

CHAPTER IV

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF PANCHAYAT RAJ INSTITUTIONS

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4.1 Introduction

4.1.1 To enable the Panchayat Raj Institutions (PRIs) to acquire the status and dignity of viable and responsive people's bodies, 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 PRIs viz., Village Panchayats at the village level, Panchayat Unions or Block Panchayats at the intermediary level and District Panchayats at the apex level were established. There were 12,620 Village Panchayats¹, 385 Panchayat Unions and 30 District Panchayats in the State as of March 2009. An organogram of PRIs is given in **Appendix 4.1**.

Consequent to the provision of required funds through direct funding/devolution, the average own income level of Village Panchayats had increased during 2008-09. The classification of Village Panchayats based on their own income during 2008-09 are given in **Table 4.1**.

Table 4.1: Income-wise classification of Village Panchayats

Sl. No.	Income range per annum	Number of Village Panchayats	
		Based on average income of three years from 2003-04 to 2005-06	Based on the income of 2008-09
1	Upto Rs 50,000	10	Nil
2	Between Rs 50,000 and Rs one lakh	178	Nil
3	Between Rs one lakh and Rs five lakh	7,422	1,021
4	Between Rs five lakh and Rs 10 lakh	3,181	7,146
5	Between Rs 10 lakh and Rs 25 lakh	1,489	3,902
6	Between Rs 25 lakh and Rs 50 lakh	252	393
7	Between Rs 50 lakh and Rs one crore	60	121
8	Between Rs one crore and Rs 3 crore	24	32
9	Above Rs 3 crore	2	3
	Total	12,618	12,618

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2008-09 and 2009-10)

Note : Two new Village Panchayats, Indira Nagar and Perumathur formed in August 2008 are yet to be classified under the income range.

Elections to the local bodies were held in October 2006.

¹ Two new Village Panchayats viz. Indira Nagar and Perumathur in Kurinjipadi Panchayat Union, Cuddalore District formed in August 2008

4.2 Administrative arrangements

4.2.1 The Rural Development and Panchayat Raj Department is responsible for implementation of various Centrally sponsored, State funded and externally aided scheme for poverty alleviation, employment generation, sanitation, capacity building, women's social and economic empowerment, and Tsunami rehabilitation, apart from provision of basic amenities and services. The Department is also entrusted with the responsibility of enabling the various PRIs to function as effective units of local self Government.

4.2.2 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 District Panchayats 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 Panchayat Unions, 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 (Village Panchayats) is responsible for implementation of the schemes by the Village Panchayats. In case of Village Panchayats, the President, an elected representative, is the executive authority.

4.3 Accounts and Audit

4.3.1 Accounts and database formats

4.3.1.1 State Government issued orders (April 2004) to adopt the accounts format prescribed by the Comptroller and Auditor General of India with effect from 1 April 2004 in all PRIs. The Commissioner of Rural Development and Panchayat Raj (CRDPR) was also directed by the State Government to create the database in PRIs in consultation with National Informatics Centre (NIC) which would develop software for adoption of the formats.

Government of India released Rs 60.73 crore² during 2003-06 for maintenance of accounts and database. Government of Tamil Nadu also released Rs 9.08 crore as a matching grant. Of this, the State Government released Rs 60.32 crore and 13,074 computers costing Rs 51.64 crore were purchased during the period between March 2004 and February 2006 and distributed to PRIs to maintain accounts and database of finances.

The Government stated (May 2009) that though a software for the management information system in the Village Panchayats called Panchayat Raj Institutions Accounts Software was developed by NIC, it could not be used due to the change of accounting system of Village Panchayats as per Government order issued in August 2007 wherein the method of accounting

² Rupees 36.34 crore and Rs 24.39 crore as per the recommendations of Eleventh and Twelfth Finance Commission respectively

and the four types³ of accounts to be maintained in each village panchayat was stipulated.

