

## Audit of local bodies in the State of Tamil Nadu

	Level/Tiers of Local body	Section of DPC Act under which Audit is taken up	Authority	Page No
Urban local bodies	Corporations	14 (2)	GO Ms No. 165, dated 1.7.1997, MAWS Department	1
	Municipalities	14 (2)	GO Ms No. 83, dated 24.3.1999, MAWS Department	3
	Town Panchayats	14 (2)	GO Ms No. 208, dated 9.12.2003, MAWS Department	5
Rural Local bodies	All the three tiers	20 (1) <sup>1</sup>	GO(D) No. 618, dated 10.12.2012, RDPR Department of Government of Tamil Nadu	6
Technical guidance and Support		-	(i) Section 15 (3) of TN Local Fund Audit Act, 2014	9
			(ii) Rule 15 (8) of TN Local Fund Audit Rules, 2016	11
			(iii) GO Ms 93, Finance Department, 28.03.2003	14

<sup>1</sup> Hqrs office confirmed taking up of Audit of Rural local bodies under Section 20 (1) in its letter No. 298/LB/TGS/74-2010, dated 25/29.06.2015 (page 8 )



Government of Tamil Nadu

Audit-Corporation Audit by Accountant General. Tamil Nadu exceeding Rs. 1.00 crores – Permission Granted to conduct Audit in Chennai, Madurai, Coimbatore, Salem, Tiruchirapalli and Tirunelveli Corporation.

Municipal Administration and Water Supply (MC2) Department

G.O. Ms.No. 165

Dt. 1.7.1997

From the Accountant General (Audit) I D.O. No. AG(Audit)  
II/2-5/97-98/3 dated 11.4.1997

ORDER:

The Accountant General has reported that the Audit of the accounts of the following corporations were conducted under section 14(1) of the Comptroller and Auditor General's (DPC) Act, 1971.

<u>Name of the Corporation</u>	<u>Year upto which audited</u>
Chennai	1987-88
Madurai	1980-81
Coimbatore	1985-86

This audit is in addition to the audit done by the Examiner of Local Fund Accounts.

2. The Accountant General has further reported that on a scrutiny of the accounts of the six corporations in Tamil Nadu it is found that all the corporations received grants/loan exceeding Rs. 1.00 crore in any financial year from the Government of Tamil Nadu and thus attract audit under section 14(2) of the Comptroller General's (DPC) Act. According to the provision contained in section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971 as amended in 1984, the Comptroller and Auditor General of India may with the previous approval of the Government audit all receipts and expenditure of a body or authority if the financial assistance received by that body from the Government is not less than Rs. 1.00 crore in a financial year. All the corporations received Grants/Loans exceeding Rs. 1.00 crore each year and many welfare schemes implemented through/with government assistance, it is necessary that the audit of all the six corporations - section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971



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3. The Accountant General has, therefore sought order of Government to conduct audit in all the six corporations of Tamilnadu namely Chennai, Madurai, Coimbatore, Salem, Tiruchirpalli and Tirunelveli.

4. The government examined the request of the Accountant General, Tamilnadu and permit him to conduct audit in Chennai, Madurai, Coimbatore, Salem, Tiruchirpalli and Tirunelveli Corporations under section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971 as amended in 1984, wherever the Corporations received loan/grant from Government exceed Rs. 1.00 crore in a financial year.

5. This order issues with the concurrence of the Finance Department Vide its U.O.No. 289/JS(S)/MAWS/97-1, dated 29.4.1997.

(BY ORDER OF THE GOVERNOR)

S.MALATHI  
SECRETARY TO GOVERNMENT

To

The Accountant General (Audit), Chennai-35  
The Director of Municipal Administration, Chennai-5  
The Commissioner, Chennai Corporation  
The Commissioner, Madurai Corporation  
The Commissioner, Coimbatore Corporation  
The Commissioner, Salem Corporation  
The Commissioner, Tirunelveli Corporation  
The Director of Local Fund Audit, Kuralagam, Chennai 104

Copy to:

Senior Personal Assistant to Minister for Rural Development and Local Administration, Chennai -600 009  
The Finance Department  
The Municipal Administration and Water Supply (General) Department

//Forwarded by Order//

Sd/-  
SECTION OFFICER

3/15

*For Audit of Municipalities  
under Section 14(2)*

State Emblem

Abstract

Audit – Audit by the Accountant General – of the Municipalities which have received  
Grant/loan exceeding Rs.1 crore in a financial year – Permission – granted.

Municipal Administration & Water Supply (MA.5) Department

G.O.Ms.No.83

Dated 24.3.99

Read:

From the Accountant General (Audit) I, D.O. Lr.No.A.G.(Audit)/  
AA Cell I/11/2-sn/97-98-222 dated 12.3.98

ORDER

The Accountant General, in his letter read above, has requested the Government to accord permission to audit the accounts of 30 Municipalities listed out by him which have received grant or loan exceeding Rs.1 crore from the State Government in the years mentioned against each. He has stated that this audit is in addition to the audit done by the Examiner of Local Fund Accounts. The Accountant General has also requested that a general order permitting the Accountant General to conduct audit in the Municipalities where the assistance/loan received by the Municipality exceeds Rs.1 crore may be issued.

