

## CHAPTER V

### PERFORMANCE REVIEWS (PANCHAYAT RAJ INSTITUTIONS)

This chapter presents one performance review dealing with (a) Implementation of National Rural Employment Guarantee Scheme and two mini reviews (b) Utilisation of General Fund by selected panchayat unions and (c) Assigned Revenues to Panchayat Raj Institutions.

### RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

#### 5.1 Implementation of National Rural Employment Guarantee Scheme

##### *Highlights*

*Government of Tamil Nadu launched the National Rural Employment Guarantee Scheme in February 2006 in six districts of the State, in accordance with the National Rural Employment Guarantee Act, 2005 enacted by Government of India. The main aim of the scheme is to provide 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. A review of the implementation of the scheme in the State revealed the following.*

➤ The envisaged five year perspective plan was not finalised even as of October 2007.

(Paragraph 5.1.7.1)

➤ Rules for implementing the Act in the State are yet to be framed and notified by the State Government.

(Paragraph 5.1.7.2)

➤ Scheme funds of Rs 100.46 crore remained unutilised as on 31 March 2007, with the District Programme Co-ordinators and the village panchayats as the expenditure under the scheme worked out only to 65 per cent of the funds available during 2005-07.

(Paragraph 5.1.8.2)

➤ Even as of March 2007, 50.41 per cent of the households were registered of which only 59.07 per cent demanded works and 59.05 per cent were provided with work in all the six scheme-districts in the State.

(Paragraph 5.1.9.1)

- **Of 6.83 lakh households provided with work during 2006-07, only 1,824 households (0.27 per cent) were provided with 100 days employment, reflecting the Government's inability to achieve the main objective of the scheme. The average number of mandays per household out of the remaining households provided with the work was only 26.56, much below the envisaged 100 days work.**

**(Paragraph 5.1.9.4(a))**

- **Unemployment allowance, which was to be given to those who could not be provided with work within 15 days of the date of receipt of application seeking employment, was not paid in any of the villages. In the absence of details regarding the date of application and other required data, audit could not ensure the correctness of non-payment of unemployment allowance.**

**(Paragraph 5.1.9.4(c))**

- **Despite delay in payment of wages, no compensation as required under the Act was paid for the delay.**

**(Paragraph 5.1.9.8)**

- **Wages paid in the sample districts were below the minimum wages prescribed under the scheme in certain villages due to poor outturn.**

**(Paragraph 5.1.9.9)**

- **Director of Rural Development and Panchayat Raj ordered provision of work in turn by rotation to the rural households, though not envisaged in the Act.**

**(Paragraph 5.1.9.10)**

### **5.1.1 Introduction**

Government of India (GOI) introduced (September 2005) the National Rural Employment Guarantee Act, 2005 (NREGA) to enhance the livelihood security of households in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. Government also ordered to close the centrally sponsored employment schemes *viz.*, Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Works Programme (NFFWP), which were then under implementation by 30 June 2006 and to transfer the unutilised funds under those schemes to the new scheme.

Government of Tamil Nadu (GTN), in accordance with the Act introduced the scheme in February 2006 in 6 districts *viz.*, Cuddalore, Dindigul, Nagapattinam, Sivagangai, Tiruvannamalai, and Villupuram. After the Act comes into force, all the rural households have the right to register themselves with the local Village Panchayats (VP) and seek employment under the Act.

Work was to be provided within 15 days of the date of demand, failing which the State Government was to pay unemployment allowance at stipulated rates.

Detailed operational guidelines were issued by the Ministry of Rural Development (MORD), GOI. Together with the provisions of the Act, the guidelines prescribe the types of works that can be covered under National Rural Employment Guarantee Scheme (NREGS), subject to additions by the States concerned; the minimum entitlements of labour; the roles and responsibilities of different functionaries right from the State Government to the District, Block and Village Panchayat level functionaries (both officials as well as elected representatives of Panchayat Raj Institutions); the detailed procedures for planning, financial management, registration and employment allotment, execution of works and payment of wages and unemployment allowances; the detailed records to be maintained at different levels; the mechanism for social audit as well as monitoring and evaluation of outcomes.

## **5.1.2 Objectives of the Programme**

### **5.1.2.1 Primary objectives**

The primary objectives of the programme are

- to provide legal guarantee for 100 days employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work, and
- to create durable assets for Gram Panchayats and village population.

### **5.1.2.2 Secondary objectives**

The secondary objectives of the programme are

- protecting environment,
- empowering rural women, and
- reducing rural-urban migration and fostering social equity.

## **5.1.3 Organisational Structure**

At the national level, the MORD was the nodal Ministry for implementation of NREGS. Along with the Central Employment Guarantee Council, MORD is responsible for ensuring timely and adequate resource support to the States for undertaking regular review, monitoring and evaluation of processes and outcomes. MORD was to establish a Management Information System to capture and track data on every critical aspect of implementation and assess the utilisation of resources through a set of performance indicators.

State Government designated (February 2006) the Director of Rural Development and Panchayat Raj (DRDPR) as State Programme Coordinator to coordinate the implementation of the scheme. The DRDPR is assisted by the Additional Director of Rural Development as Joint State Programme Coordinator. District Collectors were designated as District Programme

Coordinators (DPC) who were to be assisted by Project Officer, DRDA as Joint District Programme Coordinator (JDPC) and Block Development Officers as Block Programme Officers (BPOs). The scheme was to be implemented at panchayat level by the President of the village panchayat as implementing authority. To advise the State Government on implementation of the scheme and for evaluation and monitoring, the State Government constituted the State Employment Guarantee Council in September 2006. As required in the Central Act, the State Government also established the State Employment Guarantee Fund (March 2006) maintained by the DRDPR in a Savings Bank account in State Bank of India (Treasury Branch). The State's share was released to the district authorities through this account.

#### **5.1.4 Audit objectives**

The main audit objectives were to see whether

- effective preparatory steps for planning had been undertaken and procedures for preparing perspective and annual plan at different levels for estimating the likely demand for work and preparing shelf of projects were adequate and effective,
- the funds released for NREGS were accounted for and utilised in compliance with the guidelines,
- there was an effective process for registration of households, allotment of job cards and allocation of employment in compliance with the guidelines,
- wages and unemployment allowance were paid in accordance with the Act and the guidelines and the intended objective of providing 100 days of annual employment at the specified wage rates was effectively achieved,
- there were adequate and effective mechanisms at different levels for monitoring and evaluation of NREGS outcomes, and
- there was an adequate and effective mechanism for social audit and grievance redressal.

#### **5.1.5 Audit criteria and methodology**

##### **5.1.5.1 Audit criteria**

The criteria adopted to arrive at the audit conclusions were

- NREG Act and notifications issued thereunder,
- NREGS Operational Guidelines (2006),
- Circulars and documents issued by the MORD from time to time and
- State Government orders and departmental instructions relating to NREGS issued from time to time.

### 5.1.5.2 *Audit methodology*

Audit gathered information/data from the records relating to the implementation of the scheme in the offices of the sample District Rural Development Agencies (DRDAs) and panchayat unions. The Audit objectives and Audit Criteria were discussed with the Secretary, Rural Development and Panchayat Raj Department (RD and PR) in the entry conference held on 11 June 2007. On conclusion of review, the audit findings were discussed with the Secretary, RD and PR Department in the exit conference held on 28 December 2007.

### 5.1.6 *Audit coverage*

Of the six districts implementing the scheme in Tamil Nadu, three districts, viz., Cuddalore, Tiruvannamalai and Villupuram were selected using simple random sampling without replacement (SRSWOR) method. Two rural blocks in each selected district<sup>1</sup> (using SRSWOR method) and four village panchayats in each selected block<sup>2</sup> (using probability proportionate to size (PPS) method) were selected for detailed study. The connected records relating to the implementation of the scheme for the period February 2006 to March 2007 were reviewed during May 2007 to July 2007 and in November 2007. Important points noticed are given in the succeeding paragraphs.