On further reference, the CRDPR stated (January 2010) that the proposed system called Panchayat Raj Institutions Accounts Software (PRIA Soft) was complicated and the present Village Panchayat Assistants with SSLC qualification will not be able to implement the software. The Commissioner also stated that an army of qualified accounting computer personnel would be required in all the VPs to implement the software which the State Government cannot afford. The Commissioner further stated that the present accounting system of cash based single entry system was suffice and migration to double entry system would involve problems and ‘micro management’ as envisaged in PRIA Soft is not called for in a country like India with many diversities and in the present context where ‘Local Government’ is a State subject. The CRDPR further stated that the State Government of Tamil Nadu would not implement PRIA Soft.

Procurement of computers without ensuring its productivity was injudicious. The computers purchased and distributed to PRIs at a cost of Rs 51.64 crore as stated above for maintenance of accounts and database have not been utilised for the intended purpose and were now being used for entering and updating of village panchayat wise data for National Rural Employment Guarantee Scheme (NREGS).

4.3.2 Audit arrangements

4.3.2.1 In accordance with Section 193 of Tamil Nadu Panchayats Act, 1994 Government of Tamil Nadu appointed the following officers as Auditors for PRIs as given in **Table 4.2**.

Table 4.2: Audit arrangements for PRIs

Tier of PRI	Auditors appointed	Periodicity
District Panchayats	Director of Local Fund Audit (DLFA)	Annually
Panchayat Unions	DLFA	Quarterly
Village Panchayats	(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)

4.3.2.2 Accounts of District Panchayats and Panchayat Unions are also audited by Principal Accountant General (Civil Audit) under Section 14(1) of the Comptroller and Auditor General of India’s (Duties, Powers and Conditions of Service) Act, 1971. Further technical guidance is also provided by the Principal Accountant General to DLFA regarding audit of District

³ (1) Village Panchayat Fund Account (2) Village Panchayat payments of TNEB/TWAD Board Account (3) Village Panchayat Scheme Fund Account and (4) Village Panchayat NREGS Account

Panchayats and Panchayat Unions in terms of order of Government of Tamil Nadu (March 2003).

4.3.3 Compilation of Annual Accounts by PRIs and Audit of PRIs

DLFA is the statutory Auditor for Panchayat Unions and District Panchayats. Based on the recommendation of Second State Finance Commission (SSFC), DLFA is conducting only test audit of Village Panchayats including scheme accounts. The Deputy Block Development Officer audits all the General fund accounts of all the village panchayats (cent *per cent* audit) and certifies them except audit of scheme accounts.

4.3.3.1 *Compilation of Annual Accounts and submission of Accounts by PRIs*

The position relating to compilation of Annual Accounts and submission of accounts by PRIs, as of December 2009, as reported by the DLFA (March 2010) revealed that all the Panchayat Unions and District Panchayats have compiled and submitted their Annual Accounts up to 2007-08 and 314 Panchayat Unions and 12 District Panchayats had submitted their accounts for 2008-09.

4.3.3.2 *Audit of PRIs by DLFA*

(a) The position of arrears of audit of PRIs as of December 2009 is given in **Table 4.3**.

Table 4.3: Position of audit of Panchayat Unions and District Panchayats by DLFA

Category of PRI	Year	Total number	Audit completed	Audit in arrears as of December 2009 (Percentage)
Panchayat Unions	2007-08	385	379	6 (2)
	2008-09	385	13	372 (97)
District Panchayats	2008-09	29	12	17 (59)

(Source: Details furnished by DLFA in March 2010)

(Figures in brackets indicate the percentage of audit in arrears)

As seen from the table, out of 385 Panchayat Unions and 29 District Panchayats audit by DLFA for the year 2008-09 was completed (December 2009) only in 13 Panchayat Unions and 12 District Panchayats.

(b) The regular audit of Village Panchayats was conducted by the Deputy Block Development Officers and 22 *per cent*⁴ of the total number of Village Panchayats has to be test checked by the DLFA annually as per Government orders of November 2002. The position of audit of Village Panchayats, as of December 2009, is given in **Table 4.4**.