2. The Government have examined the request of the Accountant General (Audit), Tamil Nadu and permit him to conduct audit in respect of Municipalities which obtain loan/grant from Government exceeding Rs.1.00 crore in a particular financial year, with reference to the provisions of Sec.14(2) of the Comptroller & Auditor General's (DPC) Act, 1971 after confirming the fact that the loan/grant exceeds Rs.1 crore (Rupees one crore) from the Municipalities themselves.

*Municipalities*



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3. This order issues with the concurrence of Finance Department vide U.O.Note No.24820/MA&WS/98-1 dated 16.4.1998.

(BY ORDER OF THE GOVERNOR)

S. Malathi  
Secretary to Government

To

The Accountant General (Audit) I (Tamil Nadu & Pondicherry)

EVR Periyar Building, 474, Anna Salai, Chennai 35

The Commissioner of Municipal Administration, Chennai 5

The Director of Local Fund Audit, Kuralagam, Chennai 108

The Accountant General (Audit) I, Chennai 35 (By Name)

Copy to

Senior Personal Assistant to MRD&LA), Chennai 9

The Finance Department, Chennai 9

The Municipal Administration & Water Supply (Gl.) Department , Chennai 9

Sd/- dated 25.3.99  
Section Officer



For Audit of Town Panchayats  
under Section 14(2)

ABSTRACT

Audit - Audit by the Accountant General - of the Town Panchayats which have received grant/loan exceeding Rs. 1 Crore in a Financial year - Permission granted

MUNICIPAL ADMINISTRATION AND WATER SUPPLY (TP1) DEPARTMENT

G.O. Ms. No.208

Dated 09.12.2003

Read :

From the Principal Accountant General (Audit) I, D.O. Letter.  
No. AG (Au) I/1/2002-03/346 Dated 31.12.2002

ORDER :

The Principal Accountant General has stated that several Town Panchayats in Tamil Nadu have been receiving grants/loan exceeding Rs. 1 crore from the Government of Tamil Nadu and under the provision of Section 14(2) of the Comptroller and Auditor General's Act 1971, such Town Panchayats may with the prior approval of the State Government, be subjected to audit by the Comptroller and Auditor General. Accordingly, the Principal Accountant General in his letter read above has requested that a general order may be issued permitting the Accountant General to conduct audit of Town Panchayats wherever grants/loans from Government are not less than Rupees One crore in a financial year, effective from the year 2000-01.

2. The Government have examined the request of the Principal Accountant General (Audit) Tamil Nadu and permit him to conduct audit in respect of Town Panchayats under Section 14(2) of the Comptroller and Auditor General's (DPC) Act 1971, wherever the Town Panchayats receives grants from the Consolidated Fund of the State totalling more than Rs. 1 crore in a particular financial year.

3. This order issues with the concurrence of Finance Department vide its DO No. 436/FB/P/03 dated 01.12.2003.

(BY ORDER OF THE GOVERNOR)

L.N. VIJAYARAGHAVAN  
SECRETARY TO GOVERNMENT

To  
The Accountant General (Audit) I, Tamil Nadu and Pondicherry, Chennai - 35  
The Director of Town Panchayats, Chennai - 103  
The Director of Local Fund, Kuralagani, Chennai - 108  
The Accountant General (Audit) I, (By Name)

For  
Senior Personal Assistant to M(LA) Chennai - 9  
The Finance Department, Chennai - 9

/forwarded by order//

Sd/-  
Section Officer



6/15  
For Audit of Rural Local  
Bodies.



### ABSTRACT

Thirteenth Finance Commission Grants - Conditionalities for availing the General Performance Grant – Fulfilling the condition of entrustment of audit of all the three tiers of Panchayat Raj Institutions to the Comptroller and Auditor General – Orders issued.

Rural Development and Panchayat Raj (PR.I) Department

G.O.(D) No.618

Dated: 10.12.2012.

Read:

1. From the Commissioner of Rural Development and Panchayat Raj  
Letter No.89734/2010/PRI 2.3, dated 13.7.2012.
2. From the Principal Secretary to Government, Finance Department  
D.O.letter No. 10730/FC II/2012 Dated:19.7.2012 addressed to the  
Principal Accountant General (General and Social Sector Audit),  
Chennai-18.

### ORDER:-

The Thirteenth Finance Commission has recommended two types of Grants to Local Bodies namely General Basic Grant and General Performance Grant. The General Basic Grant is being released by Government of India from the year 2010-11. The Government of India has listed out certain conditionalities prescribed by the Thirteenth Finance Commission to be eligible for availing the General Performance Grant. One of the conditionalities laid down by the 13<sup>th</sup> Finance Commission for availing the General Performance Grant is that the State Government must put in place an audit system for all local bodies (all categories of Urban Local Bodies and all tiers of Panchayat Raj Institutions). The Comptroller and Auditor General must be given Technical Guidance and Support (TG&S) over the audit of all the local bodies in a State at every tier / category and his Annual Technical Inspection report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State Legislature.

