the urban local bodies not supplementing these funds. None of the urban local bodies had facilities for blood grouping and Rh typing.

#### **2.2.12 Recommendations**

- The Commissioner of Municipal Administration should take immediate steps to implement the Urban Health Care Delivery Policy.
- Government should direct the urban local bodies to provide adequate percentage of their budget for health care activities.
- Disease surveillance should be stepped up by filling vacant posts and by posting enough staff as per prescribed norms.
- Staff should be provided as per norms for outreach Maternal and Child Health and Family Welfare services.
- The health care system in urban local bodies should be strengthened by filling up vacant posts of qualified staff including creation of Municipal Health Officers.

The above points were referred to Government in January 2007; reply has not been received (May 2007).

## **2.3 Financial management in municipalities**

### *Highlights*

*As per the 2001 census, Tamil Nadu is the most urbanised state with 43.86 per cent of State's population living in urban areas. The Seventy-fourth Constitution Amendment Act, 1992 has given constitutional status to urban local bodies with sustainable provisions for devolution of functions and funds. Out of 18 functions to be devolved on the municipalities, only 13 functions have been transferred so far. Financial management in municipalities in certain selected fields was reviewed during October-November 2006.*

- **Budgets were not drawn up based on annual action plans by the municipalities and did not serve the purpose of expenditure control.**

**(Paragraphs 2.3.6.1 and 2.3.6.2)**

- **Three municipalities diverted Rs 2.96 crore from the Elementary Education Fund up to March 2004.**

**(Paragraph 2.3.6.3)**

- **Kumbakonam Municipality did not take action to collect Property Tax of Rs 5.98 crore as it failed to include demands in respect of 456 cases already decided under collectable demands.**

**(Paragraph 2.3.7.2)**

- **Installation of new turbines for augmenting water supply at a cost of Rs 58.43 lakh by Thanjavur Municipality did not result in intended savings in electricity charges.**

**(Paragraph 2.3.7.7)**

- **The revenue loss on account of the quantity of water lost due to leakage was Rs 3.77 crore during 2003-06 in Pollachi Municipality.**

**(Paragraph 2.3.7.8)**

- **Failure of three municipalities to utilise the offer for conversion of high cost loans resulted in avoidable interest liability of Rs 3.54 crore.**

**(Paragraph 2.3.8.1)**

### **2.3.1 Introduction**

The urban population of Tamil Nadu is 2.75 crore as per the 2001 census accounting for 9.6 *per cent* of the country's urban population of 28.61 crore. The increase in the urban population and related economic activities accentuate the demand for urban infrastructure. The bridging of gaps in various urban services is the top priority of the Municipal Administration and Water Supply Department, along with augmenting of resources of the urban local bodies so that they can progressively become self-sustaining entities. In terms of the Seventy-fourth amendment to the Constitution of India, 13 out of 18 functions have already been transferred and transfer of the remaining functions were under consideration of the State Government. The municipalities are responsible for provision of important services and amenities to the urban population. Audit reviewed the financial management by the municipalities for budgetary control, revenue and loan management.

### **2.3.2 Organisational set up**

There are 152 municipalities in the State categorised under various grades as furnished in paragraph 1.1.4. The municipalities come under the administrative control of Secretary, Municipal Administration and Water Supply Department at Government level. The Commissioner of Municipal Administration is the head of the department and is assisted by seven Regional Directors of Municipal Administration at regional level. The municipalities are administered by the respective councils of elected representatives, assisted by Commissioners, who are in overall charge of various wings, *viz.*, Engineering, Town Planning, Public Health and Sanitation, Revenue Collection, etc.

### **2.3.3 Audit objectives**

The review was conducted with the objective of assessing the efficiency of the urban local bodies in

- budgetary control,
- assessment and collection of revenues,
- management of loans and
- utilisation of Eleventh Finance Commission grants.

### **2.3.4 Audit criteria**

The following were taken as audit criteria for the review:

- provisions contained in the manuals regarding budgeting and accounting,
- provisions contained in the Tamil Nadu District Municipalities Act, 1920 and Rules made thereunder,
- terms and conditions of the loans obtained by the urban local bodies and

- conditions prescribed for utilisation of Eleventh Finance Commission grants.

### **2.3.5 Audit coverage and methodology**

The activities in the fields indicated in the audit objectives were reviewed in seven<sup>1</sup> large and important municipalities in Coimbatore and Thanjavur Districts. The review conducted during October–November 2006 covered the period 2001-06 using the following methodology.

- Collection and analysis of information from the records produced by the auditee institutions.
- Obtaining replies of the auditee institutions for audit enquiries.
- Collection and analysis of information from the official web site of the Government.
- Discussion of audit objectives and criteria with the Secretary, Municipal Administration and Water Supply Department in the entry conference.

### **2.3.6 Budgetary planning and control**

Review of activities and records relating to budgetary planning and control revealed various deficiencies as discussed in the succeeding paragraphs.

#### **2.3.6.1 Annual action plan**

**Annual action plan for the municipalities and districts were not prepared to have an orchestrated growth.**

The municipalities were required to prepare action plans every year, which were to be consolidated at the district level by the District Planning Committee into a draft Development Plan for the district as a whole. The main purpose of preparing such a plan is to avoid plurality in planning in various developmental issues like drinking water supply, provision of health and infrastructure facilities such as roads, housing, etc. No such action plans were prepared in any of the test checked municipalities. In the absence of local planning, the District Plan did not also emerge.

Preparation of action plans by municipalities and their consolidation along with the plans of the panchayat raj institutions is crucial to ensure incorporation of local needs and wants in the development process. The absence of such planning also compromises on the element of popular participation and the need for the plan to reflect people's wants.

---

<sup>1</sup> Coimbatore District: Mettupalayam, Pollachi, Tiruppur and Udumalpet Municipalities; Thanjavur District: Kumbakonam, Pattukottai and Thanjavur Municipalities.

### 2.3.6.2 *Budgeting and accounting*

**Approval of the Council for budgets and reappropriation were not obtained before utilisation of provisions.**

The budget of the municipality was required to be got approved by the Council before the end of February of the previous financial year. During the years 2003-06, there were delays ranging from one to nine months in placing the budget before the Council and obtaining approval in all test checked municipalities except Pattukottai. Such delays denied the Council an opportunity to incorporate its policy imperatives and priorities into the budget.

The municipalities were authorised to modify the figures shown in the budget with regard to their receipts or the distribution of the amounts to be expended on different services they undertake and for the purpose they were required to propose a supplemental or revised budget. The proposals for Revised Estimates (RE) of the test checked municipalities during 2003-06 did not, however, contain the reason for such proposals and justification for the provisions sought for.

All applications for reappropriation were to be submitted to the Council by the executive authority in time for passing orders on them before the end of the year. However, RE proposals were submitted between May and July of the next financial year by Kumbakonam Municipality (2003-04), Tiruppur and Pollachi Municipalities (2003-06).

A comparison of amounts authorised in the RE's and the expenditure during 2003-05 revealed that the expenditure was more than 20 *per cent* of the funds provided in the REs in respect of 65 heads in five municipalities<sup>2</sup>. The excess expenditure was Rs 13.10 crore. The excess expenditure was not also regularised by the Councils through reappropriation orders subsequently. The municipalities did not conduct any variance analysis for the excess/savings in expenditure as compared with the estimates.

The municipality should prepare or cause to be prepared detailed annual accounts and forward a copy thereof to the auditor<sup>3</sup> not later than 15 of May following. The delay in submission of accounts for 2003-04 ranged from two to 23 months in the test checked municipalities. Six test checked municipalities except Kumbakonam Municipality did not finalise the accounts for 2004-05 and all the seven municipalities for 2005-06 (October 2006). Due to non-adherence to the established budgetary procedures by the test checked municipalities and their inability to finalise annual accounts in a timely manner, budgetary control and financial management was adversely affected.

---

<sup>2</sup> Kumbakonam: 2003-05 – 13 heads; Pollachi: 2003-04 – 15 heads; Thanjavur: 2003-05 – 15 heads; Tiruppur: 2003-05 – 14 heads and Udumalpet: 2003-04 – 8 heads.

<sup>3</sup> Director of Local Fund Audit.

### 2.3.6.3 *Diversion of earmarked funds*

Three municipalities diverted Rs 2.96 crore from the Elementary Education Fund to other fund accounts.

Diversion of earmarked funds even temporarily for other purposes without the previous sanction of the Government was prohibited. Three municipalities diverted Rs 2.96 crore (up to March 2004) (**Appendix IX**) from the Elementary Education Fund to the Water Supply Fund/Revenue Fund without obtaining sanction of the Government. The amounts were pending adjustment as of October 2006.

### 2.3.7 *Assessment and collection of revenue*

#### 2.3.7.1 *Collection performance*

The revenue generated by the municipalities mainly falls into four categories viz., Property Tax, Profession Tax, non-tax revenue comprising fees from building licence, lease rent for markets, public toilets, shops, etc., and user charges for water supply. While percentage of collection of non-tax revenue vis-à-vis demand ranged from 69 to 71 during 2003-06, it was 50 to 60 in respect of tax revenue of the urban local bodies. Collection at macro level by the municipalities and the action taken for increasing the efficiency in collection of revenue are discussed in detail in paragraph 1.9 of Chapter I of this report. Due to lack of efforts in collection, the arrears accumulated to Rs 40.83 crore (March 2006) (**Appendix X**) in respect of all the seven test checked municipalities. No distraint action such as seizure and sale of movable properties of the defaulter for collection of dues, as provided in the Tamil Nadu District Municipalities Act, 1920 was taken in any of the seven municipalities resulting in the accumulation of huge arrears. During 2000-04, Kumbakonam, Thanjavur and Tiruppur Municipalities have written off Rs 1.43 crore of tax and non-tax dues. The proposals placed before the Councils did not elaborate the various steps taken by them to realise the revenue.

#### 2.3.7.2 *Property Tax*

Properties were not assessed to tax indicating systemic deficiencies.

Property Tax, forming almost 50 *per cent* of the total revenue, is the major source of revenue to the municipalities.<sup>4</sup> As instructed (December 2004) by the Commissioner of Municipal Administration, the municipalities undertook a survey of properties for bringing into account the properties not assessed to Property Tax earlier.

Tiruppur Municipality brought 767 unassessed properties into assessment (tax effect Rs 33.74 lakh per half year) with effect from the first half year of 2005-06, of which the building plans for 307 properties were not regularised (October 2006). Kumbakonam Municipality brought into the tax net 1,525 properties as a result of the survey, the tax effect being Rs 3.26 lakh *per annum*. These instances brought to light the deficiencies in coverage of properties for the purpose of levy of Property Tax.

<sup>4</sup> Property Tax:  
 2003-04 Rs 192.85 crore (48 *per cent* of total revenue of Rs 401.52 crore)  
 2004-05 Rs 210.27 crore (49 *per cent* of total revenue of Rs 430.61 crore)  
 2005-06 Rs 219.50 crore (50 *per cent* of total revenue of Rs 441.18 crore)



The survey also brought out that 1,069 properties in two municipalities (Kumbakonam: 830 and Thanjavur: 239) were constructed on encroached sites. The Commissioners of the above municipalities have expressed their reservation to levy tax in respect of the above properties.

**Property Tax of Rs 32.80 lakh on vacant land was not levied on 35 layouts in five municipalities.**

Municipalities are authorised to levy Property Tax in respect of land without any building situated within the municipal limits including approved layouts kept unsold. In respect of layouts approved during 2001-06, tax for the first half-year immediately after approval of the layout amounting to Rs 32.80 lakh was not levied as detailed below:

| Sl.No.       | Name of the Municipality | Total number of layouts approved during 2001-06 | Area of layouts approved (in sq. ft) | Revenue loss (Rupees in lakh) |
|--------------|--------------------------|---|--------------------------------------|-------------------------------|
| 1            | Kumbakonam               | 3   | 2,27,056                             | 1.17                          |
| 2            | Mettupalayam             | 5   | 3,98,131                             | 1.03                          |
| 3            | Pollachi                 | 10  | 14,08,727                            | 14.75                         |
| 4            | Thanjavur                | 14  | 28,26,116                            | 6.33                          |
| 5            | Tiruppur                 | 3   | 3,36,021                             | 9.52                          |
| <b>Total</b> |                          | <b>35</b>                                       | <b>51,96,051</b>                     | <b>32.80</b>                  |

The municipalities were not maintaining any record in respect of land held by each layout owner and details of subsequent purchases effected and hence, the exact amount of tax to be collected on vacant lands could not be worked out.

While the municipalities assess the Property Tax manually, the demand is fed into computers. The demand, collection and balance position is watched through computers.

The closing balance for 2004-05 as per the demand, collection and balance register for Property Tax was Rs 9.55 crore in Kumbakonam Municipality. However, the opening balance was taken as Rs 8.41 crore in the computer generated demand, collection and balance for the year 2005-06. The difference of Rs 1.14 crore represented short raising of demand. As the collection of Property Tax was only with reference to the particulars already fed into the computers, the non-reconciliation of differences in time would result in tax dues escaping collection. The Municipality replied that action was being taken to reconcile the difference between the manual and computer generated demand, collection and balance.

Kumbakonam Municipality had an arrear of Rs 8.41 crore in collection at the end of 2004-05. The demand for 2005-06 including this arrears was Rs 12.96 crore. Of this, Rs 6.93 crore was shown as 'under litigation' involving 494 cases. While the percentage of collection in respect of collectable demand was 67, the percentage of collection of tax in respect of properties under litigation was only three. A verification of the pending case files revealed that only 38 cases were pending at the end of 2005-06. The tax involved in respect of these cases was only Rs 70.42 lakh. The Commissioner of the municipality had failed to include demands in respect of 456 cases already decided under collectable demands. The demand in respect of these cases was Rs 5.98 crore which was 68 per cent of the total Property Tax pending collection at the end of 2005-06.

### 2.3.7.3 Tax on Profession

The executive authorities of the urban local bodies may, by notice, require any employer to furnish the names of all persons employed by him for the purpose of assessment to Tax on Profession. None of the test checked municipalities had called for such information from the employers for assessment of tax and had indicated the amount collected as demand. In the absence of such information, it could not be ensured that all the employees were assessed to Tax on Profession.

Tax on Profession is also leviable on persons receiving pension exceeding Rs 21,000 per half year. As ascertained from the respective sub-treasuries, 18,732 pensioners were drawing pensions above the ceiling limits as of 31 March 2006 in the seven test checked municipalities resulting in non-collection of tax of Rs 68.18 lakh *per annum*.

### 2.3.7.4 Cable Television Tax

The powers to levy and collect tax on cable television (cable TV) exhibition were vested with the municipalities for the period from July 2000 to May 2003. The said powers were rescinded by Government in June 2003. In five municipalities<sup>5</sup> the demands for Rs 1.39 crore raised for the period from July 2000 to May 2003 remained to be collected as of March 2006. As the cable TV operators did not file statutory returns, Tiruppur Municipality had to conduct inspection for ascertaining the number of operators and connections. It issued demand notices to the operators only in October 2003 and was yet to collect tax of Rs 2.21 crore (October 2006).

**Thanjavur Municipality failed to raise demand for cable TV tax to the extent of Rs 95.70 lakh.**

Thanjavur Municipality did not conduct any such survey but raised (March 2002) demand for 1,771 connections only, whereas according to the President of Cable TV Operators Welfare Association (February 2002) there were 20,000 connections in the municipal area. The non-raising of demand for the rest of the connections resulted in short demand of Rs 95.70 lakh which worked out to 11 *per cent* of demand for own revenue during 2005-06.

### 2.3.7.5 Resolutions of the Council not implemented

**Thanjavur Municipality did not give effect to enhancement in lease rent for vacant land resulting in loss of revenue of Rs 98.34 lakh.**

Thanjavur Municipality resolved (November 1998) to revise the lease rent payable by the occupants of vacant lands of the municipality. The resolution also laid down that the lease was to be renewed and rent revised every three years. There were 106 lessees to whom vacant lands measuring 16 sq.ft. to 43,346 sq. ft. were leased out. Even after seven years, the revision proposed by the Council was not given effect to, resulting in a loss of Rs 98.34 lakh for the period 1999-2006.

<sup>5</sup> Kumbakonam: Rs 46.26 lakh, Mettupalayam: Rs 15.59 lakh, Pattukottai: Rs 27.72 lakh, Pollachi: Rs 18.20 lakh and Udumalpet: Rs 31.47 lakh.

### 2.3.7.6 *Non-collection of enhanced water supply deposits*

**Thanjavur and Tiruppur Municipalities failed to collect the enhanced water connection deposits resulting in non-collection of Rs 15.89 crore.**

Thanjavur Municipality enhanced the deposit amount for new and existing water supply connections during June 2001 in respect of its domestic and non-domestic connections. However, it did not raise any demand on the 18,773 consumers for the enhanced deposit, resulting in non-collection of Rs 1.88 crore.

Though Tiruppur Municipality enhanced the deposit amount for water supply with effect from January 2005, it did not raise the demand on the 43,538 consumers for the enhanced deposit. The deposit to be collected amounted to Rs 14.01 crore. Though the Municipality had (May 2006) an overdue liability of Rs 15.05 crore towards loans taken for water supply schemes, the Commissioner of the Municipality did not make use of the opportunity to collect the enhanced deposit and settle the overdue.

### 2.3.7.7 *Non-accrual of intended savings*

Thanjavur Municipality was extracting water from the river Kollidam at Thirumanur. The head works had three pump sets with motors rating 200 HP, 25 HP and 60 HP. The Municipality replaced the old pumpsets and installed (January 2005) new pumpsets at a cost of Rs 58.43 lakh. It was envisaged that the Municipality would save Rs 24 lakh *per annum* towards electricity charges and also improve the quantity of water supply after installation of the new pumpsets.

The average monthly electricity charges paid during the period February 2005-April 2006 was Rs 4.72 lakh as against average monthly consumption charges of Rs 4.85 lakh during February 2004-January 2005. The savings in electricity charges *per annum* was Rs 1.52 lakh only as against the envisaged Rs 24 lakh. Further there was no increase in the quantity of water supplied daily. Thus, the project completed at a cost of Rs 58.43 lakh did not yield the expected benefits.

### 2.3.7.8 *Recurring loss due to leakages in water distribution*

**Revenue loss on account of water lost due to leakage amounted to Rs 3.77 crore (2003-06) in Pollachi Municipality.**

Out of 16.91 mld of water pumped for distribution in Pollachi Municipality, only 6.58 mld actually reached the consumers. About 62 *per cent* of the water pumped was lost due to leakage as the system was more than 30 years old. The municipality was put to a revenue loss of Rs 3.77 crore for the period 2003-06. The proportionate operational cost for pumping the quantity of water lost due to leakage (after allowing 10 *per cent* for normal leakage) was Rs 1.97 crore<sup>6</sup> during this period 2003-06. Though Government accorded (June 2004) administrative sanction for Rs 9.30 crore towards implementation of a scheme for improving the distribution system, the same was only in tendering stage (November 2006).

---

<sup>6</sup> Quantity of water pumped: 16.90 mld (less) 10 *per cent* (1.69 mld) for normal leakage; Net quantity: 15.21 mld; Actual quantity distributed: 6.58 mld; Loss due to leakage: 8.63 mld; Total operation cost: Rs 3.85 crore; Proportionate cost for 8.63 mld: Rs 1.97 crore.

## 2.3.8 Loan Management

### 2.3.8.1 *Non-conversion of high cost loan into soft loan resulting in avoidable interest liability*

Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) offered (January 2003) taking over of high cost loans of urban local bodies availed from Government and other lending agencies into soft loans with interest ranging from 10.25 *per cent* to 8.25 *per cent* during January 2004-March 2006. The Commissioners of Pollachi, Thanjavur and Tiruppur Municipalities did not pursue the matter actively and convert their high cost loans amounting to Rs 37.20 crore bearing interest at 13.5 *per cent* into soft loans resulting in avoidable interest liability of Rs 3.54 crore (Appendix XI).

### 2.3.8.2 *Lack of demand for remunerative assets created*

Due to lack of demand for shops constructed by Thanjavur and Tiruppur Municipalities, the municipalities were forced to amortise the loans from General Fund.

Tiruppur Municipality constructed (December 2001) a new bus stand at a total cost of Rs 4.11 crore. The Municipality obtained loans from Integrated Urban Development Fund (Rs 30 lakh) and Tamil Nadu Urban Development Fund (Rs 80.75 lakh) for the purpose. The shops constructed within the bus stand alone were expected to yield revenue of Rs 4.22 crore for the period January 2002-October 2006 at Rs 7.29 lakh per month. Since the new bus stand was only partially functional, the Municipality could not derive the anticipated revenue. Consequently, the Municipality was forced to repay the loan instalments from its General Fund (Rs 1.43 crore upto September 2006).

Thanjavur Municipality obtained a loan of Rs 1.35 crore from TUFIDCO in 2003-04 for construction of 130 shops and one community hall. After completion of works in August 2004, the Municipality had initiated action to put them to use. However, 52 shops and the community hall could not be auctioned (December 2006) due to lack of demand. Thus, the construction of shops without ascertaining the actual demand resulted in an interest burden of Rs 8.30 lakh *per annum*. The loan was being repaid using the General Fund.

### 2.3.8.3 *Diversion of water supply deposit*

Due to non-utilisation of the water supply deposits for payment of loans taken for water supply works, Kumbakonam Municipality incurred an avoidable interest liability of Rs 24.85 lakh.

The deposit for water supply connection collected from house owners should be utilised for execution of capital expenditure, debt servicing and repayment of loans taken for executing water supply works. However, Kumbakonam Municipality diverted Rs 96.73 lakh from out of Rs 1.27 crore received as deposit to the General Fund during the period June 2001 to December 2003.

The Municipality obtained a loan of Rs 92.70 lakh (March 2004 and June 2004) at 9.5 *per cent per annum* for augmentation of water supply. The Municipality had (December 2005) Rs 66 lakh in fixed deposits and a deposit of Rs 7.51 lakh in the savings bank account made from the water supply deposits received. Though these deposits could have been utilised towards settlement of loans taken for water supply purposes, the municipality failed to do so, resulting in avoidable interest liability of Rs 24.85 lakh. While, the Municipality had earned an interest of Rs 4.29 lakh during 2004 and 2005, it had also paid Rs 14.74 lakh during the same period towards interest on the loan taken.

The Commissioner of Kumbakonam Municipality replied that necessary action would be taken to foreclose the loan after obtaining the approval of the Commissioner of Municipal Administration (November 2006). The reply is not acceptable as the foreclosure of loan was well within the powers of the Council of the local body.

### **2.3.9 Utilisation of Eleventh Finance Commission grants**

Government of India guidelines for utilisation of local bodies grants recommended by the Eleventh Finance Commission, stipulate that the grants should be used to finance the maintenance of civic services in rural and urban areas. The works to be taken up included provision of primary education, primary health care, safe drinking water, street lighting, sanitation including drainage and scavenging facilities, other common property resources, etc. The urban local bodies should contribute a matching grant of not less than 50 *per cent* of the grant received from the Government of India.

In contravention of the above guidelines, the Commissioners of four municipalities<sup>7</sup> out of seven test checked municipalities executed 101 original works at a cost of Rs 3.81 crore during 2000-05. The works executed included laying of water supply lines, provision of bore-wells, construction of storm water drain, construction of building for council hall, etc. The proportionate grant involved in the above ineligible expenditure was Rs 2.12 crore (**Appendix XII**).

The Commissioner, Kumbakonam Municipality had not utilised (as of October 2006) the Eleventh Finance Commission grant of Rs 11.21 lakh received (March 2005) towards second instalment for 2004-05.

### **2.3.10 Conclusion**

Budgets were not prepared based on any annual action plans, as required. Performance in revenue collection was not efficient. Three municipalities failed to utilise the offer for conversion of high cost loans. Two municipalities resorted to amortisation of loans from their General Fund as the assets created out of the loans did not generate the anticipated revenue due to lack of demand. Four municipalities utilised the local bodies grant released by Government of India based on the Eleventh Finance Commission recommendations for ineligible items of work.

### **2.3.11 Recommendations**

- The budgeting and accounting system should be streamlined so as to serve the purpose of expenditure control.
- The municipalities should make concerted efforts to improve efficiency in collection of tax and non-tax revenues.
- The municipalities should take up creation of income generating assets out of borrowed funds, only after assessment of demands so that they need not depend on General Fund for amortisation of loans.
- The municipalities should refrain from utilising local bodies grants for ineligible items of work.