⁴ Including two *per cent* of Village Panchayats based on receipts, value of works and on specific complaints forwarded by Director of Rural Development and Panchayat Raj

Table 4.4: Position of audit of Village Panchayats as of December 2009

Category of PRI	Total number to be Audited by DLFA	Number of Village Panchayats wherein Audit not completed	
		2007-08	2008-09
Village Panchayats	2,523	896	1,561

(Source: Details furnished by DLFA in March 2010)

4.3.3.3 The number of paragraphs included in the Inspection Reports of DLFA issued up to 2008-09, pending settlement as of December 2009 in respect of Panchayat Unions and District Panchayats, aggregated to 22,107 and 351 respectively. The reported (March 2010) position of year-wise pendency by DLFA was as given in **Table 4.5**.

Table 4.5: Year-wise pendency details of paragraphs in the IRs of DLFA

Year of IR	Number of paragraphs pending in respect of	
	Panchayat Unions	District Panchayats
Upto 2002-2003	4,570	96
2003-2004	352	6
2004-2005	613	30
2005-2006	1,194	40
2006-2007	3,521	53
2007-2008	11,544	102
2008-2009	313	24
Total	22,107	351

(Source: Details furnished by DLFA in March 2010)

State Government appointed State High Level Committee with the Commissioner, Rural Development and Panchayat Raj (RDPR) Department and Director, DLFA as Chairman and Deputy Chairman respectively to be assisted by three⁵ members and District High Level Committee (DHLC) headed by District Collector as Chairman and Project Officer, DRDA as Deputy Chairman assisted by three⁶ members and one Secretary in November 1997 for settlement of outstanding paragraphs. As reported by DLFA (April 2010), the DHLC conducted 219 meetings during the period from 2006-07 to 2008-09 and settled 9,346 paragraphs relating to District Panchayats and Panchayat Unions. The State High Level Committee meeting was not conducted after February 2006.

4.3.3.4 Audit of PRIs by Principal Accountant General (Civil Audit)

Important irregularities detected by Audit during local audit of PRIs through test check of records are followed up through Inspection Reports issued to the

⁵ Financial Advisor and Chief Accounts Officer, RDPR Department; Chief Engineer/Superintending Engineer, Tamil Nadu Water Supply and Drainage Board and Chief Engineer (Highways and Rural Works) as members

⁶ Deputy Director, DLFA; Executive Engineer, DRDA; Deputy Director, RDPR Department as members and PA to District Collector (Audit) as Secretary

CRDPR with copies to the audited PRIs. Government had issued general orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities for all such paragraphs included in the inspection reports issued by Audit.

As of December 2009, 1,744 paragraphs relating to 359 Inspection Reports were not settled for want of satisfactory replies, as given in **Table 4.6**.

Table 4.6: Year-wise pendency of paragraphs

Year	Number of	
	Inspection Reports	Paragraphs
2006-07	69	214
2007-08	118	439
2008-09	172	1,091
Total	359	1,744

4.4 Receipt and Expenditure of Panchayat Raj Institutions

4.4.1 The resources base of the PRIs in addition to their own tax/non-tax revenues consists of the following:

- (i) Devolution of funds by State Government based on the recommendations of the State Finance Commission;
- (ii) Assigned/shared revenues; and
- (iii) Funds provided based on the recommendations of Central Finance Commission.

A chart showing the funds flow to PRIs is given in **Appendix 4.2**.

The details of receipts of PRIs during the last three years, as reported by CRDPR, in November 2009, are given in **Table 4.7**.

Table 4.7: Receipts of PRIs

(Rupees in crore)

Category of PRI	Year	Own Revenue	Assigned Revenue	Grants *	Loans	Total
Village Panchayats	2006-07	173.30	209.43	1,264.29	-	1,647.02
	2007-08	237.67	144.11	1,124.15	-	1,505.93
	2008-09	216.67	303.41	1,203.86	-	1,723.94
Panchayat Unions	2006-07	96.49	18.48	972.23	-	1,087.20
	2007-08	70.13	58.93	506.75	-	635.81
	2008-09	61.10	127.55	549.26	-	737.91
District Panchayats **	2006-07	-	-	185.78	-	185.78
	2007-08	-	14.40	126.69	-	141.09
	2008-09	-	28.89	137.32	-	166.21

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

* Grants include only State Finance Commission grants and Central Finance Commission grants released through CRDPR; details regarding other scheme grants routed through DRDA were not available.