### 5.1.7 *Planning*

#### 5.1.7.1 *Delay in finalisation of Perspective Plan*

**Five year perspective plan is yet to be finalised.**

Planning is critical to the successful implementation of the NREG Scheme. A key indicator of success is the timely generation of employment while ensuring that the design and selection of works are such that good quality assets are created. The basic aim of the planning process is to ensure that the District Plan is prepared well in advance to offer productive employment on demand.

State Government, based on NREG Act, issued (February 2006) orders that a five year Perspective Plan (PP) for the district was to be prepared by the District Programme Co-ordinator (DPC) by mapping the existing infrastructure facilities and listing out the requirements of infrastructure in rural areas as against the labour demand. Scheme guidelines also envisage that

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<sup>1</sup> Cuddalore District : Melbuvanagiri and Panruti blocks.  
Tiruvannamalai District : Kilpennathur and Thandarampet blocks.  
Villupuram District : Tirukoilur and Vanur blocks.

<sup>2</sup> Melbuvanagiri block : Anaivari, Kathazhai, Manjakollai and Prasannaramapuram  
Panruti block : Keezhkangayamkuppam, Marungur, Nadukuppam and Veerasingam kuppam.  
Kilpennathur block : Kallayee, Kazhikulam, Rajanthangal and Rayampettai.  
Thandarampet block : Agarampallipet, Kolamanjanur, Radapuram and Veppur chekkadi.  
Thirukoilur block : Arumbakkam, Palangur, Nedumudayan and T. Keeranur.  
Vanur block : Aruvappakkam, Kilappakkam, Ranganathapuram and Vanur.

if similar Perspective Plan was already prepared for National Food for Works Programme (NFFWP), it could be revisited for NREGS.

Every year, the village panchayat shall convene a special Gram Sabha to estimate the demand of labour and to prepare an annual action plan and shelf of projects with the prioritised list of works. The Block Programme Officers will scrutinise the village development plans to assess the technical feasibilities and consolidate them with block plan and after approval by block panchayats, send to district panchayats for finalisation of block plans and then send to DPC. The size of the plan and priority of the work was to be decided annually keeping in view the demand for employment.

The DPC was to examine the plan proposal of all village panchayats along with the plans of blocks, district panchayats and line departments with reference to adequacy, likely demand of labour, financial commitment and technical feasibilities.

Preparation of the perspective plan for 2006-2011 for NREGS relating to the two sample districts (Cuddalore and Tiruvannamalai) was entrusted (January 2007) to the Centre for Management Development (CMD), Thiruvananthapuram which was entrusted with the preparation of PP for 2005-10 for the erstwhile scheme of NFFWP by GOI. As the PP prepared for NFFWP by the agency contained works with lot of material components, the agency was requested (January 2007) by the Project Officer, DRDA, Cuddalore to revise the plan to suit the needs of NREGS. The PP for NREGS is still under revision (October 2007) in respect of Cuddalore and Tiruvannamalai districts. In Villupuram district, the DPC decided to entrust the preparation of PP to an agency with more expertise by inviting bids. The agency is yet to be identified (November 2007).

In sample districts, works proposed and approved for 2006-07 by the Gram Sabhas were treated as annual plans and taken up for execution in the absence of finalisation of perspective plan. Thus the annual plan did not flow from the perspective plan as envisaged in the Act and guidelines. In the absence of preparation of perspective plan, audit could not ensure whether all the required works were executed through these annual plans. Besides, records relating to the detailed discussion of the proposed works in the Gram Sabha meetings were also not available with the department.

#### **5.1.7.2 Non-framing of Rules by State Government**

**Rules to implement the Act not framed by State Government.**

Section 32 of the Act requires the State Government to make rules to carry out the provisions of the Act. However, no such rules were framed by State Government so far (December 2007). Non-framing of rules by the State Government for safeguarding public interest as well as its own resulted in various matters of the scheme remaining unregulated *viz.* payment of unemployment allowance, appointment of State Council for monitoring, functioning of grievances redressal mechanism at all levels, manner of utilisation of funds and maintenance of accounts, arrangements required for proper execution of schemes etc. The Secretary to Government, Rural Development and Panchayat Raj Department in the exit conference held in December 2007 stated that the rules for operation of the Employment

Guarantee Fund would be prepared once the implementation of the scheme stabilises.

## 5.1.8 Funding pattern and financial management

### 5.1.8.1 Funding pattern

Under NREG Scheme, the Central Government was to bear (i) the entire cost of wages to unskilled manual workers, (ii) 75 per cent of the cost of material and wages to skilled and semi-skilled workers, (iii) administrative expenses (presently four per cent of the expenditure of the District on the scheme), and, (iv) administrative expenses of the Central Employment Guarantee Council. The State Government was to bear (i) 25 per cent of the cost of material and wages for skilled and semi-skilled workers, (ii) expenses on unemployment allowance, and, (iii) administrative expenses of the State Employment Guarantee Council.

### 5.1.8.2 Financial achievement and unutilised funds

GOI released the funds directly to the DPCs of the respective districts. GOI also directed (February 2006) that the funds released earlier under NFFWP and SGRY which remained unutilised as of 2 February 2006 would also become part of the NREG fund. This fund was to be utilised together with the funds released under NREGS. GOI extended the deadline (May 2006) for completion of SGRY and NFFWP works and transfer of balance funds of spill over works till 30 June 2006.

The State Government created (February 2006) a State Employment Guarantee Fund at State level for the purpose of implementation of the scheme as envisaged in the Act and released the State share to the DPCs of the respective districts through this Fund for meeting the expenditure on NREGS. The funds received from GOI, State Government and other receipts from the Central schemes transferred to NREGS and the expenditure thereon as reported in the monthly progress report by DRDPR forwarded to GOI in respect of the State during 2005-07 are given below.

### Position of funds received and utilised under NREG scheme during 2005-06 and 2006-07

#### (i) Macro level position in the State

Funds received and utilised during 2005-07 at macro and micro levels.	(Rupees in crore)	
	2005-06	2006-07
Opening balance	Nil	32.94
Funds released by GOI	51.81	184.92
Funds released by State Government	Nil	25.38
Miscellaneous and other receipts*	19.45	8.87
Total funds available	71.26	252.11
Expenditure (upto March)	38.32	151.65**
Closing balance (as on 31 March)	32.94	100.46

\* includes interest receipts and amounts transferred from the schemes SGRY and NFFWP

\*\* includes expenditure of Rs.6.22 crore on committed works under NFFWP

Scheme funds of Rs.100.46 crore remained unutilised as on 31 March 2007 with the District Programme Co-ordinators and the village panchayats as the expenditure under the scheme worked out only to 65 *per cent* of the funds available during 2005-07.

**(ii) Micro-level position in Sample Districts**

The funds received from GOI and State Government and other receipts including the amounts transferred from other schemes which were ordered to be closed by GOI and the expenditure incurred under the scheme as certified by the Chartered Accountants in the test checked districts during 2005-07 are given below:

**(Rupees in crore)**

	Cuddalore		Tiruvannamalai		Villupuram	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Opening balance	Nil	6.82	Nil	10.26	Nil	11.30
Funds received from GOI	0.25	36.10	7.94	42.71	17.25	35.06
Funds received from State Government	Nil	4.56	Nil	5.43	Nil	5.60
Miscellaneous and other receipts	7.10	0.65	2.69 <sup>A</sup>	0.73	6.30	0.42
Total funds available	7.35	48.13	10.63	59.13	23.55	52.38
Expenditure	0.53 (7)	38.53 <sup>#</sup> (80)	0.37 (3)	36.22 (61)	12.25 (52)	34.44 (66)
Closing balance as of 31 March	6.82	9.60	10.26	22.91	11.30	17.94

(Figures in brackets indicate the percentage of utilisation against available funds)

<sup>A</sup> Rs 2.69 crore shown under Miscellaneous and other receipts are yet to be reconciled for which required details were called for in March 2008.