The above points were referred to Government in January 2007; reply has not been received (May 2007).

---

<sup>7</sup> Kumbakonam, Pollachi, Thanjavur and Tiruppur.

## CHAPTER III

### AUDIT OF TRANSACTIONS (URBAN LOCAL BODIES)

Audit of transactions in the Municipal Administration and Water Supply Department in the Secretariat, Commissionerate of Municipal Administration, Chennai City Municipal Corporation, Madurai City Municipal Corporation, Salem City Municipal Corporation and Tiruchirappalli City Municipal Corporation and 44 municipalities brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

#### ***MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT***

#### **3.1 Losses detected in Audit**

#### ***TIRUCHIRAPPALLI CITY MUNICIPAL CORPORATION AND 41 MUNICIPALITIES***

##### ***3.1.1 Short-realisation of Surcharge on Stamp Duty***

**Failure to verify the correctness of Surcharge on Stamp Duty transferred and to take action to claim the surcharge short-transferred, resulted in short-realisation of revenue of Rs 1.06 crore in 42 urban local bodies.**

As per Section 116 A of the Tamil Nadu District Municipalities Act, 1920, a duty on transfer of property shall be levied in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899 on every instrument relating to transfer of immovable property situated within the limits of the municipality. Section 116 C of the Act *ibid* empowers the Government of Tamil Nadu to make rules regulating the collection of the duty, the payment thereof to municipalities and deduction of any expenses incurred by Government in the collection thereof.

For the purpose of transfer of the surcharge to the municipalities, the District Registrar prepares a statement at the end of each quarter, indicating the amount due to each municipality after deducting the collection charges and forwards it to the District Collector. The District Collector issues the proceedings to the Treasury Officer concerned for apportionment of surcharge to the urban local bodies.

As per the recommendations of the Second State Finance Commission, the State Government reduced (August 2002) the rate of collection charges for Surcharge on Stamp Duty from 10 *per cent* to five *per cent* with effect from April 2002.

Audit scrutiny of records of 10 urban local bodies including one city municipal corporation and information collected from 32 municipalities revealed that the collection charges was deducted at 10 *per cent* instead of at five *per cent* during the period April – December 2002. The excess deduction was noticed in one quarter in respect of five urban local bodies, in two quarters in respect of 27 urban local bodies and in three quarters in respect of 10 urban local bodies. The urban local bodies did not take any action to claim the amount transferred short. This had resulted in short-realisation of revenue by these urban local bodies to the extent of Rs 1.06 crore (**Appendix XIII**).

The matter was referred to Government (January 2007); reply has not been received (May 2007).

### ***HOSUR MUNICIPALITY***

#### ***3.1.2 Non-realisation of revenue***

**Failure of the Hosur Municipality to levy Property Tax and Education Tax on vacant land owned by Tamil Nadu Housing Board resulted in non-realisation of revenue amounting to Rs 92.43 lakh for the period October 2003-April 2006.**

As empowered under Section 78 and 84 of Tamil Nadu District Municipalities Act, 1920, Hosur Municipality (Municipality) resolved (January and June 1993) to levy Property Tax at 4/8 (i.e. 0.5) *per cent* and Education Tax at 1/8 (i.e. 0.125) *per cent* of the value of any vacant land for each half-year from October 1993.

Between 1976 and 1994, Hosur Housing Unit of Tamil Nadu Housing Board (TNHB) took up development of plots and construction of houses. Out of the saleable area of 303.33 acres under these schemes, TNHB sold 280.17 acres of land and 23.16 acres (10.09 lakh sq. ft.) remained unsold as of March 2006. The Hosur Municipality did not levy and collect Property Tax and Education Tax on the vacant land.

Loss of revenue to the Municipality due to non-levy of the tax worked out to Rs 92.43 lakh for the period October 2003-April 2006 (Property Tax: Rs 73.95 lakh and Education Tax: Rs 18.48 lakh-**Appendix XIV**) which worked out to 14 *per cent* of the total Property Tax collected (Rs 6.47 crore) during the three years 2003-06.

The matter was referred to Government (October 2006); reply has not been received (May 2007).

### ***CHENNAI CITY MUNICIPAL CORPORATION***

#### ***3.1.3 Short-levy of Property Tax***

**Due to adoption of lower tariff and lower number of rooms than actual for arriving at the gross income of lodging houses the Chennai City Municipal Corporation has foregone a revenue of Rs 92.01 lakh.**

The Chennai City Municipal Corporation (Corporation) prescribed (June 1974) that the annual value of lodging houses for the purpose of

assessment to Property Tax should be arrived at the following percentage of gross income:

- |     |   |             |
|-----|---|-------------|
| (a) | All starred hotels  | 10 per cent |
| (b) | 'A' class hotels and lodging houses <sup>1</sup>                                | 20 per cent |
| (c) | 'B' class hotels and lodges (i.e. all others not included in (a) and (b) above) | 25 per cent |

For the above purpose the gross income would be the amount of revenue realised if all rooms were occupied throughout the year and reasonable letting value for other portions like restaurant, shop, etc. The Corporation levies Property Tax, which includes Education Tax and Library Cess, at 12.4 per cent of the annual value.

A comparison of information regarding number of rooms as furnished by the lodges to Health Department of the Corporation for obtaining licence with that furnished for assessment to Property Tax disclosed adoption of

- lesser number of rooms in respect of one lodge,
- lesser number of rooms and lesser tariff in respect of three lodges and
- lesser tariff in respect of five lodges

for assessment to Property Tax. The loss of revenue due to these (short-levy of Property Tax) worked out to Rs 92.01 lakh for the period 2003-06 (**Appendices XV and XVI**).

The matter was referred to Government (October 2006); reply has not been received (May 2007).

## **KOMARAPALAYAM AND KATHIVAKKAM MUNICIPALITIES**

### **3.1.4 Loss of Revenue**

**Construction of shopping complex, shops, godowns and stalls in interior area resulted in non-realisation of anticipated revenue of Rs 54.47 lakh in two municipalities.**

Construction of income-generating assets in interior areas resulted in non-realisation of anticipated rental revenue in two municipalities as discussed below.

- (a) Komarapalayam Municipality (Municipality) obtained loans amounting to Rs 16.60 lakh under the centrally sponsored scheme for Integrated Development of Small and Medium Towns (IDSMT) and Rs 30.07 lakh from Tamil Nadu Urban Finance Infrastructure Development Corporation (TUFIDCO) between December 1994 and March 1999 for creation of remunerative assets such as shops and godowns. The loans under IDSMT and from TUFIDCO carried interest at 11.75 per cent and 15 per cent

<sup>1</sup> Hotels/lodges situated in better localities.



*per annum* respectively. The IDSMT envisaged promoting resource-generating schemes for the urban local bodies to improve their overall financial position and ability to undertake long-term infrastructure development programmes on their own as well as to repay the borrowed capital and usher in necessary municipal reforms. All the works relating to creation of assets were completed between November 1995 and December 1998 (cost: Rs 44.60 lakh). The projected revenue from these assets was to be Rs 5.95 lakh *per annum*.

The Municipality conducted 53 auctions between May 1997 and March 2006 for leasing out the shops/godowns. Out of 28 shops/godowns constructed, six were leased out within two years from completion of construction; four between three and five years; 12 between five and 10 years and six (constructed in November 1995) were not leased out even as of March 2006. Further, as of March 2006, eight shops which were leased out earlier were also vacant for a period ranging from six months to two years. The records of the Municipality did not indicate that any survey had been carried out for assessment of demand before taking up these ventures. As the demand for the shops/godowns was poor, as against the anticipated revenue of Rs 52.36 lakh for the period from the completion of construction up to March 2006, the Municipality could earn only Rs 10.79 lakh, the shortfall in revenue being Rs 41.57 lakh. The Government also turned down (January 2005) a proposal of the Municipality (March 2001) to dispose of eight godowns and nine shops for settling the loans obtained.

The demand, collection and balance position in respect of principal and interest as of March 2006 in respect of the loans availed for creation of these remunerative assets obtained was as below:

(Rupees in lakh)

| Sl. No.      | Loan from | Principal    |             |              | Interest      |              |              |
|--------------|-----------|--------------|-------------|--------------|---------------|--------------|--------------|
|              |           | Demand       | Collection  | Balance      | Demand        | Collection   | Balance      |
| 1.           | IDSMT     | 6.26         | --          | 6.26         | 23.55         | --           | 23.55        |
| 2.           | TUFIDCO   | 25.82        | 4.88        | 20.94        | 101.38        | 76.25        | 25.13        |
| <b>Total</b> |           | <b>32.08</b> | <b>4.88</b> | <b>27.20</b> | <b>124.93</b> | <b>76.25</b> | <b>48.68</b> |

As may be seen, the overdue amount towards principal and interest was Rs 75.88 lakh.

The Municipality attributed the lack of demand for the shops/godowns to their remote location. Thus, the Municipality could not earn the anticipated revenue of Rs 41.57 lakh due to its failure to assess the demand for such income-generating assets before taking up construction (**Appendix XVII**). Though the IDSMT had contemplated development of infrastructure out of the income-generated by these assets, the Municipality could not even repay the loan, resulting in accumulation of overdue principal and interest amounting to Rs 75.88 lakh (March 2006).

The matter was referred to Government (October 2006); reply has not been received (May 2007).

(b) Kathivakkam Municipality (Municipality) constructed (March 2001) a shopping complex comprising 41 shops (20 shops on the ground floor and 21 shops on the first floor) at a cost of Rs 37.34 lakh. The Municipality fixed (December 2000) Rs 1,000 and Rs 900 as monthly rent per shop on the ground and first floors respectively. In auctions conducted from December 2000, 23 shops were leased out, of which only five shops were occupied (April 2006) while 18 shops were leased out for periods ranging from nine to 40 months between April 2001 and June 2006. There were no bidders for the remaining 18 shops in 51 auctions conducted between December 2000 and January 2006, even after the Municipality reduced (May 2005) the rent to Rs 500 and Rs 400 per shop on the ground and first floors respectively.

In reply to an audit enquiry, the Municipality stated that the shopping complex was constructed keeping in view the proposed expansion of the highway from Kathivakkam to Minjur, which was still in process. The Municipality, however, did not state whether any assessment of demand for the complex was conducted before taking up construction. Further, the shopping complex was also constructed in the interior.

Thus, due to the location of the shopping complex in a locality in the interior, there was no demand for 18 shops (proportionate cost of construction: Rs 16.39 lakh) for the past five years and 18 other shops were also unoccupied for periods ranging from 23 to 54 months resulting in loss of expected revenue of Rs 12.90 lakh as of June 2006 (**Appendix XVIII**).

The matter was referred to Government in July 2006; reply has not been received (May 2007).

## **CHENNAI CITY MUNICIPAL CORPORATION**

### **3.1.5 Non-collection of lease rent for land**

**Irregular handing over of land to a club without authorisation by the Council, failure to take remedial action to resume the land and revise and collect the lease rent periodically for the period of occupation resulted in loss of revenue of Rs 34.26 lakh.**

Chennai City Municipal Corporation (Corporation) resolved (August 1989) to lease out an auditorium situated in Anna Nagar (plinth area: 5,872 sq. ft.) to Anna Nagar Tower Club (Club), a registered body, for three years on payment of lease rent as fixed by the Corporation. However, the Assistant Executive Engineer of the Corporation, while handing over (September 1989) the building to the Club, also handed over land appurtenant to the Club. The area of land thus handed over was found to be 33,255 sq. ft. in subsequent measurement in September 1993. The Club also undertook some construction activities on the land. The Council of the Corporation approved (May 1991) a monthly lease rent of Rs 7,769 at seven *per cent* of the market value for the building for initial period of three years as the organisation was meant to promote healthy life.

At the end of the lease period, the Club asked for extension of the lease for a further period of three years from September 1992. As per resolution of the Council (October 1992), the Corporation revised the lease rent for the building to Rs 8,546 per month and resolved to resume the land occupied by the Club without authorisation. The Club continues to pay the lease rent till date. The Club asked (June 1993 and September 1995) for the land to be leased to them at concessional rate and also to lease the land and building for 99 years.

The Corporation had addressed (October 1996) the Government for (i) permission to renew the lease for the building, (ii) lease out the land at Rs 2,000 per ground per year and (iii) to grant lease for 99 years. Government called for (April 2000) a detailed report on the above matter but an order is yet to be issued by the Government in this regard (August 2006). To an audit enquiry the Corporation stated (July 2006) that action is being taken to propose a resolution to resume the land along with the building constructed on the land.

Under sub section 3 of Section 75 of the Madras City Municipal Corporation Act, 1919 the Commissioner of the Corporation may lease any immovable property, the value of which exceeds twenty five thousand rupees with the sanction of the Council. With reference to rates of lease rent as approved by the Council through various resolutions, the lease rent payable by the Club for the land works out to Rs 34.26 lakh (**Appendix XIX**) for the period from September 1989 to March 2006.

Though the Corporation was aware of unauthorised occupation of the land, it failed either to resume the land immediately or to collect the prescribed lease rent for the period of occupation until resumption. The land remains occupied without authorisation of the Corporation for the past 17 years. The failure of the Corporation to collect lease rent for the land resulted in loss of revenue of Rs 34.26 lakh.

The matter was referred to Government in September 2006; reply has not been received (May 2007).

### **3.2 Unfruitful expenditure**

#### ***CHENNAI CITY MUNICIPAL CORPORATION***

##### ***3.2.1 Unfruitful expenditure on construction of two maternity and child welfare centres and a health post***

**Two maternity and child welfare centres and a health post constructed at a cost of Rs 44.98 lakh was not made use of by public as health care activities were provided by various Government and Corporation agencies in the area.**

The Chennai City Municipal Corporation constructed buildings for housing two maternity and child welfare centres and a health post in areas already covered by various Government and Corporation agencies as discussed in the succeeding paragraphs.

(a) Chennai City Municipal Corporation (Corporation) constructed two maternity and child welfare centres at a cost of Rs 23.08 lakh between April 1999 and September 1999 under Member of Parliament Local Area Development Scheme at Sardarjung Road (Rs 11.85 lakh) and Stringers Street (Rs 11.23 lakh).

District Family Welfare Bureau (Bureau) had opposed (December 1998) the construction of the centre at Stringers Street on the ground that the population of the proposed centre was being covered by three centres<sup>2</sup> functioning in the vicinity. However, based on the instruction of the Deputy Commissioner of the Corporation, the Bureau endorsed the proposal and suggested creation of posts including the post of Medical Officer, Staff Nurses and Pharmacist. Though the centres at Sardarjung Road and Stringers Street were opened for out patients in February 1999 and January 2003, the activities were suspended from November 2002 and June 2005 respectively due to poor response from the public.

The Bureau, in reply to Audit, stated (May 2006) that the number of persons attending the out patient's clinic was thin in Stringers Street since the population in and around the centre was well covered by three centres. The building was handed over to Zone VII in June 2005 as per the orders of the Commissioner of the Corporation for accommodating two nutritious noon meal programme sheds which were in a dilapidated condition after providing kitchen facility in the centre. The Government stated (October 2006) that the noon meal centres would be accommodated in the building.

In respect of the centre at Sardarjung Road, the out patient clinic was suspended due to poor response. Hence, the building was handed over to Zone VII in July 2005. Anti social elements had reportedly entered the building and removed certain items. The Government stated (October 2006) that the building would be used as a gymnasium for the public.

Thus, construction of the centres at places where the population was well covered already by nearby centres resulted in non-utilisation of the centres constructed at cost of Rs 23.08 lakh during 1999-2000 for the intended purpose.

(b) Chennai City Municipal Corporation (Corporation) proposed (January 2003) construction of a building at Annai Sandhya Nagar at a cost of Rs 24 lakh for accommodating Radhakrishna Nagar (North) health post functioning at Nehru Nagar Main Road, Chennai - 81, which lacked facilities like waiting room and examination room. The Corporation also proposed to shift the maternity ward from Triplicane health post to the proposed building. The Family Welfare Department stated (April 2002) that there was no need to construct a hospital in Annai Sandhya Nagar, as health services were being rendered by various Government and corporation agencies in that area and that the area in which the building was proposed to be constructed was also not accessible to public. However, the above department later agreed (January 2003) to the construction. The construction of the building was completed in June 2004 at a cost of Rs 21.90 lakh.

---

<sup>2</sup> Choolai Health Post, 24 Hours Hospital at Perumalpet and Periyar Thidal Urban Family Welfare Centre.

In the meantime, the Corporation constructed (January 2004) an additional block to the health post at Radhakrishna Nagar with facilities such as doctor's room, examination room, store room, pharmacy, etc., at a cost of Rs 10.73 lakh. The building in which the health post was housed alongwith the additional block constructed was proposed to be used for housing a Corporation hospital, after shifting of the health post to the new building at Annai Sandhya Nagar.

However, the Corporation, did not shift Radhakrishna Nagar (North) health post to the new building and utilised the additional block constructed for the functioning of the health post. Further, the maternity ward at Triplicane was also not shifted to the new building as proposed earlier, but was merged with another child welfare centre at Mirsahibpet falling under Zone VI of the Corporation.

The District Family Welfare Medical Officer of the Corporation stated (November 2006) that as no posts were created, one Medical Officer and two Multi Purpose Health Workers were being diverted from Radhakrishna Nagar Zone to render outreach services three days in a week in the new building at Annai Sandhya Nagar. The arrangement is superfluous as Radhakrishna Nagar (South) and (North) health posts, a maternity ward at Sanjeevirayanpettai and Government RSRM Lying-in Hospital, all within a radius of about three kilometers, serve the area already. Hence, the lack of proper planning on the part of the Corporation rendered the expenditure of Rs 21.90 lakh on construction of the building at Annai Sandhya Nagar unfruitful as the building was not put to the intended use.

The matter was referred to Government in July 2006; reply has not been received (May 2007).

## ***CHENGALPATTU MUNICIPALITY***

### ***3.2.2 Non-utilisation of community hall***

**A community hall remained unutilised for more than six years due to non-provision of basic amenities and expenditure of Rs 16.39 lakh on the construction of the community hall was also unfruitful.**

District Rural Development Agency, Kancheepuram sanctioned (April 1999) Rs 10 lakh from the Member of Parliament Local Area Development (MPLAD) Scheme funds for construction of a community hall in Chengalpattu municipal area. Construction of the community hall with ground floor was completed in March 2000 at a cost of Rs 10.03 lakh. Provision of compound wall, construction of two rooms and A.C. Sheets roofing on the first floor of the hall was completed in November 2003 at a cost of Rs 6.36 lakh. The expenditure of Rs 6.39 lakh over and above Rs 10 lakh sanctioned under MPLAD Scheme was met from the General Fund of the Municipality.

The Municipality fixed (October 2003) the rent at Rs 3,000 per day and later decided (October 2003) to lease out the community hall and fixed (March 2005) the lease rent as Rs 23,650 per month. The Municipality conducted 13 auctions between December 2003 and March 2005 for leasing out the community hall. As there were no basic amenities such as electrical fittings, kitchen utensils, water supply, etc., there was no response for these

auctions. Works for providing water supply, electrical fittings, electricity connection, utensils for kitchen, etc., were taken up at cost of Rs 3.65 lakh in November 2005 and were in progress (May 2006).

Construction without basic amenities led to non-utilisation of community hall for more than six years and the expenditure of Rs 16.39 lakh also remained unfruitful.

The matter was referred to Government in June 2006; reply had not been received (May 2007).

### 3.3 Avoidable expenditure

#### SALEM CITY MUNICIPAL CORPORATION

##### 3.3.1 Avoidable interest liability

**Failure of the Corporation to discharge high cost loans with loan assistance from Tamil Nadu Urban Finance Infrastructure Development Corporation Limited resulted in avoidable interest liability of Rs 4.31 crore.**

Salem City Municipal Corporation (Corporation) had a total loan liability of Rs 57.19 crore<sup>3</sup> as of March 2003 with rate of interest ranging from 12 to 16.5 *per cent per annum*. Tamil Nadu Urban Finance Infrastructure Development Corporation Limited (TUFIDCO) expressed its willingness (March 2003) to take over the high cost loans of the Corporation at a lesser rate of interest. The Municipal Council also approved (May 2003) the proposal of taking over these high cost loans by TUFIDCO.

TUFIDCO took over (September 2003) a loan of Rs 6.75 crore from Tamil Nadu Urban Development Fund (TNUDF) at 9.5 *per cent* and reduced the interest rate to 8.75 *per cent* with effect from 1 January 2005 and further reduced to 8.5 *per cent* with effect from 1 July 2005. TUFIDCO took over (October 2003) two more loans for the total value of Rs 6.23 crore (Rs 2.23 crore from Municipal Urban Development Fund at 10 *per cent* and Rs 4 crore from TNUDF at 10.25 *per cent*) at 10 *per cent per annum*. TUFIDCO reduced the rate of interest to 9.25 and 9 *per cent* respectively with

3

| Funding Agency  | Rate of Interest<br>( <i>per cent</i> ) | Amount<br>(Rupees in lakh) |
|---|---|----------------------------|
| Municipal Urban Development Fund and<br>Integrated Urban Development Fund | 12                                      | 223.39                     |
| Tamil Nadu Urban Development Fund   | 16.5                                    | 399.98                     |
|   | 14.5                                    | 927.50                     |
|   | 15.3                                    | 675.00                     |
| Government of Tamil Nadu  | 13.5                                    | 3493.58                    |
| <b>Total</b>  |   | <b>5719.45</b>             |

(or) **Rs 57.19 crore**

effect from April 2004 and further reduced to 8.75 and 8 *per cent* respectively with effect from January 2005.

Though the Municipal Council approved the proposal to discharge the entire loan of Rs 57.19 crore and TUFIDCO also agreed to take over these loans at a lower rate of interest, the Corporation failed to pursue the matter with TUFIDCO and to discharge two high cost loans amounting to Rs 44.21 crore<sup>4</sup>. This resulted in avoidable interest liability to the extent of Rs 4.31 crore (**Appendix XX**) for the period from November 2003 to December 2005.

The Corporation agreed (September 2006) that action was omitted to be taken earlier and action had been initiated now to discharge the high cost loans at lower rate of interest.

The matter was referred to Government in June 2006; reply had not been received (May 2007).

### **MADURAI CITY MUNICIPAL CORPORATION**

#### **3.3.2 Avoidable expenditure on employment of temporary Junior Assistants**

**Irregular utilisation of services of temporary Junior Assistants meant for deployment in field offices of Government departments resulted in an avoidable expenditure of Rs 87.14 lakh.**

Government of Tamil Nadu created (July 2003) 500 posts of temporary Junior Assistants (JA) for each district for deployment in various field offices of Government departments to overcome the situation arising out of the strike by various Government employees' unions. Government also fixed the gross remuneration for these posts as Rs 4,000 per month and entrusted the assessment of requirement and allotment of the posts with the District Collector.

Based on the request of the Commissioner of Madurai City Municipal Corporation (Corporation), the District Collector, Madurai allotted (July 2003) 98 temporary JAs, of which 96 joined duty during July 2003. The striking staff resumed duty with effect from 11 August 2003. Hence, the Corporation requested (August 2003) the District Collector, Madurai to take back the 96 temporary JAs as they were rendered surplus. The Collector did not take them back quoting the orders of Government (July 2003) to retain the temporary staff until further orders. One of the temporary JAs died on 17 June 2004.

The Corporation approached the Government for reimbursement of expenditure towards payment of remuneration to the temporary JAs. Government, while stating (June 2005) that the Collector should not have allotted the temporary JAs to the Corporation, rejected the claim for reimbursement of the expenditure as the JAs rendered services only in the Corporation and directed that the temporary staff be surrendered to the

---

<sup>4</sup> TNUDF: Rs 927.50 lakh at 14.5 *per cent* and Government of Tamil Nadu: Rs 3493.58 lakh at 13.5 *per cent* -- Total Rs 44.21 crore.

Collector. The Corporation surrendered the 95 temporary JAs on 11 July 2005. The expenditure on remuneration of the temporary JAs from 11 August 2003 to 10 July 2005 worked out to Rs 87.14 lakh.