** The receipts of District Panchayats consist of grants only.

Details of grants other than State and Central Finance Commission grants and loans received during 2008-09 were not furnished by the CRDPR.

4.4.2 The details of expenditure of all the three tiers of PRIs during the last three years 2006-07 to 2008-09, as reported (November 2009) by CRDPR duly incorporating the expenditure incurred out of State and Central Finance Commission grants, are given in **Table 4.8**.

Table 4.8: Expenditure of PRIs

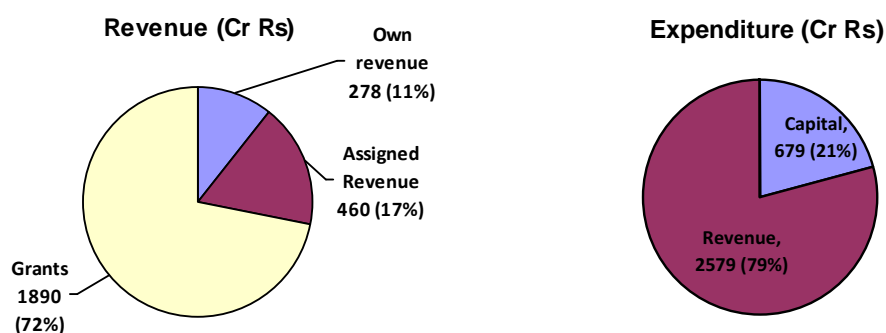
(Rupees in crore)

Category of PRI	Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
Village Panchayats	2006-07	1,107.57	315.57	1,423.14
	2007-08	1,350.07	349.24	1,699.31
	2008-09	1,611.46	329.68	1,941.14
Panchayat Unions	2006-07	733.09	235.24*	968.33*
	2007-08	719.05	277.73	996.78
	2008-09	822.56	269.92	1,092.48
District Panchayats	2006-07	103.46	65.72	169.18
	2007-08	132.15	47.72	179.87
	2008-09	145.22	79.61	224.83

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

* Figures differ from the figures furnished in the last year's report due to revised figures furnished by the CRDPR (November 2009).

4.4.3 Pie charts showing the components of Receipts and Expenditure of all Panchayat Raj Institutions for the financial year 2008-09 are given below:



4.4.4 The component-wise details of receipts and expenditure for the years 2006-09 as reported by CRDPR are given in the succeeding paragraphs.

4.5 Receipt of Panchayat Raj Institutions

4.5.1 Source of receipts

Among the three tiers, Village Panchayats alone have the power to levy taxes. The other source of receipts for Village Panchayats and Panchayat Unions are

non-tax revenue, assigned revenue from State Government and grants given by State Government for various purposes and State and Central Finance Commissions.

4.5.2 Tax revenue

The main components of tax revenue in Village Panchayats are House Tax, Profession Tax and Advertisement Tax. The position of cumulative demand (including arrears), collection and balance of these taxes during 2006-09 by the Village Panchayats were as given in **Table 4.9**.

Table 4.9: Tax revenue of Village Panchayats

(Rupees in crore)

Year	House Tax			Profession Tax			Advertisement Tax		
	D	C	B	D	C	B	D	C	B
2006-07	73.88	63.69(86)	10.19	36.45	35.34(97)	1.11	0.48	0.47(98)	0.01
2007-08	80.72	76.69(95)	4.03	40.54	39.58(98)	0.96	0.38	0.27(71)	0.11
2008-09	90.47	85.87(95)	4.60	42.51	41.87(98)	0.64	0.26	0.23(88)	0.03

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

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

(Figures in brackets indicate percentage of collection to demand)

While the percentage of collection of Profession Tax as against its demand was satisfactory, the percentage of collection of House Tax increased from 86 in 2006-07 to 95 *per cent* in 2007-08 and 2008-09. Percentage of collection of advertisement tax decreased from 98 *per cent* in 2006-07 to 71 *per cent* in 2007-08 and then increased to 88 *per cent* in 2008-09.