<sup>#</sup> includes expenditure of Rs.6.22 crore on committed works under NFFWP.

**5.1.8.3 Trend of expenditure**

The expenditure under the scheme during 2006-07 for the State as a whole, worked out to 60 *per cent* of the amount available during 2006-07 and Rs 100.46 crore remained unutilised with the DPCs and Village Panchayats as on 31 March 2007 of which Rs 1.41 crore, Rs 6.01 crore and Rs 2.07 crore were available with the DPCs concerned and the remaining with the village panchayats. However, the expenditure incurred worked out to 80 *per cent*, 61 *per cent* and 66 *per cent* respectively in the sample districts Cuddalore, Tiruvannamalai and Villupuram districts during 2006-07. Funds of Rs 9.60 crore, Rs 22.91 crore and Rs 17.94 crore remained unutilised in Cuddalore, Tiruvannamalai and Villupuram districts respectively as of March 2007. State Government attributed the low expenditure to belated release of the second instalment of GOI assistance for 2006-07 in March 2007. However, delay in release of GOI share as well as State share to the implementing agencies by the State Government also resulted in non-availability of sufficient funds at the required time as discussed in paragraphs 5.1.8.4 and 5.1.8.5.



**5.1.8.4 Delayed release of GOI share**

**Delayed release of GOI share in one district.**

Though GOI released funds for 2005-06 and the first instalment of 2006-07 to the DPCs before April 2006, the first instalment of funds was released to the implementing agencies, viz., village panchayats only in August 2006 by the DPC in Tiruvannamalai district due to delay in administrative sanction of work. The second instalment of GOI share received by the State Government in February 2007 was released to the implementing agencies only in April 2007.

**5.1.8.5 Delay in release of State share**

**Delayed release of State share.**

According to the guidelines, the State Government was to release the State share within 15 days of receipt of the Central share. The State share corresponding to the GOI releases during 2005-06 and first instalment of 2006-07 was released after a delay of 2 to 8 months violating the above guidelines as shown below:

**(Rupees in crore)**

	Central share received		State share to be released (10 per cent)	State share released	
	Amount	Month		Amount	Month
2005-06	65.84 <sup>3</sup>	December 2005 to March 2006	7.31	1.00	March 2006
2006-07 (First instalment)	98.89	April 2006	10.99	17.30	September 2006

As a result of belated release of NREGS funds, funds from other schemes were diverted for implementing NREGS works due to non-availability of sufficient funds at the time of execution of works as detailed below:

**Transfer of funds from other schemes for implementing the scheme.**

During December 2006 to February 2007, Rs 5.50 crore were diverted from SGRY (Special component)<sup>4</sup> and Fishermen House Scheme<sup>5</sup> to implement NREGS in Cuddalore district as funds were received from GOI belatedly in March 2007. The funds were subsequently recouped to the respective scheme funds in March 2007.

In one of the sample blocks (Thirukoilur) in Villupuram district, Rs 10 lakh was diverted from Total Sanitation Campaign (January 2007) to implement NREGS. The funds were recouped subsequently (March 2007).

**5.1.8.6 Non transfer of funds from closed schemes**

Even after a lapse of one year of the extended date by GOI the non transfer of unutilised funds under SGRY and NFFWP (the schemes ordered to be closed by GOI on 30 June 2006 was noticed in two sample districts and four sample blocks of these two districts as indicated below:

<sup>3</sup> Includes Rs 14.02 crore being the last instalment of 2005-06 received in 2006-07.

<sup>4</sup> December 2006: Rs 50 lakh, January 2007: Rs two crore and February 2007: Rs two crore.

<sup>5</sup> December 2006: Rs one crore.

(Rupees in lakh)

District Office	Balance kept under SGRY as on		Balance kept under NFFWP as on	
	31.03.2007	30.09.2007	31.03.2007	30.09.2007
DRDA, Cuddalore	-	-	-	-
DRDA, Villupuram	-	-	8.24	8.38
Cuddalore				
(a) Panruti Block	3.68	3.68	2.78	2.78
(b) Melbuvanagiri Block	1.04	1.04	0.17	0.17
Villupuram				
(a) Tirukoilur Block	10.42	5.61	5.04	3.16
(b) Vanur Block	30.23	24.86	1.24	1.27

Apart from the above, Rs 2.19 lakh was kept under SGRY account in District Panchayat, Villupuram (September 2007).

#### 5.1.8.7 *Misappropriation of funds*

Audit tried to ascertain the instances of misappropriation in implementation of the scheme. In response to an audit query, the DRDA, Villupuram stated (January 2008) that out of Rs 27.42 lakh misappropriated by the Panchayat President/Panchayat Assistant, Rs 8.92 lakh was only recovered and the remaining amount of Rs 18.49 lakh was pending recovery in eight cases relating to as many village panchayats<sup>6</sup>. While a criminal case was filed in one case, complaints were given in other cases to file criminal case against the ex-Panchayat President/Panchayat Assistant.

While DRDA, Cuddalore stated that there was no case of misappropriation in Cuddalore district under NREG Scheme, the remaining sample district of Tiruvannamalai did not furnish a reply to Audit (December 2007).

### 5.1.9 **Registration and Employment**

#### 5.1.9.1 *Registration*

Based on the Act, the State Government issued (February 2006) orders communicating the procedure prescribed for implementation of the Act. All adult members of a family residing in a village can register with the Village Panchayat President/Block Development Officer for work. Every adult member of a registered household can apply for work in writing in a prescribed format to the President of Village Panchayat/Executive Officer of Special Village Panchayat/Block Programme Officer. During the initial stages the registration of households in the implementing districts was very low as compared to the total number of households. In order to ensure that the benefits of the scheme reach all the unemployed persons in all the villages, the DRDPR had directed (July 2006) the District Collectors to ascertain the total number of households in each village and to ensure that all the unemployed

<sup>6</sup> Ariyalur VP: Rs 0.21 lakh, Kallapuliur: Rs 2.08 lakh, Kallalipattu: Rs 1.68 lakh, Kappai: Rs 2.53 lakh, Karadichithur: Rs 2.97 lakh, Mathur: Rs 2.95 lakh, Sirunagalur: Rs 0.37 lakh, Thaiyur: Rs 5.70 lakh.

**Number of households registered at macro level and in sample districts as of March 2007.**

persons in each village register their names under the scheme. As a result of survey conducted and due to subsequent efforts, the registration improved thereafter and the position of registration in the State and in the sample districts as of March 2007 as per the progress report of NREG scheme for the end of March 2007 forwarded by DRDPR to GOI, is given below:

#### Position for the State as a whole

(in numbers)

Total number of households	Number of households			
	Registered (percentage to the households)	Registered and demanded employment (percentage to registered households)	Provided with work (percentage to registered households)	Percentage of household provided with work to demanded household
22,96,012	11,57,525 (50.41 per cent)	6,83,708 (59.07 per cent)	6,83,481 (59.05 per cent)	99.97 per cent

#### Sample Districts

Name of the District	Total number of households	Registered (Percentage to total households)	Registered and demanded work (Percentage to registered households)	Provided with works (percentage to registered households)	Percentage of household provided with work to demanded household
Tiruvannamalai	4,67,643	2,49,849 (53.43 per cent)	1,41,884 (56.79 per cent)	1,41,884 (57 per cent)	100 per cent
Cuddalore	4,11,833	2,24,000 (54.39 per cent)	1,40,263 (62.62 per cent)	1,40,263 (63 per cent)	100 per cent
Villupuram	5,42,183	2,90,611 (53.60 per cent)	2,18,873 (75.31 per cent)	2,18,646 (75 per cent)	99.90 per cent
<b>Total</b>	<b>14,21,659</b>	<b>7,64,460</b> (53.77 per cent)	<b>5,01,020</b> (65.54 per cent)	<b>5,00,793</b> (66 per cent)	99.95 per cent

Perusal of connected records revealed that the percentage of registered households to total households increased substantially from 25.68 in June 2006 to 50.41 in March 2007.