Audit examination revealed that the Commissioner could have resorted to short-term appointment not exceeding six months under Rule 8 read with Rule 4 under Part II of Madurai City Municipal Corporation Service Rules, 1975 instead of approaching the District Collector for temporary posts, which was irregular. The Corporation also failed to approach the Government for surrendering the temporary JAs in August 2003 itself, when the striking employees resumed duty.

In view of the above, the expenditure of Rs 87.14 lakh towards payment of remuneration to the temporary JAs for the period from 11 August 2003 to 10 July 2005 was avoidable.

The matter was referred to Government in September 2006; reply has not been received (May 2007).

### ***USILAMPATTI MUNICIPALITY***

#### ***3.3.3 Avoidable liability***

**Failure of Usilampatti Municipality to collect the increased deposit of Rs 69.14 lakh and remit the money towards Government loan resulted in avoidable liability of Rs 28 lakh.**

Usilampatti Municipality (Municipality) resolved (January 2000) to increase the deposit for water supply connections with effect from April 2001 in order to repay the loans obtained from Government. The rates of increased deposit for domestic, non-domestic and industrial connections were Rs 3,000, Rs 6,000 and Rs 7,500 respectively. The Municipality also permitted the consumers (as in April 2001) to pay the increased deposits, after deducting the deposit of Rs 250 already made, in four quarterly instalments, the first instalment being due in April 2001. However, the Municipality did not collect (June 2006) the increased deposit in respect of any of the 2,425 domestic connections, 35 non-domestic connections and six industrial connections which existed prior to April 2001 resulting in non-realisation of Rs 69.14 lakh.

The Municipality has not taken any distraint action as contemplated in Section 124 of Tamil Nadu District Municipalities Act, 1920 for collection of the dues.

The Municipality also had an outstanding loan of Rs 96.89 lakh as of April 1998 repayable in 40 half yearly instalments with interest at 13.5 *per cent*. Had the Municipality collected the entire increased deposit amount of Rs 69.14 lakh and paid the same towards the loan due as envisaged, the actual amount that would be due for payment as of March 2006 would only be Rs 29.47 lakh (**Appendix XXI**). The non-collection of increased deposit and



paying the same towards Government loan also resulted in avoidable liability of Rs 28 lakh towards interest.

The matter was referred to Government (November 2006); reply has not been received (May 2007).

### ***SALEM CITY MUNICIPAL CORPORATION***

#### ***3.3.4 Avoidable expenditure***

**By not deleting the provision for steel in the estimate for reinforced cement concrete work in lining the riverbed while changing the work to plain cement concrete, the Superintending Engineer caused an avoidable expenditure of Rs 21.40 lakh.**

Government in April 2000 accorded administrative approval to take up work on improvements to Thirumanimutharu River in Salem City Municipal Corporation at an estimated cost of Rs 5.40 crore from Eleventh Finance Commission grants.

The estimates prepared by the consultants provided reinforced cement concrete (RCC) 1:2:4 (1 cement : 2 sand : 4 aggregate) for lining the riverbed and the requirement of steel was 96.576 tonnes at 64 kgs of steel per metre length of the canal. Superintending Engineer (SE), office of the Commissioner of Municipal Administration, while sanctioning the estimates, substituted plain cement concrete (PCC) for RCC since the standard for lining of canal (IS 3873:1993) did not provide for lining with RCC. The SE, however, failed to delete the provision of steel included in the estimate and tender schedule.

Salem City Municipal Corporation finalised the tender, entered into agreement with the contractors and also approved a deviation statement including the RCC work, as the provision for steel was not deleted in the approved estimate without seeking any clarification from the SE, who had sanctioned the original estimate deleting the RCC work. The work was completed in July 2002 and the total payment made to the contractor included cost of steel of Rs 21.40 lakh.

Non-deletion of provision of steel in the estimate by the SE and the approval of the deviation by the Salem Corporation, which included the RCC work for lining the canal, resulted in avoidable expenditure of Rs 21.40 lakh towards provision of steel.

The matter was referred to Government in June 2006; reply has not been received (May 2007).

### 3.4 Others

#### CHENNAI CITY MUNICIPAL CORPORATION

##### 3.4.1 Non-realisation of cost of land

**Due to lack of concerted efforts, the Chennai City Municipal Corporation is yet to realise Rs 1.98 crore being the value of land transferred to Chennai Metropolitan Water Supply and Sewerage Board more than 10 years back.**

To relocate water filling points of the Chennai Metropolitan Water Supply and Sewerage Board (Board), Government permitted (February 1995) the Board to enter upon a small portion of land in Chennai City Municipal Corporation (Corporation) located on Kodambakkam High Road abutting Vidhyodhaya School and instructed the Corporation to send proposals for the transfer of land to Government. The Corporation permitted the Board (March 1995) to occupy the land. The Corporation's Council approved (August 1996) the transfer of 1,675.50 sq. m. (18,035 sq.ft.) of land and also resolved to collect the cost of land at prevailing market price as ascertained from the Collector. Though the Corporation took up (November 1996) the matter with the Government for approval, it did not take any action to ascertain the cost of land from the Collector.

In February 1997, the Government issued a general order directing the municipalities and corporations to collect the cost of land at the prevailing market value whenever the land was transferred to Government departments/undertakings.

The request of the Board to transfer the land free of cost was turned down (October 2000) by the Corporation. The cost of land transferred worked out to Rs 1.98 crore with reference to the market value of land in 1995 (Rs 1,100 per sq. ft.) as per the records of Sub-registrar, Saidapet, Chennai. The Corporation is yet to realise the cost of land (May 2006).

Due to lack of concerted efforts on the part of the Corporation, the value of land transferred to the Board more than 10 years back has not yet been realised. Further, the interest at nine *per cent per annum* on the value of land up to March 2006 worked out to Rs 1.96 crore.

The matter was referred to Government in July 2006. In reply the Government stated (August 2006) that action was under progress to collect the cost of land from the Board.

# **PART II**

## **PANCHAYAT RAJ INSTITUTIONS**

---

### **CHAPTER IV**

#### **AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF PANCHAYAT RAJ INSTITUTIONS**

## CHAPTER IV

### AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF PANCHAYAT RAJ INSTITUTIONS

#### Highlights

All the 29 functions listed for devolution as per Seventy-third constitutional amendment had been reported as transferred to panchayat raj institutions. However, no functionaries for carrying out these functions have been transferred.

Despite the Entertainment Tax and Surcharge on Stamp Duty collections assigned to the panchayat raj institutions fluctuating, the Directorate of Rural Development and Panchayat Raj had not ascertained the correctness of the revenue apportioned by the Commercial Tax and Registration Departments, indicating the absence of a monitoring mechanism.

The database creation in panchayat raj institutions was only partial.

#### 4.1 Introduction

**4.1.1** In the first few years after independence, community development programmes were implemented in the State through a three tier system of local bodies *viz.*, panchayats, community development blocks and district boards. While panchayats and blocks were responsible for implementation of programmes, the district boards were in-charge of administration. Subsequently, a two tier system of panchayat administration *viz.*, panchayats at village level and panchayat unions (PUs) at block level was introduced in the State by the Panchayats Act, 1958 and the district boards were abolished.

**4.1.2** To promote greater autonomy at the grass root level and to involve people in identification and implementation of developmental programmes involving gram sabhas, the Seventy-third Constitutional Amendment Act, 1992 was promulgated (April 1993). Consequently, the Tamil Nadu Panchayats Act, 1994 was enacted which came into effect from 22 April 1994. Under this Act a three tier system of panchayat raj institutions (PRIs) *viz.*, village panchayats (VPs) at grass root level of village, panchayat unions or block panchayats at the intermediary level and district panchayats (DPs) at the apex level was established. There were 12,618 VPs, 385 PUs and 29 DPs in the State as of March 2006.

#### 4.2 Administrative arrangements

**4.2.1** The administrative control of the PRIs vests with the Secretary to Government, Rural Development Department. The responsibility for implementation of rural development programmes through PRIs devolves on the Director of Rural Development and Panchayat Raj (DRDPR).

**4.2.2** The District Collector is the Inspector for all the three tiers of PRIs at district level. District Rural Development Agency (DRDA), a society registered under Societies Registration Act, 1860 monitors all the schemes implemented by PRIs in the district. The DRDA is headed by the District Collector who is assisted by a Project Officer/Additional Collector.

**4.2.3** The executive authority for the DPs is the Secretary at the level of Assistant Director of Rural Development and its Chairman is an elected representative.

**4.2.4** In the case of PUs, the Block Development Officer (BDO) (Block panchayat), who is also the Commissioner of the Panchayat Union Council, is the executive authority and the Chairman is an elected representative. Another BDO (VPs) is responsible for the implementation of the schemes by the VPs. In case of VPs, the President, an elected representative, is the executive authority.

### **4.3 Accounts and database formats**

**4.3.1** State Government issued orders (April 2004) adopting the accounts formats prescribed by the Comptroller and Auditor General of India. The accounts formats have not been fully operationalised as yet as some modifications to suit State specific requirements are under-way. Government stated (December 2006) that the matter is under consideration with DRDPR and final orders will be issued soon.

**4.3.2** State Government also agreed (February 2005) to adopt the database formats on the finances of the rural local bodies (RLBs), prescribed by the Comptroller and Auditor General of India. Principal Accountant General is monitoring the progress of compilation of database at field level.

**4.3.3** Accounts maintained by PRIs are discussed below:

**(a) Village panchayats**

Village panchayats are required to maintain four accounts *viz.*,

- (i) Village Panchayat Fund Account
- (ii) Village Panchayat Earmarked Fund Account
- (iii) Village Panchayat Scheme Fund Account
- (iv) Village Panchayat Drinking Water Account

The cash balances of the above accounts are maintained in Co-operative Banks, Regional Rural Banks, Post Office Savings Banks and Nationalised Banks, in that order of priority and operated jointly by the President and Vice President of the panchayat.

**(b) Panchayat unions**

Panchayat unions are required to maintain four accounts, *viz.*,

- (i) General Fund Account
- (ii) Education Fund Account

(iii) Nutritious Meal Fund Account

(iv) Scheme Account

Besides the above, two more accounts are also maintained according to necessity *viz.*,

➤ Village Panchayat Consolidated Fund Account

➤ NABARD (10 *per cent*) Account

The above accounts are operated through the Treasury and amounts released through the State budget are deposited in them. The amounts received directly from Government of India for certain schemes are deposited in Banks, as required under the orders issued.

**(c) District panchayats**

The main source of finances for the DPs are State and Central Government grants. After meeting expenditure on staff and contingencies, the DPs can take up works with the remaining funds. The DPs are required to maintain two accounts, *viz.*,

(i) General Fund Account

(ii) Scheme Fund Account

The funds received by DPs are kept in banks, irrespective of the purpose for which received.

A chart showing the funds flow to PRIs is given in **Appendix XXII**.

**4.4 Audit arrangements**

**4.4.1** In accordance with Section 193 of Tamil Nadu Panchayats Act, 1994 Government of Tamil Nadu appointed the following officers as Auditors for PRIs:

| Tier of PRI        | Auditors appointed   | Periodicity           |
|--------------------|--|-----------------------|
| District panchayat | Director of Local Fund Audit (DLFA)  | Annually              |
| Panchayat union    | DLFA   | Quarterly             |
| Village panchayat  | (i) Deputy Block Development Officer (DBDO) except audit of scheme accounts          | Quarterly             |
|                    | (ii) Assistant Director of Rural Development (Audit) except audit of scheme accounts | Quarterly             |
|                    | (iii) DLFA for audit of scheme accounts  | Annually (test check) |

**4.4.2** Accounts of DPs and PUs are also audited by Principal Accountant General (Civil Audit) under Section 14(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). Further technical guidance is provided by the Principal Accountant General to DLFA regarding audit of DPs and PUs in terms of March 2003 order of Government of Tamil Nadu.

**4.4.3** A training programme on the new budget and format of accounts in PRIs for the staff of PRIs, DRDAs and DLFA, viz., Extension Officers (Accounts), Assistant Directors (Panchayat), Assistant Directors (Audit), Officers from DLFA, Secretaries to DPs and DBDOs was conducted in August 2005 by the Principal Accountant General. These trained staff will in turn train the district and block officials. The training of all cadres is an ongoing process (November 2006).

#### **4.4.4 Devolution of functions, functionaries and funds**

**4.4.4.1** Though all 29 functions (**Appendix XXIII**) listed in the Eleventh schedule of the Constitution of India have been reported as transferred to PRIs, no functionaries have been transferred to PRIs and funds for various purposes are being transferred as grants-in-aid to the PRIs.

**4.4.4.2** Based on the announcement made in the Legislative Assembly on 11 August 2006, State Government ordered (January 2007) the constitution of a High Level Committee for examining further devolution of powers and responsibilities to the RLBs and to give suitable recommendations.

**4.4.4.3** The DRD stated that though the State Government had given powers and functions to the local bodies to match the implementation capacity and financial devolution, the decentralisation and delegation of power was a dynamic and continuous process.

**4.4.4.4** Government in the Rural Development Department stated (February 2007) that after the receipt of the report of the High Level Committee, more devolution of powers to the PRIs would be considered.

**4.4.4.5** The Government reported to the Twelfth Finance Commission, that the transfer of functionaries was a major problem faced by the Government, which could only be solved in a phased manner in due course of time. At present the expenditure towards the salaries of teachers of panchayat union elementary schools was being met from State funds. The Second State Finance Commission (SSFC) had recommended transfer of elementary education personnel, and also salary grants relating to them to local bodies instead of meeting salary expenditure from State funds directly. Under Public Health also, the SSFC had recommended that the funds to meet the running cost of medical institutions in the local body areas be routed through the concerned local bodies and that the maintenance of Primary Health Centres and sub-centres be entrusted to Panchayat Union Councils along with adequate budget provisions therefor. Government stated that these recommendations were under active consideration and orders would be issued soon. However, the fact remains that without the transfer of functionaries to PRIs, programme implementation and service delivery can be adversely impacted, thus negating one of the objectives of decentralisation.

### **4.5 Receipt and expenditure of rural local bodies**

**4.5.1** The details of receipts of PRIs during the last three years, as reported by DRDPR, in January 2007, are given in the table below. However,

the accuracy of these figures could not be authenticated in the absence of data compiled from the audited accounts of PRIs by the department/Government.

(Rupees in crore)

| Category of PRI      | Year    | Own Revenue | Assigned Revenue | Grants  | Loans | Total   |
|----------------------|---------|-------------|------------------|---------|-------|---------|
| Village panchayats   | 2003-04 | 125.97      | 185.58           | 647.37  | -     | 958.92  |
|                      | 2004-05 | 149.37      | 149.03           | 746.87  | -     | 1045.27 |
|                      | 2005-06 | 158.83      | 198.77           | 1054.42 | -     | 1412.02 |
| Panchayat unions     | 2003-04 | 65.32       | 29.43            | 633.37  | -     | 728.12  |
|                      | 2004-05 | 79.62       | 4.80             | 797.83  | -     | 882.25  |
|                      | 2005-06 | 81.31       | 8.75             | 899.88  | -     | 989.94  |
| District panchayats* | 2003-04 | -           | -                | 112.00  | -     | 112.00  |
|                      | 2004-05 | -           | -                | 122.80  | -     | 122.80  |
|                      | 2005-06 | -           | -                | 127.12  | -     | 127.12  |

\* The receipts of district panchayats mainly consists of grants.

It would be seen that the receipts of all the PUs and VPs had increased during 2003-06, mainly due to increased receipt of grants.

**4.5.2** The details of expenditure of all the three tiers of PRIs during the last three years 2003-04 to 2005-06, as reported by DRDPR duly incorporating the expenditure incurred out of State and Central Finance Commission grants, are given below:

(Rupees in crore)

| Category of PRI     | Year    | Revenue Expenditure | Capital Expenditure | Total Expenditure |
|---------------------|---------|---------------------|---------------------|-------------------|
| Village panchayats  | 2003-04 | 708.74              | 159.46              | 868.20            |
|                     | 2004-05 | 777.42              | 176.96              | 954.38            |
|                     | 2005-06 | 967.19              | 311.40              | 1278.59           |
| Panchayat unions    | 2003-04 | 480.63              | 183.06              | 663.69            |
|                     | 2004-05 | 650.75              | 232.94              | 883.69            |
|                     | 2005-06 | 679.28              | 250.30              | 929.58            |
| District panchayats | 2003-04 | 53.74               | 37.60               | 91.34             |
|                     | 2004-05 | 70.30               | 46.96               | 117.26            |
|                     | 2005-06 | 76.45               | 58.31               | 134.76            |

**4.5.3** In absence of consolidation of audited accounts of all the PRIs, a comprehensive picture of the finances of PRIs was not available.

**4.5.4** The component-wise details of receipts and expenditure for the years 2003-06 as reported by DRDPR are given in the succeeding paragraphs.

## 4.6 Receipt of PRIs

### 4.6.1 Source of receipts

The source of receipts for PRIs is their own revenue consisting of tax and non-tax revenue, assigned revenue from the State Government and grants given by



State and Central Finance Commissions. The percentage share of allocation of various revenues among the PRIs is given in **Appendix XXIV**.

#### 4.6.2 Tax revenue

The main components of tax revenue in VPs are House Tax, Profession Tax and Advertisement Tax. The position of cumulative demand (including arrears), collection and balance of these taxes during 2003-06 by the VPs as reported by DRDPR is given below:

(Rupees in crore)

| Year    | House Tax |           |      | Professional Tax |           |      | Advertisement Tax |           |      |
|---------|-----------|-----------|------|------------------|-----------|------|-------------------|-----------|------|
|         | D         | C         | B    | D                | C         | B    | D                 | C         | B    |
| 2003-04 | 54.34     | 48.84(90) | 5.50 | 27.90            | 26.44(95) | 1.45 | 0.72              | 0.71(99)  | 0.01 |
| 2004-05 | 59.80     | 53.91(90) | 5.89 | 29.56            | 28.31(96) | 1.25 | 0.42              | 0.37(88)  | 0.05 |
| 2005-06 | 67.10     | 61.15(91) | 5.95 | 32.40            | 31.34(97) | 1.06 | 0.17              | 0.17(100) | NIL  |

(D: Demand, C: Collection, B: Balance)

Figures in brackets indicate percentage of collection to demand.

It would be seen that the percentage of collection of House Tax as compared to the demands raised was at 90 and 91 during 2003-06 and the percentage of collection of both Profession Tax and Advertisement Tax was also satisfactory.

#### 4.6.3 Non-tax revenue

The main non-tax revenue of PUs is receipts from remunerative enterprises, fairs and festivals, ferries operation, choultries, marriage halls, markets, fishery rentals and fines and penalties besides interest receipts.

Some of the major non-tax revenues of VPs are water charges, building licence fees, fees for approval of layouts, Dangerous and Offensive (D&O) trade licence fees, receipts from fairs and festivals, plantation lease amount, shandy lease amount and fishery rentals besides interest receipts.

The details of non-tax revenue realised by PRIs during 2003-06 are given below. However, no details for the revenue realised were furnished by DRDPR.

(Rupees in crore)

| Category of PRI    | Year    | Non-tax revenue realised |
|--------------------|---------|--------------------------|
| Village panchayats | 2003-04 | 50.20                    |
|                    | 2004-05 | 66.30                    |
|                    | 2005-06 | 66.17                    |
| Panchayat unions   | 2003-04 | 65.32                    |
|                    | 2004-05 | 79.62                    |
|                    | 2005-06 | 81.31                    |

It will be seen that the non-tax revenue actually realised by PUs showed an increasing trend. However, in respect of VPs, though the non-tax revenue realised had increased from 2003-04 to 2004-05, it decreased during 2005-06.

In order to augment the non-tax revenue base of the PRIs, the Government needs to act upon some of the recommendations of SSFC like formation of separate committees at village panchayat level for revising the D&O licence

fee, sharing rent from the fisheries between PUs and VPs, fixing upset price for forest produce, etc.

#### 4.6.4 Assigned revenue

This includes the class of taxes and levies traditionally collected by Government and assigned to the local bodies. SSFC considered the assigned revenue as part of the resource base of the PRIs and desired that the base needed to be maintained.

Entertainment Tax, Stamp Duty Surcharge, Local Cess, Local Cess Surcharge and Seigniorage Fees are some of the revenues assigned by Government to PUs and VPs and the quantum of such revenue assigned to these local bodies during 2003-06 as reported by DRDPR are given below:

(Rupees in crore)

|                    | Year    | Local Cess | Local Cess Surcharge | Entertainment Tax | Stamp-Duty Surcharge | Seigniorage Fees | Other assigned revenues | Total  |
|--------------------|---------|------------|----------------------|-------------------|----------------------|------------------|-------------------------|--------|
| Village panchayats | 2003-04 | 3.21       | ND                   | 2.99              | 143.72               | 18.14            | 17.52                   | 185.58 |
|                    | 2004-05 | 2.31       | ND                   | 3.18              | 104.74               | 26.30            | 12.50                   | 149.03 |
|                    | 2005-06 | 2.15       | ND                   | 1.74              | 144.77               | 27.08            | 23.03                   | 198.77 |
| Panchayat unions   | 2003-04 | ND         | 18.39                | 2.07              | ND                   | 8.97             | -                       | 29.43  |
|                    | 2004-05 | ND         | 2.02                 | 1.21              | ND                   | 1.57             | -                       | 4.80   |
|                    | 2005-06 | ND         | 6.41                 | 0.99              | ND                   | 1.35             | -                       | 8.75   |

ND – assigned revenue not due.

The Local Cess assigned to VPs and the Local Cess Surcharge assigned to PUs had declined during 2005-06 as compared to 2003-04 figures. While the assigned Entertainment Tax to PUs declined, the same assigned to VPs was fluctuating during 2003-06. The Stamp Duty Surcharge assigned to VPs was also fluctuating during 2003-06. While the Seigniorage Fees assigned to PUs declined, the same assigned to VPs increased during 2003-06. The DRDPR stated (February 2007) that consequent on the waiver of Land Revenue by Government due to drought, there was decline in both Local Cess and Local Cess Surcharge. Regarding Entertainment Tax and Surcharge on Stamp Duty, the DRDPR stated that the revenue assigned by Commercial Tax Department and the Registration Department was passed on to the VPs and PUs and the reasons for the decrease would be ascertained from these departments and intimated to Audit.

#### 4.6.5 Grants received by PRIs

The details of State Finance Commission grants and Central Finance Commission grants received by the PRIs during 2003-06 are given below:

##### 4.6.5.1 State Finance Commission grants

Government ordered (March 2002) the following for devolution from the State's own tax revenues to the local bodies.

- The rural and urban local bodies would receive eight *per cent* of the State's own tax revenues after excluding the Entertainment Tax

receipts. The vertical sharing of resources between rural and urban local bodies would be in the ratio of 58:42.

- Of the total devolution to the PRIs, the resources would be shared among the VPs, PUs and the DPs in the ratio of 47:45:8.

The details of State Finance Commission grants devolved to PRIs during 2003-06 are given below:

(Rupees in crore)

| Category of PRI                     | 2003-04 | 2004-05 | 2005-06 |
|-------------------------------------|---------|---------|---------|
| Village panchayats                  | 355.62  | 398.26  | 499.27  |
| Panchayat unions                    | 266.89  | 400.43  | 426.25  |
| District panchayats                 | 49.01   | 64.15   | 69.23   |
| Total SFC grants                    | 671.52  | 862.84  | 994.75  |
| Amount adjusted by way of deduction | 138.08* | 30.75** | 37.15** |
| Net grant released                  | 533.44  | 832.09  | 957.60  |

\* including Rs 105.08 crore adjusted towards Tamil Nadu Electricity Board dues and Rs 33 crore towards pension contribution of employees.

\*\* adjustment made towards pension contribution of employees.

The utilisation of SSFC grants in three selected districts (Coimbatore, Thanjavur and Vellore) has been reviewed in audit and commented on in paragraph 5.2.

#### 4.6.5.2 Eleventh/Twelfth Finance Commission grants

The grants released by Government of India based on the recommendations of the Eleventh Finance Commission (EFC) and Twelfth Finance Commission (TFC) are shown below:

(Rupees in crore)

| Category of PRI     | 2003-04                                  | 2004-05 | 2005-06 |
|---------------------|--|---------|---------|
| Village panchayats  | 47.28                                    | 47.28   | 139.20  |
| Panchayat unions    | 38.68                                    | 38.68   | 34.80   |
| District panchayats | (No grants given to district panchayats) |         |         |

The DRDPR reported that the Finance Commission grants received by PRIs were utilised in entirety.