2. The Commissioner of Rural Development and Panchayat Raj in his letter first read above has stated that in respect of Rural Development and Panchayat Raj Department, audit pertaining to District Panchayats and Panchayat Unions only are being carried out by the Comptroller and Auditor General of India at present. The Village Panchayats are being audited by the Deputy Block Development Officer of Rural Development and Panchayat Raj Department. The Local Fund Audit Department is taking audit in 20% of the Village Panchayats and 2% on the basis of



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list given by the Commissioner of Rural Development and Panchayat Raj. To fulfill the conditionalities of the 13<sup>th</sup> Finance Commission, it is laid down that it is imperative to entrust the audit of the Village Panchayats also to the Comptroller and Auditor General of India. Taking this into consideration, the Comptroller and Auditor General may also be allowed to audit the accounts of certain number of Village Panchayats as is being done by the Local Fund Audit Department so far may be followed.

3. The Principal Secretary to Government, Finance Department in his letter second read above has informed the Principal Accountant General (General and Social Sector Audit) that the entrustment of audit of all the three tiers of Panchayat Raj Institutions to Comptroller and Auditor General may be made without any restrictions and hence the Accountant General will be free to choose any appropriate number of local bodies in any tier.

4. The Government have examined the proposal of the Commissioner of Rural Development and Panchayat Raj and the decision of the Finance department taken in this regard and after careful examination, hereby order that the entrustment of audit of all the three tiers of Panchayat Raj Institutions to the Comptroller and Auditor General (CAG) be made without any restrictions and the Accountant General will be free to choose any appropriate number of local bodies in any tier.

5. The Commissioner of Rural Development and Panchayat Raj is directed to issue necessary instructions to all concerned to follow the instructions scrupulously and the action taken report taken in this regard be sent to Government immediately.

6. This order issues with the concurrence of Finance Department vide its U.O.No.67003/FC.II/2012, Dated: 06.12.2012.

(BY ORDER OF THE GOVERNOR)

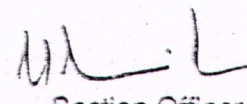
N.S.PALANIAPPAN,  
Principal Secretary to Government.

To  
The Principal Accountant General (General and Social Sector Audit), Chennai-18.  
The Principal Secretary to Government, Finance Department, Secretariat, Chennai-9.  
The Commissioner of Rural Development and Panchayat Raj, Chennai -15  
The Director of Local Fund Audit, Kuralagam, Chennai-108.  
All District Collectors (except Chennai District).  
✓ The Finance (RD/FC I/FC II) Department, Secretariat, Chennai-9.

Copy to:

The Director, State Institute of Rural Development,  
Maraimalai Nagar, Kancheepuram district.  
The Private Secretary to the Principal Secretary to Government,  
Rural Development and Panchayat Raj Department, Chennai-9.  
The Rural Development and Panchayat Raj (PR III) Department, Chennai-9.  
SC/SF.

// Forwarded / By Order //

  
Section Officer 10/12-2



Hqrs. letter

8/15

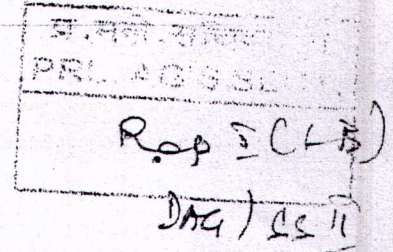
Office of the Comptroller and Auditor General of India  
9, DeenDayaUpadhyay Marg, New Delhi

Local Bodies Wing

No. <sup>298</sup> LB/TGS/74-2010/  
Date 25.06.2015  
<sup>29</sup>

To,

Principal Accountant General (G&SSA),  
Lekha Parikha Bhawan  
361, Anna Salai, Teynampet, Chennai  
Tamil Nadu- 600018



**Subject: Entrustment of audit of PRI by Government of Tamil Nadu**

Sir,

This is with reference to your letter No. Rep.1/60-3/LB/2015-16/8 dated 15.05.2015 regarding entrustment of audit of all the three tiers of PRI to the CAG without any restriction, by the state government. It is understood that we were doing audit of accounts of two tiers of PRI i.e. District Panchayat and Panchayat Union and all Urban Local Bodies (ULBs) under section 14(1) of the CAG (DPC) Act 1971. Tamil Nadu State Government has now by order dated 10.12.2012 entrusted third tier of PRI i.e. Village Panchayat without mentioning any section of CAG (DPC) Act, 1971. The question was whether to seek revision in government order to include section of CAG (DPC) Act, 1971, or not.

The state government has entrusted audit of additional tier of PRI under TGS, as per recommendations of Thirteenth Finance Commission (TFC) and there was no reference to CAG (DPC) Act in TFC recommendations. In terms of Hqrs office letter dated 2.11.2010 to JS (PRI) and a copy to all AG/PAG the relevant section for entrustment to CAG was Section 20(1) of the Act. It is also not clear whether Section 14 was quoted by state government in its previous entrustment.

In our opinion

- Referring to a particular Section of CAG (DPC) Act, 1971 by the State Government is not necessary as it is for us to determine under which section the audit is being done. There could be instances where an audit is attracted under multiple sections of CAG (DPC) Act, 1971.
- Ideally the Section to be quoted in our Audit Reports for entrustment audit is Section 20(1) of the Act.
- It does not seem necessary to request the state government to revise its order to include Section of the CAG (DPC) Act, 1971. However we may inform the state government that the audit is being done under section 20(1) being entrustment audit.

