

20. ACCOUNTS AND AUDIT

20.9 Decisions taken by the Government on the recommendations of second SFC relating to Accountability and Audit

Finance (FC.IV) Department

G.O. (Ms) No. 371

Dated : 11.11.2002.

Read :

1. GO.Ms. No. 308/P&AR Department, Dated : 22.12.1997.
2. GO.Ms. No. 184/MA&WS (MA1) Department, Dated : 14.9.98.
3. GO.Ms. No. 518/Finance (Resources) Department, Dated : 1.12.1999..
4. GO.Ms. No. 103/Finance (Resources) Department, Dated : 3.3.2000.
5. GO.Ms. No. 87/MA&WS Department, Dated : 5.3.2002.
6. GO.Ms. No. 93/MA&WS Department, Dated : 10.7.2002.

ORDER

As per the provisions laid down in 73rd and 74th Constitutional amendments, the Second State Finance Commission was constituted in the GO third read above, to review the financial position of rural and urban local bodies in Tamil Nadu and to make its recommendations. In the GO, fourth read above, the Terms of Reference to the Commission were issued in which the Commission was requested to make its report available by 31.10.2001. The Commission submitted its report to Her Excellency the Governor on 21.5.2001.

2) The recommendations of the Second State Finance Commission were examined and the decisions taken by the Government on major recommendations were announced in the Budget speech for 2002-03. The Explanatory Memorandum on the action taken on the recommendations of Second State Finance Commission was placed along with the report of Second State Finance Commission on the Table of the House on 8.5.2002.

3) The recommendations of the Second State Finance Commission in Chapter VIII – Accountability and Audit of its report are examined by the Government carefully and the following orders are issued.