#### 5.1.9.2 Issue of Job Cards

**Date of application not filled in the registers.**

(a) As per NREGS operational guidelines, the village panchayat has to issue job cards to every registered household after verification within a fortnight of the date of application for registration. However, audit could not identify the delay in issue of job cards in sample districts as the date of application was not filled in the registers maintained in any of the sample village panchayats in the sample districts.

**Non-issue of job cards to 1,093 households registered in Cuddalore district.**

(b) In Cuddalore district, against 2,24,000 applications registered, job cards were issued only to 2,22,907 households as of March 2007 and 1,093 households were yet to be issued job cards. Government accepted the fact and stated that instructions were issued to the DPC, Cuddalore to issue job cards to all those who had registered.

**5.1.9.3 Provision of work to households demanded**

Details of registered households demanded and provided with work at macro level and in sample districts as of March 2007.

Government stated that despite the fact that more households were registered for wage employment, all of them had not demanded employment. Demand for employment was more only during the period, when there is no other source of employment under agricultural/construction sectors. The percentage of registered households demanded and provided with works in Villupuram district was good at 75 per cent, and in Cuddalore and Tiruvannamalai was slightly lesser at 63 and 57 respectively, as against 59 per cent at the State level.

In two sample blocks viz., Kilpennathur and Thandarampet of Tiruvannamalai district, against 11,326 and 27,712 BPL households registered under the scheme, only 3,866 (34 per cent) and 17,775 (64 per cent) households demanded work and were provided with jobs during 2006-07. The substantial shortfall of 66 and 36 per cent would indicate poor publicity and slackness in implementation of the scheme.

**5.1.9.4 Employment Generation**

Less than 0.3 per cent of the households were given 100 days employment in the State.

**5.1.9.4(a) Provision of employment for 100 mandays**

The NREG Act provides for guaranteed employment for 100 days to the registered households who demanded work. Out of 6,83,481 households who were provided with work during 2006-07 in the State, only 1,824 households (0.27 per cent) were provided with 100 days of employment as shown below:

	No. of households provided with work			No. of mandays			Mandays per households provided with less than 100 days work 7 = 6/3
	Total 1	for 100 days 2	for less than 100 days 3	Total 4	for households provided with 100 days work 5	for other households 6	
State	683481	1824(0.27)	681657(99.73)	18286500	182400	18104100	26.56

(Figures in brackets indicate the percentage to total households)

(Source: Progress report of DRDPR for the end of March 2007 forwarded to GOI for NREG Scheme)

Average number of mandays per household provided with less than 100 days work worked out to 26.56 during 2006-07.

Test check of the three sample districts revealed that the percentage of households provided with 100 days employment in Tiruvannamalai, Cuddalore and Villupuram districts were 0.11, 0.29 and 0.06 respectively, as given in **Appendix 5.1**.

The average number of mandays per household, who were provided with work for less than 100 days during 2006-07, worked out to only 26.56 in the State. The average mandays worked out to 31, 28 and 19 days in Tiruvannamalai, Cuddalore and Villupuram districts respectively. However the percentage of persons who actually demanded 100 days work but were not provided work to that extent could not be worked out by Audit due to non-production of applications. In cases where the applications were produced, they did not contain details of dates and periods for which work was demanded.

The Government attributed (December 2007) the poor performance to elections to PRIs besides stating that heavy monsoon rains affected the execution of works. The above coupled with the delayed finalisation of rural schedule of rates in August 2006 and commencement of scheme thereafter had contributed to the poor performance under the scheme during 2006-07.

**5.1.9.4(b) Factors leading to lesser employment generation**

(i) Only one work was executed at a given point of time in the village panchayats (VPs) in the sample districts (except in one sample village panchayats viz., Nedumudayan of Tirukoilur block in Villupuram district wherein two works were taken up simultaneously) despite having two to four works sanctioned for the year. This had restricted the employment availability and consequent provision of lesser number of mandays.

(ii) Despite two or three works sanctioned in each village panchayats in four sample village panchayats (Prasannaramapuram of Melbuvanagiri block and Radhapuram of Thandarampet block and Kazhikulam and Royampettai of Kilpennathur block), one or two works were taken up only in the last quarter of the year resulting in number of incomplete works as on March 2007, besides restricting the employment availability. A time schedule for completion of works is necessary as the adequacy of the phase of execution of works could not be monitored/measured in the absence of time-schedule.

(iii) Out of three works sanctioned each for the Palangur and Ranganathapuram village panchayats in Villupuram district, no work was taken up/executed during 2006-07 due to soil conditions and continuous rain. In T.Keeranur Village Panchayat, one unapproved work was taken up and executed in addition to two approved works (2006-07).

(iv) The scheme took off effectively only at the end of August 2006 due to delay in finalising the rural schedule of rates and the issue of Government's instructions on selection of work during 2006. The number of calendar days available and the number of days for which works were executed in three sample districts during 2006-07 are given below:

District	No. of Calendar days available	Period	No. of actual days of work (range)
1. Tiruvannamalai	212	September 2006 to March 2007	78 to 101 days
2. Cuddalore	274	July 2006 to March 2007	40 to 117 days
3. Villupuram	243	August 2006 to March 2007	Nil to 91 days

Apart from the delayed finalisation of rural schedule of rates in August 2006, local body elections and monsoon were attributed as main reasons for lesser availability of working days. Government in their reply (December 2007) stated that the vagaries of seasonal conditions and opportunity for alternative employment should also be taken into consideration while determining the maximum number of days for which NREGS works could be carried out in villages.

(v) Though the scheme provided that at least 50 *per cent* of works should be planned for execution by Village Panchayats and permitted the execution of works by other agencies like District Panchayats, Block Panchayats, connected line departments etc., all works were found to have been executed in the sample districts by Village Panchayats only. As only limited works out of sanctioned works were taken by these village panchayats, entrustment of works to other agencies would have increased the number of mandays of work and the employment opportunities as envisaged under the scheme.

**5.1.9.4(c) *Non-payment of unemployment allowance***

In cases where work could not be provided within 15 days of the date of receipt of application seeking employment or from the date on which the employment has been sought in the case of advance application, whichever is later, unemployment allowance was to be paid at one-fourth of the wage rate for the first 30 days during the financial year and not less than one-third of the rate for the remaining period of the financial year.

Scrutiny of connected records in the sample districts revealed that unemployment allowance was not paid in any of the villages. The State Government stated that such contingencies did not arise as all those who had demanded jobs were provided employment. The scheme guidelines stipulated that dated applications for work should be obtained from beneficiaries duly indicating the number of days for which job was required. However, application for work was not produced in some villages. In other villages where applications were produced, they were not dated and the dates and period for which work was sought for, were also not indicated.

Further, audit observed that even in Villupuram district wherein 227 registered households were not provided with work as per the details available no unemployment allowance was paid. The reasons for non-payment of unemployment allowance was not available on records (October 2007).

Similarly, though an employment register was to be maintained indicating the days for which job was demanded, the registers maintained in the villages did not contain these details. In such circumstances, Audit could not verify whether the unemployment allowance due in any case was denied. Government's claim that there was no reason for the payment of unemployment allowance too was not susceptible of verification in the absence of such crucial required data in the records maintained in the villages. Thus, any claim for unemployment allowance arising in future cannot be disputed legally.