(B.P. Yadav)

Principal Director

DATE 23/6  
6/7/15



The following Act of the Tamil Nadu Legislative Assembly received the assent of the Governor on the 14th December 2014 and is hereby published for general information:—

**ACT No. 24 OF 2014.**

**An Act to provide for an effective and efficient audit system to all local authorities and certain other authorities, bodies or institutions and Funds and for matters connected therewith and incidental thereto.**

WHEREAS the Thirteenth Finance Commission in its report recommended that the State Government must put in place an audit system for all local bodies and also recommended that the Comptroller and Auditor General of India must give technical guidance and supervision over the audit of all the local bodies in the State at every tier/category;

AND WHEREAS the Second State Finance Commission has also recommended to enact an Act to provide for and to regulate the audit of the local funds and authorize the Director of Local Fund Audit to audit the accounts relating to the local authorities;

AND WHEREAS it has become imperative to ensure effective spending of the grants of the Government of India and the State Government by the local authorities and other authorities and to promote public confidence on how the public money is expended by the local authorities and other authorities established by the State Government;

BE it enacted by the Legislative Assembly of the State of Tamil Nadu in the Sixty-fifth Year of the Republic of India as follows:—

Short title,  
extent and  
commence-  
ment.

1. (1) This Act may be called the Tamil Nadu Local Fund Audit Act, 2014.
- (2) It extends to the whole of the State of Tamil Nadu.
- (3) It shall come into force at once.

Definitions.

2. In this Act, unless the context otherwise requires,—

(a) **'audit'** includes cent per cent audit, post audit, test audit, special audit and such other examination of accounts as the Government may, from time to time, specify;

(b) **'cent per cent audit'** means a post audit of all the transactions of a particular account for the whole financial year or for such period as may be specified by the Director;

(c) **'concurrent audit'** means a continuous post audit of accounts of day-to-day transactions;

(d) **'Director'** means the Director of Local Fund Audit appointed under section 3 and includes any person authorised by the Government to perform the functions of the Director of Local Fund Audit;

(e) **'Executive authority'** means the Chief executive officer or any other officer of a local authority, vested with the power to administer the fund of that authority;

(f) **'Government'** means the State Government;

(g) **'local authority'** means,—

(i) any municipal corporation or municipal council or panchayat union council or village panchayat constituted under the relevant law for the time being in force; or

(ii) any other authority, body or institution established by or under any law or order of the Government and specified in the Schedule;

(h) **'local fund'** means the fund administered by a local authority and other fund specified in the Schedule;

(i) **'Local Library Authority'** means the Local Library Authority constituted under the Tamil Nadu Public Libraries Act, 1948;

(j) **'Local Planning Authority'** means the Local Planning Authority constituted under the Tamil Nadu Town and Country Planning Act, 1971;

Tamil Nadu  
Act XXIV of  
1948.

Tamil Nadu  
Act 35 of  
1972.



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(2) Any person aggrieved by the surcharge may, within one month from the date of receipt of the decision of the Director, apply to the District Court, to set aside the surcharge and the Court, after taking such evidence as is necessary, may confirm, modify or remit the same.

(3) Every sum certified to be due from any person by the Director under this Act shall be paid by such person to the Executive authority within one month from the date of intimation to him of the decision of the Director unless, within that time, such person has filed an application before the District Court against the decision under sub-section (2) and such amount, if not so paid, or such amount as the District Court shall declare to be due, may be recovered as if it were an arrear of land revenue and for the purpose of such recovery, the Director shall have the powers of a Collector under the Tamil Nadu Revenue Recovery Act, 1864.

Tamil Nadu  
Act II of  
1864.

Powers and  
functions of  
Director.

15. (1) The Director shall exercise general supervision and control over the officers and staff of the Local Fund Audit Department.

(2) The Director shall have the power to settle the audit objections included in the audit report.

(3) The Director may approach the Principal Accountant General of the State to provide necessary technical guidance and support on the audit and maintenance of accounts of a local authority or local fund.

Section 15 (3)  
TGS

(4) The Director may condone any payment made from a local fund, of a sum not exceeding rupees ten thousand only, as may be prescribed by the Government, which appears to him to be contrary to law, if in his opinion, there was no negligence or misconduct on the part of the person making or authorising such payment.

(5) The Director shall also exercise such other powers and functions, as may be prescribed.

Delegation of  
powers and  
functions.

16. The Director may, by general or special order, delegate all or any of the powers to be exercised or functions to be performed by him under this Act or the rules made thereunder except the power under sub-section (4) of section 15 to any other Officer of the Local Fund Audit Department, subject to such conditions, if any, as may be specified in that order.

Payment of  
cost of  
audit.

17. (1) The cost of audit of accounts shall be paid by the authority concerned at such rates as may be fixed by the Government, from time to time.

(2) The Government may, by general or special order, exempt, either wholly or in part, any authority from the liability to pay the cost of audit under sub-section (1).

(3) If the cost of audit due under sub-section (1) is not paid within one year from the date of its becoming due, the Government may adjust the same against the grant or other sums, if any, payable to such authority:

Provided that if no grant or other sums is payable to such authority, the cost of audit shall be recovered by the Director in such manner as may be prescribed.