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|---|---|
| 1 | 3.6 (a) | Director of Local Fund Audit Shall be the Statutory Auditor for Municipal Corporations, Municipalities, Town Panchayats, District Panchayats and Panchayat Unions. | <p>Accepted by the Government.</p> <p>The enactments of Kerala and Andhra Pradesh shall be examined by Finance Department and then a decision taken on conferring statutory status to Director of Local Fund Audit. Till then, the existing system shall continue and Director of Local Fund Audit shall be the Auditor of all local bodies except Village Panchayats.</p> |
| | 5 | The Acts enacted by the Governments of Kerala and Andhra Pradesh conferring statutory status to their Director of Local Fund Audit may be studied and similar enactment made in Tamil Nadu to improve the expertise of Auditors Qualitatively | |
| 2 | 3.6 (b) | The Village Panchayats' Audit shall continue to be done by Deputy Block Development Officers as at present. However, the Commission recommends test Audit by Director of Local Fund Audit as tabulated in Annexure -VIII - 1 for the report. | <p>Accepted by the Government.</p> <p>The Village Panchayats' Audit shall continue to be done by Deputy Block Development Officers, as at present. The test Audit of Village Panchayats by Director of Local Fund Audit shall be at 22% (Twenty Two) of Village Panchayats for all accounts every year including 2% (Two) of Village Panchayats base on receipts value of works and on specific complaints forwarded by Director of Rural Development.</p> |
| 3 | 3.7 (a) | The Commission recommends that the accrual accounting system may be progressively extended to all Town Panchayats and Panchayat unions from 2003-2004 after due and extensive training to the staff. | <p>Accepted by the Government.</p> <p>In the GO fifth read above, accrual accounting system has already been introduced in Town Panchayats from the year 2002-2003 under TNUDP assistance. The Government direct that the accrual accounting system shall be introduced in Panchayat Unions with effect from 2003-2004. Rural Development Department in consultation with Director of Rural Development will examine other issues such as providing accounting manual, imparting training to the</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|--|--|
| 4 | 3.7 (b) | Wherever Section 14 of the Comptroller and Auditor General Act 1971 permits scheme Audit exceeding the financial limits, it can continue. Government may take up with Comptroller and Auditor General and Union Finance Ministry for raising the financial limits as it was fixed about two decades ago. | <p>staff, prescribing forms etc. and issue further orders so as to Implement the system in Panchayat Unions from 1.4.2003</p> <p>Accepted by the Government. Comptroller and Auditor General and Government of India have been addressed to review and enhance the financial limit under Section 14(1) and Section 14(2). of Comptroller and Auditor General's Act from Rs.25 Lakhs to Rs.1 Crore and from Rs.1 Crore to Rs.5 Crores respectively in view of the substantial improvement in the grants received from the Central/State Governments and increase in the value of grants received by the local bodies.</p> |
| 5 | 3.9 | High Power Committees at the district level for Urban Local Bodies may be formed to clear accumulated Audit objections. | <p>Accepted by the Government. i) In the G.O. sixth read above, orders were issued constituting High Level Committees for Municipalities at District and State levels for clearing the accumulated Audit objections. ii) Similarly High Power Committees at the district level for Town Panchayats will be constituted by Municipal Administration and Water Supply Department with the following composition: Collector of the District- Chairman Assistant Director of Town Panchayats- Member Secretary Assistant Director of Local Fund Audit - Member Assistant Executive Engineer of the zone - Member</p> <p>State Level Committee for Town Panchayats will also be constituted by Municipal Administration and Water Supply Department as in the case of Municipalities with the following composition.</p> <p>Director of Town Panchayat-Chairman Director of Local Fund Audit-Deputy Chairman</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|-----------|--|---|
| 6 | 4.1 & 4.2 | <p>The commission recommends implementation of management Audit so as to instill a sense of responsibility among the executing agencies.</p> | <p>Finance Officer in the - Member and office of the Director Convener of Town Panchayats Executive Engineer - Member in the Office of the Director of Town Panchayats</p> <p>Accounts Officer (Audit) - Member in the office of the Director of Town Panchayats</p> <p>Other modalities and guidelines for the Committees will also be framed by Municipal Administration and Water Supply Department as in the case of Municipalities.</p> <p>iii) In the GO second read above, similar Committee for Chennai Corporation had been constituted. The said Committee has not been meeting effectively. Municipal Administration and Water Supply Department will issue suitable directions to revive the said Committee in Chennai Corporation and to ensure that the committee discharges its responsibilities effectively. High Power committee similar to that in Chennai corporation will also be formed for each one of other Corporations by Municipal Administration and Water Supply Department.</p> <p>The Management Audit is an Audit in which all the works taken up in different schemes will be subjected to scrutiny at random. A management Audit team for local bodies at the Head of the Department level shall be constituted with a composition of an Additional Director in the concerned Directorate and an officer from the State Planning Commission. Schemes costing more than Rs.2 lakhs which are taken up from own funds of local</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|---|---|
| 7 | 6.6 | State Finance Commission recommends for the preparation of schematic budget for a period of two years to start with | <p>bodies and all schemes without any monetary limit taken up from the specific grants received from the Government shall be subjected to scrutiny by the management Audit team. The various other aspects to be covered by the management Audit team are listed in the Annexure. The report of this team shall be placed before the concerned Secretaries to Government, for review.</p> <p>Rural Development / Municipal Administration and Water Supply Departments will issue orders constituting the management Audit team as mentioned above along with other modalities to be followed by the team.</p> <p>Accepted by the Government.</p> <p>The local bodies shall prepare and present budget giving details of revenue and expenditure not only for the relevant financial year but also for the second year. This will improve revenue and expenditure planning process and make public participation and debate meaningful. A regular planning at the field level for both maintenance and improvement of existing assets and creation of new assets should be ensured. Adhocism at the field level should be avoided and the allocations both in terms of finance and physical targets should be identified in the following manner;</p> <p>1) The receipts have to be estimated based on the current and arrear demand of taxes and other non-tax items as well as the level of assigned revenue realized in the past.</p> <p>II) In respect of incentives like house tax matching grant, it can be estimated with reference to the anticipated collection of tax and the rate of incentive proposed by the government based on the performance of collection.</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|--|---|