The utilisation of EFC grants in six selected districts<sup>1</sup> has been reviewed in audit and commented on in paragraph 5.3. Of the EFC grants released by Government of India for the period 2000-05, Rs 25.96 crore was earmarked for the maintenance of accounts and Rs 10.38 crore for the creation of a database on the finances of the PRIs. State Government released (March 2004 and March 2005) Rs 35.93 crore towards purchase of computers for 385 PUs, Rs 28.40 lakh for software development and Rs 11.89 lakh for the training of staff. As mentioned in para 4.3.1 supra, the final approval of the database formats on the finances of the PRIs is under consideration of the State

<sup>1</sup> Dharmapuri, Erode, Tiruchirappalli, Tiruvannamalai, Tiruvarur and Villupuram.

Government and the database of PRIs is yet to be compiled utilising these computers.

A sum of Rs 870 crore has been allotted to the State by TFC as their award during the period 2005-06 to 2009-10. Rupees 174 crore is earmarked to be released every year to panchayats and PUs. Out of this, Rs 24.39 crore was for purchase of computers for VPs. DRDPR stated (January 2007) that orders had been placed (September 2006) with Electronic Corporation of Tamil Nadu Limited (ELCOT), a State Government undertaking, for the supply of computers to 6,096 VPs<sup>2</sup>.

#### 4.6.6 Other grants

Apart from the finance commission grants, other grants received by PRIs during 2003-06 are given below:

(Rupees in crore)

| Category of PRI     | 2003-04       | 2004-05       | 2005-06       |
|---------------------|---------------|---------------|---------------|
| Village panchayats  | 244.47        | 301.33        | 415.95        |
| Panchayat unions    | 327.80        | 358.72        | 438.83        |
| District panchayats | 62.99         | 58.65         | 57.89         |
| <b>Total</b>        | <b>635.26</b> | <b>718.70</b> | <b>912.67</b> |

Though the entire grants received were reported as utilised, the details of grants and the purposes of utilisation were not furnished by DRDPR.

### 4.7 Expenditure of PRIs

#### 4.7.1 Revenue expenditure

Revenue expenditure consists of salaries and pensions, expenditure on repairs and maintenance and administration.

The details of revenue expenditure incurred by PRIs during the last three years viz., 2003-04 to 2005-06, as reported by DRDPR are given below:

(Rupees in crore)

| Category of PRI     | Revenue expenditure |          |         |  | Total  |
|---------------------|---------------------|----------|---------|--|--------|
|                     | Year                | Salaries | Pension | Other revenue expenditure (including SSFC grants utilised) |        |
| Village panchayats  | 2003-04             | 48.31    | 0.46    | 659.97   | 708.74 |
|                     | 2004-05             | 51.14    | 0.10    | 726.18   | 777.42 |
|                     | 2005-06             | 59.91    | 0.26    | 907.02   | 967.19 |
| Panchayat unions    | 2003-04             | 63.89    | 3.54    | 413.20   | 480.63 |
|                     | 2004-05             | 63.80    | 2.59    | 584.36   | 650.75 |
|                     | 2005-06             | 66.99    | 0.91    | 611.38   | 679.28 |
| District panchayats | 2003-04             | 1.70     | 0.04    | 52.00  | 53.74  |
|                     | 2004-05             | 1.72     | 0.09    | 68.49  | 70.30  |
|                     | 2005-06             | 1.84     | 0.04    | 74.57  | 76.45  |

<sup>2</sup> Out of 12,618 VPs, computers were supplied to 6,522 VPs in the first two phases.

During the above period all the three tiers recorded an increasing trend of revenue expenditure with the percentage of increase ranging from 36 to 42 per cent.

#### 4.7.2 Capital expenditure

Quantum of capital expenditure reported as incurred by PRIs, as reported by DRDPR, are as given below:

(Rupees in crore)

| Category of PRIs    | 2003-04       | 2004-05       | 2005-06       |
|---------------------|---------------|---------------|---------------|
| Village panchayats  | 159.46        | 176.96        | 311.40        |
| Panchayat union     | 183.06        | 232.94        | 250.30        |
| District panchayats | 37.60         | 46.96         | 58.31         |
| <b>Total</b>        | <b>380.12</b> | <b>456.86</b> | <b>620.01</b> |

As in the case of revenue expenditure, the capital expenditure in all three tiers showed an increasing trend.

Based on the details compiled by DRDPR, the expenditure incurred towards the main core sectors viz., water supply, street lighting and road works during 2003-05 are furnished below:

(Rupees in crore)

| Name of the core sector | Category of PRI     | 2003-04      | 2004-05       | 2005-06       |
|-------------------------|---------------------|--------------|---------------|---------------|
| Water supply            | Village panchayats  | 27.28        | 35.75         | 36.38         |
|                         | Panchayat unions    | 35.97        | 34.43         | 37.27         |
|                         | District panchayats | 5.71         | 4.14          | 5.69          |
| <b>Total</b>            |                     | <b>68.96</b> | <b>74.32</b>  | <b>79.34</b>  |
| Street lights           | Village panchayats  | 8.33         | 11.34         | 14.35         |
|                         | Panchayat unions    | 1.53         | 1.28          | 2.32          |
|                         | District panchayats | 0.64         | 1.47          | 1.69          |
| <b>Total</b>            |                     | <b>10.50</b> | <b>14.09</b>  | <b>18.36</b>  |
| Road works              | Village panchayats  | 36.62        | 42.25         | 53.89         |
|                         | Panchayat unions    | 39.67        | 55.89         | 88.51         |
|                         | District panchayats | 16.87        | 23.37         | 26.97         |
| <b>Total</b>            |                     | <b>93.16</b> | <b>121.51</b> | <b>169.37</b> |

In addition to above, works under the core sectors of roads and water supply were also executed under other schemes<sup>3</sup> executed through various agencies<sup>4</sup> with the assistance of Central and State Governments.

<sup>3</sup> Water supply works: Rural water supply schemes, Combined water supply schemes, Individual power pump schemes, Mini power pump schemes, Accelerated Rural Water Supply Programme, Swajaldhara etc.

Road works: District and other roads schemes, Improvement to rural road schemes with the assistance from NABARD/HUDCO etc., Pradhan Mantri Gram Sadak Yojana, etc.

<sup>4</sup> Water supply works: Tamil Nadu Water Supply and Drainage Board.  
Road works: Highways Department, Tamil Nadu Road Development Corporation.

### 4.7.3 Position of availability of funds in PRIs

The details of opening balance, receipts, expenditure and closing balance in respect of local bodies under each tier of PRIs, as compiled from the details furnished by DRDPR, duly incorporating the State/Central Finance Commission grants utilised, during 2003-04 to 2005-06, are given below:

(Rupees in crore)

| Category of PRIs    | Year    | Opening balance | Receipts | Total available funds | Expenditure | Closing balance |
|---------------------|---------|-----------------|----------|-----------------------|-------------|-----------------|
| Village panchayats  | 2003-04 | 107.95          | 958.92   | 1066.87               | 868.20      | 198.67          |
|                     | 2004-05 | 198.67          | 1045.27  | 1243.94               | 954.38      | 289.56          |
|                     | 2005-06 | 289.56          | 1412.02  | 1701.58               | 1278.59     | 422.99          |
| Panchayat unions    | 2003-04 | 196.75          | 728.12   | 924.87                | 663.69      | 261.18          |
|                     | 2004-05 | 261.18          | 882.15   | 1143.33               | 883.69      | 259.64          |
|                     | 2005-06 | 259.64          | 989.94   | 1249.58               | 929.58      | 320.00          |
| District panchayats | 2003-04 | 25.68           | 112.00   | 137.68                | 91.34       | 46.34           |
|                     | 2004-05 | 46.34           | 122.80   | 169.14                | 117.26      | 51.88           |
|                     | 2005-06 | 51.88           | 127.12   | 179.00                | 134.76      | 44.24           |

The above details showed that barring the year 2004-05, in respect of panchayat unions, expenditure by all tiers was well within the receipts for the year.

## 4.8 Audit of PRIs

**4.8.1** DLFA is the statutory Auditor for all the three tiers of PRIs. The position of arrears in completion of audit of rural local bodies, as reported (October 2006) by DLFA, as of September 2006 is as given below:

| Category of PRIs    | Total number to be audited | Number of RLBs wherein Audit not completed for |         |         |
|---------------------|----------------------------|--|---------|---------|
|                     |                            | 2003-04  | 2004-05 | 2005-06 |
| District panchayats | 29                         | -  | -       | 8       |
| Panchayat unions    | 385                        | -  | -       | 164     |
| Village panchayats  | 2,524*                     | 1,365  | 2,158   | 2,524   |

\* 20 per cent of the total number of VPs to be test checked by the DLFA as per Government orders of November 2002

The regular audit of VPs was conducted by the DBDOs.

**4.8.2** The main reason attributed (October 2006) by DLFA for non-completion of audit in the above institutions was non-submission of accounts by the institutions.

**4.8.3** The number of paragraphs included in the Inspection Reports (IRs) of DLFA, pending settlement as of March 2006 in respect of PUs and DPs aggregated to 31,501 and 663 respectively. The reported (June 2006) position of year-wise pendency by DLFA is as given below:

| Year of IR     | Number of paragraphs pending in respect of |                     |
|----------------|--|---------------------|
|                | Panchayat unions                           | District panchayats |
| Upto 1999-2000 | 11,549                                     | 160                 |
| 2000-2001      | 1,081                                      | 50                  |
| 2001-2002      | 1,398                                      | 42                  |
| 2002-2003      | 1,525                                      | 43                  |
| 2003-2004      | 3,741                                      | 68                  |
| 2004-2005      | 12,207                                     | 300                 |
| <b>Total</b>   | <b>31,501</b>                              | <b>663</b>          |

There is an urgent need for holding regular joint sittings in each district with the District Officers of the Local Fund Authority for expeditious settlement of long pending audit observations.

#### **4.9 Response to Audit**

Audit Reports upto the year 1996-97 were discussed by the Committee on Public Accounts (PAC) and recommendations were issued. Despite the directions of the PAC to Government Departments for furnishing prompt reply to pending recommendations as of December 2006, there were 240 recommendations (10 C&AG Reports) relating to the period 1982-83 to 1996-97 pertaining to the Rural Development Department pending final settlement, which *inter-alia* consisted of paragraphs relating to rural local bodies.

#### **4.10 Conclusion**

There was no mechanism with the Panchayat Raj Department for collection (centrally) of data on receipts and expenditure of PRIs during the year so that an overall financial picture for each year may be available. Though all the 29 functions to be devolved as per the Constitution of India, were reported as transferred to the rural local bodies, by the Director of Rural Development and Panchayat Raj, the functionaries have not yet been transferred. The performance of village panchayats in terms of collection *vis-à-vis* demand of taxes was very good as per the reports of the Director of Rural Development and Panchayat Raj. Despite the fluctuation in the assigned revenue towards Entertainment Tax and Surcharge on Stamp Duty to panchayat raj institutions during 2003-06, the department had not ascertained specific reasons for the same.

#### **4.11 Recommendations**

- Action should be initiated to institute an effective mechanism for collection and compilation of funds flow and expenditure incurred by the panchayat raj institutions for monitoring and decision making.
- Arrangements for speedy settlement of audit objections and inspection paragraphs should be strengthened and the pendency reduced in a phased manner.



## CHAPTER V

### PERFORMANCE REVIEWS (PANCHAYAT RAJ INSTITUTIONS)

This chapter presents three performance reviews dealing with (a) Distribution and utilisation of local bodies incentive, (b) State Finance Commission grants to Coimbatore, Thanjavur and Vellore District Panchayats and (c) Utilisation of local body grants in 24 panchayat unions.

### FINANCE AND RURAL DEVELOPMENT DEPARTMENTS

#### 5.1 Distribution and utilisation of local bodies incentive

##### 5.1.1 Introduction

For bridging the fiscal deficit and as an extra budgetary resource to finance State plans, the Government of India was transferring 75 *per cent* of monthly net small savings<sup>1</sup> collected to the State Governments as long term loan. Government of Tamil Nadu introduced (February 1987) an incentive scheme for augmenting collections under Small Savings Scheme and released ten *per cent* of the above loan received from Government of India as local bodies incentive as grant with reference to incremental net small savings collection of the districts. Seventy five *per cent* of such grant was to be allocated by the Collector concerned to such local bodies who increased the net small savings collection in their areas by at least Rs 10 lakh over the previous year. This grant was to be utilised only for certain items of repair works. The remaining 25 *per cent* was to be retained by the District Collector for meeting expenditure on works required to be executed urgently in the district through District Rural Development Agencies/Block Development Officers. Rupees 167.50 crore were released during 2000-06 as local bodies incentive relating to the small savings for the year 1998-99 to 2003-04.

##### 5.1.2 Audit objectives

The objectives of audit were to see

- whether the allocation of incentive was as per norms and
- whether the incentive allotted was utilised for the purposes specified in the guidelines.

---

<sup>1</sup> Increased to 80 *per cent* from January 2000 and 100 *per cent* from March 2002.

### 5.1.3 Audit criteria

- Guidelines issued by the State Government for allocation and utilisation of the incentive.
- Conditions prescribed in the orders releasing the incentive.

### 5.1.4 Audit coverage and methodology

The release of the grants by the Government, their receipt, accounting and utilisation by the local bodies during the period 2000-06 was reviewed in Kancheepuram, Tiruchirappalli and Tiruvallur Districts during June 2004 - August 2004 and June-July 2006.

### 5.1.5 Audit findings

The deficiencies noticed in allocation, utilisation and accounting of the incentive in the three test checked districts are discussed in the succeeding paragraphs.

#### 5.1.5.1 Improper allocation of incentive

**Improper allocation of Rs 9.60 crore to ineligible districts.**

The grant was to be distributed amongst the districts on the basis of increase in net small savings collection over the previous year. However, the Finance Department distributed grants to some districts that had not recorded any increase in net small savings collection over the previous year and there was also excess/short allocation to some districts. The improper allocation was as detailed below:

(Rupees in crore)

| Sl. No.      | Period of small savings | Year of release of grant | Grant released          |             |                  |              |                  |              |
|--------------|-------------------------|--------------------------|-------------------------|-------------|------------------|--------------|------------------|--------------|
|              |                         |                          | to ineligible districts |             | in excess        |              | short            |              |
|              |                         |                          | No. of districts        | Amount      | No. of districts | Amount       | No. of districts | Amount       |
| 1.           | 1998-99*                | 2000-01                  | -                       | -           | 13               | 3.18         | 14               | 3.18         |
| 2.           | 2000-01                 | 2002-03                  | 4 <sup>@</sup>          | 0.83        | 9                | 0.61         | 16               | 1.44         |
| 3.           | 2001-02                 | 2003-04                  | 21 <sup>#</sup>         | 8.77        | 5                | 1.10         | 3                | 9.87         |
| 4.           | 2002-03                 | 2004-05                  | Nil                     | Nil         | 20               | 4.74         | 9                | 4.74         |
| 5.           | 2003-04                 | 2005-06                  | Nil                     | Nil         | 17               | 3.72         | 12               | 3.72         |
| <b>Total</b> |                         |                          |                         | <b>9.60</b> |                  | <b>13.35</b> |                  | <b>22.95</b> |

\* No grant was released to two districts in which there was a decline in small savings. For the year 1999-2000, allocation was made as per the norms.

@ includes Tiruchirappalli District.

# includes three test checked districts.

As may be seen from the table above Rs 9.60 crore was released during 2000-02 to 25 districts (2000-01: four districts and 2001-02: 21 districts), which were not eligible to receive the incentive as they recorded decrease in small savings collection over previous years. Further, the incentive for the

years 1998-99 to 2003-04 (except for 1999-2000) was released in excess to the tune of Rs 13.35 crore to five to 20 districts and short to the tune of Rs 22.95 crore to three to 16 districts.

In respect of the three test checked districts, Rs 1.31 crore was released short during the years 2000-01 and 2004-05 and Rs 2.08 crore was released in excess during the years 2002-04. While during 2005-06, Rs 86.51 lakh was released short for Kancheepuram and Tiruchirappalli Districts, Rs 37.62 lakh was released in excess to Tiruvallur District (**Appendix XXV**). The non-payment of incentive to the local bodies which were performing well would actually act as a disincentive.

In three test checked districts Rs 65.39 crore were released during 2001-06 to various blocks, which did not record the required increase in net small savings collection as shown below:

| Sl. No.      | Districts       | 2001-02          |                          | 2002-03          |                          | 2003-04          |                          | 2004-05          |                          | 2005-06          |                          | Total            |                          |
|--------------|-----------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
|              |                 | Number of blocks | Amount (Rupees in crore) | Number of blocks | Amount (Rupees in crore) | Number of blocks | Amount (Rupees in crore) | Number of blocks | Amount (Rupees in crore) | Number of blocks | Amount (Rupees in crore) | Number of blocks | Amount (Rupees in crore) |
| 1.           | Kancheepuram    | 12               | 1.18                     | -                | -                        | 9                | 17.37                    | 3                | 8.23                     | 1                | 1.70                     | 25               | 28.48                    |
| 2.           | Tiruchirappalli | 4                | 0.70                     | 1                | 0.01                     | 1                | 14.98                    | -                | -                        | 6                | 14.00                    | 12               | 29.69                    |
| 3.           | Thiruvallur     | 1                | 0.06                     | -                | -                        | 5                | 7.16                     | -                | -                        | -                | -                        | 6                | 7.22                     |
| <b>Total</b> |                 | <b>17</b>        | <b>1.94</b>              | <b>1</b>         | <b>0.01</b>              | <b>15</b>        | <b>39.51</b>             | <b>3</b>         | <b>8.23</b>              | <b>7</b>         | <b>15.70</b>             | <b>43</b>        | <b>65.39</b>             |

#### 5.1.5.2 Non-utilisation of incentive

**Out of the incentive released during 2001-06, Rs 2.36 crore was kept unutilised.**

Out of Rs 27.60 crore released as grant during 2000-01 to 2005-06 (for the small savings years 1998-99 to 2003-04) in the three test checked districts, Rs 2.36 crore<sup>2</sup> were kept unutilised as of June 2006 with District Rural Development Agencies (DRDAs)/Block Development Officers (BDOs). Of this amount, Rs 48.21 lakh were lying unutilised with the DRDA, Tiruvallur since March 2004. It was further noticed that the DRDA, Kancheepuram had an unutilised balance of Rs 1.16 crore as of March 2006 as per their records, while the balance (as arrived at by Audit) was Rs 1.27 crore and the difference needed reconciliation.

#### 5.1.5.3 Irregular utilisation of incentive

**The local bodies utilised Rs 3.49 crore for new works instead of on repair works.**

Despite the orders of the Government that 75 per cent of the grant be used only for repair works, in the three test checked districts, 294 new works were undertaken and completed at a cost of Rs 3.49 crore<sup>3</sup> out of the grants received during 2000-06. It is pertinent to note in this connection that the Committee on Public Accounts, while considering a similar paragraph included in Civil Audit report for 1994-95, had recommended that guidelines issued by Government for the utilisation of incentive should be followed scrupulously.

<sup>2</sup> Kancheepuram Rs 1.27 crore out of Rs 9.75 crore, Tiruchirappalli Rs 0.05 crore out of Rs 10.06 crore and Tiruvallur Rs 1.04 crore out of Rs 7.79 crore.

<sup>3</sup> Kancheepuram: Rs 200.82 lakh (144 works), Tiruvallur: Rs 5.68 lakh (18 works) and Tiruchirappalli: Rs 142.7 lakh (132 works).

Government, with reference to such works taken up from incentive released during 2000-03, stated (July 2005) that (a) the expenditure in Tiruchirappalli District was on upgradation of water bound mecadam roads into black topped roads and damaged black topped roads into cement concrete roads, provision of bore wells in the case of failed ones and construction of kitchen sheds and bridges due to necessity and non-allotment of funds under other schemes, and (b) funds were utilised in Tiruvallur District for providing bore wells as an alternative to existing ones to combat drought situation. The reply of Government is not tenable as the guidelines clearly stipulate that only repair works were to be taken for utilising 75 per cent of these grants and many other schemes were available for taking up such new/improvement works.

#### 5.1.5.4 Diversion of funds

Two districts spent Rs 47.19 lakh on ineligible items of expenditure.

Government also prescribed (December 2000) the type of new works (hand pumps, cement roads, etc.) that could be taken up with the 25 per cent grant retained by the Collectors. Audit scrutiny revealed that Rs 47.19 lakh was diverted to the following ineligible works out of the grants released during 2001-06:

| (Rupees in lakh)                |         |   |              |
|---------------------------------|---------|---|--------------|
| Sl. No.                         | Year    | Diverted for  | Expenditure  |
| <b>Kancheepuram District</b>    |         |   |              |
| 1.                              | 2002-03 | Purchase of medical equipments  | 20.54        |
| 2.                              | 2003-04 | Installation of intercom facilities at the Collectorate   | 1.11         |
| 3.                              | 2004-05 | Purchase and supply of accessories to Government hospital located at Collectorate                     | 0.22         |
| 4.                              | 2004-05 | Repair to wireless sets of vehicles of Collector/Tahsildar  | 0.31         |
| 5.                              | 2004-05 | Diversion of funds to fodder development account under poverty alleviation programme and not recouped | 15.00        |
| <b>Tiruchirappalli District</b> |         |   |              |
| 6.                              | 2002-03 | Provision of tiles to 67 group houses   | 1.67         |
| 7.                              | 2003-04 | Purchase of sports materials  | 0.82         |
| 8.                              | 2004-05 | Purchase and supply of medical equipments to Annal Gandhi Memorial Government Hospital                | 7.52         |
| <b>Total</b>                    |         |   | <b>47.19</b> |

Government stated (July 2005) that the expenditure in respect of works in Sl. No. 1, 2, 6 and 7 of the above table was incurred under extraordinary circumstances as a special case and also due to non-availability of funds under other schemes. The reply of the Government is not acceptable as the guidelines prohibit purchase of stores and stock from incentive grant and diversion of these funds to other schemes. Further, the expenditure on the

work of installation of intercom facilities could have been met out of the budget allocation of the District Collectorate.

#### **5.1.5.5 Improper maintenance of accounts**

Though the 75 per cent grant and 25 per cent grant were required to be kept in separate Post Office savings bank accounts, the Collector, Kancheepuram District maintained consolidated savings bank account and cash book for both the grants. There was no indication in the cash book as to which of the two grants a particular expenditure related to.

#### **5.1.6 Conclusion**

The incentive grants were distributed in violation of the guidelines to the districts/blocks, which had not recorded any increase in net small savings collection over the previous years. Grants of Rs 2.36 crore were kept unutilised in three districts. New works costing Rs 3.49 crore were taken up and completed despite the stipulation of Government that only repair works would be taken up with 75 per cent of the grant. Grants to the tune of Rs 47.19 lakh were diverted for ineligible works.

#### **5.1.7 Recommendations**

- The incentive grant should be distributed only to those districts/blocks which record increase in net small savings collection over the previous year, strictly as per the guidelines issued by Government of India.
- Only repair works stipulated in the guidelines, should be taken up for utilising the 75 per cent portion of local body incentive grant.

The above points were referred to Government in March 2006; reply has not been received in respect of points raised on allocation during 2000-06 and utilisation of incentives received during 2004-06 (May 2007).

## RURAL DEVELOPMENT DEPARTMENT

### 5.2 State Finance Commission grants to Coimbatore, Thanjavur and Vellore District Panchayats

#### 5.2.1 Introduction

Government of Tamil Nadu constituted (December 1999) the Second State Finance Commission (SSFC) to review the financial position of urban and rural local bodies and recommend on financial devolution to the local bodies from the tax revenue of the State Government. Government adopted (August 2002) the ratio of 47:45:8 for devolution of funds allotted for rural local bodies among village panchayats, panchayat unions and district panchayats as recommended (May 2001) by the SSFC. The grant released to district panchayats was to be utilised for administrative and contingent expenditure and the balance was to be spent on needy capital works through panchayat unions. Government issued (March 1997) guidelines for utilisation of the State Finance Commission grants and Director of Rural Development Department (DRD) supplemented them in December 1997 which were adopted for utilisation of Second State Finance Commission grants also.

