

CHAPTER 8.
CONTROL SYSTEM

i) Budget of Local Bodies:

4.8.01 The various Corporation Acts, the District Municipalities(Amendment) Act 1994 and the Tamil Nadu Panchayats Act 1994 contain provisions for the preparation, presentation and sanction of budgets by the respective local bodies. It is contemplated that the Local Bodies should prepare the Budget well before the commencement of the year and get the sanction by the respective councils with modifications if any suggested. It is also said that these budgets can be revised as and when necessary when it is anticipated that the actual expenditure will exceed the allotment. This leaves that the budget devoid of the sanctity which it is supposed to possess as an instrument of control. Budget actually is a mould and the expenditure should be designed to suit the mould. Changing the mould quite frequently might change the very design itself. Now that the local bodies have gained constitutional recognition, their funds should be operated as methodically as the consolidated fund of the State and budgetary control should also be similar.

4.8.02 The Commission therefore recommends that

the control mechanism with the aid of budget as a tool, should be tightened to the optimum level and for this purpose the local bodies should have the plans for the ensuing year prepared well in time by getting the details of schemes to be implemented (Central schemes, State schemes and local body works) in the next year well before the year commences. Not more than two revisions ie., Revised Estimate in August and Final Modified Appropriation in next January can

be done, so as to accommodate the deviations and take corrective action. The Government may prepare detailed guide lines in this regard and send them to the Local Bodies.

ii). Maintenance of Accounts:

A. Village Panchayats:

4.8.03 The Village Panchayat is the basic unit of the Panchayati Raj Administration. Its income as well as expenditure being not much, it maintains Cash Book, Minutes Book, Tax Demand/ Arrear Demand Registers, Register of Roads, Registers of Water Supply Sources, Street lights besides Measurement books for works. There has been no ministerial assistance hitherto except One part time Panchayat Assistant. It is felt that the number of registers in the Panchayats is adequate and it will be enough if the maintenance is gradually improved upon, in due course after strengthening the staff for ministerial work in the Panchayat.

B. Panchayat Unions:

4.8.04 The various items of revenues of the Panchayat Unions, are detailed below:

Own Tax:	Local Cess Surcharge
Non Tax Revenue:	Income from Shops, Markets, Fairs and Festivals, rent on Lands, Avenue Receipts, Fishery rentals, magisterial fines, Encroachment fees etc.,
Assigned Revenue:	Local cess, Entertainment tax, income from Minor Minerals (lease amount).
Statutory Grant:	Local Cess Surcharge Matching grant, Local Roads grant.
Non Statutory Grant:	Maternity grant, Dispensary grant, Maternity & Child Welfare grant etc.,
Development Grants:	Funds allotted under Jawahar Rozgar Yojana (JRY), Employment Assurance Scheme (EAS), M.P's Local area Development Scheme etc.,

4.8.05 The Panchayat Unions have opened deposit accounts with the nearest treasury for operating various funds in the Panchayat Union at the Panchayat Union Level: (Para 4.4.16)

4.8.06 In the year 1990 the Government of India issued instructions that the funds released from the centre should be deposited in the Nationalised Banks or Post Offices and not in the Treasury forming part of the Public Account [Local Fund Deposit Account]. These instructions have been carried out and the JRY funds allotted to the Panchayat Union are kept in Postal Savings Bank Account.

4.8.07 It is felt that the continuance of Education Fund serves no purpose at present since there is not much expenditure under education except for the payment of salaries to few Ayas and repair to school buildings. The Commission have expressed elsewhere its views against the retention of Ayahs under the Panchayat Union establishment. Even if Primary Education comes under the purview of the Panchayat Union, the teachers' salary is going to be met from

Government Head. Therefore only the repair expenditures to the school building will remain with the Panchayat Union. As this is a general work and repair to other buildings belonging to Panchayat Union will also be its responsibility, the Commission feels that the education account can be merged with the General Fund Account. This is not merely with a view to reduce the number of accounts but also to avoid the maintenance of separate sets of registers relating to this account, which will result in considerable reduction of work. There are more than 100 registers mentioned in the Manual of Instructions for the maintenance of accounts in the Panchayat Union. Since different sets of registers are to be maintained for different fund accounts, the number of registers will get multiplied.

4.8.08 The Commission recommends that

there is scope and need to reduce the scriptory work in the Panchayat Unions by cutting down the number of unnecessary registers and thereby improve efficiency in office work. It was informed that necessary proposal in this regard had already been sent after a detailed study to the Government from the Director of Rural Development, with the concurrence of the Director of Local Fund Accounts. The Commission urges the Government to consider the proposal favourably. Computerisation is also suggested at Panchayat Union Level in Chapter 10.

4.8.09 notwithstanding the suggestion to minimise the registers, the need for opening the following registers in the Panchayat Unions is stressed.