| | | | <p>iii) In respect of Local Cess and Local Cess Surcharge, the land revenue demand should be ascertained for the block by the Block Development Officers and the estimates prepared.</p> <p>iv) While arriving at the expenditure budget, if certain schemes require funds in the ensuing financial year, such a schematic requirement can be easily incorporated in the budget of the relevant financial year and, the succeeding financial year. At any point of time, the local bodies will have not only the details of revenue and expenditure projected for the current year but also for the next year to ensure proper focus on the physical targets and requirement of funds.</p> <p>Rural Development / Municipal Administration and Water Supply Departments will issue necessary instructions in this regard to the local bodies concerned.</p> |
| 8 | 6.9 | Except Village Panchayats, others can take advantage of internet and host website in the Net giving salient features of their area including budget. | <p>Accepted by the Government. The network to be created by local bodies utilizing the Eleventh Finance Commission grants for database shall be utilized for the purpose of disseminating information about the activities of the local bodies including the budget for the current year.</p> |
| 9 | 6.9 | Data like works chosen budget etc of Village Panchayats can be made available through information kiosk at Panchayat Union | <p>Accepted by the Government. Village Panchayats shall provide information such as works chosen, budget etc. to the respective Panchayat Union. The concerned Panchayat Union shall feed such information in one of the computer terminals and this terminal can also serve as an information kiosk for accessing data given by Village Panchayats and to offer the same to the public on demand.</p> |
| 10 | 8.1 | For each Panchayat Union, a qualified para-accounting | <p>Accepted by the Government. Para-accounting professionals shall</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|--|--|
| | | <p>professional from the panel approved and be appointed by Director of Rural maintained by</p> <p>Director of Local fund Audit can be appointed on a pooled basis by the District Collector for maintaining the accounts of Village Panchayats.</p> | <p>Development on competitive terms at Panchayat Union level to compile monthly computerized accounts of all Village Panchayats under each Panchayat Union. The Primary data shall be compiled in the format prescribed by Comptroller and Auditor General by the part-time Panchayat Assistants who are already in place and given to the concerned Panchayat Union for compilation by the Para - accounting professional at the Panchayat Union level. For flexibility needed in other issues such as fixing the qualification and experience of the Para accounting professionals and allowing the Director of Rural Development to supervise the quality of work of those professionals Government of India has been addressed.</p> <p>Rural Development Department will issue further orders on the engaging of Para-accounting professionals utilizing the Eleventh Finance Commission funds intended for the maintenance of accounts in Village Panchayats, as explained above.</p> |
| 11 | 8.1 | <p>While computerizing the accounts of the Village Panchayats, the present registers maintained may be reviewed and reduced to the extent possible</p> | <p>Accepted by the Government.</p> <p>Rural Development Department will issue suitable instructions to local bodies through Director of Rural Development.</p> |
| 12 | 8.2 | <p>The Second State Finance Commission recommends that the amount earmarked by the Eleventh Finance Commission for data base may be set apart for Town Panchayat for computerizing these accounts.</p> | <p>Accepted by the Government.</p> <p>The amount set apart from Eleventh Finance Commission grants for each year towards the creation of database in Town Panchayats shall be released as and when the final approved accounts format is received from Comptroller and Auditor General. Meanwhile, the Government direct that Director of Town Panchayats may send proposals for partial release of funds intended for database towards computerization in Town Panchayats, wherever needed.</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|---|---|
| 13 | 8.3 | <p>The amount sanctioned by Eleventh Finance Commission for database for Panchayat Raj Institutions may be earmarked for the balance 244 Panchayat Unions since this work has been completed in 78 Panchayat Unions already and this will be completed in 63 other Panchayat Unions in 2002</p> | <p>Accepted by the Government. The Government direct that the entire amount intended for the creation of database in Panchayat Unions for each year from out of Eleventh Finance Commission grants shall be released to all 244 Panchayat Unions in which computerization is yet to be taken, for the purpose of computerization and for purchasing the accessories etc., after getting the approved accounts format from Comptroller and Auditor General. The Panchayat Unions (78 Nos. - as reported by the Commission) in which computerization has been completed and the other Panchayat Union (63 Nos, - as reported by the Commission) in which the computerization has already been taken up will also require funds for updating the version of their computer software and for the purchase of the required accessories. Hence the Government direct that the Eleventh Finance Commission grants shall be released to these 141 Panchayat Unions also for the said purpose only after getting the approved accounts format from Comptroller and Auditor General. Rural Development Department is requested to send proposals for the partial release of funds towards the purchase of computers in needy Panchayat Unions from out of the Eleventh Finance Commission grants intended for the creation of database.</p> |
| 14 | 10.5 | <p>Computerized Information Kiosks may be opened in all the Corporations, Municipalities and Panchayat Unions in the first instance. once computerization is introduced in Town Panchayats, such kiosks can be opened there also.</p> | <p>Accepted by the Government. All the Corporations and Municipalities have already been computerized and Town Panchayats are now being computerized.</p> |