#### 5.2.2 Audit objectives

Audit objectives were to see whether

- the grants have been distributed as per norms and
- the grants were utilised for the intended purposes and as per norms.

#### 5.2.3 Audit criteria

The following were taken as audit criteria:

- Guidelines issued by Government and the Director of Rural Development for utilisation of grants and
- conditions prescribed in the orders of Government releasing the grant.

#### 5.2.4 Audit coverage and methodology

The review on release and utilisation of grants to the district panchayats covering the period 2002-06 was conducted during August and September 2006 at Rural Development Department of Secretariat, Office of the Director of Rural Development Department and in three selected district panchayats<sup>1</sup>. The audit methodology followed was scrutiny of records produced to Audit and replies furnished by the department/local bodies to audit enquiries.

---

<sup>1</sup> Coimbatore, Thanjavur and Vellore.

## 5.2.5 Audit findings

The findings of the review are discussed in the succeeding paragraphs.

### 5.2.5.1 Irregular distribution of grants

As the ratio for distribution of grant recommended by SSFC was not adopted there was short release of grant of Rs 5.50 crore to Coimbatore District during 2002-06.

The Director of Rural Development (DRD) distributed the grant to district panchayats through the District Collectors. As per the recommendations of the SSFC the grants to rural local bodies were to be distributed giving weightage of 40 *per cent* for total population, 40 *per cent* for women and 20 *per cent* for people living in huts and SC/ST population adopting the population as per 2001 census. The DRD, however, distributed the grants adopting a weightage of 66.67 *per cent* for total population and 33.33 *per cent* for SC/ST population as recommended by the First State Finance Commission with reference to the 1991 census population figures. The weightage for women was not considered. As a result there was short release of grant of Rs 5.50 crore to District Panchayat, Coimbatore during 2002-06. The DRD stated (October 2006) that the distribution was done (excluding the women) based on the 1991 census, as the 2001 census was published only in May 2006. This reply is not acceptable, as the population of women as per the figures available could at least have been adopted for the purpose of distribution of grants.

### 5.2.5.2 Delay in release of grant

There was delay of more than a month in release of grant in 24 *per cent* of releases from DRD to Collectors and in 25 *per cent* of releases from Collectors to district panchayats.

Government specified that DRD should release to District Collectors the grant meant for district panchayats on monthly basis and the Collectors were to release it in turn to district panchayats within two or three days of receipt. Test check of records in the district panchayats selected for review revealed that there were delays ranging from 16 days to one month in respect of 46 *per cent* and more than a month in respect of 24 *per cent* of the cases of release of funds by DRD to Collectors.

There were also delays ranging from 16 days to one month in respect of 21 *per cent* and more than a month in respect of 25 *per cent* of the cases of release of funds from the Collector to district panchayats (**Appendix XXVI**).

### 5.2.5.3 Administrative expenditure in excess

The guidelines (December 1997) envisaged that the administrative expenditure was to be restricted to 10 *per cent* of the funds allotted annually to the district panchayats subject to a maximum of Rs 15 lakh. However, in the three test checked districts Rs 25.02 lakh was incurred for administrative activities in excess of the above limits as given in the table below:

(Rupees in lakh)

| Year    | District   | Total fund released* | Administrative expenditure |                            |
|---------|------------|----------------------|----------------------------|----------------------------|
|         |            |                      | Incurred                   | Excess ( <i>per cent</i> ) |
| 2002-03 | Thanjavur  | 190.65               | 15.25                      | 0.25 (02)                  |
|         | Vellore    | 288.75               | 15.79                      | 0.79 (05)                  |
| 2003-04 | Coimbatore | 192.53               | 24.13                      | 9.13 (61)                  |

(Rupees in lakh)

| Year         | District   | Total fund released* | Administrative expenditure |                   |
|--------------|------------|----------------------|----------------------------|-------------------|
|              |            |                      | Incurred                   | Excess (per cent) |
| 2004-05      | Thanjavur  | 259.64               | 17.06                      | 2.06 (14)         |
| 2005-06      | Coimbatore | 307.12               | 25.93                      | 10.93 (73)        |
|              | Thanjavur  | 217.06               | 16.86                      | 1.86 (12)         |
| <b>Total</b> |            |                      | <b>25.02 (28)</b>          |                   |

\* As per norms, the admissible amount for administrative expenditure is Rs 15 lakh in all these instances.

#### 5.2.5.4 Delay in execution of works

The works were entrusted to the successful bidders by the issue of work orders specifying the scheduled date of completion. However, test check of records in eight panchayat unions in Thanjavur and Vellore Districts revealed that there was delay of more than a month in respect of 69 works<sup>2</sup> as given below:

Though there was delay of more than three months in respect of 38 works executed, no penalty was levied on the contractors.

| Sl. No.                   | Panchayat union | Delay in completion of work         |                                      |                      |
|---------------------------|-----------------|-------------------------------------|--------------------------------------|----------------------|
|                           |                 | More than one month to three months | More than three months to six months | More than six months |
| <b>Thanjavur District</b> |                 |                                     |                                      |                      |
| 1.                        | Kumbakonam      | 5                                   | 4                                    | 2                    |
| 2.                        | Papanasam       | 3                                   | 3                                    | 1                    |
| 3.                        | Pattukkottai    | 8                                   | 4                                    | 2                    |
| 4.                        | Thiruvaiyaru    | 4                                   | --                                   | --                   |
| <b>Vellore District</b>   |                 |                                     |                                      |                      |
| 5.                        | Arcot           | --                                  | --                                   | 1                    |
| 6.                        | K.V.Kuppam      | 1                                   | 4                                    | --                   |
| 7.                        | Vellore         | 5                                   | 6                                    | 2                    |
| 8.                        | Wallajah        | 5                                   | 7                                    | 2                    |
| <b>Total</b>              |                 | <b>31</b>                           | <b>28</b>                            | <b>10</b>            |

While 31 works were delayed beyond one month, 28 works were delayed beyond three months and 10 works beyond six months. The agreements did not include any penal clause for delayed completion of work and no penalty was levied by the local bodies on the contractors for delay in completion of works.

#### 5.2.5.5 Irregular calling of tenders

The district panchayat called for centralised tenders for provision of streetlights in violation of the guidelines.

While selection of works to be executed was entrusted to the district panchayats, they were barred from calling for tenders for the works to be executed. As per guidelines only the panchayat union or panchayat concerned should call for tenders. The District Panchayat, Coimbatore, however, called for tenders for providing 14,920 streetlights at a total cost of Rs 2.99 crore for 10 panchayat unions.

<sup>2</sup> Capital works such as construction of public distribution shops, additional classrooms, culverts, thrashing floor, provision of street lights, road works, etc.



#### **5.2.5.6 Irregular accord of administrative/technical sanction**

Administrative sanction for the execution of works out of the SSFC grants to district panchayats was to be accorded by the District Collectors based on the resolution passed by the council of the district panchayat concerned. In violation of these instructions, the Secretary to the district panchayat had accorded administrative sanction for works selected by two district panchayats out of the three test checked district panchayats (Coimbatore and Thanjavur). Further, in terms of Tamil Nadu Panchayats (Preparation of plans and estimates for works and Mode & Conditions of Contract) Rules, 1998 technical sanction for the works taken up in district panchayat was to be accorded by the Assistant Engineer/Assistant Executive Engineer/Executive Engineer/Superintending Engineer of the Rural Development Department. However, in one district out of three test checked districts (Thanjavur) for works executed by Kattidamaiyam,<sup>3</sup> its Project Engineer accorded the technical sanction.

#### **5.2.6 Conclusion**

The grants were not distributed based on the ratio recommended by the Second State Finance Commission. There was delay in release of funds by Director of Rural Development to Collectors and in turn by the Collectors to district panchayats. Though there was delay in execution of works no penalty was levied on the contractors, as there was no penal clause in the agreements. The District Panchayat, Coimbatore called for tenders for provision of streetlights though the guidelines specifically barred calling of centralised tenders by the district panchayats.

#### **5.2.7 Recommendations**

- The Director of Rural Development should strictly adhere to the norms recommended by Second State Finance Commission for release of grants.
- Delay in release of grants should be avoided at all levels.
- Agreements for execution of works should be drawn properly so that penalty could be levied for delay in execution of works.
- The Government should insist upon strict compliance with the guidelines issued.

The above points were referred to Government in January 2007; reply has not been received (May 2007).

---

<sup>3</sup> Kattidamaiyam: An agency formed for execution of civil works by the Collector in each district.

## **5.3 Utilisation of local body grants in 24 panchayat unions**

### **5.3.1 Introduction**

Government of India released local body grants to panchayat raj institutions during 2000-05 based on the recommendations of the Eleventh Finance Commission. The grants so released were to be utilised for financing the maintenance of civic services in rural areas.

### **5.3.2 Audit objectives**

Audit objectives were to examine whether

- allocation of grants was as per norms and
- utilisation of grants was as per guidelines.

### **5.3.3 Audit criteria**

The following were adopted as audit criteria:

- Government of India guidelines for release and utilisation of grants and
- conditions prescribed in the orders of the State Government for release of grants.

### **5.3.4 Audit coverage and methodology**

Utilisation of the local body grants released during 2000-05 was reviewed in four panchayat unions in each of the six districts<sup>1</sup> selected for review. The review conducted during August and September 2006 covered the period 2000-06. The audit methodology followed was scrutiny of records produced to Audit and examination of replies furnished to audit enquiries by the department and local bodies.

### **5.3.5 Financial management**

Out of the total grants of Rs 466.12 crore released during 2000-05, Rs 25.96 crore<sup>2</sup> was earmarked for maintenance of accounts in village panchayats/panchayat unions and Rs 10.38 crore for creation of database relating to finances of local bodies. Government of India released the grants in two equal half yearly instalments every year. The State Government allocated the grants between panchayat unions and village panchayats in the ratio of 45:55. The Director of Rural Development (DRD) allocated and distributed the local body grants to panchayat unions through the District Collectors.

<sup>1</sup> Dharmapuri, Erode, Tiruchirappalli, Tiruvannamalai, Tiruvarur and Villupuram.

<sup>2</sup> At Rs 4,000 per panchayat raj institution per year for 12,593 village panchayats and 385 panchayat unions for five years = Rs 4,000 x (12,593 + 385) x 5 = Rs 25,95,60,000 or Rs 25.96 crore.

### 5.3.6 Audit findings

The findings of the review are discussed in the succeeding paragraphs.

#### 5.3.6.1 Irregular allocation of grants

**The State Government did not adopt the formula recommended by State Finance Commission for distribution of local body grant.**

The Eleventh Finance Commission recommended that the local body grants to the panchayats and panchayat unions should be distributed on the basis of recommendations of the State Finance Commissions. The First State Finance Commission recommended (May 1997) that the local body grants should be allocated on the basis of (i) weightage for total population – 50 per cent; (ii) weightage for SC/ST population – 25 per cent; and (iii) weightage for financial viability of panchayat unions – 25 per cent. Based on the recommendation (May 2001) of the Second State Finance Commission the State Government ordered (August 2002) that the distribution of local body grants should be on the basis of (i) weightage for total population – 40 per cent; (ii) weightage for women – 40 per cent; and (iii) weightage for hut dwellers and SC/ST population – 20 per cent. However, the State Government distributed local body grants based on total population only, without taking into consideration the recommendations of the State Finance Commissions as recommended by the Eleventh Finance Commission. As a result, of the test checked districts, Erode received Rs 1.25 crore less and Tiruvannamalai received Rs 38.26 lakh more during 2000-05<sup>3</sup>.

#### 5.3.6.2 Diversion of local body grant

**The local bodies spent Rs 11.23 crore on ineligible items of work.**

The guideline for utilisation of the local body grants envisaged that the grants should be used to finance the maintenance of civic services in rural areas. The State Government as guided by Government of India, identified the following civic services for utilisation of the grants: (i) primary education; (ii) health care; (iii) safe drinking water; (iv) sanitation including drainage and scavenging facilities, (v) maintenance of cremation and burial grounds, (vi) public conveniences; and (vii) other common property resources. Further, as per Government of India guidelines, the projects should normally be those that are not covered under other schemes of the Government of India or the State Government. The local body grants were diverted for execution of ineligible works as discussed below.

The State Government ordered (July 2000) establishment of 3,850 Sports Recreation Centres (SRC) in 385 panchayat unions at ten centres per panchayat union. The cost of establishment of each centre was Rs 25,000, of which Rs 23,000 was met out of local body grants and the balance Rs 2,000 from out of State funds. The State Government had thus diverted Rs 8.86 crore for ineligible item of work in violation of the guidelines for utilisation of the grants.

Seventeen test checked panchayat unions in six districts executed 55 works involving improvement to the panchayat union office buildings and repair to panchayat union staff quarters and construction of additional school building, etc., at a cost of Rs 42 lakh, (**Appendix XXVII**) violating the guidelines.

<sup>3</sup> In respect of other test checked districts the irregular allocation could not be worked out as these districts were formed only after 1991 census.

The guidelines did not identify maintenance of roads for execution out of local body grants. However, 14 test checked panchayat unions in four districts executed 147 road works spending Rs 1.95 crore, (**Appendix XXVII**) out of the local body grants during 2000-05.

In violation of Government of India guidelines, Assistant Director (Panchayats), Dharmapuri District deposited local body grant of Rs 2.50 crore relating to panchayat raj institutions in Post Office account for 14 days to achieve target for small savings.

#### **5.3.6.3 Funds kept unutilised**

In the 24 test checked panchayat unions, Rs 53.41 lakh of local body grant and Rs 14.37 lakh, (**Appendix XXVIII**) being the interest earned from savings bank account remained unutilised (July 2006). Further, Rs 38.33 lakh being the interest earned in the savings bank accounts of Assistant Directors (Panchayat) of four districts also remained unutilised (July 2006).

#### **5.3.7 Conclusion**

The State Government had not followed the norms prescribed by Government of India for allocation of the grants among panchayat unions. The grant released has been diverted to purposes other than those enunciated in the guidelines.

#### **5.3.8 Recommendations**

- The local body grants should be allocated with reference to population figures as per 2001 census.
- It should be ensured that the grant is utilised only for the intended purposes.

The above points were referred to Government in December 2006; reply has not been received (May 2007).

## CHAPTER VI

### AUDIT OF TRANSACTIONS (PANCHAYAT RAJ INSTITUTIONS)

Audit of transactions in the Rural Development Department in the Secretariat, Directorate of Rural Development and Panchayat Raj, 34 panchayat unions in Coimbatore, Nagapattinam, Thanjavur, Tiruchirappalli and Vellore Districts brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

#### *RURAL DEVELOPMENT DEPARTMENT*

##### **6.1 Idle investment**

##### **6.1.1 Negligible/non-utilisation of community halls**

**Due to deficient assessment of demand, 34 community halls constructed in five panchayat unions at a cost of Rs 1.03 crore remained largely unused.**

Construction of 34 community halls was sanctioned by four District Collectors/District Rural Development Agencies (DRDAs<sup>1</sup>), during 1994-1999 in five panchayat unions<sup>2</sup> under various schemes<sup>3</sup>. The construction of these halls was completed between January 1996 and May 2000 at a cost of Rs 1.03 crore. The charges for hiring out of these community halls for holding functions were fixed by the panchayats concerned and the revenue earned credited to their accounts. Audit scrutiny of the utilisation of the halls up to 31 March 2005 revealed gross under-utilisation.

Of the 34 community halls, while 23 were never used (**Appendix XXIX**) 11 were used from one to 15 days (**Appendix XXIX**) implying an average occupancy not exceeding 1.78 days per annum as per position up to 2004-05. This indicates that there was hardly any demand from the public for such halls. Further, of these 34 halls, 27 halls did not have any provision for water supply, while 18 halls lacked electricity connection.

The reasons for poor utilisation of community halls by the public as stated by the Commissioners of panchayat unions concerned were (a) preference of the public to conduct functions in their own households and (b) distant location of the halls from the town.

<sup>1</sup> Dindigul, Pudukkottai, Ramanathapuram and Sivaganga.

<sup>2</sup> Athoor in Dindigul District, Gandharvakottai in Pudukkottai District, Ramanathapuram and Mudukulathur in Ramanathapuram District and S. Pudur in Sivaganga District.

<sup>3</sup> Anna Marumalarchi Thittam: one hall; District Decentralised Plan: three halls; Employment Assurance Scheme: six halls and Jawahar Velai Vaippu Thittam: 24 halls.

Government in its reply (July 2006) stated that the community halls were being used as (i) school building where the existing school did not have an adequate building, (ii) education centre under Sarva Sikshya Aabyan, (iii) library-cum-reading room, (iv) meeting place of Self Help Group/Grama Sabha, (v) night schools under Arivoli Iyakkam and (vi) shelters for calamity relief from the year 2006-07. The Government further stated that the halls were also proposed to be used in the scheme "All Villages Anna Renaissance Scheme" under the component for creating full-fledged library/reading room for the use of public. The reply of the Government did not specifically indicate the extent to which these community halls were actually put to use. In the absence of any detailed report on utilisation of each of the halls commented upon, audit could not conclude whether the deficiencies pointed out were addressed and all the halls were actually put to use.

Failure of the department to assess the demand for community halls before their construction and their continued inaction in putting the constructed halls to use resulted in idle investment of Rs 1.03 crore.

### ***KUTTALAM PANCHAYAT UNION***

#### **6.1.2 Non-utilisation of community hall**

**Failure of Kuttalam Panchayat Union in providing essential facilities resulted in a community hall renovated at a cost of Rs 46.60 lakh remaining unutilised for more than five years.**

Government permitted (December 1998) Kuttalam Panchayat Union to take over its community centre at Kamar Kottam in Perumalkoil Panchayat (Nagapattinam District) along with land appurtenant thereto from the Commissioner, Hindu Religious and Charitable Endowment.

To enable the community centre to be used for weddings, the Director of Rural Development sanctioned (January 1999) Rs 30 lakh for construction of a dining hall, a kitchen along with a shed and toilets and Rs 7.50 lakh (July 2000) for improvement of the community hall. All the above works were completed between September 1999 and February 2001 at a cost of Rs 36.70 lakh. However, the community hall had not been used for any purpose by the public (July 2006).

The Commissioner, Panchayat Union, Kuttalam attributed (June 2005) this to non-availability of chairs for use in the marriage hall and dining hall, and lack of kitchen utensils, etc. These facilities were provided (September 2006) with Rs 9.90 lakh sanctioned by the District Panchayat, Nagapattinam. The Commissioner of the panchayat union stated (February 2007) that the hall was being utilised by the public from September 2006 after provision of the required facilities and had earned Rs 22,500 until 20 February 2007. This would prove that the centre was not put to use, only for want of essential facilities.

Thus, failure of the panchayat union in providing essential facilities resulted in non-utilisation of the community hall improved at a cost of Rs 36.70 lakh for more than five years.

The matter was referred to Government in October 2006. The Government stated (November 2006) that the community hall would be utilised as library

under the State scheme of 'All Villages Anna Renaissance Scheme'. The reply of the Government is not consistent with the Panchayat Union Commissioner's reply that the community hall had been put to use from September 2006. Further, provision of dining hall, kitchen, utensils for kitchen, etc., at a cost of Rs 46.60 lakh will become infructuous if the hall is used as a library.

## 6.2 Others

### 6.2.1 Advances pending adjustment

**Various advances drawn from General Fund by four panchayat unions in Tiruchirappalli District amounting to Rs 2.97 crore were pending adjustment, of which Rs 2.05 crore was pending for more than five years.**

Panchayat unions make various advance payments such as personal advances, advances to staff for execution of works, advances for purchase of material, advances to village panchayats, etc., from their General Fund. Adjustment of these advances is watched through a register of advances recoverable maintained in a format prescribed in the Manual of instructions for the maintenance of accounts in the panchayat unions. While tour advances and pay advances made to staff are to be adjusted within three months, other advances are to be adjusted at the earliest possible.

A test check of the register of advances recoverable conducted in four panchayat unions in Tiruchirappalli District revealed that advances made up to March 2006 amounting to Rs 2.97 crore were pending adjustment as of July 2006 as depicted below:

(Rupees in lakh)

| Sl. No.      | Name of panchayat union | Advances pending adjustment |
|--------------|-------------------------|-----------------------------|
| 1.           | Andanallur              | 22.62                       |
| 2.           | Lalgudi                 | 146.08                      |
| 3.           | Mannachanallur          | 61.75                       |
| 4.           | Pullambadi              | 66.25                       |
| <b>Total</b> |                         | <b>296.70</b>               |

Age-wise analysis of these advances indicated that Rs 12.39 lakh (four per cent) was pending adjustment for more than 20 years, Rs 1.21 crore (41 per cent) for more than 10 years and Rs 71.25 lakh (24 per cent) for more than five years. Advances amounting to Rs 4.29 lakh were pending with the staff of the panchayat unions, Rs 2.45 crore with village panchayats and Rs 47.90 lakh with others<sup>4</sup> (Appendix XXX).

<sup>4</sup> Others include Agriculture officers, Executive Engineer of National Highways, Government Press, Co-operative Press, Regional Joint Director of Health Services, Tamil Nadu Electricity Board, State Institute of Rural Development, Chinthamani Super Market, etc.

While the Block Development Officers (BDO) stated that action was being taken to adjust the advances pending with staff, in respect of the advances pending with the village panchayats, they stated that

- action was being taken to recover the advances from the State Government grant due to the village panchayats (BDOs of Andanallur, Mannachanallur and Pullambadi); and
- the subject was being placed before the Council of the panchayat union to treat the advances as expenditure of the panchayat union since they were made for provision of basic amenities such as drinking water supply, street lighting, etc.

In respect of the advances pending with others, the BDOs stated that

- records pertaining to advances were not available due to efflux of time (BDO, Pullambadi);
- whereabouts of the persons to whom the advances were made was not known (BDO, Mannachanallur); and
- the advances have been recovered as per entries in the cash book and entries were omitted in the advance register (BDO, Lalgudi).

The above replies are not tenable as this situation arose only due to failure of the BDOs to periodically watch adjustment of advances made or to initiate timely action to recover the advances. They had also failed to take up the pendency in adjustment of advances by village panchayats with the Government. In the above situation it could not be ensured that the advances were made use of for the intended purposes and further, the possibility of misuse of the advances could also not be ruled out.

The matter was referred to Government in November 2006; reply has not been received (May 2007).

### **6.2.2                    *Blocking of Government funds***

**Funds amounting to Rs 2.94 crore meant for the Empowerment and Poverty Reduction Programme were not utilised in three District Rural Development Agencies and Panchayat Unions.**

Government of Tamil Nadu launched (February 2005) the Empowerment and Poverty Reduction Programme (EPRP) to identify household of the poorest of the poor (ultra poor). 3.15 lakh households (25 in each of 12,618 village panchayats), thus identified, were to be issued photo identity cards to enable access to a package of assistance covering security for livelihood, nutrition, health and shelter. The State Government released Rs 25 crore for the programme (Rs 5 crore in February 2005 and Rs 20 crore in June 2005). As against 3,15,450 households proposed to be identified in the State, only 2,92,394 were identified. Expenditure of Rs 4.59 crore was incurred as of October 2006.

Audit scrutiny of records relating to implementation of EPRP in Coimbatore, Thanjavur and Vellore Districts revealed the following :



- As against the target of 43,275 households for identification of ultra poor in these districts, 39,615 households had been identified. Although identification of ultra poor families was done as above, these families could not avail of the envisaged welfare schemes because of the failure to issue identity cards.
- Out of Rs 3.43 crore released by the Director of Rural Development to these districts, the District Rural Development Agencies had released only Rs 1.48 crore to the panchayat unions (June 2006). The panchayat unions had utilised Rs 48.80 lakh out of this amount and Rs 2.94 crore remained unutilised in these districts.

The Government of Tamil Nadu abandoned the scheme in July 2006 without assigning any reasons.

The matter was referred to Government in January 2007; reply has not been received (May 2007).