Power to  
dispense  
with  
detailed  
audit.

18. The Director may, when circumstances so warrant, dispense with detailed audit of any account or class of transactions and apply such limited check in relation to such accounts or transactions as he may deem fit.

Defalcation or  
loss in  
money or  
stores to be  
reported by  
the Executive  
authority.

19. (1) Whenever any defalcation or loss in money or stores of any local authority or authority, body or institution which administers a local fund caused due to misappropriation, theft or natural calamities is detected, the fact shall be promptly reported by the Executive authority to the Director giving in detail the circumstances which led to such defalcation or loss.

(2) On receipt of a report under sub-section (1), the Director shall immediately conduct or cause to be conducted a special audit of the accounts of that authority:

Provided that nothing in this section shall prevent the Executive authority from initiating criminal proceedings against any person suspected of, or involved in, any defalcation or loss of money or stores.



Extract of Tamil Nadu Local Fund

Audit Rules, 2016

11/15  
181

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GOVERNMENT OF TAMIL NADU

2016

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[R. Dis. No. 197/2009.

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# TAMIL NADU GOVERNMENT GAZETTE

**EXTRAORDINARY** PUBLISHED BY AUTHORITY

No. 186]

CHENNAI, WEDNESDAY, AUGUST 24, 2016

Aavani 8, Thunmugi, Thiruvalluvar Aandu-2047

## Part III—Section 1(a)

General Statutory Rules, Notifications, Orders, Regulations, etc.,  
issued by Secretariat Departments.

### NOTIFICATIONS BY GOVERNMENT

#### FINANCE DEPARTMENT

THE TAMIL NADU LOCAL FUND AUDIT RULES, 2016

[G.O.Ms.No. 240, Finance (Local Fund) 24<sup>th</sup> August 2016. Thunmugi, Aavani-8, Thiruvalluvar Aandu 2047]

No. SRO 16(a) /2016.

In exercise of the powers conferred by sub-section (1) of section 26 of the Tamil Nadu Local Fund Audit Act, 2014 (Tamil Nadu Act 24 of 2014), the Governor of Tamil Nadu hereby makes the following rules.—

#### // Tamil Nadu Local Fund Audit Rules, 2016

**1.Short title and commencement.**— (1) These rules may be called the Tamil Nadu Local Fund Audit Rules, 2016.

(2) They shall come into force on the 24<sup>th</sup> August, 2016.

**2. Definitions.** — In these rules, unless there is anything repugnant in the subject or context,—

(a) "Act" means the Tamil Nadu Local Fund Audit Act, 2014 (Tamil Nadu Act 24 of 2014);

(b) "Auditor" means the Director of Local Fund Audit or an officer includes an individual auditor or audit party or group of auditors of the Local Fund Audit Department authorised by him, entrusted with the audit of the local or other authorities or local funds under section 4 of the Act;

(c) "Audit Party" means the team of auditors carrying out the audit of local authority or local funds as specified in the Schedule to the Act;

(d) "Audit Report" means the report sent under section 11 of the Act and includes reports sent by the auditor on conduct of annual audit, concurrent audit, special audit, test audit of accounts of any institution for a specified period, included in the Schedule to the Act;

(e) "Audit notes" means the notes sent by the auditor on conduct of annual audit, half-yearly audit, quarterly audit, transaction audit and special audit;

(f) "Cent per cent audit" means complete scrutiny and check of records and registers pertaining to the audit period of any local authority or local fund;

(g) "Charge" means any amount for which the Director makes any person liable for loss caused by negligence or misconduct and due to defalcation or misappropriation of revenue of a local authority or local fund;



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3

(3) The office copy of the surcharge notice and the correspondence in connection with it should form the surcharge files. The surcharge notice shall be prepared, with the upto date information on the objection in respect of which a surcharge notice is proposed to be issued, if necessary by issuing a memorandum to the Executive authority and obtaining his reply. In the case of an item of expenditure, which is held under objection for want of competent sanction, it should be made sure that sanction has not been obtained and communicated to audit and in the case of an objection dealing with time-barred arrears, the latest demand, collection and balance statement received should be verified to. The auditor shall ensure that the amount held under objection and proposed to be surcharged has not subsequently been collected. The correct position of the objection shall be ascertained as far as it is possible so that the person surcharged may not challenge the surcharge notice. The correct name, designation and address of the person to be surcharged should be noted in the surcharge notice.

(4) The Director or the person empowered to issue a surcharge notice, before issuing a surcharge notice, shall give a show cause notice to the person concerned calling upon him to state his defense about the proposed notice in writing within a specified time which shall not be less than fifteen days. If such person desires to be heard in person, the opportunity of personal hearing shall be given by the auditor. In such a personal hearing the auditor shall record the proceedings of such hearing. The auditor shall issue surcharge notice after taking into consideration of the representation, if any given by the person concerned and the proceedings of the personal hearing.

(5) Unless the person served with a charge or surcharge notice remit to the Executive authority concerned the amount involved in the notice and furnish the details thereon to the Director within thirty days, from the date of receipt of the notice, or furnish satisfactory explanations, such person shall be served with charge or surcharge notice with copy to the Executive authority concerned.

