

OVERVIEW

This Audit Report, dealing with the results of audit of accounts of local bodies, is presented in two parts. Part I on Urban Local Bodies and Part II on 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 13 audit paragraphs. A synopsis of important audit findings is presented in this overview.

I Accounts and finances of Urban Local Bodies

There were six municipal corporations, 152 municipalities and 561 town panchayats in Tamil Nadu as on 31 March 2007. The urban population of the State as per the 2001 census was 2.75 crore constituting 44 *per cent* of the total State population. While the decadal growth rate of the total population during 1991-2001 was 11 *per cent*, the urban population during the same period grew by 43 *per cent*.

The Director of Local Fund Audit is the statutory auditor for all the urban local bodies. As of October 2007, audit was not completed for one municipal corporation for 2004-05 and all the 6 municipal corporations for 2005-06 and 2006-07. The audit of 17, 98 and 152 municipalities was not completed for 2004-05, 2005-06 and 2006-07 respectively. The number of town panchayats whose audit was not completed for the last three years were seven, 222 and 561 respectively. As of March 2007, the number of paragraphs relating to municipalities and municipal corporations pending settlement aggregated to 3,11,234.

Out of 18 functions listed in the Twelfth Schedule of the Constitution to be devolved on urban local bodies, only 13 functions were transferred to municipalities and municipal corporations and 12 functions to town panchayats. State Government stated that transfer of the remaining functions to these urban local bodies will be decided after perusing the report of the High Power Committee constituted for this purpose.

During 2006-07 own revenue of all the urban local bodies amounted to Rs 2781 crore of which tax-revenue constituted to Rs 1598 crore. The own revenue of municipal corporations (except Chennai), municipalities and town panchayats increased during 2004-07.

Property Tax is the major source of tax revenue of urban local bodies. The percentage of collection of Property Tax compared to total demand during the last three years in municipalities and municipal corporations (except Chennai) ranged between 50 and 54. In Chennai City Municipal Corporation the percentage was slightly better at 75, 75 and 77 during the last three years. In town panchayats the percentage of collection after increasing from 70 in 2004-05 to 73 in 2005-06, decreased to 69 in 2006-07.

In the case of Profession Tax the percentage of collection by five municipal corporations increased from 70 in 2004-05 to 72 in 2005-06 and remained at 72 in 2006-07 also. However the percentage in municipalities declined from 59 in 2004-05 to 54 in 2005-06 and remained as such in 2006-07. In respect

of town panchayats, the percentage after increasing from 85 in 2004-05 to 87 in 2005-06, steeply declined to 70 in 2006-07 due to lesser demands than the previous years.

The percentage of collection of non-tax revenue by five municipal corporations decreased during 2004-07. In town panchayats the percentage of collection of non-tax revenue after increasing from 86 in 2004-05 to 87 in 2005-06 decreased to 78 in 2006-07. In municipalities the non-tax revenue increased from 71 in 2004-05 to 72 in 2005-06 and then to 75 in 2006-07.

A declining trend was noticed in municipal corporations and municipalities during 2004-05 in respect of proceeds of Entertainment Tax.

Test-check revealed that the Twelfth Finance Commission grants were released belatedly to urban local bodies with delays ranging between two and 196 days during 2005-06. Though Government of India stipulated that interest was to be provided for such belated release, State Government had not paid any interest and the amount of interest to be paid for the delayed release of grants to 78 urban local bodies during 2005-06 worked out to Rs 23.07 lakh.

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, 131 recommendations of eight audit reports relating to 1985-86 to 1996-97 (upto which discussions were over) of the Municipal Administration and Water Supply Department were pending final settlement, as of December 2007.

(Paragraphs 1.1 to 1.13)

II Performance reviews - Urban Local Bodies

1 Maintenance of Water Supply in Selected Municipalities

Water supply is the responsibility of the urban local bodies. Tamil Nadu Water Supply and Drainage Board, a statutory board of the State Government is vested with the responsibility of investigation, formulation and execution of water supply schemes in respect of all urban local bodies in the State except Chennai.