Chennai  
The

**(SHANKAR NARAYAN)**  
Principal Accountant General (Civil Audit)  
Tamil Nadu and Pondicherry

Countersigned

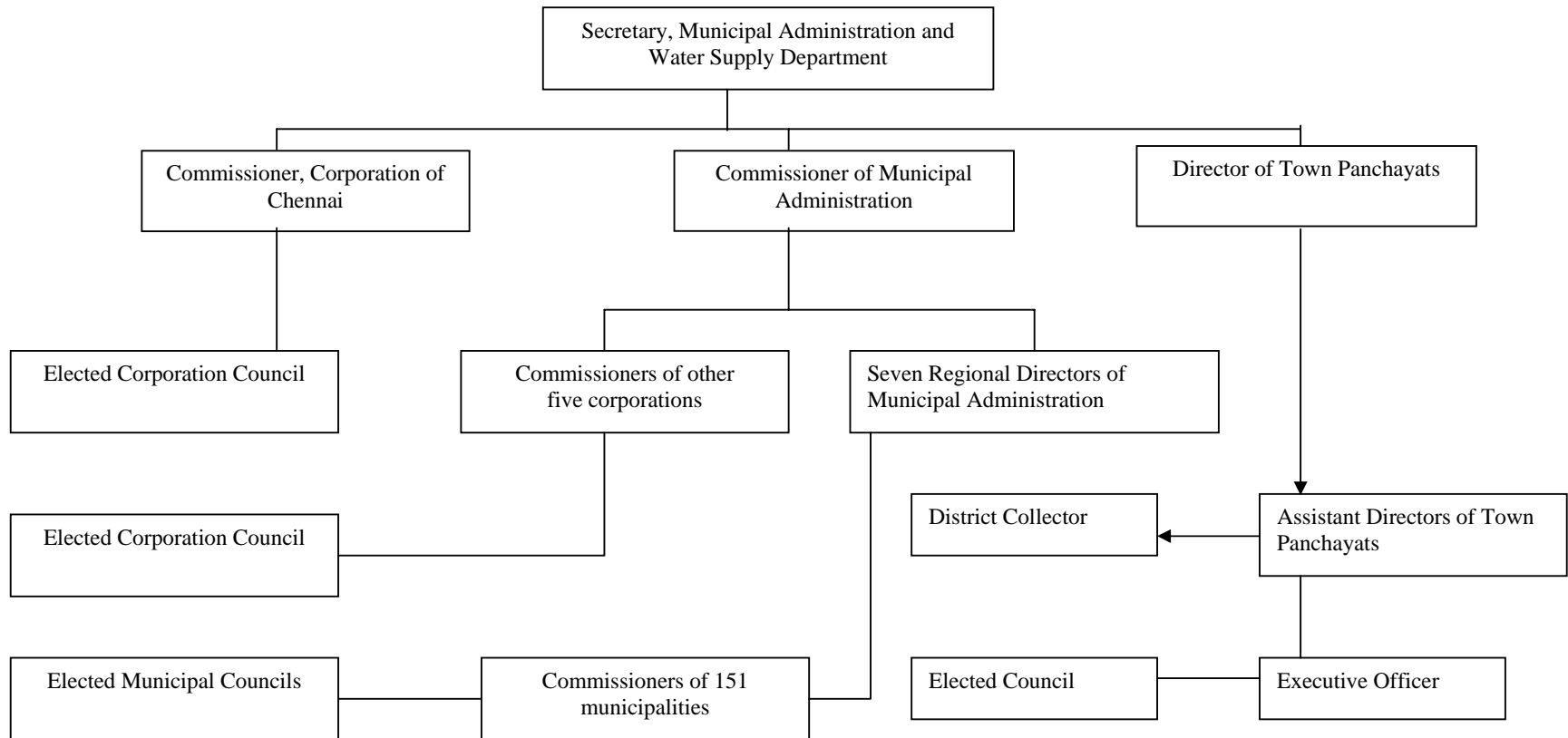
New Delhi  
The

**(VIJAYENDRA N. KAUL)**  
Comptroller and Auditor General of India

## Appendix I

(Reference: Paragraph 1.2.1; Page 2)

### Organisation chart of urban local bodies



## Appendix II

(Reference: Paragraph 1.4.1; Page 3)

### Details of audit fees due as on 31 March 2006 in respect of urban local bodies

(Rupees in lakh)

| Year           | Five corporations | Chennai Corporation | 102 municipalities | III grade 49 municipalities | Total         |
|----------------|-------------------|---------------------|--------------------|-----------------------------|---------------|
| Upto 1999-2000 | 97.57             | Nil                 | 41.40              | Nil                         | 138.97        |
| 2000-01        | 50.58             | Nil                 | 33.18              | Nil                         | 83.76         |
| 2001-02        | 67.16             | Nil                 | 46.30              | Nil                         | 113.46        |
| 2002-03        | 41.77             | Nil                 | 52.26              | Nil                         | 94.03         |
| 2003-04        | 49.06             | Nil                 | 40.23              | Nil                         | 89.29         |
| 2004-05        | 56.26             | Nil                 | 23.81              | 0.67                        | 80.74         |
| <b>Total</b>   | <b>362.40</b>     | <b>Nil</b>          | <b>237.18</b>      | <b>0.67</b>                 | <b>600.25</b> |

### Appendix III

(Reference: Paragraph 1.5; Page 4)

#### Devolution of functions

##### **A Devolution of functions to ULBs**

###### **(a) Functions devolved**

- (i) Urban planning including town planning
- (ii) Regulation of land use and construction of buildings
- (iii) Roads and bridges
- (iv) Water supply for domestic, industrial and commercial purposes
- (v) Public health, sanitation, conservancy and solid waste management
- (vi) Slum improvement and upgradation
- (vii) Urban poverty alleviation
- (viii) Provision of urban amenities and facilities such as parks, gardens and playgrounds
- (ix) Burials and burial grounds, cremation, cremation grounds and electric crematoriums
- (x) Vital statistics including registration of births and deaths
- (xi) Public amenities including street lighting, parking lots, bus stops and public conveniences
- (xii) Regulation of slaughter houses and tanneries
- (xiii) Cattle pounds

###### **(b) Functions yet to be devolved**

- (i) Planning for economic and social development
- (ii) Fire services
- (iii) Urban forestry, protection of the environment and promotion of ecological aspects
- (iv) Safeguarding the interests of weaker sections of Society, including the handicapped and mentally retarded
- (v) Promotion of cultural, educational and aesthetic aspects

**B Devolution of functions to town panchayats**

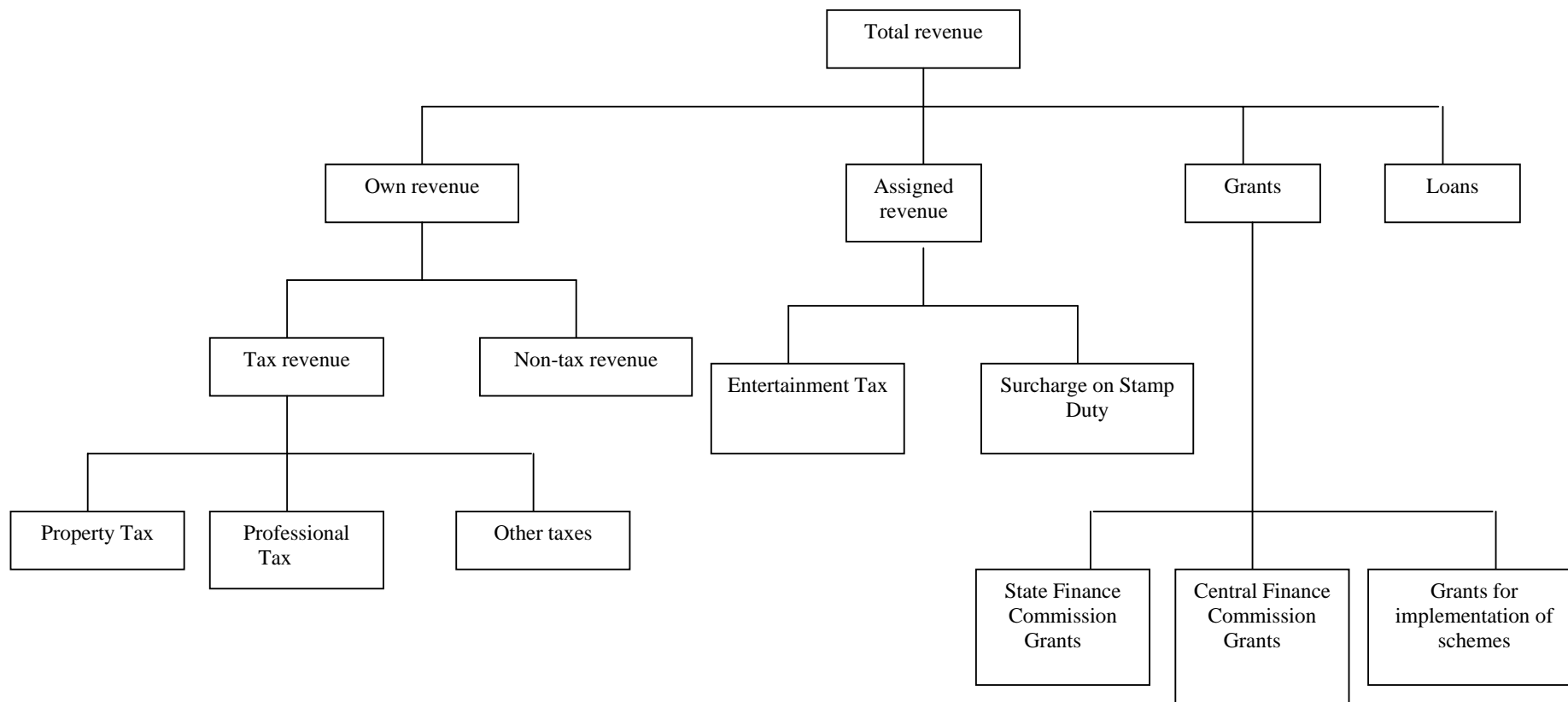
**I Functions devolved**

1. Urban Planning including Town Planning.
2. Regulation of land use and construction of buildings.
3. Roads and bridges.
4. Water supply for domestic, industrial and commercial purposes.
5. Public Health, sanitation, conservancy and solid waste management.
6. Slum improvement and upgradation.
7. Urban poverty alleviation.
8. Provision of urban amenities and facilities such as parks, gardens and playgrounds.
9. Burials and burial grounds, cremation, cremation grounds and electric crematoriums.
10. Vital statistics including registration of births and deaths.
11. Public amenities including street lighting, parking lots, bus stops and public conveniences.
12. Regulation of slaughter houses and tanneries.

**II Functions yet to be devolved**

13. Planning for economic and social development.
14. Fire services.
15. Urban forestry, protection for the environment and promotion of ecological aspects.
16. Safeguarding the interest of weaker sections of Society, including the handicapped and mentally retarded.
17. Promotion of cultural, educational and aesthetic aspects.
18. Cattle pounds.

**Appendix IV**  
**(Reference: Paragraph 1.7.1; Page 5)**  
**Source of revenue of urban local bodies**



**Appendix V**

**(Reference: Paragraph 1.11.3; Page 16)**

**Number of audit paragraphs pending settlement as on 31 March 2006 relating to urban local bodies**

| Year         | Municipalities  | Corporations  |              |              |                |              |               | Grand Total   |                 |
|--------------|-----------------|---------------|--------------|--------------|----------------|--------------|---------------|---------------|-----------------|
|              |                 | Chennai       | Coimbatore   | Salem        | Tiruchirapalli | Tirunelveli  | Madurai       |               | Total           |
| Upto 1997-98 | 59,094          | 29,985        | 7,408        | 3,896        | 5,222          | 2,107        | 14,904        | 63,522        | 1,22,616        |
| 1998-99      | 7,935           | 1,376         | 623          | 656          | 116            | 206          | 1,554         | 4,531         | 12,466          |
| 1999-2000    | 7,240           | 1,336         | 497          | 499          | 78             | 174          | 1,678         | 4,262         | 11,502          |
| 2000-2001    | 11,543          | 1,225         | 512          | 366          | 81             | 353          | 1,547         | 4,084         | 15,627          |
| 2001-2002    | 18,229          | 952           | 616          | 369          | 326            | 327          | 508           | 3,098         | 21,327          |
| 2002-2003    | 11,301          | 1,221         | -            | 339          | 338            | 500          | 93            | 2,491         | 13,792          |
| 2003-2004    | 5,281           | 1,475         | -            | 385          | 689            | -            | 86            | 2,635         | 7,916           |
|              | <b>1,20,623</b> | <b>37,570</b> | <b>9,656</b> | <b>6,510</b> | <b>6,850</b>   | <b>3,667</b> | <b>20,370</b> | <b>84,623</b> | <b>2,05,246</b> |

## Appendix VI

(Reference: Paragraph 2.1.11.3; Page 29)

## Statement showing incomplete capture of birth and death data

| Mandatory information on births |   | Statistical information on births |                                   | Information on deaths        |   |
|---------------------------------|---|-----------------------------------|-----------------------------------|------------------------------|---|
| Item                            | Number of blanks or incorrect information | Item of information               | Instances where it remained blank | Item of information          | Number of blanks or incorrect information |
| Mother's name                   | 21,417                                    | Weight of child at birth          | *31,546                           | Name of the deceased         | 5,119                                     |
| Father's name                   | 3,061                                     | Period of pregnancy               | *33,747                           | Age of the deceased          | 2,44,912                                  |
| Sex of the child                | 6,225                                     | Mother's age at marriage          | *35,191                           | Name of father or husband    | 1,91,998                                  |
| Place of birth                  | 1,07,179                                  | Mother's age at child birth       | 19,18,509                         | Death at home or in hospital | 5,44,320                                  |
| Address of parents              | 5,71,280                                  | Father's literacy                 | 19,24,410                         | Address of death place       | 37,298                                    |
|                                 |   | Mother's literacy                 | 19,11,094                         | Cause of death               | 4,10,831                                  |
|                                 |   | Religion                          | 19,10,977                         |                              |   |

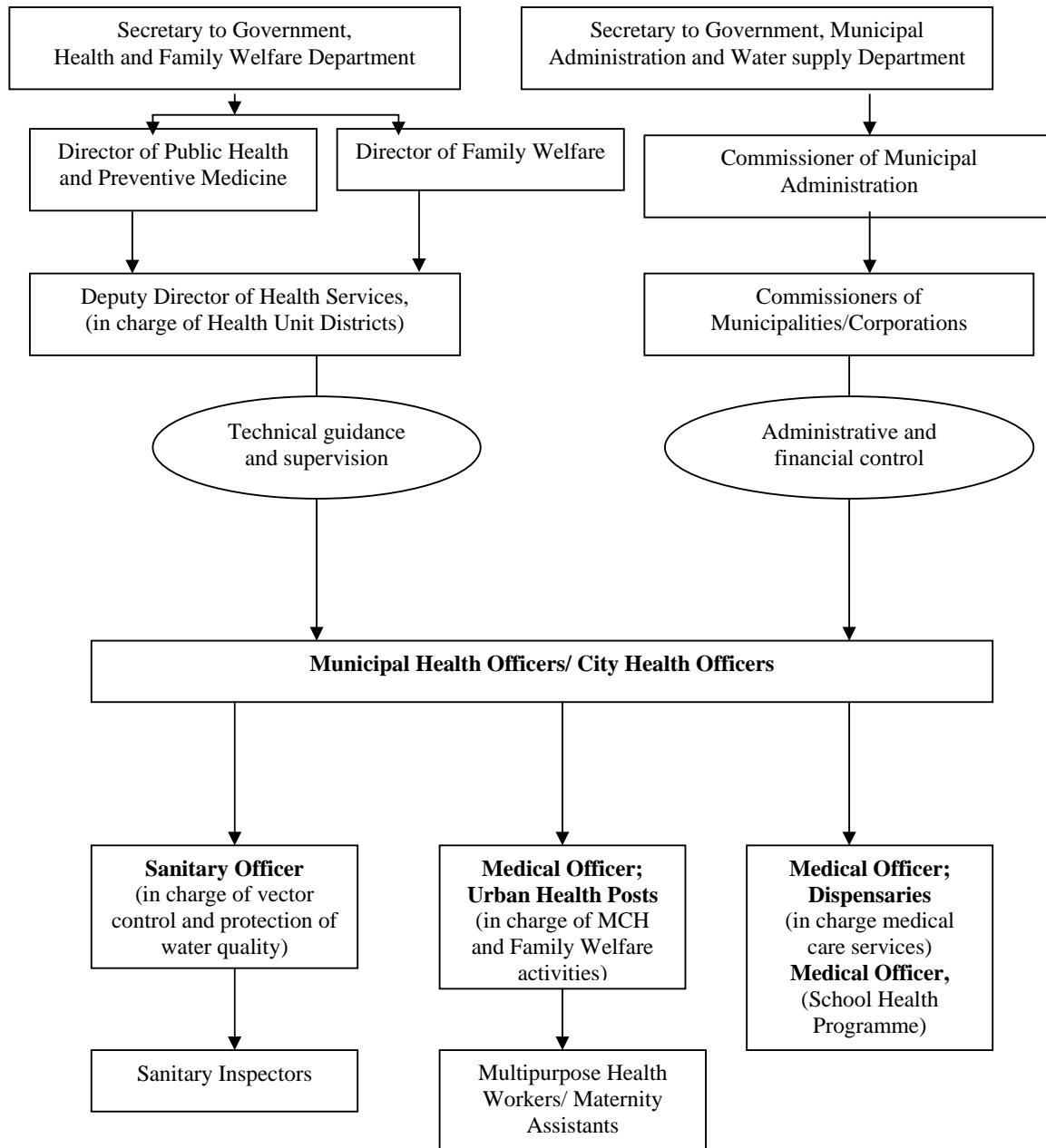
\* Out of the 2,65,117 registrations made after introduction of the new format



## Appendix VII

(Reference: Paragraph 2.2.2; Page 32)

### Organisation chart



## Appendix VIII

(Reference: Paragraph 2.2.3; Page 32)

### List of urban local bodies visited

1. Ambattur
2. Chinnamanur
3. Coimbatore
4. Cuddalore
5. Dharmapuri
6. Erode
7. Gobichettipalayam
8. Karaikudi
9. Koothanallur
10. Nagercoil
11. Pollachi
12. Pudukottai
13. Puliangudi
14. Ranipet
15. Salem
16. Thuraiyur

### Appendix IX

(Reference: Paragraph 2.3.6.3; Page 47)

#### Diversion of Elementary Education Fund

| Sl.No.       | Name of the municipality | Diversion of Elementary Education Fund       |                             |
|--------------|--------------------------|--|-----------------------------|
|              |                          | Diverted to                                  | Amount<br>(Rupees in crore) |
| 1.           | Pattukkottai             | Revenue fund                                 | 0.14                        |
| 2.           | Pollachi                 | Water supply account                         | 0.58                        |
| 3.           | Tiruppur                 | Water Supply and Development<br>Capital Fund | 2.24                        |
| <b>Total</b> |                          |  | <b>2.96</b>                 |

### Appendix X

(Reference: Paragraph 2.3.7.1; Page 47)

#### Pendency in collection of revenue at the end of March 2006

(Rupees in lakh)

| Sl. No.      | Name of the municipality |                              | Property Tax    | Profession Tax | Non-tax revenue | Water charges | Total   |
|--------------|--------------------------|------------------------------|-----------------|----------------|-----------------|---------------|---|
| 1.           | Kumbakonam               | Arrear                       | 721.73          | 40.91          | 2.09            | 57.55         | <b>822.28</b>                                 |
|              |                          | Current                      | 163.12          | 10.67          | 17.04           | 33.62         | <b>224.45</b>                                 |
| 2.           | Mettupalayam             | Arrear                       | 22.32           | 0.08           | 0               | 3.59          | <b>25.99</b>                                  |
|              |                          | Current                      | 8.63            | 0.34           | 4.32            | 11.19         | <b>24.48</b>                                  |
| 3.           | Pattukkottai             | Arrear                       | 47.92           | 34.82          | 10.50           | 9.04          | <b>102.28</b>                                 |
|              |                          | Current                      | 31.12           | 2.36           | 11.20           | 11.99         | <b>56.67</b>                                  |
| 4.           | Pollachi                 | Arrear                       | 516.85          | 18.64          | 40.27           | 6.02          | <b>581.78</b>                                 |
|              |                          | Current                      | 176.64          | 5.51           | 36.27           | 11.49         | <b>229.91</b>                                 |
| 5.           | Thanjavur                | Arrear                       | 625.02          | 43.94          | 68.07           | 148.02        | <b>885.05</b>                                 |
|              |                          | Current                      | 198.64          | 7.63           | 44.89           | 77.52         | <b>328.68</b>                                 |
| 6.           | Tiruppur                 | Arrear                       | 45.14           | 61.35          | 20.40           | 212.22        | <b>339.11</b>                                 |
|              |                          | Current                      | 193.57          | 17.21          | 9.73            | 131.72        | <b>352.23</b>                                 |
| 7.           | Udumalpet                | Arrear                       | 20.72           | 15.25          | 5.10            | 39.65         | <b>80.72</b>                                  |
|              |                          | Current                      | 11.87           | 6.99           | 3.17            | 7.42          | <b>29.45</b>                                  |
| <b>Total</b> |                          | <b>(Arrears and current)</b> | <b>2,783.29</b> | <b>265.70</b>  | <b>273.05</b>   | <b>761.04</b> | <b>4,083.08<br/>or<br/>Rs 40.83<br/>crore</b> |

## Appendix XI

(Reference: Paragraph 2.3.8.1; Page 51)

## Avoidable interest liability due to non-conversion of high cost loans

(Rupees in crore)

| Sl. No.      | Name of the municipality | Outstanding high cost loan as of December 2003 | Rate of interest | Rate of interest on conversion   | Avoidable interest liability up to March 2006 |
|--------------|--------------------------|--|------------------|----------------------------------|---|
| 1.           | Pollachi                 | 4.86   | 13.50            | 1-1-04 – 10.25%                  | 0.45  |
| 2.           | Thanjavur                | 10.59  | 13.50            | 1-4-04 – 9.25%                   | 1.06  |
| 3.           | Tiruppur                 | 21.75  | 13.50            | 1-1-05 – 8.5 %<br>1-1-06 – 8.25% | 2.03  |
| <b>Total</b> |                          |  |                  |                                  | <b>3.54</b>                                   |

## Appendix XII

(Reference: Paragraph 2.3.9; Page 52)

Expenditure from local bodies grant (Eleventh Finance Commission)  
on ineligible items of work

(Rupees in lakh)

| Sl.No.       | Name of the municipality | Period  | Grant from Government of India | Total expenditure | Ineligible work |               | Proportionate grant                    |
|--------------|--------------------------|---------|--------------------------------|-------------------|-----------------|---------------|--|
|              |                          |         |                                |                   | Number          | Amount        |  |
| 1.           | Kumbakonam               | 2001-05 | 90.78                          | 164.84            | 12              | 97.21         | 50.01                                  |
| 2.           | Pollachi                 | 2002-04 | 14.14                          | 30.23             | 4               | 19.78         | 9.30                                   |
| 3.           | Thanjavur                | 2002-04 | 69.12                          | 122.07            | 58              | 72.41         | 40.90                                  |
| 4.           | Tiruppur                 | 2001-05 | 226.81                         | 392.33            | 27              | 191.97        | 111.81                                 |
| <b>Total</b> |                          |         | <b>400.85</b>                  | <b>709.47</b>     | <b>101</b>      | <b>381.37</b> | <b>212.02<br/>or Rs 2.12<br/>crore</b> |