(6) The Director shall issue, charge or surcharge notices to the officer or person held responsible for the losses and shall in every case, certify the amount due from such person, and cause to serve surcharge notice in duplicate along with extracts of the relevant objections in the audit report by Registered Post with Acknowledgement due, under section 14 of the Act. A copy of the charge or surcharge notice shall be issued to the Executive authority concerned. The duplicate copy of the charge or surcharge notice shall be returned to the Director by the person receiving it, with his dated acknowledgement in proof of having received the notice. The Director shall authorise any of his subordinate officer to exercise the above powers wherever necessary.

(7) If the person, to whom a copy of the surcharge notice is furnished, refuses or refused to receive it, he is deemed to have been duly furnished with a copy of the surcharge notice and the period fixed for appeal is in such cases calculated from the date of such refusal. If the letter containing the surcharge notice was returned on the ground that the whereabouts of the person surcharged is not known, steps should be taken to ascertain the whereabouts of the surcharged by addressing the Collector or Executive authority of the local authority or local fund concerned. Director may forward to the Collectors for arranging for service of the copies of the documents on the parties concerned and for obtaining their acknowledgements and for sending them to the Director or his subordinates:

Provided that if the person to whom the surcharge notice is issued is a detenu and refuses to receive it while in detention, it should be served after his release.

(8) Every sum certified to be due from any person by the Director under the Act shall be paid by such person to the Executive authority within one month from the date of intimation to him of the decision of the Director unless, within that time, such person has filed an application before the District Court against the decision under sub-section (2) of section 14 of the Act and such amount, if not so paid, or such amount as the District Court shall declare to be due, may be recovered as if it were an arrear of land revenue and for the purpose of such recovery the Director shall have the powers of a Collector under the Tamil Nadu Revenue Recovery Act, 1864 (Tamil Nadu Act XI of 1864).

(9) All payments made by the person surcharged shall be reported to the authority who issued the surcharge notice, by the Executive authority soon after such payments are made.

**Explanation - I.**— Person making payments or responsible for deficiency, loss or waste, originating from his own neglect, misconduct or misinterpretation of the provisions, viewed in terms of the relevant provisions of the Act, rules or orders governing the local authority or local fund concerned, is said to be the person authorising such illegal payments or deficiencies.

**Explanation-II.**— When there is more than one person charged to have authorised or made illegal payments, all such persons shall equally be treated for purpose of surcharge.

**Explanation-III.**— It shall not be open to any person whose negligence or misconduct has caused or contributed to any such deficiency or loss, to contend that notwithstanding his negligence or misconduct, the deficiency or loss would not have occurred but for the negligence or misconduct of some other person.

**15. Powers and functions of the Director.**— (1) The Director shall have overall supervision and control over the officers and staff in enforcing the provisions of the Act and rules. The Director shall delegate any of his powers to the subordinate officers under specific written orders as per the provisions of section 16 of the Act.



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(2) The Director shall authorise any of his subordinate officers to review, approve and issue audit reports or audit notes of any local authority or local funds.

(3) The Director shall review the audit report issued by the competent authority on his own or through his subordinate officers.

(4) The Director shall have power to initiate disciplinary action against the subordinate officers who are found negligent in enforcing and misusing the powers under the provisions of the Act and the rules made thereunder and they are liable for disciplinary action in accordance with the procedure laid down in the Tamil Nadu Civil Services (Discipline and Appeal) Rules, 1955:

Provided that in the cases where the Government is the disciplinary authority, such cases shall be referred to the Government for taking disciplinary action as per the Tamil Nadu Civil Services (Discipline and Appeal) Rules, 1955:

Provided further that the disciplinary cases pending as on the date of commencement of these rules shall be finalized by the Director as per existing rules before the commencement of these rules.

(5) The Director shall initiate disciplinary action in cases of willful omission, commissions or dereliction of discharging duty in audit by any auditor under Tamil Nadu Civil Services (Discipline and Appeal) Rules, 1955:

Provided that the auditor shall not be liable for punishment for omission in cases of transaction and production of duplicate, unauthorised or fraudulent records that are beyond the purview of audit.

(6) The Director shall also initiate disciplinary action against the auditors or the authority reviewing or accepting the audit report, for non compliance of audit or non submission of audit report within the period specified in these rules. The Director shall also impose suitable penalty for such non compliance as deemed fit.

(7) (a) The Director has the power to insist the Executive authority to furnish replies to the audit objections. The Director or his subordinate officers are competent to settle the audit paras;

(b) Objections shall be settled by the following methods:-

(i) by verification of the replies furnished along with the relevant records in their office by the subordinate officers of local fund audit department;

(ii) spot verification of the replies at the institution at the time of local passing or review;

(iii) through joint sittings conducted periodically along with the administrative authorities;

(iv) through District High Level Committees formed for the purpose at district level;

(v) through State High Level Committees;

(c) On settlement of objections further remarks shall be issued by the competent authorities, with out delay, mentioning the details of the paragraphs settled.