Government stated (December 2007) that there was no complaint or claim for unemployment allowance from any of the beneficiaries of the sample villages so far and insisting on application for work would pave way for the involvement of middle men and touts as most of the wage seekers were illiterate. The reply of the Government was not tenable as in the absence of dated applications and other required particulars, Audit could not ensure whether employment was given to all those who had registered and demanded work within the specified time as required under the Act and whether the denial of unemployment allowance in the cases was justified. Further, the Government could have provided assistance to the applicants through

departmental staff to fill up all the required columns at the time of submission of application.

Though the scheme guidelines stipulate that the households which demand jobs were to be issued instructions to appear for work either by themselves or by deputing one of the members of the family, no such orders were found to have been issued before the commencement of any work. Government stated (December 2007) that the works which are approved by the Gram Sabha were taken up for execution under NREGS. Information as to the name of the work and the date on which the work is to commence with request to the members of households who have applied for employment to turn up at the work-site is displayed on the notice board of the Gram Panchayat and other conspicuous places of Gram Panchayats where people congregate. Thus wide publicity about the commencement of the work is being given by the Gram Panchayats.

The reply was not tenable as the Act specifically mentions that the liability of the State Government to pay unemployment allowance to a household shall cease as soon as the applicant is directed by the village panchayat or the programme officer to report for work and hence to have a legal back up, the issue of addressing the household to appear for the works is all the more essential.

#### 5.1.9.5 Works executed

GOI/State Government prioritised (February 2006) the works that could be taken up under the scheme. The Government also prescribed (June 2006) five kinds of works as priority works<sup>7</sup>. DRDPR instructed (August 2006) that no works involving material component viz. masonry work, metal roads or gravel collection be taken up and in case such works were needed, they could be taken up under General Fund, SFC grant or any other grant unconnected with NREGS.

#### 5.1.9.6 Position of works taken up during 2006-07

(i) During 2006-07, out of 6,719 works taken up, 2,213 works were completed as of March 2007, while the remaining 4,506 works were in progress. Details of works taken up are given below:

S.No.	Nature of work	Taken up	Completed	In progress
1	Water conservation & harvesting	1,296	605	691
2	Drought proofing	7	7	0
3	Minor irrigation	1,405	369	1,036
4	Renovation of water bodies	3,337	954	2,383
5	Land development for SC/ST beneficiaries	0	0	0
6	Flood control	41	7	34
7	Road connectivity	633	271	362
<b>Total</b>		<b>6,719</b>	<b>2,213</b>	<b>4,506</b>

(Source: Progress Report of DRDPR to GOI through State Government)

<sup>7</sup> (i) New pond, (ii) renovation of various water storing places like ponds, kuttais, kulams, ooranies, temple tanks etc., (iii) channel, (iv) irrigation tank, and (v) formation of new roads.

The above details reveal that

- Ninety *per cent* of the works related to water conservation and improvement to water bodies because of the prioritisation of works involving water conservation under NREGS.
- No work was taken up under provision of irrigation facilities to land owned by SC/ST beneficiaries or land reforms and land development, though contemplated in the Act because of their non-prioritisation. Government stated (December 2007) that it has been decided initially to take up water conservation works in panchayat lands and after exhausting the community based works, other works benefiting individuals would be taken up.

(ii) Measurement Books for the works executed under NREGS for 2006-07 which were to be maintained by the block officers were not produced in any of the sample village panchayats and completion reports (CRs) were also not recorded for the works completed so far in Kilpennathur and Thandarampet blocks in Tiruvannamalai district and Panruti and Melbuvanagiri blocks in Cuddalore district. In Villupuram district, though CRs were recorded in Tirukoilur and Vanur blocks, Measurement Books were not prepared.

(iii) Unique identity numbers, though envisaged in GOI guidelines, were not given to works taken up in Thiruvannamalai district to avoid duplication or over lapping of works taken up for implementation. The PO, DRDA, Tiruvannamalai stated (June 2007) that unique identity numbers were since given for all the works.

(iv) According to GTN's decision, works costing Rs 3 lakh and above and works not involving materials were only taken up.

(v) State Government ordered (November 2006) that desilting of ponds, rivers, tanks and canals etc. were treated as maintenance works and hence were prohibited under one of the schemes (MLACDS) implemented by Rural Development Department. However, mostly desilting works were taken up under NREGS during 2006-07 which were not followed up with embankment/revetment/lining of channels.

(vi) Under the category road connectivity, guidelines required provision of all-weather roads. This would require machinery for laying roads and materials like gravel/metal/bitumen. Since the State Government banned the incurring of expenditure under material component under NREGS, the roads formed under NREGS were only mud-cart roads and hence could not be construed as all-weather roads.

#### **5.1.9.7 Payment of Wages**

In accordance with the Act, every person engaged under the scheme was entitled to wages at the minimum wage rate of Rs 80 fixed for agricultural labourers under the Minimum Wages Act in the State. The Act envisaged that the schedule of rural rates of wages for unskilled labourers be so fixed that a



person working for seven hours would normally earn a wage equal to the minimum wage rate.

The minimum wage of Rs 80 per day revised by State Government in January 2006 applicable to agricultural labour engaged in implementation of SGRY, special component of SGRY, NFFWP was also adopted for NREGS works. Since the unskilled unemployed rural workers could not earn the minimum wages of Rs 80 per day stipulated in the NREG Act even after working for seven hours per day as the average daily earning based on PWD schedule of rates were reported as between Rs 40 and Rs 50, Government introduced the rural schedule of rates in July 2006. Under this the rates adopted for execution of earth work was enhanced to enable NREGS workers to earn minimum wage.

#### **5.1.9.8 Non-payment of minimum wages**

**Payment made was less than minimum wages due to poor outturn.**

Schedule I of the Act clearly stipulates that under no circumstances shall the labourers be paid less than the minimum wages and the schedule of rates of wages for unskilled labourers shall be so fixed that a person working for seven hours would normally earn a wage equal to the wage rate. Despite the relaxation of the PWD outturn, test-check revealed that the minimum wages could not be earned by the workers due to poor outturn in 14 out of 24 village panchayats in Cuddalore, Villupuram and Tiruvannamalai districts and the wages earned ranged only between Rs 56 to Rs 80. No complaints/observations regarding fixation of outturn and lesser payment of minimum wages were on record.

#### **5.1.9.9 Non-payment of compensation for the delay**

**No compensation was paid for the delay in payment of wages, though the delay amounted to as much as 112 days in sample villages.**

The workers were entitled to wages on a weekly basis and in any case within a fortnight of the date on which work was done. In the event of any delay in wage payment, workers were entitled to a compensation as per provisions of Payment of Wages Act, 1936 and the compensation so paid was to be borne by the State Government.

Though the Act provides for payment of wages within 15 days of the date of work, delay in payment beyond 15 days was noticed ranging from 1 to 112 days in 66 instances in 17 sample village panchayats in three sample districts. However no compensation, as prescribed in the Act, was made for the delayed payment, though Schedule II of the Act stipulated that the labourers shall be entitled to receive the payment of compensation in such cases as per the provisions of the Payment of Wages Act, 1936. Government stated (December 2007) that specific instances of delay pointed out by the inspecting officers were looked into and payment of wages was now monitored on a weekly basis and a specific day is marked to make weekly payment in each of the districts.

#### **5.1.9.10 Provision of employment in turn**

**Employment provided in turn in violation of the Act.**

Test check revealed that in four villages each of two blocks – (Thandarampet and Kilpennathur) of Tiruvannamalai District; (Panruti and Melbuvanagiri) of

Cuddalore District and (Tirukoilur and Vanur) of Villupuram district, the persons who demanded jobs were provided employment in turn as detailed in **Appendix 5.2**.

In the Social Audit conducted by the members of the Central Employment Guarantee Council at Villupuram district, it was pointed out that only one household member was allowed to work at any given point of time in violation of the Act, and employment was rotated between different wards in successive weeks.