4.5.3 Non-tax revenue

Some of the major sources of non-tax revenues of Village Panchayats 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 main non-tax revenue of Panchayat Unions is receipts from remunerative enterprises, fairs and festivals, ferries operation, choultries, marriage halls, markets, fishery rentals and fines and penalties besides interest receipts.

The total amount of non-tax revenue realised year-wise by PRIs during 2006-09 are given in **Table 4.10**. However, no break-up details of various kinds of non-tax revenues realised were furnished by CRDPR.

Table 4.10: Non-tax revenue of PRIs

(Rupees in crore)

Category of PRI	Year	Non-tax revenue realised
Panchayat Unions	2006-07	96.49
	2007-08	70.13
	2008-09	61.10
Village Panchayats	2006-07	73.81
	2007-08	121.13
	2008-09	88.70

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

4.5.4 Assigned revenue

This includes the class of taxes and levies traditionally collected by Government and assigned to the PRIs by the District Collectors. Second State Finance Commission considered the assigned revenue as part of the resource base of the PRIs and desired that the base for the assignment was required to be maintained.

Entertainment Tax (ET), Surcharge on Stamp Duty (SSD), Local Cess (LC), Local Cess Surcharge (LCS), Seigniorage Fee (SF), lease amount of mines and minerals, cable TV fees etc., are some of the revenues assigned by Government to Panchayat Unions and Village Panchayats.

As the system of adjusting assigned revenues to various PRIs through adjustments leads to considerable delay in transferring the funds, Government issued (October 2007) orders, with a view to ensure quick transfer, to pool all the assigned revenues at State level and apportion the same to PRIs.

The quantum of such revenue assigned to these PRIs during 2006-09 are given in **Table 4.11**.

Table 4.11: Assigned revenue to PRIs

(Rupees in crore)

Category of PRI	Year	Local Cess	Local Cess Surcharge	Entertainment Tax	Surcharge on Stamp-Duty	Seigniorage Fee	Other assigned revenues*	Total
Village Panchayats	2006-07	3.30	ND	0.94	148.36	25.27	31.56	209.43
	2007-08	15.28	ND	1.00	91.72	23.61	12.50	144.11
	2008-09	11.58	ND	1.05	204.08	69.52	17.18	303.41
Panchayat Unions	2006-07	ND	15.63	0.84	ND	2.01	-	18.48
	2007-08	ND	8.15	0.53	48.92	1.33	-	58.93
	2008-09	ND	6.18	0.56	108.84	11.97	-	127.55
District Panchayats	2007-08	2.04	ND	0.13	12.23	ND	ND	14.40
	2008-09	1.54	ND	0.14	27.21	ND	ND	28.89

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)
ND – assigned revenue not due.

(* consist of tree patta fees, lease amount from mines and minerals and cable TV fees)

4.5.5 Grants received by PRIs

The details of State Finance Commission (SFC) devolutions received by the PRIs during 2006-09 are given in succeeding paragraphs.

4.5.5.1 State Finance Commission grants

The details of SFC devolutions to PRIs during 2006-09 are given in **Table 4.12**.

Table 4.12: State Finance Commission grants to PRIs

(Rupees in crore)

Category of PRI	Year	SFC grants sanctioned	Deductions made	Net grants released
Village Panchayats	2006-07	500.81	Nil	500.81
	2007-08	950.15	1.80	948.35
	2008-09	1,029.86	201.80	828.06
Panchayat Unions	2006-07	432.03	37.14	394.89
	2007-08	506.75	161.31	345.44
	2008-09	549.26	226.65	322.61
District Panchayats	2006-07	85.24	Nil	85.24
	2007-08	126.69	27.24	99.45
	2008-09	137.32	62.24	75.08

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

The CRDPR reported (November 2009) that deductions were made from the SFC grants given to Panchayat Unions during 2006-09 and to Village Panchayats and District Panchayats during 2007-08 and 2008-09 towards pension contribution, training corpus fund, Panchayat Union school renovation programme and Rural Infrastructure scheme.