(8) The Director shall approach the Principal Accountant General and obtain the advice and technical guidance and supervision under sub-section(3) of section 15 of the Act on matters relating to system improvement, audit procedure, maintenance of accounts and training to audit staff.

(9) The Director shall condone any payments made by a local authority or local fund up to a sum not exceeding rupees ten thousand only under sub-section (4) of section 15 of the Act.

(10) If any audit objection is found to be settled incorrectly and due to misinterpretation of rules or by persons not competent and by the persons not authorised to settle the objections, such objections shall be re-opened by the officer authorised for settlement or his immediate superior or by the Director.

(11) In case where the objections raised at the time of audit are found correct based on the orders prevailing at the time, but are found inapplicable or not relevant due to subsequent orders or decisions of the Government or other authorities, as the case may be, such objections shall be treated as settled. The Director shall cause to issue instructions on closure of such objections without obtaining reply as and when deemed necessary.

**16.Payment of cost of audit .—**(1) The cost of audit of the accounts of any local authority or local fund is payable under section 17 of the Act. The rate of audit fees payable and the concerned authority on whom the audit fees is leviable shall be as follows:-



Serial Number	Name of the Institution	Cost of Audit Fee
1.	Universities.	Actual cost (100%) and Average cost as per the orders of the Government.
2.	Municipal Corporations and Municipalities.	Fifty per cent of the actual cost as prescribed in the G.O.(Ms).No.62 Finance (LF) Department., Dated. 17.01.1994
3.	Market Committees.	Two per cent of the expenditure as prescribed in G.O.(Ms).No. 566 Agriculture Department., Dated. 25.07.1990
4.	(a) Local Library Authorities Chennai City. (b) Local Library Authorities, other than Chennai City.	Actual cost of audit i.e., (100 %) as per G. O. No.1646/Education Department Dated: 14.07.1977. Free of cost as per G.O.No.1646/Education Department, Dated:14.07.1977.
5.	RajaVedaPadasalai Kumbakonam.	Twenty five per cent of standard cost of audit as prescribed in the G.O.(Ms). No.883/ Revenue and Endowment Department., Dated. 29.01.1991 and G.O.(Ms).No.60 Finance (LF) Department., Dated.29.01.1991.
6.	Arasar Chatram, Thanjavur District.	0.75% of Gross receipts of a financial year as prescribed in the G.O.(Ms).No.1201, Finance Department., Dated. 02.07.1955.
7.	Local Planning Authorities.	Free of cost

(2) The audit fee shall be payable within one year from the date of receipt of the audit report or demand from the Director.

(3) The collection of revenue by way of audit fees shall be a responsibility vested with the Director. For prompt and correct recording of the demand and collection of audit fees from various institutions, necessary department instructions shall be issued from time to time by the Director.

(4) In case of non-payment within the time limit, the Director shall intimate the fact, to the controlling authority or Government. The Government or controlling authority shall adjust the charges for audit from the grants or other sums payable to local authority.

(5) If no grant or other sums is payable to such authority, the cost of audit shall be recovered by the Director from the own funds of such authority:

Provided that the audit fees livable on any local authority before the date of commencement of these rules shall continue to be collected as per these rules.

**17. Dispensing with detailed audit .—** Whenever circumstances so warrant and for compliance under sub-section (1) of section 10 of the Act, the Director shall pass orders to dispense with the detailed audit of any account and order audit by limitation of audit checks to the possible extent as deemed fit. The Director shall issue suitable orders in writing to his subordinate officer in this regard.

**18. Report of defalcation or misappropriation or serious irregularities.—** (1) Any defalcation or loss in money or stores of any local authority or local fund caused due to misappropriation, theft or natural calamities detected by the Executive authority shall be reported to the Director within three days along with the details of defalcation and circumstances leading to the loss. The report shall be made to the Director or his subordinate officer in charge of audit of the institution.

(2) (a) Special Audit of any local authority shall be taken up by the Director on receipt of report from the Executive authority;

(b) In cases of defalcation or misappropriation or major irregularities found during audit and at the request of the administrative authority or controlling authority of any local authority or local fund also, the Director shall conduct special audit;

(c) Special Audit shall also be taken up on the orders of the Government on any local authority or local fund by the Director;

(d) The Director shall direct his subordinate officer to conduct this special audit and issue suitable orders regarding the conduct of special audit in each case.

(3) When a defalcation or misappropriation is detected or may reasonably be inferred from any suspicious circumstances, or there is very strong evidence to raise suspicion thereof, or where any serious irregularity is noticed in accounts, the auditor shall at once confidentially report the circumstances, in writing to the Executive authority of the local authority as the case may be and also to the Director.