- a) A master Register for grants-in-aid received and expenditure incurred there from;
- b) Register of Endowment Properties detailing the nature of assets endowed, the object of expenditure met out of it.

In addition the following publications are also felt necessary.

- c) Hand Book of Instructions and Audit Points to be looked into before passing different kinds of bills.
- d) Job chart of Engineering Staff consequent on the devolution of additional powers and responsibilities to the Local Bodies.

C. District Panchayats:

4.8.10 Since the District Panchayats are yet to be shaped in the design contemplated in the Act, comments on maintenance of accounts of these bodies may be taken up later.

D. Town Panchayats:

4.8.11 The forms and registers maintained in the Town Panchayats are also too many and these need to be simplified. Now that the Town Panchayats have been included in the Urban Local Bodies, steps may be taken to re-organise the accounting system in tune with the Municipalities including simplification of registers and forms by the Director of Town Panchayats, Madras.

E. Municipalities, Municipal Corporations:

4.8.12 The Municipal Finance Enquiry Committee (1980) in its report had observed that the present Municipal Accounting system is very complicated involving a number of registers and forms resulting in long delays in the completion of accounts. They had therefore suggested

simplification of accounts and the use of single form of receipt book instead of different forms for different classes of revenue. This suggestion has become much more relevant due to the proposed introduction of computers.

4.8.13 The Commission recommends that

the forms and registers maintained in the Town Panchayats and Municipalities are too many and may be examined by the Director of Town Panchayats and Director of Municipal Administration respectively and steps may be taken for simplification in consultation with Director of LF Accounts expeditiously. In respect of Municipal Corporations, the Government in Municipal Administration and Water Supply Department may initiate steps and arrange for issue of orders.

(iii) Audit

4.8.14 As far as the Local Body institutions such as Municipal Corporations, Municipalities, Town panchayats and Panchayat Unions are concerned the Government have appointed the Director of Local Fund Accounts as the Auditor of accounts under the provisions of respective Corporations Acts, Section 122 of the District Municipalities (Amendment) Act of 1994 and Section 193 of the Tamil Nadu Panchayats Act 1994. This appointment has been made by the Government by virtue of the control exercised by the Government over these bodies and in the capacity of the Government as the grantor, since all these bodies are Grants-in-aid Institutions receiving substantial aids from the Government for various programmes. For Village Panchayats, the Extension Officer (Panchayats) is auditing the accounts except JVVT accounts which are being audited by the Director of Local Fund Account. Thus it is seen that dual audit system is prevailing at Village Panchayat Level.

4.8.15 The Comptroller and Auditor General of India (CAG) who is the Constitutional authority for the Audit and Accounts in the Government, conducts the audit of accounts of the State including the local bodies. The Legislature regards the audit of the CAG as the audit proper and the opinion expressed in his report is taken as the basis for the acceptance or otherwise by the Legislature of the expenditure incurred by any department. In the case of Local Bodies, however, the CAG takes up only a special test check of Grantees' account, when the grant exceeds a certain prescribed limit.

4.8.16 The Commission analysed the functions and responsibilities of the Director of Local Fund Accounts vis-a-vis his status in relation to the administrator of the fund. The revenues of the local bodies consists of Tax and non-tax items generated by these bodies and grants-in-aid received from the Central and State Governments. As the Director of Local Fund Accounts (DLFA) is the nominee of the Government, his audit with regard to grants-in-aid amounts to an internal audit and it is followed by the audit by the Accountant General which is a statutory audit. The Accountant General, in his audit, scrutinises the expenditure out of the grants with reference to the conditions attached to the utilisation of grant, object specified for the grant and the time within which the grant should be expended.

4.8.17 With regard to the revenues generated by the Local Bodies, the DLFA who is the nominee of the State Government happens to be the sole auditor. Due to historical reasons, the audit of receipts has not been so pervasive as audit of expenditure. Now that the Local Bodies are becoming Self Governments, following the constitutional amendments, the Commission pondered over whether a mechanism to safeguard the interests of the tax payers through an audit, by a

statutory authority is necessary. The Commission during the District Sitzings, have called for the views of the participants who generally expressed that the existing Audit may continue.

4.8.18 The essence of propriety audit aims at utmost economy and prudence in the use of funds. With the changes in the nature and functions of the State and also of the Local Bodies (both Rural and Urban) the role of audit gets expanded from propriety audit to efficiency-cum-performance audit. With hundreds of crores of rupees being pumped into the Panchayat Unions for development activities, the nature of audit has to get widened further from propriety, to efficiency and performance audit. This audit has its origin in Canada and is the intention of Auditor General of that country.