**Appendix XIII**

**(Reference: Paragraph 3.1.1; Page 54)**

**Short-realisation of surcharge by urban local bodies**

**(Rupees in lakh)**

| Sl. No.                   | Name of local body | Surcharge for the quarter ended |          |       |                |          |       |               |          |       | Total surcharge short realised |
|---------------------------|--------------------|---------------------------------|----------|-------|----------------|----------|-------|---------------|----------|-------|--------------------------------|
|                           |                    | June 2002                       |          |       | September 2002 |          |       | December 2002 |          |       |                                |
|                           |                    | Due                             | Received | Short | Due            | Received | Short | Due           | Received | Short |                                |
| <b>(a) Municipalities</b> |                    |                                 |          |       |                |          |       |               |          |       |                                |
| 1.                        | Alandur            | 64.98                           | 61.56    | 3.42  | 64.08          | 60.71    | 3.37  | --            | --       | --    | 6.79                           |
| 2.                        | Ambur              | 11.79                           | 11.17    | 0.62  | 14.88          | 14.10    | 0.78  | --            | --       | --    | 1.40                           |
| 3.                        | Arakonam           | 12.36                           | 11.71    | 0.65  | 12.96          | 12.28    | 0.68  | --            | --       | --    | 1.33                           |
| 4.                        | Arcot              | 8.81                            | 8.35     | 0.46  | 7.33           | 6.94     | 0.39  | --            | --       | --    | 0.85                           |
| 5.                        | Aruppukkottai      | 9.90                            | 9.38     | 0.52  | 8.43           | 7.99     | 0.44  | 8.05          | 7.63     | 0.42  | 1.38                           |
| 6.                        | Attur              | 14.46                           | 13.70    | 0.76  | 14.06          | 13.32    | 0.74  | --            | --       | --    | 1.50                           |
| 7.                        | Chidambaram        | 12.32                           | 11.67    | 0.65  | 13.49          | 12.78    | 0.71  | --            | --       | --    | 1.36                           |
| 8.                        | Chengalpattu       | 11.53                           | 10.92    | 0.61  | 18.46          | 17.49    | 0.97  | --            | --       | --    | 1.58                           |
| 9.                        | Cuddalore          | 25.46                           | 24.12    | 1.34  | 38.52          | 36.49    | 2.03  | --            | --       | --    | 3.37                           |
| 10.                       | Dindigul           | 36.95                           | 35.01    | 1.94  | 34.70          | 32.87    | 1.83  | 35.67         | 33.79    | 1.88  | 5.65                           |
| 11.                       | Gudiyatham         | 9.31                            | 8.82     | 0.49  | 9.42           | 8.92     | 0.50  | --            | --       | --    | 0.99                           |
| 12.                       | Kancheepuram       | 21.88                           | 20.73    | 1.15  | 20.99          | 19.89    | 1.10  | --            | --       | --    | 2.25                           |
| 13.                       | Kodaikanal         | 15.37                           | 14.56    | 0.81  | 16.96          | 16.07    | 0.89  | 16.49         | 15.62    | 0.87  | 2.57                           |
| 14.                       | Komarapalayam      | 9.85                            | 9.33     | 0.52  | --             | --       | --    | --            | --       | --    | 0.52                           |
| 15.                       | Madurantakam       | 4.63                            | 4.39     | 0.24  | 3.05           | 2.89     | 0.16  | --            | --       | --    | 0.40                           |
| 16.                       | Mettupalayam       | 8.52                            | 8.07     | 0.45  | 7.30           | 6.92     | 0.38  | --            | --       | --    | 0.83                           |
| 17.                       | Namakkal           | 15.95                           | 15.11    | 0.84  | --             | --       | --    | --            | --       | --    | 0.84                           |
| 18.                       | Nellikuppam        | 3.66                            | 3.47     | 0.19  | 3.59           | 3.40     | 0.19  | --            | --       | --    | 0.38                           |
| 19.                       | Palani             | 12.81                           | 12.14    | 0.67  | 8.62           | 8.17     | 0.45  | 18.45         | 17.48    | 0.97  | 2.09                           |
| 20.                       | Pallavaram         | 83.99                           | 79.57    | 4.42  | 74.60          | 70.67    | 3.93  | --            | --       | --    | 8.35                           |

| Sl.No.                                | Name of local body | Surcharge for the quarter ended |               |              |                 |               |              |               |               |             | Total surcharge short realised           |
|---------------------------------------|--------------------|---------------------------------|---------------|--------------|-----------------|---------------|--------------|---------------|---------------|-------------|--|
|                                       |                    | June 2002                       |               |              | September 2002  |               |              | December 2002 |               |             |  |
|                                       |                    | Due                             | Received      | Short        | Due             | Received      | Short        | Due           | Received      | Short       |  |
| 21.                                   | Panruti            | 13.01                           | 12.33         | 0.68         | 15.62           | 14.80         | 0.82         | --            | --            | --          | 1.50                                     |
| 22.                                   | Pollachi           | 24.56                           | 23.27         | 1.29         | 22.97           | 21.76         | 1.21         | --            | --            | --          | 2.50                                     |
| 23.                                   | Pudukkottai        | 22.41                           | 21.23         | 1.18         | 24.77           | 23.47         | 1.30         | 44.26         | 41.93         | 2.33        | 4.81                                     |
| 24.                                   | Rajapalayam        | 13.58                           | 12.87         | 0.71         | 17.88           | 16.94         | 0.94         | 16.12         | 15.27         | 0.85        | 2.50                                     |
| 25.                                   | Ranipet            | 5.97                            | 5.66          | 0.31         | 8.29            | 7.85          | 0.44         | --            | --            | --          | 0.75                                     |
| 26.                                   | Rasipuram          | 8.12                            | 7.69          | 0.43         | --              | --            | --           | --            | --            | --          | 0.43                                     |
| 27.                                   | Sattur             | 3.72                            | 3.52          | 0.20         | 5.70            | 5.40          | 0.30         | 6.59          | 6.24          | 0.35        | 0.85                                     |
| 28.                                   | Sivakasi           | 10.86                           | 10.29         | 0.57         | 12.75           | 12.08         | 0.67         | 9.71          | 9.20          | 0.51        | 1.75                                     |
| 29.                                   | Srivilliputhur     | 5.23                            | 4.95          | 0.28         | 6.93            | 6.57          | 0.36         | 6.18          | 5.85          | 0.33        | 0.97                                     |
| 30.                                   | Tambaram           | 30.03                           | 28.45         | 1.58         | 62.75           | 59.45         | 3.30         | --            | --            | --          | 4.88                                     |
| 31.                                   | Tiruchengode       | 19.35                           | 18.33         | 1.02         | --              | --            | --           | --            | --            | --          | 1.02                                     |
| 32.                                   | Tindivanam         | 13.10                           | 12.41         | 0.69         | 10.15           | 9.62          | 0.53         | --            | --            | --          | 1.22                                     |
| 33.                                   | Tirupathur         | 8.90                            | 8.43          | 0.47         | 9.33            | 8.84          | 0.49         | --            | --            | --          | 0.96                                     |
| 34.                                   | Tiruppur           | 150.75                          | 142.82        | 7.93         | 111.77          | 105.89        | 5.88         | --            | --            | --          | 13.81                                    |
| 35.                                   | Udumalpet          | 9.80                            | 9.28          | 0.52         | 17.31           | 16.40         | 0.91         | --            | --            | --          | 1.43                                     |
| 36.                                   | Vaniambadi         | 10.40                           | 9.85          | 0.55         | 11.83           | 11.21         | 0.62         | --            | --            | --          | 1.17                                     |
| 37.                                   | Vellore            | 39.74                           | 37.65         | 2.09         | 28.01           | 26.54         | 1.47         | --            | --            | --          | 3.56                                     |
| 38.                                   | Villupuram         | 19.28                           | 18.27         | 1.01         | 19.13           | 18.12         | 1.01         | --            | --            | --          | 2.02                                     |
| 39.                                   | Vridhachalam       | 13.11                           | 12.42         | 0.69         | 14.11           | 13.37         | 0.74         | --            | --            | --          | 1.43                                     |
| 40.                                   | Virudhunagar       | 11.33                           | 10.73         | 0.60         | 9.36            | 8.87          | 0.49         | 11.03         | 10.45         | 0.58        | 1.67                                     |
| 41.                                   | Walajapet          | 3.35                            | 3.17          | 0.18         | 2.60            | 2.46          | 0.14         | --            | --            | --          | 0.32                                     |
| <b>(b) City Municipal Corporation</b> |                    |                                 |               |              |                 |               |              |               |               |             |  |
| 42.                                   | Tiruchirappalli    | --                              | --            | --           | 235.89          | 223.47        | 12.42        | --            | --            | --          | 12.42                                    |
| <b>Total</b>                          |                    | <b>831.13</b>                   | <b>787.40</b> | <b>43.73</b> | <b>1,018.59</b> | <b>965.01</b> | <b>53.58</b> | <b>172.55</b> | <b>163.46</b> | <b>9.09</b> | <b>106.40</b><br>or<br><b>1.06 crore</b> |

**Appendix XIV**

**(Reference: Paragraph 3.1.2; Page 54)**

**Non-levy of tax on vacant land**

| Sl.No.       | Scheme<br>(phase<br>number) | Unsold (vacant) land |                  | Guideline<br>value<br>(Rupees per<br>sq.ft.) | Value of the<br>land<br>( in rupees) |
|--------------|-----------------------------|----------------------|------------------|--|--------------------------------------|
|              |                             | in acres             | in sq.ft.        |  |                                      |
| 1.           | 3                           | 1.26                 | 54,886           | 351  | 1,92,64,986                          |
| 2.           | 4                           | 0.68                 | 29,621           | 213  | 63,09,273                            |
| 3.           | 6                           | 2.45                 | 1,06,722         | 200  | 2,13,44,400                          |
| 4.           | 7                           | 3.94                 | 1,71,626         | 351  | 6,02,40,726                          |
| 5.           | 8                           | 6.60                 | 2,87,496         | 200  | 5,74,99,200                          |
| 6.           | 9                           | 0.49                 | 21,344           | 254  | 54,21,376                            |
| 7.           | 10                          | 6.20                 | 2,70,072         | 233  | 6,29,26,776                          |
| 8.           | 12                          | 1.54                 | 67,082           | 201  | 1,34,83,482                          |
| <b>Total</b> |                             | <b>23.16</b>         | <b>10,08,849</b> |  | <b>24,64,90,219</b>                  |

|   |   |           |                  |                         |
|---|---|-----------|------------------|-------------------------|
| Value of land   | : | Rs        | 24,64,90,219     |                         |
| Property Tax at 0.5 per cent per half-year                      | : | Rs        | 12,32,451        |                         |
| Education Tax at 0.125 per cent per half-year                   | : | Rs        | 3,08,113         |                         |
| Property Tax for six half-years (October 2003 to<br>April 2006) | : | Rs        | 73,94,706        | or Rs 73.95 lakh        |
| Education Tax -do-  | : | Rs        | 18,48,678        | or Rs 18.48 lakh        |
| <b>Total</b>  | : | <b>Rs</b> | <b>92,43,384</b> | <b>or Rs 92.43 lakh</b> |

### Appendix XV

(Reference: Paragraph 3.1.3; Page 55)

#### Lower tariff and lesser number of rooms adopted for assessment

| Sl.No.  | Name of the lodging house           | Capacity (Number of persons) |          | Property Tax per half-year (in rupees) |                 |                  |
|---|-------------------------------------|------------------------------|----------|--|-----------------|------------------|
|   |                                     | Actual                       | Assessed | To be levied                           | Actually levied | Short levied     |
| <b>(a) Lesser number of rooms adopted</b>                   |                                     |                              |          |  |                 |                  |
| 1.  | Nayagera Hotels, Kodambakkam        | 84                           | 43       | 2,48,153                               | 81,370          | 1,66,783         |
| <b>(b) Lesser number of rooms and lesser tariff adopted</b> |                                     |                              |          |  |                 |                  |
| 2.  | Sri Devi Park Hotel, T.Nagar        | 72                           | 41       | 99,477                                 | 64,510          | 34,967           |
| 3.  | Liberty Hotel (P) Ltd., Kodambakkam | 90                           | 66       | 1,92,592                               | 82,903          | 1,09,689         |
| 4.  | Kings Park Hotel, Kilpauk           | 181                          | 109      | 10,67,335                              | 3,38,954        | 7,28,381         |
| <b>Total</b>  |                                     |                              |          |  |                 | <b>10,39,820</b> |

### Appendix XVI

(Reference: Paragraph 3.1.3; Page 55)

#### Lower tariff adopted for assessment

(in rupees)

| Sl. No.      | Name of the lodging house             | Property Tax per half-year |                 |                 |
|--------------|---------------------------------------|----------------------------|-----------------|-----------------|
|              |                                       | To be levied               | Actually levied | Short levied    |
| 1.           | Maha Sakthi International, Sowkarpet  | 1,25,963                   | 81,193          | 44,770          |
| 2.           | Hotel Palace, Aminjikarai             | 20,181                     | 11,738          | 8,443           |
| 3.           | Hotel Howrah, Poonamallee High Road   | 1,10,381                   | 8,110           | 1,02,271        |
| 4.           | Shah Holiday Inn, Koyambedu           | 3,43,202                   | 86,641          | 2,56,561        |
| 5.           | Hotel Sornam International, Park Town | 1,39,703                   | 58,109          | 81,594          |
| <b>Total</b> |                                       |                            |                 | <b>4,93,639</b> |

#### Abstract

Appendix XV : Rs 10,39,820

Appendix XVI : Rs 4,93,639

Total : Rs 15,33,459

**Short-levy of Property Tax per half-year Rs 15,33,459**

**For six half-years during 2002-06 Rs 92,00,754 or Rs 92.01 lakh**



**Appendix XVII**

**(Reference: Paragraph 3.1.4; Page 56)**

**Non-realisation of anticipated revenue from income-generating assets**

(Rupees in lakh)

| Sl. No.      | Name of projects   | Completed on | Expenditure  | Period from date of completion upto March 2006 | Anticipated annual revenue (per annum) | Anticipated revenue upto March 2006 | Actual revenue | Shortfall    |
|--------------|--|--------------|--------------|--|--|-------------------------------------|----------------|--------------|
| I            | Salem Road-Cauvery Road junction shopping complex (Shop No.1 to 9) | 30.04.1998   | 14.75        | 7 years and 10 months                          | 2.45                                   | 19.19                               | 3.46           | 15.73        |
| II           | Open stalls at weekly market                                       | 08.01.1996   | 3.00         | 10 years and 2 months                          | 0.58                                   | 5.90                                | 0.65           | 5.25         |
| III          | Open stalls 14 Nos. and 3 shops at Daily market                    | 27.06.1996   | 7.20         | 9 years and 9 months                           | 0.81                                   | 7.90                                | 6.00           | 1.90         |
| IV           | 8 Godowns at weekly shandy   | 24.11.1995   | 12.00        | 10 years and 4 months                          | 1.32                                   | 13.64                               | 0.68           | 12.96        |
| V            | Shopping complex at slaughter house site                           | 18.12.1998   | 7.65         | 7 years and 3 months                           | 0.79                                   | 5.73                                | ---            | 5.73         |
| <b>Total</b> |  |              | <b>44.60</b> |  | <b>5.95</b>                            | <b>52.36</b>                        | <b>10.79</b>   | <b>41.57</b> |

## Appendix XVIII

(Reference: Paragraph 3.1.4; Page 57)

## Loss of rental revenue

(in rupees)

| Sl.No. | Shop No.                         | Vacant from | Monthly rent up to April 2005* | Loss of rental revenue up to April 2005 | Monthly rent from May 2005 | Loss of rental revenue up to June 2006 | Total loss of rental revenue                   |
|--------|----------------------------------|-------------|--------------------------------|---|----------------------------|--|--|
| 1.     | 2                                | 1.4.2004    | 1,100                          | 14,300                                  | 500                        | 7,000                                  | 21,300   |
| 2.     | 5                                | 24.5.2004   | 1,100                          | 12,384                                  | 500                        | 7,000                                  | 19,384   |
| 3.     | 6                                | 19.4.2004   | 1,100                          | 13,640                                  | 500                        | 7,000                                  | 20,640   |
| 4.     | 7                                | 19.4.2004   | 1,100                          | 13,640                                  | 500                        | 7,000                                  | 20,640   |
| 5.     | 8                                | 16.4.2004   | 1,150                          | 14,375                                  | 500                        | 7,000                                  | 21,375   |
| 6.     | 9                                | 12.4.2004   | 1,100                          | 13,897                                  | 500                        | 7,000                                  | 20,897   |
| 7.     | 10                               | 11.4.2004   | 1,100                          | 13,933                                  | 500                        | 7,000                                  | 20,933   |
| 8.     | 11                               | 1.4.2004    | 1,100                          | 14,300                                  | 500                        | 7,000                                  | 21,300   |
| 9.     | 12                               | 9.4.2004    | 1,100                          | 14,006                                  | 500                        | 7,000                                  | 21,006   |
| 10.    | 13                               | 9.4.2004    | 1,100                          | 14,006                                  | 500                        | 7,000                                  | 21,006   |
| 11.    | 14                               | 4.9.2004    | 1,100                          | 8,690                                   | 500                        | 7,000                                  | 15,690   |
| 12.    | 15                               | 1.4.2004    | 1,100                          | 14,300                                  | 500                        | 7,000                                  | 21,300   |
| 13.    | 16                               | 1.4.2004    | 1,100                          | 14,300                                  | 500                        | 7,000                                  | 21,300   |
| 14.    | 17                               | 1.4.2004    | 1,150                          | 14,950                                  | 500                        | 7,000                                  | 21,950   |
| 15.    | 18                               | 1.4.2004    | 1,150                          | 14,950                                  | 500                        | 7,000                                  | 21,950   |
| 16.    | 19                               | 9.7.2004    | 1,100                          | 10,716                                  | 500                        | 7,000                                  | 17,716   |
| 17.    | 20                               | 1.4.2001    | 1,100                          | 53,900                                  | 500                        | 7,000                                  | 60,900   |
| 18.    | 21                               | 3.5.2004    | 925                            | 11,040                                  | 400                        | 5,600                                  | 16,640   |
| 19.    | 36                               | 1.5.2002    | 925                            | 33,300                                  | 400                        | 5,600                                  | 38,900   |
| 20.    | 22 to 35 and 37 to 39 (17 shops) | 1.4.2001    | 900                            | 7,49,700<br>(44100 x 17)                | 400                        | 95,200<br>(5600 x 17)                  | 8,44,900                                       |
|        |                                  |             |                                | <b>10,64,327</b>                        |                            | <b>2,25,400</b>                        | <b>12,89,727</b><br>or<br><b>Rs 12.90 lakh</b> |

\* For Sl. No. 1 to 19 the rates at which the shops were let out earlier have been adopted. For Sl. No.20 the rate proposed in the resolution of the council has been adopted as they were not let out from completion of construction.

## Appendix XIX

(Reference: Paragraph 3.1.5; Page 58)

### Lease rent payable by Anna Nagar Tower Club

| Sl.No.       | Resolution number and date | Rate of lease rent                   | Amount of lease rent payable per month (in rupees) | Period                       | Number of months | Lease rent payable (in rupees)                 |
|--------------|----------------------------|--------------------------------------|--|------------------------------|------------------|--|
| 1.           | 225/89<br>Dt.14.3.89       | 7 per cent of market value per annum | 25,865*  | September 1989 to March 1993 | 43               | 11,12,195                                      |
| 2.           | 4945/93<br>Dt. 16.12.93    | Rs.500 per ground per month          | 6,928  | April 1993 to March 1996     | 36               | 2,49,408                                       |
| 3.           | 1741/95<br>Dt. 17.8.96     | Rs 600 per ground per month          | 8,314  | April 1996 to September 1997 | 18               | 1,49,652                                       |
| 4.           | 3540/97<br>Dt. 29.10.97    | Rs 1,200 per ground per month        | 16,628   | October 1997 to March 2000   | 30               | 4,98,840                                       |
| 5.           | 432/2000<br>Dt. 20.7.2000  | Rs 1,320 per ground per month        | 18,290   | April 2000 to March 2003     | 36               | 6,58,440                                       |
| 6.           | 500/04<br>Dt. 23.12.04     | Rs 1,518 per ground per month        | 21,034   | April 2003 to March 2006     | 36               | 7,57,224                                       |
| <b>Total</b> |                            |                                      |  |                              |                  | <b>34,25,759</b><br>or<br><b>Rs 34.26 lakh</b> |

\* Extent of land leased out : 33,255 Sq. ft. Market value of land per ground : Rs 3,20,000.  
One ground = 2,400 Sq. ft. ( $33,255/2400 \times Rs\ 3,20,000 \times 7\%/12 = Rs\ 25,865$ )

## Appendix XX

(Reference: Paragraph 3.3.1; Page 62)

### Avoidable interest liability to Salem City Municipal Corporation

| Period                        | Number of months | Amount of outstanding loan (Rupees in lakh) | Difference in interest rate (per cent) | Avoidable liability (Rupees in lakh)   |
|-------------------------------|------------------|---|--|--|
| November 2003 to March 2004   | 5                | 927.50                                      | 4.25(14.5 - 10.25)                     | 16.42                                  |
| April 2004 to December 2004   | 9                | 927.50                                      | 5.25(14.5 - 9.25)                      | 36.52                                  |
| January 2005 to December 2005 | 12               | 927.50                                      | 5.75 (14.5 - 8.75)                     | 53.33                                  |
| November 2003 to March 2004   | 5                | 3493.58                                     | 3.25 (13.5 - 10.25)                    | 47.31                                  |
| April 2004 to December 2004   | 9                | 3493.58                                     | 4.25 (13.5 - 9.25)                     | 111.36                                 |
| January 2005 to December 2005 | 12               | 3493.58                                     | 4.75 (13.5 - 8.75)                     | 165.95                                 |
| <b>Total</b>                  |                  |   |  | <b>430.89<br/>or<br/>Rs 4.31 crore</b> |

## Appendix XXI

(Reference: Paragraph 3.3.3; Page 63)

### Avoidable interest liability

|   | (Rupees in lakh) |
|---|------------------|
| Loans outstanding as on 1.4.1998<br>(Payable at 40 half-yearly instalments of Rs 2,42,219 and interest at 13.5 per cent)                  | 96.89            |
| Amount paid up to 31.3.2002<br>(by deduction from Second Finance Commission grant)<br>(Principal Rs 5.10 lakh and interest Rs 13.41 lakh) | 18.51            |
| Principal outstanding as on 1.4.2002  | 91.79            |
| Interest outstanding as on 1.4.2002   | 37.76            |
| Total due as on 1.4.2002  | 129.55           |
| Less Deposits due for collection  | 69.14            |
| Net balance of loan in April 2002 had the increased deposit was collected and remitted towards Government loan                            | 60.41            |

### Details of payments made during 2002-06 through deduction from SSFC

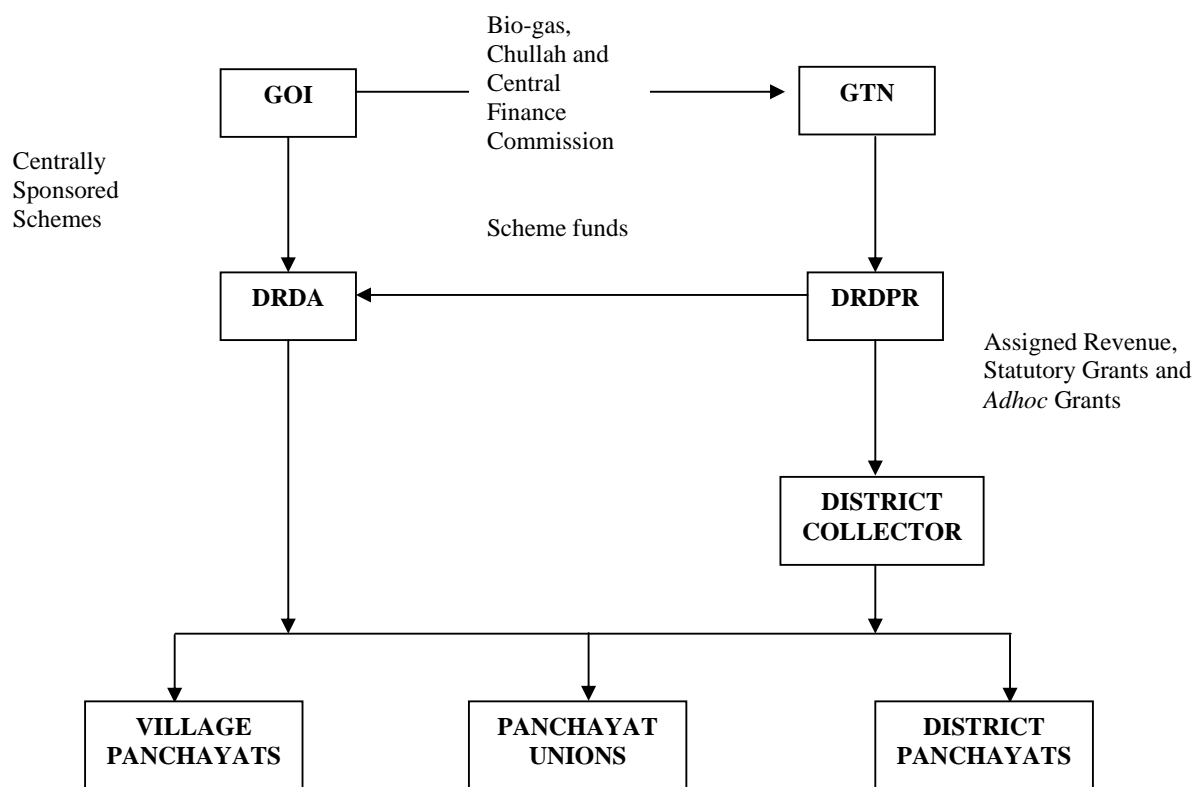
| (Rupees in lakh) |           |              |       |              |         |
|------------------|-----------|--------------|-------|--------------|---------|
| Half-year        | Principal | Interest     | Total | Payment      | Balance |
| 2002-03 I        | 60.41     | 4.08         | 64.49 | 8.62         | 55.87   |
| 2002-03 II       | 55.87     | 3.77         | 59.64 | 8.46         | 51.18   |
| 2003-04 I        | 51.18     | 3.45         | 54.63 | 8.30         | 46.33   |
| 2003-04 II       | 46.33     | 3.13         | 49.46 | 6.37         | 43.09   |
| 2004-05 I        | 43.09     | 2.91         | 46.00 | 4.73         | 41.27   |
| 2004-05 II       | 41.27     | 2.79         | 44.06 | 7.94         | 36.12   |
| 2005-06 I        | 36.12     | 2.44         | 38.56 | 4.49         | 34.07   |
| 2005-06 II       | 34.07     | 2.30         | 36.37 | 6.90         | 29.47   |
| <b>Total</b>     |           | <b>24.87</b> |       | <b>55.81</b> |         |

Avoidable liability due to loss of interest on Rs 69.14 lakh for the period 2002-06 at 13.5 per cent  
 $\text{Rs } 69.14 \text{ lakh} \times 13.5 / 100 \times 3 = \text{Rs } 28 \text{ lakh.}$

**Appendix XXII**

**(Reference: Paragraph 4.3.3; Page 69)**

**Funds flow chart to panchayat raj institutions**



**Appendix XXIII**  
**(Reference: Paragraph 4.4.4.1; Page 70)**

**Devolution of functions to panchayat raj institutions**

1. Agriculture including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil conservation.
3. Minor irrigation, water management and watershed development.
4. Animal husbandry, dairying and poultry.
5. Fisheries.
6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small scale industries, including food processing industries.
9. Khadi, Village and Cottage industries.
10. Rural Housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, Culverts, Bridges, Water ways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Market and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family Welfare.
25. Women and Child development.
26. Social Welfare including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular of the Scheduled Castes and Scheduled Tribes.
28. Public Distribution System.
29. Maintenance of community assets.