Of the 103 municipalities in the State (other than 49 third grade municipalities), 53 municipalities maintained their own water supply systems, after the same were executed and handed over to them by the Board. The remaining 50 municipalities were covered under combined water supply schemes. The scheme for source of water includes mini-power pumps and hand pumps in addition to major water supply schemes. Water supply is effected through house service connections, public taps and through water lorries and tractors to uncovered areas or during water scarcity seasons. A performance audit conducted on the maintenance of water supply in 15 municipalities which maintain their own water supply systems revealed the following:

- One municipality viz., Thirumangalam, met expenditure on maintenance of water supply during 2002-05 by diverting funds from other accounts due to non-availability of amount in their water supply fund account.

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- Out of the 15 municipalities, only seven municipalities could maintain water supply as per norms of 90 litre per capita per day fixed by Government and only five municipalities maintain daily water supply.
 - While the municipalities did not collect periodical water samples, the samples collected and tested by the Director of Public Health and Preventive Medicines revealed that the disinfection practice followed was not systematic, bleaching powder used was inert and the residual chlorine excessive.
 - Flow control valves were not fitted in 97,160 out of 1,08,815 house service connections in these 15 sample municipalities, thereby not ensuring equitable distribution of water. Though meters were fixed in 89,297 domestic connections, the municipalities collected water charges at a flat rate and not with reference to actual consumption.
 - In 13 out of 15 municipalities, Rs 7.24 crore being the water charges and Rs 8.34 crore being the water tax were pending collection as of March 2007, as seen from the demand, collection and balance details furnished by them. The remaining two sample municipalities did not furnish the details.
 - 68 out of 122 sanctioned posts of maintenance staff like fitters, pump operators, tap inspectors, filter house cleaners, electricians, meter readers etc., were vacant.

(Paragraph 2.1)

2 Elementary Education Fund and Maintenance of Schools by Municipal Corporations other than Chennai

The Tamil Nadu Elementary Education Act, 1920 provides for the levy of Education Tax along with Property Tax and to be credited to the Elementary Education Fund of the urban local bodies and to be utilised for capital and maintenance works of the schools.

A performance audit of Elementary Education Fund and Maintenance of Schools by five municipal corporations other than Chennai revealed the following:

- Cumulative arrears of Education Tax out of total dues ranged between 66 and 82 *per cent* in the five municipal corporations test checked as of August 2007.
- Though at least 25 *per cent* of Education Tax collected was required to be spent on maintenance of the schools, the shortfall ranging between 66 and 89 *per cent* was noticed in the five municipal corporations on such expenditure.
- Three municipal corporations *viz.*, Coimbatore, Salem and Tiruchirappalli, utilised Rs 1.33 crore from the Fund on ineligible works.
- Four municipal corporations *viz.*, Coimbatore, Salem, Tiruchirappalli and Tirunelveli diverted Rs 9.68 crore from the Fund.

- Five municipal corporations provided only 851 urinals and 1,001 toilets in 258 schools under their control as against 3,643 urinals and 5,168 toilets required to be provided.
- Of the 279 schools owned by these five municipal corporations, 64 schools did not have play grounds, 34 had no library buildings, 34 had no adequate water supply, 151 had no fire extinguishers and 52 had fewer class rooms than required.
- Overall student strength in elementary and higher education schools came down by 6,512 (31 *per cent*) and 5,520 (22 *per cent*) during 2002-07.

(Paragraph 2.2)

3 Assigned Revenues to Urban Local Bodies

Assigned revenues include the class of taxes and levies traditionally collected by Government in related departments and assigned to various urban local bodies as per the existing norms.

Entertainment Tax and Surcharge on Stamp Duty are the revenues currently assigned to urban local bodies.

A review on revenues assigned to urban local bodies revealed the following:

- Entertainment Tax assigned to urban local bodies declined due to switching over from a compounding pattern to collection of gross admission based on a decision of Government taken in October 2004 to mitigate the hardship faced by the film industry.
- Entertainment Tax of Rs 3.09 crore due for assignment for the period 1998-2007 was not assigned to the concerned urban local bodies in two sample districts. This included Rs 2.63 crore towards Entertainment Tax collected from amusement parks and Rs 0.34 crore towards cable TV connections in Kancheepuram district.
- Entertainment Tax of Rs 1.22 crore relating to the four quarters of 2003-05 assignable to Tiruppur Municipality was assigned belatedly after periods ranging from 4 to 25 months resulting in a loss of interest of Rs 6.05 lakh.
- Short assignment of Surcharge on Stamp Duty of Rs 24.26 lakh and Rs 41.96 lakh during April-September 2002 was noticed in Kancheepuram and Tiruvallur Districts due to incorrect adoption of rates at 90 *per cent* in lieu of the enhanced rate of 95 *per cent* from April 2002. Further short assignment of Surcharge on Stamp Duty of Rs 34.15 lakh was noticed in three municipalities *viz.*, Poonamallee, Sriperumbudur and Pammal.
- Rs 6.60 crore was assigned in excess towards Surcharge on Stamp Duty for the fourth quarter of 2006-07 to two municipalities *viz.*, Thiruverkadu and Tiruvallur. District Registrar, Kancheepuram stated that the excess assigned revenue would be adjusted against the future dues.

- Surcharge on Stamp Duty was assigned to the town panchayats and municipalities belatedly in all the three test checked districts. The interest that would be accruable had the same been assigned in time worked out to Rs 4.23 crore.
- Non-formation of State level Monitoring Committee as recommended by the Second State Finance Commission resulted in deficiencies like non/short assignment, delayed assignment, etc., remaining uncorrected.

(Paragraph 2.3)

III Audit of transactions in Urban Local Bodies

Non-collection of bus stand fees by Madurai City Municipal Corporation from Government transport corporation buses resulted in loss of revenue of Rs 1.54 crore for the period from August 2000 to February 2007.

(Paragraph 3.1.1)

Failure of Namakkal Municipality in getting final approval for revision of water charges and failure of Melur Municipality to give effect to revised rates of water charges and deposits resulted in non-collection of Rs 52.25 lakh and Rs 34.62 lakh respectively.

(Paragraph 3.1.2)

Failure of Ambattur Municipality to invest the Elementary Education Fund in cumulative term deposits resulted in a notional loss of revenue of Rs 80.63 lakh.

(Paragraph 3.1.3)

Construction of shops without assessing the demand by Tirunelveli City Municipal Corporation and Pudukottai Municipality resulted in loss of anticipatory revenue to the extent of Rs 38.87 lakh and Rs 36.63 lakh respectively.

(Paragraph 3.1.4)

Non-levy of Property Tax on the building belonging to Bharat Sanchar Nigam Limited by Tiruchirappalli City Municipal Corporation resulted in non-collection of revenue of Rs 40.53 lakh.

(Paragraph 3.1.5)

The Chennai City Municipal Corporation lost revenue of Rs 20.88 lakh for the period 2001-05 due to adoption of lower tariff and lesser number of seats than actual for arriving at the gross income of five 'A' class cinema theatres.

(Paragraph 3.1.6)

Failure of the Alangulam Town Panchayat to evolve suitable method to allot new water supply connections resulted in loss of revenue of Rs 18.87 lakh.

(Paragraph 3.1.7)

Failure of the Tirunelveli City Municipal Corporation in discharging its high cost loan in time with the assistance of Tamil Nadu Urban Finance Infrastructure Development Corporation Limited resulted in avoidable interest payment of Rs 93.13 lakh.

(Paragraph 3.2.1)

Failure of the Ambattur Municipality to foreclose the loans inspite of its sound financial position resulted in an avoidable payment of interest of Rs 29.97 lakh.

(Paragraph 3.2.2)

Delay in depositing the compensation amount by the Tenkasi Municipality for land acquired resulted in avoidable additional interest payment of Rs 11.85 lakh.

(Paragraph 3.2.3)

Avoidable expenditure of Rs 10.65 lakh was incurred by Chennai City Municipal Corporation due to provision of extra thickness of semi dense bituminous concrete in road works executed.

(Paragraph 3.2.4)

IV Accounts and finances of Panchayat Raj Institutions

There were 12,618 village panchayats, 385 panchayat unions and 30 district panchayats in the State as of March 2007.

The envisaged data base creation in panchayat raj institutions has not yet been fully operationalised.

The Director of Local Fund Audit is the statutory auditor for district panchayats and panchayat unions. The audit of accounts of district panchayats and panchayat unions was pending for 2006-07. Of 2,524 village panchayats to be audited by the Deputy Block Development Officers of the concerned panchayat unions, audit is pending in 535, 1,150, 2,127 and 2,524 village panchayats relating to the last four years i.e. 2003-04 to 2006-07.