The CRDPR also stated that the SFC grant being an untied grant, they are credited into the LF Account I of the concerned PRIs and spent. As such the quantum of unutilised SFC grants could not be furnished.

Details of grants other than State and Central Finance Commission grants and their utilisation during 2007-08 and 2008-09 were not furnished by the CRDPR.

4.6 Expenditure of Panchayat Raj Institutions

4.6.1 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.*, 2006-07 to 2008-09 are given in **Table 4.13**.

Table 4.13: Revenue expenditure of PRIs

(Rupees in crore)

Category of PRI	Revenue expenditure					
	Year	Salaries	Pension payment	Total of salaries and pension payment	Other revenue expenditure (including SFC grants utilised)	Total
Village Panchayats	2006-07	54.73	38.64	93.37	1,014.20	1,107.57 (15)
	2007-08	53.71	2.19	55.90	1,294.47	1,350.37 (22)
	2008-09	104.23	0.01	104.24	1,507.22	1,611.46 (19)
Panchayat Unions	2006-07	62.22	21.41	83.63	649.46	733.09 (8)
	2007-08	67.04	0.21	67.25	651.80	719.05 ((-) 2)
	2008-09	94.20	0.52	94.72	727.84	822.56 (14)
District Panchayats	2006-07	3.33	2.20	5.53	97.93	103.46 (35)
	2007-08	1.59	0.08	1.67	130.51	132.18 (28)
	2008-09	3.74	0.10	3.84	141.38	145.22 (10)

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

(Figures in brackets in the total column indicate the percentage of growth over previous year)

4.7 Capital expenditure

Quantum of reported capital expenditure (November 2009) as incurred by PRIs including capital expenditure incurred out of Central Finance Commission grants during 2006-09 are given in **Table 4.14**.

Table 4.14: Capital Expenditure of PRIs

(Rupees in crore)

Category of PRI	2006-07	2007-08	2008-09
Village Panchayats	315.57	349.24	329.68
Panchayat Unions	252.64	277.73	269.92
District Panchayats	65.72	47.72	79.61
Total	633.93	674.69	679.21

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

Based on the details compiled by CRDPR, the capital expenditure incurred towards the main core sectors viz., water supply, street lighting and road works during 2006-09 excluding the capital expenditure incurred out of Central Finance Commission grants are furnished in **Table 4.15**.

Table 4.15: Core sector-wise capital expenditure of PRIs

(Rupees in crore)

Name of the core sector	Category of PRI	2006-07	2007-08	2008-09
Water supply	Village Panchayats	39.38	41.32	37.27
	Panchayat Unions	27.61	49.96	41.53
	District Panchayats	7.85	17.69	7.35
Total		74.84	108.97	86.15
Street lights	Village Panchayats	16.90	9.53	12.59
	Panchayat Unions	3.04	2.72	1.37
	District Panchayats	2.55	9.25	2.60
Total		22.49	21.50	16.56
Road works	Village Panchayats	37.27	55.90	29.13
	Panchayat Unions	68.08	145.11	95.62
	District Panchayats	18.30	51.54	24.86
Total		123.65	252.55	149.61

(Source: Details furnished by Commissioner of Rural Development and Panchayat Raj in November 2009)

The breakup details of capital expenditure incurred out of Central Finance Commission grants were not furnished by the CRDPR. In addition to above, works under the core sectors of roads and water supply were also executed under other schemes⁷ executed through various agencies⁸ with the assistance of Central and State Governments.

4.8 Maintenance of Accounts

According to Tamilnadu Panchayats Act 1994, the PRIs are required to maintain various types of accounts as detailed in **Appendix 4.3**

During 2008-09, three District Panchayats viz. Coimbatore, Villupuram and Virudhunagar and 20 Panchayat Unions within these districts selected by stratified random sampling method were audited for measuring their efficiency and effectiveness in maintenance of accounts. Audit findings are discussed in the following paragraphs.