## Appendix XXIV

(Reference: Paragraph 4.6.1; Page 72)

## Sources of revenue of panchayat raj institutions

| Sl.No. | Nature of revenue                    | Section/Source of grants                             | Share of panchayats (in percentage) |                 |                    |
|--------|--------------------------------------|--|-------------------------------------|-----------------|--------------------|
|        |                                      |  | Village panchayat                   | Panchayat union | District panchayat |
| 1.     | <b>Tax revenue</b>                   |  |                                     |                 |                    |
|        | House Tax                            | 172  | 100                                 | ---             | ---                |
|        | Advertisement Tax                    | 172A and 172B  | 100                                 | ---             | ---                |
|        | Profession Tax                       | 198A and 198B  | 100                                 | ---             | ---                |
|        | Tax on agricultural land             | 171(3)   | 100                                 | ---             | ---                |
|        | Water charges                        | G.O. Ms. No. 260 RD dated 9.12.1998                  | 100                                 | ---             | ---                |
| 2.     | <b>Non-tax revenue</b>               | 188 (VP)   | 100                                 | ---             | ---                |
|        |                                      | 188 (PU)   | ---                                 | 100             | ---                |
|        |                                      | 189 (DP)   | ---                                 | ---             | 100                |
| 3.     | <b>Assigned revenue</b>              |  |                                     |                 |                    |
|        | Local Cess                           | 167 and 169  | 100                                 | ---             | ---                |
|        | Local Cess Surcharge                 | 168  | ---                                 | 100             | ---                |
|        | Surcharge on Stamp Duty              | 175  | 100                                 | ---             | ---                |
|        | 90 per cent of Entertainment Tax     | Section 13 of Tamil Nadu Entertainment Tax Act, 1939 | 70                                  | 30              | ---                |
|        | Seigniorage Fees on minor Minerals   | G.O. Ms. No. 92 RD dated 9.12.1998                   | 100                                 | ---             | ---                |
| 4.     | <b>Statutory Grants</b>              |  |                                     |                 |                    |
|        | State Finance Commission (SFC) grant | As per Recommendation of SFC                         | 47                                  | 45              | 8                  |
|        | Equalisation and incentive grant     | -do-   | 60                                  | ---             | ---                |
|        | Central Finance Commission grant     | Recommendation of Eleventh Finance Commission        | 47                                  | 45              | 8                  |



**Appendix XXV**

**(Reference: Paragraph 5.1.5.1; Page 83)**

**Release of local body incentive**

**(Rupees in lakh)**

| Year of small savings | Year of release of grants | Name of the district | Small savings collection during |                   |                            | Local body incentive |                   |                    |                |
|-----------------------|---------------------------|----------------------|---------------------------------|-------------------|----------------------------|----------------------|-------------------|--------------------|----------------|
|                       |                           |                      | The year                        | The previous year | Net incremental collection | To be released *     | Actually released | Released in excess | Released short |
| 1998-99               | 2000-01                   | Kancheepuram         | 70.27                           | 25.76             | 44.51                      | 276.77               | 272.00            |                    | 4.77           |
|                       |                           | Tiruchirappalli      | 75.25                           | 18.80             | 56.45                      | 351.02               | 271.00            |                    | 80.02          |
|                       |                           | Tiruvallur           | 50.27                           | 5.30              | 44.97                      | 279.63               | 245.00            |                    | 34.63          |
|                       |                           | <b>Total</b>         |                                 |                   |                            |                      |                   |                    | <b>119.42</b>  |
| 2000-01@              | 2002-03                   | Kancheepuram         | 100.09                          | 98.99             | 1.1                        | 3.86                 | 22.47             | 18.61              |                |
|                       |                           | Tiruchirappalli      | 85.38                           | 129.78            | --                         | --                   | 17.47             | 17.47              |                |
|                       |                           | Tiruvallur           | 79.07                           | 75.06             | 4.01                       | 14.11                | 28.89             | 14.78              |                |
|                       |                           | <b>Total</b>         |                                 |                   |                            |                      |                   |                    | <b>50.86</b>   |
| 2001-02               | 2003-04                   | Kancheepuram         | 94.39                           | 100.09            | --                         | --                   | 76.24             | 76.24              |                |
|                       |                           | Tiruchirappalli      | 78.72                           | 85.38             | --                         | --                   | 42.36             | 42.36              |                |
|                       |                           | Tiruvallur           | 63.42                           | 79.07             | --                         | --                   | 38.99             | 38.99              |                |
|                       |                           | <b>Total</b>         |                                 |                   |                            |                      |                   |                    | <b>157.59</b>  |
| 2002-03               | 2004-05                   | Kancheepuram         | 150.42                          | 94.39             | 56.03                      | 155.71               | 155.57            |                    | 0.14           |
|                       |                           | Tiruchirappalli      | 110.25                          | 78.72             | 31.53                      | 87.63                | 86.47             |                    | 1.16           |
|                       |                           | Tiruvallur           | 112.65                          | 63.42             | 49.23                      | 136.82               | 126.64            |                    | 10.18          |
|                       |                           | <b>Total</b>         |                                 |                   |                            |                      |                   |                    | <b>11.48</b>   |
| 2003-04               | 2005-06                   | Kancheepuram         | 226.69                          | 150.42            | 76.27                      | 289.33               | 233.78            |                    | 55.55          |
|                       |                           | Tiruchirappalli      | 165.91                          | 110.25            | 55.66                      | 211.14               | 180.18            |                    | 30.96          |
|                       |                           | Tiruvallur           | 143.12                          | 112.65            | 30.47                      | 115.59               | 153.21            | 37.62              |                |
|                       |                           | <b>Total</b>         |                                 |                   |                            |                      |                   |                    | <b>37.62</b>   |
|                       |                           |                      |                                 |                   |                            |                      |                   |                    | <b>86.51</b>   |

\* Incentive to be released is calculated in proportion to net incremental collection of the district and also with reference to total incentive available.

@ For the year 1999-2000 the incentive was released to the districts as per norms.

## Appendix XXVI

(Reference: Paragraph 5.2.5.2; Page 87)

### Delay in release of grants

| Sl. No.      | District   | Delay in release of grant |                   |                                 |                   |
|--------------|------------|---------------------------|-------------------|---------------------------------|-------------------|
|              |            | DRD to Collector          |                   | Collector to district panchayat |                   |
|              |            | 16 to 30 days             | More than 30 days | 16 to 30 days                   | More than 30 days |
| 1.           | Coimbatore | 24(47)                    | 10(20)            | 16(31)                          | 28(55)@           |
| 2.           | Thanjavur  | 25(49)                    | 10(20)            | 4(8)                            | --                |
| 3.           | Vellore    | 21(41)                    | 16(31)*           | 12(24)                          | 10(20)            |
| <b>Total</b> |            | <b>70(46)</b>             | <b>36(24)</b>     | <b>32(21)</b>                   | <b>38(25)</b>     |

\* Maximum delay: 69 days

@ Maximum delay: 112 days

Note: The figures in brackets represent percentage to total number of 51 instances of release of funds during 2002-06 including four additional releases.

**Appendix XXVII**  
**(Reference: Paragraph 5.3.6.2; Pages 91 and 92)**  
**Diversion of local body grants**

(in rupees)

| Name of the district          | Name of the panchayat union | 2000-01      |                  | 2001-02      |                  | 2002-03      |                 | 2003-04      |               | 2004-05      |                 | Total        |  |
|-------------------------------|-----------------------------|--------------|------------------|--------------|------------------|--------------|-----------------|--------------|---------------|--------------|-----------------|--------------|--|
|                               |                             | No. of works | Expenditure      | No. of works | Expenditure      | No. of works | Expenditure     | No. of works | Expenditure   | No. of works | Expenditure     | No. of works | Expenditure                              |
| <b>(A) Inadmissible works</b> |                             |              |                  |              |                  |              |                 |              |               |              |                 |              |  |
| 1.Dharmapuri                  | Dharmapuri                  | 1            | 2,99,078         | -            | -                | -            | -               | -            | -             | -            | -               | 1            | 2,99,078                                 |
|                               | Harur                       | 1            | 2,29,923         | -            | -                | -            | -               | -            | -             | -            | -               | 1            | 2,29,923                                 |
| 2.Erode                       | Ammapettai                  | 2            | 1,04,100         | 1            | 78,985           | 2            | 1,13,144        | -            | -             | 1            | 1,19,891        | 6            | 4,16,120                                 |
|                               | Bhavani                     | -            | -                | 1            | 98,666           | 3            | 1,49,925        | -            | -             | -            | -               | 4            | 2,48,591                                 |
|                               | Kangeyam                    | 1            | 96,800           | -            | -                | 6            | 2,69,694        | -            | -             | -            | -               | 7            | 3,66,494                                 |
|                               | Perundurai                  | -            | -                | 1            | 94,721           | 1            | 79,209          | -            | -             | -            | -               | 2            | 1,73,930                                 |
| 3.Tiruchirappalli             | Lalgudi                     | 2            | 2,50,000         | 1            | 1,00,000         | -            | -               | -            | -             | -            | -               | 3            | 3,50,000                                 |
|                               | Manigandam                  | 1            | 24,868           | -            | -                | -            | -               | -            | -             | -            | -               | 1            | 24,868                                   |
|                               | Mannachanallur              | 1            | 1,15,000         | -            | -                | 1            | 43,000          | -            | -             | -            | -               | 2            | 1,58,000                                 |
| 4.Tiruvannamalai              | Arni                        | -            | -                | 4            | 6,83,968         | -            | -               | -            | -             | -            | -               | 4            | 6,83,968                                 |
|                               | Kilpennathur                | 1            | 1,36,211         | -            | -                | -            | -               | -            | -             | -            | -               | 1            | 1,36,211                                 |
|                               | Tiruvannamalai              | -            | -                | 1            | 1,60,000         | -            | -               | -            | -             | -            | -               | 1            | 1,60,000                                 |
| 5. Tiruvarur                  | Koradacherri                | -            | -                | 1            | 1,42,490         | 1            | 30,000          | -            | -             | -            | -               | 2            | 1,72,490                                 |
|                               | Nannilam                    | -            | -                | 3            | 1,25,474         | 2            | 49,976          | 2            | 49,951        | -            | -               | 7            | 2,25,401                                 |
|                               | Needamangalam               | 6            | 2,73,154         | -            | -                | -            | -               | -            | -             | 3            | 1,21,045        | 9            | 3,94,199                                 |
|                               | Tiruvarur                   | 2            | 66,264           | 1            | 45,371           | -            | -               | -            | -             | -            | -               | 3            | 1,11,635                                 |
| 6. Villupuram                 | Gingee                      | -            | -                | -            | -                | -            | -               | 1            | 49,522        | -            | -               | 1            | 49,522                                   |
| <b>Total</b>                  |                             | <b>18</b>    | <b>15,95,398</b> | <b>14</b>    | <b>15,29,675</b> | <b>16</b>    | <b>7,34,948</b> | <b>3</b>     | <b>99,473</b> | <b>4</b>     | <b>2,40,936</b> | <b>55</b>    | <b>42,00,430</b><br><b>or Rs 42 lakh</b> |

(in rupees)

| Name of the district  | Name of the panchayat union | 2000-01      |             | 2001-02      |             | 2002-03      |             | 2003-04      |             | 2004-05      |             | Total        |                                 |
|-----------------------|-----------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|---------------------------------|
|                       |                             | No. of works | Expenditure | No. of works | Expenditure | No. of works | Expenditure | No. of works | Expenditure | No. of works | Expenditure | No. of works | Expenditure                     |
| <b>(B) Road works</b> |                             |              |             |              |             |              |             |              |             |              |             |              |                                 |
| 1. Dharmapuri         | Dharmapuri                  | 8            | 9,77,936    | 1            | 1,32,634    | -            | -           | -            | -           | 2            | 3,12,318    | 11           | 14,22,888                       |
|                       | Harur                       | 2            | 9,98,765    | 3            | 12,92,910   | 1            | 8,48,691    | -            | -           | -            | -           | 6            | 31,40,366                       |
|                       | Morappur                    | -            | -           | -            | -           | 2            | 2,80,000    | -            | -           | 15           | 14,25,447   | 17           | 17,05,447                       |
|                       | Nallampalli                 | -            | -           | 1            | 44,710      | -            | -           | -            | -           | 1            | 1,20,176    | 2            | 1,64,886                        |
| 2. Tiruchirappalli    | Andanallur                  | 5            | 6,43,211    | 4            | 7,37,763    | -            | -           | -            | -           | -            | -           | 9            | 13,80,974                       |
|                       | Lalgudi                     | 5            | 2,20,000    | 2            | 1,10,000    | 7            | 9,57,227    | 6            | 13,87,184   | 6            | 10,50,540   | 26           | 37,24,951                       |
|                       | Manigandam                  | 2            | 3,88,420    | -            | -           | 3            | 10,00,000   | -            | -           | 2            | 9,98,249    | 7            | 23,86,669                       |
|                       | Mannachanallur              | -            | -           | 2            | 5,79,141    | 2            | 1,50,000    | 5            | 8,52,780    | 9            | 4,80,114    | 18           | 20,62,035                       |
| 3. Tiruvannamalai     | Cheyyar                     | -            | -           | 2            | 4,65,224    | -            | -           | -            | -           | -            | -           | 2            | 4,65,224                        |
|                       | Tiruvannamalai              | -            | -           | -            | -           | -            | -           | 2            | 1,43,700    | 4            | 3,49,670    | 6            | 4,93,370                        |
| 4. Tiruvarur          | Koradacherri                | 3            | 2,55,911    | 5            | 2,58,017    | -            | -           | 1            | 50,000      | 7            | 2,48,898    | 16           | 8,12,826                        |
|                       | Nannilam                    | -            | -           | -            | -           | -            | -           | 1            | 44,945      | -            | -           | 1            | 44,945                          |
|                       | Needamangalam               | 4            | 3,27,838    | 4            | 3,50,000    | 3            | 2,95,501    | 1            | 34,615      | 11           | 5,09,959    | 23           | 15,17,913                       |
|                       | Tiruvarur                   | -            | -           | -            | -           | -            | -           | -            | -           | 3            | 1,55,489    | 3            | 1,55,489                        |
| <b>Total</b>          |                             | 29           | 38,12,081   | 24           | 39,70,399   | 18           | 35,31,419   | 16           | 25,13,224   | 60           | 56,50,860   | 147          | 1,94,77,983<br>or Rs 1.95 crore |

**Appendix XXVIII**

**(Reference: Paragraph 5.3.6.3; Page 92)**

**Funds kept unutilised**

**(in rupees)**

| Sl.No.       | Name of the district | Name of the panchayat union | Amount kept unutilised (July 2006)          | Interest earned (July 2006)                 |
|--------------|----------------------|-----------------------------|---|---|
| 1.           | Dharmapuri           | Dharmapuri                  | 2,90,728                                    | 79,009                                      |
|              |                      | Harur                       | 2,30,594                                    | *   |
|              |                      | Morappur                    | 1,90,586                                    | *   |
|              |                      | Nallampalli                 | 7,26,767                                    | 37,514                                      |
| 2.           | Erode                | Ammapettai                  | 3,44,848                                    | 67,486                                      |
|              |                      | Bhavani                     | 4,19,131                                    | 85,852                                      |
|              |                      | Kangeyam                    | 4,52,468                                    | 77,060                                      |
|              |                      | Perundurai                  | 3,35,310                                    | 47,050                                      |
| 3.           | Tiruchirappalli      | Andanallur                  | 76,241                                      | *   |
|              |                      | Lalgudi                     | 90,468                                      | 33,490                                      |
|              |                      | Manigandam                  | 21,109                                      | 8,294                                       |
|              |                      | Mannachanallur              | 1,10,533                                    | *   |
| 4.           | Tiruvannamalai       | Arni                        | 3,28,475                                    | 1,27,232                                    |
|              |                      | Cheyyar                     | 2,04,021                                    | 1,31,703                                    |
|              |                      | Kilpennathur                | 2,04,903                                    | 2,16,837                                    |
|              |                      | Tiruvannamalai              | 30,402                                      | 1,64,417                                    |
| 5.           | Tiruvarur            | Koradacherri                | 91,448                                      | 33,903                                      |
|              |                      | Nannilam                    | 2,52,299                                    | 45,712                                      |
|              |                      | Needamangalam               | 1,69,053                                    | 1,06,497                                    |
|              |                      | Tiruvarur                   | 2,34,894                                    | 89,564                                      |
| 6.           | Villupuram           | Gingee                      | 3,08,677                                    | *   |
|              |                      | Kanai                       | 61,650                                      | 31,748                                      |
|              |                      | Kolianur                    | 1,25,550                                    | 3,424                                       |
|              |                      | Vikravandi                  | 41,015                                      | 50,022                                      |
| <b>Total</b> |                      |                             | <b>53,41,170</b><br><b>or Rs 53.41 lakh</b> | <b>14,36,814</b><br><b>or Rs 14.37 lakh</b> |

\* Amount kept in current account

## Appendix XXIX

(Reference: Paragraph 6.1.1; Page 93)

## A. Community halls not put to use

| Sl.No.       | District       | Panchayat union | Number of community halls | Cost of construction (in rupees) | Number of community halls without |                        | Not made use of (Number of months upto March 2005) |
|--------------|----------------|-----------------|---------------------------|----------------------------------|-----------------------------------|------------------------|--|
|              |                |                 |                           |                                  | Water supply                      | Electricity connection |  |
| 1.           | Dindigul       | Athoor          | 1                         | 3,05,549                         | 1                                 | 1                      | 98   |
| 2.           | Pudukkottai    | Gandarvakottai  | 1                         | 2,82,723                         | 1                                 | --                     | 72   |
| 3.           | Ramanathapuram | Ramanathapuram  | 5                         | 13,96,074                        | 5                                 | 5                      | 63 – 74  |
|              |                | Mudukulathur    | 14                        | 42,55,663                        | 13                                | 8                      | 62 – 110   |
| 4.           | Sivaganga      | S.Pudur         | 2                         | 4,90,777                         | --                                | --                     | 102  |
| <b>Total</b> |                | <b>5</b>        | <b>23</b>                 | <b>67,30,786</b>                 | <b>20</b>                         | <b>14</b>              | <b>62 - 110</b>                                    |

## B. Community halls used negligibly

| Sl.No.       | District       | Panchayat union | Number of community halls | Cost of construction (in rupees) | Number of community halls without |                        | Number of months from completion of construction (upto March 2005) | Average number of days used per annum |
|--------------|----------------|-----------------|---------------------------|----------------------------------|-----------------------------------|------------------------|--|---------------------------------------|
|              |                |                 |                           |                                  | Water supply                      | Electricity connection |  |                                       |
| 1.           | Dindigul       | Athoor          | 2                         | 6,16,724                         | 2                                 | 2                      | 101  | 0.59 – 1.78                           |
| 2.           | Pudukkottai    | Gandarvakottai  | 4                         | 15,66,335                        | 3                                 | --                     | 72 – 75  | 0.17 – 0.81                           |
| 3.           | Ramanathapuram | Ramanathapuram  | 2                         | 6,41,021                         | 2                                 | 2                      | 58 – 74  | 0.32 – 0.41                           |
| 4.           | Sivaganga      | S.Pudur         | 3                         | 7,43,517                         | --                                | --                     | 102  | 0.12 – 0.82                           |
| <b>Total</b> |                | <b>4</b>        | <b>11</b>                 | <b>35,67,597</b>                 | <b>7</b>                          | <b>4</b>               | <b>58 – 102</b>  | <b>0.12 – 1.78</b>                    |

## Cost of construction:

A. 23 halls Rs 67,30,786

B. 11 halls Rs 35,67,597

**Total 34 halls Rs 1,02,98,383 or Rs 1.03 crore.**

**Appendix XXX**

**(Reference: Paragraph 6.2.1; Page 95)**

**A. Advances pending adjustment**

(Rupees in lakh)

| Sl. No. | Panchayat union | Advances pending with |                    |              |               |
|---------|-----------------|-----------------------|--------------------|--------------|---------------|
|         |                 | Staff                 | Village panchayats | Others       | Total         |
| 1.      | Andanallur      | Nil                   | 19.48              | 3.14         | 22.62         |
| 2.      | Lalgudi         | 2.57                  | 116.54             | 26.97        | 146.08        |
| 3.      | Manachanallur   | 1.41                  | 45.48              | 14.86        | 61.75         |
| 4.      | Pullambadi      | 0.31                  | 63.01              | 2.93         | 66.25         |
|         | <b>Total</b>    | <b>4.29</b>           | <b>244.51</b>      | <b>47.90</b> | <b>296.70</b> |

**B. Age-wise break-up of advances pending**

(Rupees in lakh)

| Sl. No. | Panchayat union | Age-wise breakup of advances pending |                           |                          |              | Total         |
|---------|-----------------|--------------------------------------|---------------------------|--------------------------|--------------|---------------|
|         |                 | > 20 years                           | > 10 years but < 20 years | > 5 years but < 10 years | < 5 years    |               |
| 1.      | Andanallur      | 2.17                                 | 0.39                      | 0.01                     | 20.05        | 22.62         |
| 2.      | Lalgudi         | 7.21                                 | 54.05                     | 34.71                    | 50.11        | 146.08        |
| 3.      | Manachanallur   | 0.69                                 | 19.30                     | 28.09                    | 13.67        | 61.75         |
| 4.      | Pullambadi      | 2.32                                 | 47.44                     | 8.44                     | 8.05         | 66.25         |
|         | <b>Total</b>    | <b>12.39</b>                         | <b>121.19</b>             | <b>71.25</b>             | <b>91.88</b> | <b>296.70</b> |