**20. ACCOUNTS AND AUDIT****20.10 Technical guidance and supervision over the Audit of accounts of local bodies by the Accountant General**

Finance (FC.IV) Department

G.O. (Ms) No. 93

Date : 28.03.2003

Read :

1. From Joint Secretary (Budget), Ministry of Finance, Department of Economic Affairs, New Delhi D.O.No.10(17)-B(S)/2000, Dated 24.4.2001.
2. From Comptroller and Auditor General of India, New Delhi D.O.No.46-CAG/2002/LB/PRI/51-2001/Dated 24.4.2002.
3. From Secretary to Government, Finance Department, Government of Tamil Nadu D.O.Letter No.33199/FC.IV/2001-03, Dated 5.7.2002 addressed to Comptroller and Auditor General of India.
4. From the Principal Accountant General (Audit)I, Chennai.35 D.O.Letter No.AG (AU)-1/DAG(A)/2002-03/119/7.8.2002.
5. From Special Secretary to Government, Finance Department D.O.Letter No.33199/FC.IV/2001-07, Dated 6.11.2002.
6. Government Lr.No.33199/FC.IV/2001-08, Dated 3.12.2002 addressed to Principal Accountant General (Audit)I, Chennai-18.
7. From Principal Accountant General (Audit)I, D.O.No.AG(AU)/DAG.ISC.II/2002-03/141/Dated 24.2.2003.

**ORDER**

The Eleventh Central Finance Commission has recommended that the Comptroller and Auditor General should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their Audit for all the tiers/levels of Panchayats and Urban Local Bodies. (Para:8.19(b). In Para:8.19(c) of its report, the Eleventh Finance Commission has further recommended that the Director of Local Fund Audit or any other agency made responsible for the Audit of accounts of local bodies should work under the technical and administrative supervision of the Comptroller and Auditor General in the same manner as the Chief Electoral Officers of the States operate under the control and supervision of the Central Election Commission.

2. The Second State Finance Commission has also made recommendations on this issue as given below:

- i) The State Government may take up the issue with Comptroller and Auditor General for not giving effect to the recommendations of Eleventh Finance Commission on the issue. The Accountant General may conduct Audit as per Section 14 of Comptroller and Auditor General's Act without any contribution by the State or local bodies.

(Chapter: XI - Para:8.20)

- ii) The Accountant General may go through the Audit reports of Director of Local Fund Audit and indicate how they could be professionally improved by way of technical inputs and standards. There can be technical guidance by the Accountant General to Director of Local Fund Audit on a continuing basis.

(Chapter-VIII/Para:3.7( c ) )

The recommendations of Second State Finance Commission mentioned above were already accepted by the Government and included in the Action Taken Report placed on the floor of the State Legislative Assembly on 8.5.2002.

3. In the reference second read above, the Comptroller and Auditor General has proposed to provide technical guidance and supervision regarding Audit standards, Audit planning and professional training to the State Local Fund Audit Department and sought orders of the State



## 20. ACCOUNTS AND AUDIT

Government for entrustment of technical guidance and supervision of Audit arrangements of local bodies to the Comptroller and Auditor General of India.

4. The issues were discussed in detail with Principal Accountant General and Director of Local Fund Audit. In pursuance to the decisions taken by the Government earlier on the recommendations of Second State Finance Commission mentioned in Para 2(i) and (ii) above and based on the deliberations with the Principal Accountant General, the following orders of the Government are issued to enlist the technical guidance and support from the Principal Accountant General on the Audit and maintenance of accounts of local bodies:

- i) The Director of Local Fund Audit would undertake the Audit of all local bodies (except Village Panchayats) and approach the Principal Accountant General to provide necessary technical support and guidance for this purpose.
- ii) The Director of Local Fund Audit should ensure that transactions at least for the particular year for which annual accounts are compiled are reflected correctly and this should be checked cent percent with reference to the initial records maintained by the Corporation/Municipality/ Town Panchayats. The Director of Local Fund Audit should certify the accounts in the enclosed format in respect of Urban Local Bodies.

In respect of Rural Local Bodies, the Director of Local Fund Audit should certify the accounts Audited by him in the standard form of Audit Certificate given in Chapter IV of "Guidelines for Certification and Audit of accounts of Panchayat Raj Institutions" issued by Comptroller and Auditor General of India.

- iii) Copies of issued Audit report in respect of 10% of Town Panchayats should be forwarded by the Director of Local Fund Audit to the Principal Accountant General. Principal Accountant General would call for the same and depute his staff to those Town Panchayats to verify the books of accounts and other records with a view to offer technical guidance to the Director of Local Fund Audit on the content and quality of such reports.
- iv) The Director of Local Fund Audit shall send the details on the existing internal control system in Local Fund Audit Department to the Principal Accountant General for advice on system improvements and the Principal Accountant General would make suggestions for improvement of the existing manuals, circulars and procedures followed by Local Fund Audit Department/ Deputy Block Development Officers.
- v) The Principal Accountant General would arrange training to the staff of Local Fund Audit Department/Deputy Block Development Officers for improving Audit standards and efficiency in the Audit of local bodies through Institute of Public Auditors of India (IPAI). The modalities of training will be worked out by the Principal Accountant General and informed to the Government.
- vi) Local Fund Audit Department shall send copies of Audit reports wherein serious irregularities have been noticed to the Principal Accountant General.

5. The Director of Local Fund Audit shall implement the orders in paragraph 4 above scrupulously and issue necessary instructions to the district officers under his control for strict adherence. The Rural Development/Municipal Administration and Water Supply Departments shall also instruct the Heads of the Departments concerned and the executive heads of local bodies for strict adherence of these orders.

(By order of the Governor)

**N.NARAYANAN**  
DEVELOPMENT COMMISSIONER AND  
SECRETARY TO GOVERNMENT



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