4.8.1 Internal Control Procedures

- **Preparation of Budget :** Financial rules stipulate that all Panchayat Unions (PUs) have to prepare annual financial statements i.e. budget for each year and place before the Panchayat Union Council before

⁷ 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 roads schemes with the assistance from NABARD/HUDCO etc., Pradhan Mantri Gram Sadak Yojana, etc.

⁸ Water supply works: Tamil Nadu Water Supply and Drainage Board.
Road works: Highways Department, Tamil Nadu Road Development Corporation

30th November. However, in five⁹ test-checked PUs, Budget was not prepared and placed before the Panchayat Union Council during the period 2004-05 to 2008-09 indicating lack of control over expenditure.

- **Statement of liabilities and assets in the annual accounts :** The statement of liabilities and assets, required to be appended to the annual accounts as per codal provisions, were not appended to the annual accounts of 2004-05 to 2008-09 by 12 test-checked PUs¹⁰. Without these statements, the true picture of financial position of the PUs could not be assessed. On being pointed out by Audit, the concerned BDOs agreed (July, August and September 2009) to prepare the statements in future.
- **Register of contingent expenditure :** Register of contingent expenditure, prescribed to have an effective control over expenditure, was not maintained in 13 test checked PUs¹¹ for the period 2004-05 to 2008-09. The lack of control was exemplified in an excess expenditure of Rs 7.98 lakh over the budget provision in respect of Sulthanpet PU during 2005-06 to 2007-08.
- **Monthly Abstract of Accounts :** According to financial rules, Block Development Officers (BDOs) of PUs should prepare monthly abstract of accounts and forward to the Assistant Director of Local Fund Accounts (ADLFA) of the District by the end of the following month. 18 test-checked PUs¹² did not prepare and submit monthly abstract of accounts to the Local Fund audit for the period 2004-05 to 2008-09. Non-preparation of monthly accounts resulted in ineffective financial control of the PUs by the PU Councils. On being pointed out by Audit, the concerned BDOs agreed (July, August and September 2009) to prepare the monthly accounts in future.
- **Physical verification of cash :** Financial rules stipulates that the officer in-charge of the cash book should physically verify the cash balance as per cash book at the end of each month. In 20 test-checked PUs, physical verification of cash was not done by the officers in-charge in any of the months during 2004-05 to 2008-09. On being pointed out by Audit, all the BDOs agreed (July, August and September 2009) to conduct physical verification of cash regularly.

⁹ Kallakurichi (2004-05 and 2005-06), Kanai (2004-05 to 2008-09), Koliyanur (2004-05 and 2007-08), Melmalayanur (2004-05 and 2006-07 to 2008-09) and Sulthanpet (2007-08 and 2008-09)

¹⁰ Annur, Kallakurichi, Kanai, Kinathukadavu, Koliyanur, Melmalayanur, Periyanaickanpalayam, Pollachi (South), Sarcarsamakulam, Sathur, Srivilliputhur and Vembakottai

¹¹ Annur, Gudimangalam, Kallakurichi, Kanai, Kinathukadavu, Koliyanur, Melmalayanur, Pollachi (South), Periyanaickanpalayam, Sarcarsamakulam, Sathur, Srivilliputhur and Sultanpet

¹² Annur, Aruppukottai, Chinnasalem, Gudimangalam, Kallakurichi, Kinathukadavu, Koliyanur, Madhukarai, Melmalayanur, Narikudi, Periyanaickanpalayam, Pollachi (South), Sarcarsamakulam, Sathur, Srivilliputhur, Sultanpet, Tiruppur and Watrap

- **Physical verification of Stores :** In eight test-checked PUs¹³, physical verification of stock of cement, steel, bitumen as required to be done annually was not done from 2004-05 to 2008-09. The non-verification of stock might pave way for pilferage and resultant loss.