4.8.19 Creation of a forum similar to the Public Accounts Committee (PAC) to scrutinise the appropriation of the accounts and the report of the auditor thereon, in order to ensure (a) that the money shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been charged (b) the expenditure conforms to the authority which grants it and (c) to examine the statement of accounts showing the Income and Expenditure of these bodies, was engaging the attention of the Commission. As regards the State Accounts, the report of the Comptroller and Auditor General is placed before the State legislature which in turn refers the report to the Public Accounts Committee consisting of select members of the Legislature belonging to various political parties. As regards the Local Bodies, the three tier system of Panchayat Raj introduced in respect of Rural Local Bodies has the District Panchayat as the apex body. Such a collective forum is not available in respect of Urban Local Bodies. The Commission is of the view that such audit reports in respect of District Panchayats, Panchayat Unions, Municipalities and Town Panchayats may be placed before a Special Committee at the District Level constituted for this purpose with elected members of the State Legislature and members of both houses of Parliament representing the District.

4.8.20 While this arrangement satisfies the requirements of all the district and the State, the position of Chennai which is a District and State Capital happens to be different. The entire city is covered by one Urban Local Body (i.e.) the Corporation of Chennai. Since the jurisdiction of the District of Chennai is co-terminous with the jurisdiction of Chennai Corporation, the question of any Rural Local Body existing within its limits does not arise. Therefore, a forum consisting of persons representing the tax payers has to be created. The Commission suggests that a forum consisting of the M.L.As of the Constituencies lying within Chennai City and the M.Ps representing the 3 Lok Sabha constituencies and the members of the Rajya Sabha residing in Chennai may be formed. With this arrangement, all the Districts in the State including Madras city will be covered by statutory forums to examine the report of the Statutory auditor.

4.8.21 The functions of this Chennai Audit Forum and the District units may be confined respectively to Municipal Corporations, Municipalities, Town Panchayats and the Panchayat Union Council. With regard to Village Panchayats, there is a need for Government to examine, in consultation with the Director of Rural Development, the avoidance of dual audit now in vogue.

4.8.22 The objections not cleared before the end of the succeeding year should be placed before the forums in the 2nd succeeding year. The Audit Officer himself can attend the meetings of the committee referred to above, in Chennai City and in other places he may attend the meetings according to his convenience and the nature of objections coming up before the committee. He

should nominate a permanent representative for each District to represent him in the meetings. The meeting should be organised once in 6 months with a view to settle all objections positively at the end of the second succeeding year. Every sitting should be held in such a way that all the Local Bodies situated in the District are covered.

4.8.23 The Commission examined the audit system in vogue, with particular reference to clearance of audit objections. A few audit reports were pursued in the local body institutions visited. It is seen that though the audit has been conducted to the minutest details in most cases, the cardinal principle to be followed in the presentation of report has not been followed. The report does not detail the actual loss but only the amount involved in the objection. For example when a work file is not produced, the entire expenditure is held as a loss. When an annuity is not paid due to paucity of funds, the arrears of annuity have been included in the loss statement. This procedure magnifies the loss and present an untrue and distorted picture of the financial administration. An irregularity without a loss and a loss without an irregularity cannot be held as an audit objection but can be only an audit observation. In many cases this has not been done and as a result the audit reports have become unwieldy and unrectifiable, thereby affecting the retirement benefits of the Executive Authorities of the Local Bodies.

4.8.24 The Commission also feels that the scrutiny of accounts, by the audit should undergo change in view of the fact that most of the construction work undertaken by the Local Bodies are community assets executed in most urgent situation and left to the care of General Public. The houses constructed under the Indira Awaas Yojana are donated to the beneficiaries and as such the type of records to be maintained in respect of these assets need not necessarily be on a par with the records relating to assets belonging to the Local Bodies which are expected to be maintained by the Local Bodies. This needs to be examined by the audit as well as the Highways & Rural Works Department.

4.8.25 The system of maintenance of records should change. The philosophy of "handling over of records" should give way to "taking over of records," i.e. not washing of one's hands but taking over responsibility. The record keeper and the managers should be made responsible to take over all the files and records related to audit within three months from the end of the financial year and report compliance. They should be made responsible squarely for the production of records to audit. This will put an end to the question of non production of records.

4.8.26 The Commission therefore recommends that

i) The Director of Local Fund Accounts is at the moment carrying out the audit of Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions. For J.V.V.T. implemented in Village Panchayats, the Director of Local Fund Accounts is carrying out the audit, and for other items at the Village Panchayat level, the audit is taken up by the Extension Officer (Panchayats). It was generally agreed that this dual audit at the Village Panchayat level could be avoided and Government could examine the possibility of having single audit system for the Village Panchayats.

ii) creation of forums similar to Public Accounts Committee in all the Districts including Chennai City, to discharge the functions which the PAC does in the case of State Accounts; this will monitor audit observations relating to Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions however maintaining status-quo regarding Village Panchayats;

iii) instituting a system of take over of records for audit must be started as against the present practice of handing over of records which has resulted in shifting the responsibility. Record Keeper and the Manager / Head Asst. of the Local Body shall be made responsible for upkeep and production of records to audit.