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. Government stated that more devolution to panchayat raj institutions would be considered after perusal of the report of High Level Committee constituted for this purpose.

The revenues of all the panchayat unions and village panchayats had increased during 2004-07 mainly due to the increased receipt of all three components viz., own revenue, assigned revenue and grants.

During 2006-07, own revenue of village panchayats and panchayat unions amounted to Rs 269.79 crore as against Rs 240.14 crore during 2005-06.

Test-check revealed that the Twelfth Finance Commission grants were released belatedly by Government to the panchayat raj institutions with delays ranging between 2 to 202 days during 2005-06. Though Government of India stipulated that interest to be provided for the delayed period, Government had not paid any interest for the delayed release of said grants and the interest not paid to 828 panchayat raj institutions for the delayed release of grants during 2005-06 worked out to Rs 19.55 lakh.

The expenditure incurred by all the three tiers of panchayat raj institutions showed a rising trend during 2004-07.

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 Rural Development and Panchayat Raj Department for the period 1982-83 to 1996-97 (upto which the discussion was completed) were pending final settlement for want of required particulars from the department.

(Paragraphs 4.1 to 4.10)

V *Performance reviews in Panchayat Raj Institutions*

1. **Implementation of National Rural Employment Guarantee Scheme**

Government of India introduced the National Rural Employment Guarantee Act, 2005 to enhance the livelihood security of households in rural areas by providing atleast 100 days of guaranteed wage employment in a financial year to every household. Government of Tamil Nadu introduced the scheme in February 2006 in 6 districts viz., Cuddalore, Dindigul, Nagapattinam, Sivagangai, Tiruvannamalai and Villupuram.

A performance review of the scheme in the Directorate of Rural Development and Panchayat Raj and in three sample districts viz., Cuddalore, Tiruvannamalai and Villupuram revealed the following:

- The envisaged five year perspective plan was not finalised even as of October 2007.
- Rules for implementing the Act are yet to be framed and notified by the State Government.
- Scheme funds of Rs 100.46 crore remained unutilised as of 31 March 2007 with the District Programme Co-ordinators and village panchayats.
- Of 6.83 lakh households provided with work in the State during 2006-07 under the scheme, only 1,824 households (0.27 per cent) were provided with 100 days employment resulting in non-achievement of the main objective of the scheme. The average number of mandays per household out of the households provided with work for less than 100 days was only 26.56.
- In the three sample districts viz., Tiruvannamalai, Cuddalore and Villupuram, the number of households provided with 100 days employment were 0.11 per cent, 0.29 per cent and 0.06 per cent respectively. The average number of mandays per household who were provided with work for less than 100 days in the above three sample districts during 2006-07 worked out to only 31,28 and 19 days respectively.
- Unemployment allowance which was to be given to those who could not be provided with work within 15 days of the date of receipt of application seeking employment was not paid in any of the villages in sample districts. In the absence of details like the date of application

and other required data, audit could not ascertain if the non-payment of unemployment allowance was correct.

- Despite delayed payment of wages noticed in sample districts, no compensation was paid for the delayed payment, though the same was stipulated in the Act.
- Director of Rural Development and Panchayat Raj ordered provision of work in turn by rotation to the rural households, though the same was not envisaged in the Act.

(Paragraph 5.1)

2. Utilisation of General Fund by selected Panchayat Unions

General Fund is an account through which all the transactions of panchayat unions are carried out and it comprises non-tax revenue, assigned revenue, devolution of grants and other panchayat union receipts such as interest, sale proceeds, etc. The General Fund is kept in Local Fund Deposits (LF-I) with the treasury and earns interest of 4.5 *per cent* per annum.