20. ACCOUNTS AND AUDIT

| Sl. No | Para No. | Gist of Recommendation | Order Issued |
|--------|----------|------------------------|--|
| | | | In the GO first read above, orders were issued to open Information-cum-Facilitation Counters in all Government Offices including Panchayat Unions, Municipalities and Corporations which are directly related to the public and accordingly the counters had already been opened in most of the local bodies. The Government direct that the executive heads of all Corporations, Municipalities, Town Panchayats and Panchayat Unions shall utilize one of the computer terminals in their offices for making the Information-cum-Facilitation Counter as computerized Information Kiosk and ensure that trained staff are put as in charge of this task. |

4) Orders in respect of other recommendations under Chapter VIII- 'Accountability and Audit' of the report of Second State Finance Commission will be issued by Finance / Rural Development / Municipal Administration and Water supply Departments separately.

5) Rural Development / Municipal Administration and Water Supply Departments are requested to issue further orders wherever necessary for the implementation of the recommendations of Second State Finance Commission and also necessary instructions to the local bodies through the Heads of the Departments concerned for strict adherence of the orders issued in para-3 above.

(By order of the Governor)

N.NARAYANAN
SECRETARY TO GOVERNMENT

ANNEXURE

(Refer : Para 4.1 / Chapter. VIII of the report of Second State Finance Commission)

Various aspects to be covered by management Audit team are as follows : -

- a. Whether the selection of work has been approved by the competent authority like Grama Saba or Local Body Council or any other agency approved for the purpose.
- b. Whether the choice of the work is actually to meet the felt and perceived needs of the local people or otherwise (ie) whether the choice is based on real priority; whether remunerative enterprise are taken up wherever possible.
- c. In site selection, people's concurrence / convenience / feasibility of the site has to be verified.
- d. Whether proper estimates have been prepared taking into account of the site condition, soil, area, availability of input materials required for creation of asset.
- e. Acceptance of the proposal with reference to the cost, accommodation, approach etc. by the user department.
- f. Whether proper administrative sanction and technical sanction have been accorded by the competent authority and before fixing the agency for execution.
- g. Whether fixing of agency, calling of Tenders/Quotation/Nomination etc. and acceptance of agreement etc. have been properly done.
- h. Whether proper work order indicating the executing agency, cost of the project, time schedule etc., has been issued.
- i. Whether simultaneous action has been initiated to provide arrangements like water supply, electrification, sanitary etc.
- j. Watching of progress (Physical and Financial) by way of pursuing of records at different stages of work, computerized monitoring of works at collectorates, and also sending work reports to the authorities concerned.
- k. Whether periodical inspection of work (say fortnightly or monthly) has been done by the local authorities like BDO/PO, DRDA/ Collector.
- l. On completion of the Project, whether proper intimation has been given to the user department to take over the building.
- m. Whether the user department has taken over the building in time for proper utilization.
- n. Whether the project has been made as an asset to the user department and necessary entries made in the concerned registers.
- o. Whether on completion, the asset has been put to use immediately and it is being utilized for the intended purpose.
- p. Whether the asset is being maintained properly for the purpose proposed at the initial stage or otherwise.
- q. Whether amount allotted for the work is sufficient or insufficient for whether any overestimation or underestimation has taken place.
- r. Whether measurement and check measurement has been taken by the authorities concerned and certified by the competent authority before effecting payment.
- s. Whether the amount allotted is properly accounted for in the books of accounts and payment is effected when it becomes due or paid in advance or in late and reported to concerned department.

20. ACCOUNTS AND AUDIT

- t. Whether orders of departmental materials such as cement, steel, bitmen, doors, windows, sanitary pan etc., were placed in time and orders placed with the approved companies of firms and supplies effected and the quality, quantity, rate and specification conform to the supply orders placed.
- u. Whether the people's participation or involvement was forthcoming as envisaged in the guidelines of the schemes by way of cash or kind or labour and whether dovetailing of funds and convergence of schemes have been attempted for optimum utilization.
- v. Whether the work chosen in terms of size or volume is in excess or insufficient as to satisfy the real need in its entirety.
- w. Is there any undue delay in preparation of estimate and according sanction?
- x. Is there any time lag between fixation of agency, actual commencement of work and completion of work.
- y. In the case of beneficiary oriented schemes, choice of beneficiaries, whether procedure adopted was transparent, whether most eligible beneficiaries are inadvertently denied assistance, whether ineligible persons are getting assistance etc., could be checked.
- z. As regards beneficiary oriented schemes, it would be ensured whether further. follow up action has been initiated to see whether the beneficiary assisted under IRDP has crossed the poverty line, whether the beneficiary trained under TRYSEM has got self-employment by availing loan from bank and whether marketing arrangements are available for the products manufactured by DWCRA women groups.