

OVERVIEW

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

I Accounts and finances of urban local bodies

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

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

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

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

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

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

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

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

(Paragraphs 1.1 to 1.12)

II Performance reviews in urban local bodies

1 Computerisation of functions in Chennai City Municipal Corporation

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

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

(Paragraphs 2.1.6 to 2.1.11)

2 Functioning of health care system in urban local bodies

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

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

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

(Paragraphs 2.2.7 to 2.2.10)

3 Financial management in municipalities

A review on financial management in municipalities revealed the following:

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

(Paragraphs 2.3.6 to 2.3.8)

III Audit of transactions in urban local bodies

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

(Paragraph 3.1.1)

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

(Paragraph 3.1.2)

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

(Paragraph 3.1.3)

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

(Paragraph 3.1.4)

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

(Paragraph 3.1.5)

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

(Paragraph 3.2.1)

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

(Paragraph 3.2.2)

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

(Paragraph 3.3.1)

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

(Paragraph 3.3.2)

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

(Paragraph 3.3.3)

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

(Paragraph 3.3.4)

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

(Paragraph 3.4.1)

IV Accounts and finances of panchayat raj institutions

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

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

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

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

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

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

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

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

(Paragraphs 4.1 to 4.9)

V Performance reviews in panchayat raj institutions

1 Distribution and utilisation of local bodies incentive

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

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

(Paragraph 5.1.5)

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

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

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

(Paragraph 5.2.5)

3 Utilisation of local body grants in 24 panchayat unions

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

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

(Paragraph 5.3.6)

VI Audit of transactions in panchayat raj institutions

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

(Paragraph 6.1.1)

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

(Paragraph 6.1.2)

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

(Paragraph 6.2.1)

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

(Paragraph 6.2.2)