Utilisation of General Fund in 40 selected panchayat unions in six districts viz., Krishnagiri, Salem, Theni, Tirunelveli, Tiruvarur and Virudhunagar revealed the following:

- Thirteen panchayat unions in four districts (Krishnagiri, Theni, Tirunelveli and Virudhunagar) had temporarily diverted Rs 3.17 crore from their General Fund to post office savings bank accounts at the instance of District Collectors during February 2002 to March 2005 and recouped the amount after a lapse of one to 38 months.
- Nineteen panchayat unions in six districts (Krishnagiri, Salem, Theni, Tirunelveli, Tiruvarur and Virudhunagar) temporarily diverted Rs 1.71 crore during 2002-07 from their General Fund for other schemes including for purchase of materials and retransferred the amount back after a lapse of three to 57 months. This had resulted in loss of interest of Rs 8.31 lakh.
- Thirty panchayat unions in six districts (Krishnagiri, Salem, Theni, Tirunelveli, Tiruvarur and Virudhunagar) utilised Rs 3.76 crore from their General Fund to defray the expenditure towards pay and allowances of staff for the posts of fitter, fitter assistant and electrician sanctioned to each panchayat union by Government during April 2002 to March 2007.
- Panchayat unions had charged certain expenditure to General Fund like charges on fuel and maintenance of vehicles used by Block Development Officers (village panchayats), payment of Electricity Tax, which was exempted for panchayat raj institutions and contributions towards construction of toilets in schools and anganwadis which were to be met by the parent-teacher associations and village panchayats.
- Capital works were executed at a cost of Rs 60.83 lakh utilising General Fund in six panchayat unions without obtaining prior approval of Director of Rural Development and Panchayat Raj before execution.

- Two sample panchayat unions (Nannilam and Tiruvarur) did not maintain an asset register for the assets created out of their General Fund.
- None of the 40 sample panchayat unions maintained the contractor's ledgers which were to be maintained for accounting all transactions including issue of materials to the contractors in respect of works carried out from General Fund.

(Paragraph 5.2)

3. Assigned Revenues to Panchayat Raj Institutions

Assigned revenues includes the class of taxes and levies traditionally collected by Government in related departments and assigned to panchayat raj institutions as per the existing norms. The revenues assigned mainly to panchayat raj institutions at present are Entertainment Tax, Surcharge on Stamp Duty, Local Cess/Local Cess Surcharge, Seigniorage Charges.

A review on revenues assigned to PRIs revealed the following:

- Entertainment Tax assigned to village panchayats and panchayat unions was on the declining trend due to switching over the collection of tax from compounding pattern to collection on gross admission with effect from October 2004.
- Seigniorage Charges relating to the collection of removal of minor minerals commonly used like jelly, gravel to the tune of Rs 46.92 crore for the period 2000-05 were pending apportionment among PRIs as per the report of the Third State Finance Commission.
- Rupees 1.52 crore being the Seigniorage Charges collected for the removal of sand for the period 2002-07 was pending assignment in Kancheepuram District from the Tamil Nadu Slum Clearance Board and Tamil Nadu Road Sector Project.
- Seigniorage Charges of Rs 12.98 crore and Rs 8.87 lakh were belatedly assigned in Tiruvallur (during 2002-07) and Coimbatore (during 2003-04) districts with delays ranging to 3 to 15 months and 24 months respectively. This had also resulted in a loss of Rs 32.27 lakh towards interest which was accruable had the amounts been assigned in time.
- For want of necessary amendment in the Tamil Nadu Panchayats Act, 1994 the enhanced rate of Local Cess to village panchayats and Local Cess Surcharge to panchayat unions recommended by the Second State Finance Commission was not adopted though accepted by Government. This had resulted in non-collection of Rs 2.91 crore during 2002-06 towards Local Cess Surcharge in the three sample districts viz., Coimbatore, Kancheepuram and Tiruvallur.
- No monitoring committee at State level was formed for monitoring the assignment of Local Cess and Local Cess Surcharge.

(Paragraph 5.3)

VI *Audit of transactions in Panchayat Raj Institutions*

Eleven integrated sanitary complexes for women constructed at a cost of Rs 24.35 lakh were not put to use by Ilayangudi Panchayat Union due to non-provision of power supply. Two more complexes constructed at a cost of Rs 4.39 lakh were not made use by the public due to locational disadvantage.

(Paragraph 6.1.1)

Delay in surrender of staff employed in rural dispensaries to Indian Medicine and Homeopathy Department by Palayamkottai Panchayat Union resulted in avoidable expenditure of Rs 18.42 lakh on their pay and allowances during June 2006 to October 2007.

(Paragraph 6.2.1)