In reply the Government stated (December 2007) that because of the pressure from community, the Village President decided to adopt this method for ensuring equity among households/habitations in the village, which had several habitations. Government further stated that opening up of worksite in each habitation was not administratively feasible and wage opportunities are generally limited to 100 days per household in a year and a top down approach instead of community participation of decision making to correct them can lead to complaints of undue interferences and may not be sustainable. Despite the fact that NREG Act envisaged that the employment to be given to the labourers for the dates demanded by them, the employment was given to them only “in turn”, which led to denial of employment on the dates demanded by the people.

### 5.1.10 Maintenance of Registers

In accordance with the guidelines issued by GOI for NREGS, the following registers are to be maintained at Village Panchayat and Block level.

Sl. No.	Registers to be maintained at Village Panchayat level	Registers to be maintained at Block level
1.	Application Registration Register	----
2.	Job Card Register	Job Card Register
3.	Employment Register	Employment Register
4.	Asset Register	Asset Register
5.	Muster Roll Receipt Register	Muster Roll Issue Register
6.	Complaint Register	Complaint Register

Test check of records at panchayat and block levels revealed the following :

**Deficiencies in the maintenance of registers.**

(i) As against two registers to be maintained in village panchayats for registration of application and for job card, only one combined register was maintained. Though DRDPR specifically instructed (August 2006) that a separate register should be maintained in the village panchayat with household-wise number of days of employment given and wages paid to the registered card holders, the column for date of application for registration and date of issue of job cards prescribed in the guidelines was not indicated in many of the sample villages in Cuddalore, Villupuram and Tiruvannamalai districts.

(ii) In the employment register maintained in the sample villages, the date of application for work was not filled in several cases. The column for recording the period for which employment sought was also not provided.

(iii) No complaint register was maintained in the sample villages though the department officers reported that all the grievances were settled immediately. Government stated (December 2007) that instructions have been issued to maintain a complaint register in each panchayat and in future the maintenance of the register would be ensured.

(iv) At block level, excepting the muster roll issue register and complaints register, none of the other three prescribed registers *viz.* Job card Register, Employment Register and Asset Register were maintained.

Government stated (December 2007) that they had prescribed (August 2007) 13 registers to be maintained at the three-tier level and action would be taken to ensure that the date of application for registration and the period for which employment sought are recorded.

### 5.1.11 Administrative and technical support

#### 5.1.11.1 Non-provision of projected man power

**Projected man power not provided by State Government.**

As per the guidelines, the State Government has to ensure all administrative, financial and technical support to the District Programme Coordinator, Programme Officers and Panchayat Raj Institutions (PRIs) and all other agencies involved in the implementation of the Scheme. The NREG Act also prescribed the appointment of a full time Programme Officer for the Scheme in each block with necessary support staff for facilitating the implementation of the Scheme at block level. In pursuance of this objective, the GOI suggested (January 2006) a model proposal for an administrative setup with the undertaking to meet the expenses upto 2 *per cent* (subsequently increased to 4 *per cent* in March 2007). The State Government has not created the posts mentioned in the administrative set up as suggested by GOI.

S.No	GOI suggestion	Post approved by GTN
1.	Project Officer in each Block at Rs 20,000 per month	The Block Development Officer of each Block was entrusted with the Scheme in addition to regular functions. No full time officer was appointed.
2.	Accounts Assistant for each Block at Rs 8,000 per month	Not created
3.	Administrative Assistant for each Village Panchayat at Rs 2,000 per month	Not created

Instead, GTN ordered (October 2007) the creation of additional posts for NREGS at district and block level as detailed below:

District Level	Block Level	
1. One Superintendent (BDO rank) (Rs 17,016/- pm)	1. Dy. BDO (Rs 15,258/- pm)	In addition, 136 technical assistant posts were also created so as to reduce the number of village panchayats to be covered from 10 to 8.
2. One Assistant (Rs 12,383/- pm)	2. One Assistant (Rs 12,383/- pm)	
3. One Computer Assistant (Rs 4000/- pm)		

However, the post of 'Employment Guarantee Assistant' exclusively for NREGS as envisaged in GOI guidelines was not created in village panchayats though huge organisation burden/task lies with the village panchayats.

#### **5.1.11.2 Non-identification of resource institutions**

**Resource institutions not identified and accredited Engineers not created.**

To address the key concern of ensuring quality in all aspects of the implementation of the Scheme, GOI suggested the identification of technical resource institutions at district level to assist in the identification of effective labour intensive technologies for water conservation, harvesting, drought proofing, flood control, all-weather connectivity etc., preparation of standard model estimates for work, to train district technical staff, technical staff of PRIs, Secretaries of panchayats, members of PRIs and members of vigilance and monitoring committees with a view to carry out estimation, quality control and quality monitoring and to conduct quick appraisal studies to assess the quality of work and provide technical inputs to the implementing agencies for improving the quality. Though Government stated (December 2007) that identifying accredited resource engineers did not seem to be essential, the guidelines on NREGS provided for engaging a panel of accredited engineers at district and block levels for the purpose of assisting with the estimation and measurement of works.

Due to non identification of any resource institution and the creation of panel of accredited engineers by Government, the responsibility of ensuring quality, preparation of model estimates, training and measurement of works executed continued to be done by the departmental engineers at block level, who had already been entrusted with enough works under NREGS. Incidentally audit found that no check-measurement was done by the departmental engineers in NREGS works executed during 2005-06. No Measurement Books for 2006-07 were produced to Audit.

#### **5.1.12 Monitoring**

The Gram Sabha was to monitor all the works at the village level as well as the registration, issue of job cards, provision of employment to each person and timely payment of wages. The Intermediate Panchayat and the Programme Officer were to monitor the registration of households, employment provided to each applicant, unemployment allowances paid, social audits, flow of funds, timely and correct payment of wages and progress and quality of works. The Programme Officer was also responsible for sending all reports and returns to DPC, who in turn was to send reports to State Government and GOI. The District Panchayat and the District Programme Coordinator were to monitor all aspects of implementation including registration, employment, unemployment allowances, social audits, flow of funds, progress and quality of works, qualitative aspects of implementation and correct payment of wages and timely payment of unemployment allowances. The State Government was to monitor the performance of districts on the quality and pace of implementation as laid down in the National Monitoring System. A State Employment Guarantee Council was constituted (September 2006) for the

purpose of monitoring and reviewing the implementation of the scheme at State level.

**Deficiencies in monitoring.**

Test check of records revealed the following:

- Though the State Employment Guarantee Council was constituted, no periodicity of meeting was fixed and the Council met only once during 2006-07.
- Weekly reports prescribed for monitoring were not generated from village panchayat level, but compiled at block level. As a result no records are available for verifying the authenticity of these data.
- Though link officers/officers were nominated for inspection of village panchayats/works at the block level the observations/findings made during inspections and action taken on the findings were not on record.
- Online monitoring and information system is yet to be developed at State/district levels though envisaged.

### **5.1.13 Social Audit**

An innovative feature of the NREG Act is that it gives a central role to “Social Audit” as a means of continuous public vigilance and verification of various stages<sup>8</sup> of implementation with the basic objective of ensuring public accountability in the implementation of projects, laws and policies.

**Conducting of Social Audit in Villupuram district and its findings.**

The Gram Sabha was to monitor the execution of work and conduct regular Social Audit of all the projects taken up under the Scheme. Test check of records of the sample village panchayats revealed that though Social Audit was conducted in the villages, no serious complaints/ objections were reported to have been received in the Gram Sabha meetings as seen from the records. An external Social Audit was conducted by the members of the Central Employment Guarantee Council during July/August 2007 in Villupuram district. A perusal of social audit findings in Villupuram district confirmed some of the audit observations mentioned in this report which are listed below:

- widespread flaws in record keeping viz., measurement books etc.,
- work application process is not in place,
- shortage of staff of all kinds, and
- low work productivity.