4.8.2 Accounting Issues

- **Cancellation of time barred cheques :** The financial rules stipulates that treasury cheques lying unencashed for more than three months should be cancelled and taken as receipts. In two test-checked PUs, 20 time barred cheques amounting to Rs 3.22 lakh were not cancelled.
- **Interest on Provident Fund Account :** The BDO of the PUs maintain the provident fund account of the Panchayat Union employees. The DLFA is the sanctioning authority for the interest to be paid on the provident fund. In 15 test-checked PUs, the concerned BDOs did not send proposals for claiming interest on provident fund to the DLFA or proposals sent by BDOs were not authorised by DLFA from 1989-90 to 2008-09 as detailed in **Appendix 4.4**. Due to non-credit of interest to the individual accounts of employees, the liability of the PU was understated to that extent in its accounts and hence did not reflect the true and correct picture of its financial position. It also resulted in denial of the entitled benefits to eligible employees including 194 retired and 10 deceased employees. On being pointed out by Audit, the BDOs agreed (July, August and September 2009) to send the claim proposals to DLFA.
- **Lapsed Deposit :** As per Financial Rules, deposits received from contractors remaining unclaimed for more than four financial years should be treated as lapsed and credited to the General Fund Account of the Panchayat Unions. In 17 test-checked PUs¹⁴, deposits of Rs 18.29 lakh in the form of security bonds (Rs 4.96 lakh) and cash (Rs 13.33 lakh) received from the contractors remaining unclaimed for more than four financial years were not lapsed and credited to General Fund Account of the PUs. The non-lapsing of the deposits in the General Fund Account resulted in under statement of cash balance in the accounts of the PUs. On being pointed out by Audit, all the BDOs agreed (July, August and September 2009) to remit the lapsed deposits in Panchayat Union accounts.
- **Inoperative accounts :** In eight test checked PUs and Virudhunagar District Panchayat, the balance of Rs 15.23 lakh pertaining to various Central and State schemes and Education Fund account remained unutilised in the accounts although the schemes were closed long back and there were no transactions in the Education Fund account since

¹³ Annur (2005-06 to 2008-09), Aruppukottai (2006-07 to 2008-09), Kanai, Melmalayanur (2007-08 and 2008-09), Narikudi (2007-08 and 2008-09), Sarcarsamakulam, Sulthanpet and Vembakottai (2004-05 to 2008-09)

¹⁴ Annur, Aruppukkottai, Chinnasalem, Gudimangalam, Kallakurichi, Kinathukadavu, Koliyanur, Madhukarai, Melmalayanur, Periyanaickanpalayam, Pollachi (South), Sarcarsamakulam, Sathur, Srivilliputhur, Tiruppur, Vembakottai and Watrap

December 2000. Non-closure of inoperative scheme accounts resulted in blocking of Government money of Rs 15.23 lakh.

4.9 Response to Audit

State Government stipulated (July 2000) that the Commissioner, Panchayat Union Council and Secretary, District Panchayat after preparing replies to the audit comments of DLFA in the annual accounts have to place the same before the Panchayat Union/District Panchayat Council for discussion and suitable action. In 15 test-checked PUs¹⁵ and two District Panchayats (Coimbatore and Virudhunagar), the Commissioners/Secretaries did not place the audited annual accounts along with replies before the Panchayat Union/District Panchayat Council for the period from 2004-05 to 2008-09. In the absence of replies, the audit comments of DLFA could not be discussed in the Panchayat Union/District Panchayat Council for suitable action.

The above points were referred to Government in December 2009 and March 2010. Government accepted the facts (June 2010 and July 2010) and gave instructions to Panchayat Unions/District Panchayats to adhere the norms in respect of Maintenance of Accounts.

¹⁵ Annur, Chinnasalem, Gudimangalam, Kallakurichi, Kanai, Kinathukadavu, Koliyanur, Madhukarai, Melmalayanur, Pollachi (South), Sarcarsamakulam, Sultanpet and Tiruppur PUs (2004-05 to 2008-09); Periyanaickanpalayam and Sathur PUs (2004-05 to 2006-07)