Further action in this regard is yet to be taken (October 2007).

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<sup>8</sup> Registration of families, distribution of job cards, receipt of work applications, preparation of shelf of projects and selection of sites, development and approval of technical estimates and assurance of work order, allotment of work to individuals, implementation and supervision of works, payment of unemployment allowance, payment of wages, evaluation of work and mandatory social audit in the Gram Sabha.

Reports of external social audit conducted in three panchayats of Melbuvanagiri block of Cuddalore District by the students of Pondicherry and Annamalai Universities are yet to be received (October 2007).

#### **5.1.14 Convergence**

Guidelines issued by GOI envisages that social sector programmes like literacy and health missions should be converged with NREGS to extend the benefits of these programmes to NREGS workers/beneficiaries and NREGS worksite shall be nodal points for linkage of welfare activities such as creation of Self Help Groups (SHGs) and provision of insurance. However, such convergence with other schemes was not noticed in three sample districts.

#### **5.1.15 Conclusion**

The scheme provided generation of employment through participative planning duly involving the PRIs and the village population through Gram Sabhas in order to identify the works to be taken up for generation of employment and creation of utility durable assets. It was seen in the test checked districts that PRIs were not involved in preparation of perspective plans thereby defeating the objective of the scheme. Moreover, the preparation of perspective plans was entrusted to outside agencies which further diluted the spirit of decentralised planning. While there were delays in release of Central and State share by the State Government, the expenditure under the scheme worked out only to 65 *per cent* of the funds available during 2005-07. Non-framing of rules for implementing NREGA denied the beneficiaries a legal back up for safeguarding their interests *viz.*, payment of unemployment allowance, proper monitoring, maintenance of accounts, etc. Cases of misappropriation/embezzlement were also reported to audit.

After a slow start in 2006, registration of households improved to 50.41 *per cent* during 2006-07 in the State. Despite this, out of the total number of 11.58 lakh households registered, only 6.84 lakh households demanded and were provided with work. Though the State Government claimed that all households that demanded work were provided with work, this could not be vouchsafed in audit in the absence of applications containing details of dates and period for which work was demanded. Further, the percentage of households provided with 100 days of employment ranged between 0.06 to 0.29 *per cent* of the registered households who demanded employment in the test checked districts. The average mandays per household provided with less than 100 days work ranged from 19 to 31 in the test checked districts. Cases of delay in issue of job cards were also noticed in audit. The State Government stated that unemployment allowance was not paid in the State due to allotment of work as per demand. However, it was noticed in audit that 227 registered households in Villupuram District were not provided with either employment or unemployment allowance. Instances of delay in payment of wages and non-payment of minimum wages were also noticed. Maintenance of records/registers were poor in the test checked districts. Monitoring mechanism was not in place.

### **5.1.16 Recommendations**

- The Five Year Perspective Plan should be finalised immediately and future annual plans should flow from this perspective plan.
- Registration should be improved and effective steps taken for formulating the annual plans in such a way that all the registered households are provided with work for 100 days per annum.
- Immediate steps should be taken to record the data about the date of application and the period for which the employment sought and all the other required details in the registers maintained in the Village Panchayats.
- Rules for carrying out the Central Act in the State should be immediately framed and notified for effective implementation of the Act.
- Government could provide assistance to the applicants through departmental staff to fill up all columns at the time of submission of applications.

The above points were referred to Government in January 2008; reply had not been received (April 2008).

## **5.2 Utilisation of General Fund by selected panchayat unions**

### **5.2.1 Introduction**

General Fund is an account through which all the transaction of panchayat unions (PU) are carried out. It comprises non-tax revenue, assigned revenue, grants received with reference to State/Central Finance Commission recommendations etc. It also comprises of other panchayat unions receipts such as interest on loans and securities, interest on arrears of revenue, unclaimed deposits, income from sale proceeds of buildings and other property owned by panchayat unions and all other moneys received by panchayat unions council, etc. In short the General Fund accommodates all receipts of the panchayat unions except receipt in respect of Education Fund, Nutritious meal fund, specific scheme accounts, village panchayat consolidated fund account and NABARD (10 percent panchayat unions share) account. The General Fund can be applied for purposes expressly declared obligatory or discretionary by the Tamil Nadu Panchayats Act, 1994 (Act) including payment of any amount falling due on any loans contracted by it, salaries, allowances, pension and pension contribution of its officers. Surplus available in General Fund can also be used for works relating to water supply, school building, road works and minor irrigation tanks. The General Fund is kept in Local Fund Deposits (LF-I) with the Treasury and earns interest of 4.5 *per cent* per annum.

### **5.2.2 Organisational set up**

Panchayat unions comprises the Council with elected representatives (ward members), the Chairman (elected by ward members), and two Block Development Officers (BDO), one for block panchayat and the other in charge of village panchayats (VP) and schemes. The former is the Commissioner of the panchayat unions. Union Engineer assisted by Overseers is responsible for technical matters relating to execution of works.

### **5.2.3 Audit methodology and coverage**

Utilisation of General Fund in selected panchayat unions was reviewed in six districts<sup>1</sup> selected through stratified random sampling method. The activities during the period 2002-07 were studied in the office of the Director of Rural Development and Panchayat Raj (DRDPR), offices of the Assistant Directors (Panchayats) in the selected districts and 40 selected panchayat unions (**Appendix 5.3**). Important points noticed during test check are discussed in the succeeding paragraphs.

### **5.2.4 Utilisation of General Fund**

The receipt and expenditure accounted for under General Fund in the test checked panchayat unions during 2002-07 were as below:

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<sup>1</sup> Krishnagiri, Salem, Theni, Tirunelveli, Tiruvarur and Virudhunagar.



(Rupees in crore)

Year	Receipts	Expenditure
2002-03	3,777	3,318
2003-04	4,631	4,030
2004-05	5,458	5,351
2005-06	6,452	6,036
2006-07	7,508	6,595

#### 5.2.4.1 Preparation of annual budget

According to Section 192 (1) of the Act, the Commissioner of Panchayat Union should in each year frame and place before the Panchayat Union Council a budget showing the probable receipt and expenditure during the following year. Five<sup>2</sup> panchayat unions in Tiruvarur district did not prepare the budget during 2002-07. The above panchayat unions have, thus, failed to adhere to statutory provision.

#### 5.2.4.2 Diversion from General Fund

**The panchayat unions diverted General Fund temporarily for meeting the target for post office small savings, to other schemes and for expenditure on behalf of village panchayats during 2002-07.**

##### *Temporary diversion to achieve target for small savings*

District Collectors fix targets for panchayat unions for collection of small savings which should be achieved by mobilising money from the public. Instead, thirteen panchayat unions in Krishnagiri, Theni, Tirunelveli and Virudhunagar districts (**Appendix 5.4**) had temporarily diverted Rs 3.17 crore from their General Fund to post office savings bank account as per the instruction of the District Collectors during the period from February 2002 to March 2005 and recouped the same after a lapse of one to 38 months.

##### *Temporary diversion to other schemes*

Nineteen panchayat unions temporarily diverted Rs 1.71 crore during 2002-07 from General Fund to other schemes including for purchase of materials and retransferred the amounts after a lapse of three to 57 months. This had resulted in loss of interest of Rs. 8.31 lakh (**Appendix 5.5**).

##### *Diversion to meet the expenditure on pay and allowances of Fitter, Fitter Assistant and Electrician*

Government sanctioned (May 2000) one post each of Fitter, Fitter Assistant and Electrician to each panchayat unions for maintenance and repair of hand pumps, bore wells, etc. The Government also created (October 2000) a revolving fund with Rs. 1 lakh for each panchayat unions to meet the pay and allowances of these employees initially from the revolving fund. Service charges were to be recovered from the village panchayats for whom their services were utilised and credited to the revolving fund. Though the

<sup>2</sup> Koradachery, Nannilam, Needamangalam, Thiruthuraiipoondi and Tiruvarur.

panchayat unions utilised the services of these staff for maintenance and repair of hand pumps and power pumps of the village panchayats, they failed to recover service charges from the village panchayats. Thirty panchayat unions have utilised Rs 3.76 crore from General Fund to defray the expenditure towards pay and allowances of these employees from April 2002 to March 2007 (**Appendix 5.6**).

#### **5.2.4.3 Irregular expenditure**

**The panchayat unions irregularly charged Rs 66.36 lakh from the General Fund on unauthorised items.**

In the following instances the panchayat unions have charged certain items of expenditure to General Fund, though they were not to be met from General Fund:

##### ***Expenditure towards fuel and maintenance of vehicles used by BDO (VP)***

Government instructed (October 1998) that expenditure towards fuel and maintenance of vehicles used by BDO (VP) for monitoring and supervision of centrally sponsored schemes should be incurred from the administrative charges provided under each scheme. However, 17 panchayat unions charged Rs 63.18 lakh (**Appendix 5.7**) towards expenditure relating to fuel and maintenance of vehicles of BDOs (VP) to General Fund during the period 2002-07.

##### ***Payment of Electricity Tax***

Though Government exempted (June 2003) PRIs from payment of Electricity Tax, 28 panchayat unions paid Rs 1.71 lakh towards the tax between June 2003 and May 2007 (**Appendix 5.8**). The test checked panchayat unions stated that action would be taken to adjust the amount in future payment of electricity charges.

##### ***Contribution for Total Sanitation Campaign***

For construction of school toilets and anganwadi toilets under Total Sanitation Campaign, 10 *per cent* of the cost was to be recovered from Parent Teacher Association for schools and from village panchayats for anganwadis. However, three panchayat unions (Theni District: two and Virudhunagar District: one) paid contribution of Rs 0.58 lakh from their General Fund between December 2002 and March 2003 towards construction of toilets in schools and anganwadis (**Appendix 5.9**).

##### ***Expenditure on payment of penalty***

According to Section 26 of Tamil Nadu General Sales Tax (TNGST) Act, 1959, Sales Tax collected from contractors/dealers should be remitted into Government account within 30 days of collection. Otherwise, penalty is leviable under Section 24(3) of the TNGST Act, 1959. It was noticed from the records of Periyakulam Panchayat Union that an amount of Rs 0.89 lakh was paid during March 2004 from the General Fund towards penalty for delay in remittance of Sales Tax collected from the contractors during the period from

1992-93 to 1996-97 to Government accounts. Thus the failure to remit the amount had resulted in an avoidable expenditure of Rs 0.89 lakh.

#### **5.2.4.4 Amount receivable not received**

**Unutilised portion of panchayat unions contribution in respect of road works taken up with assistance from NABARD was not transferred to General Fund resulting in loss of interest of Rs 3.28 lakh.**

According to guidelines for execution of works with the assistance from National Bank for Agriculture and Rural Development (NABARD) for the year 2000-2001, 10 *per cent* of the scheme cost was to be borne by panchayat unions and the remaining was to be a mix of grant and loan at 3:1.

In two<sup>3</sup> panchayat unions in Tiruvarur district, certain road works were cancelled (October 2002) - (i) for want of required width for road works and (ii) as certain works had already been executed by Highways and Rural Roads Department. The loan and grant portion was refunded to Government and panchayat unions portion of 10 *per cent* amounting to Rs 10.87 lakh along with interest of Rs 59,900 earned was kept with LF Account No. X (NABARD scheme works) and not remitted to the General Fund so far (July 2007).

Similarly in Kaveripattinam, Krishnagiri, Pettainayakanpalayam, Sankari and Talaivasal Panchayat Unions, Rs 4.97 lakh being the balance amount after completion of works was not remitted to General Fund.

As the above amounts were not transferred to General Fund there was a loss of interest amounting to Rs 3.28 lakh (June 2007) (**Appendix 5.10**).

#### **5.2.4.5 Reconciliation of figures**

As per reconciliation statement of Veerapandi Panchayat Union for the month of March 2007, 13 items of cash remittances of Rs 57,007 made into treasury between April 1996 and January 2003 were shown as pending reconciliation. This indicated that the panchayat unions had not taken effective steps to clear these items though they were pending for more than four years.

#### **5.2.5 Execution of works**

Deficiencies noticed in execution of works out of General Fund are discussed in the succeeding paragraphs.

##### **5.2.5.1 Execution of capital works without sanction of Director of Rural Development and Panchayat Raj Institutions**

As per the instructions (January 1996) of the Government, the panchayat unions can execute capital works in respect of drinking water supply, school buildings, improvement to panchayat unions roads and improvement and restoration of minor irrigation tanks. In respect of other capital works, permission of DRDPR should be obtained before execution. However, six panchayat unions executed other capital works such as construction of record

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<sup>3</sup> Nannilam and Tiruvarur.

room, computer room, etc., at a cost of Rs 60.83 lakh during the period 2002-07 without obtaining prior approval of DRDPR (**Appendix 5.11**).

#### **5.2.5.2      *Asset Register not maintained***

As per Government instructions (July 2001) all assets acquired/created out of the General Fund, were required to be entered in an Asset Register. Nannilam and Tiruvarur Panchayat Unions did not maintain the above register. As this register was not maintained there was a possibility that the loss of any asset on a later date may go unnoticed.

#### **5.2.5.3      *Non-maintenance of contractor's ledger***

According to codal provisions, the contractor's ledger should be maintained for accounting all transactions including issue of materials to the contractors. It was noticed that none of the 40 test checked panchayat unions maintained the contractor's ledger.

#### **5.2.6      *Conclusion***

There were temporary diversions from General Fund to other schemes resulting in loss of interest. Certain items of expenditure not to be charged to General Fund were incurred from that fund. Capital works which required prior sanction of DRDPR were taken up without approval.

#### **5.2.7      *Recommendations***

- Diversion of General Fund to other schemes and for achieving small saving target should be strictly avoided.
- Expenditure on items not chargeable to General Fund should not be incurred from General Fund.
- Capital works requiring prior sanction from head of the department should be taken up only after obtaining necessary approval.

The above points were referred to Government in September 2007; reply had not been received (April 2008).

## 5.3 Assigned Revenues to Panchayat Raj Institutions

### 5.3.1 Introduction

Assigned revenues include the class of taxes and levies traditionally collected by Government in related departments and assigned to panchayat raj institutions (PRIs) as per the existing norms.

The revenues assigned to PRIs at present along with the name of the department which collect and assign the revenues and the periodicity of assignment are discussed below:

#### Kinds of revenues assigned to PRIs.

(a) Entertainment Tax (ET) is collected by the Commercial Tax Department and assigned quarterly to the PRIs. With effect from 1 April 1997, 90 *per cent* of ET collected under Entertainment Tax Act, 1939 was directly assigned by the territorial Assistant Commissioners (AC) of Commercial Tax (CT) Department during the second month of the succeeding quarter as per the recommendation (May 2002) of the Second State Finance Commission (SSFC), approved (July 2002) by State Government.

(b) Surcharge on Stamp Duty (SSD) is collected by the Registration Department and assigned quarterly to the PRIs. Surcharge on Stamp Duty is levied under Tamil Nadu Panchayats Act, 1994 and ninety seven *per cent* of SSD so collected has to be assigned by the District Collectors to the connected village panchayats. The SSD of each quarter has to be assigned in the second month of the succeeding quarter as ordered (August 2002) by State Government based on the recommendation (May 2002) by SSFC.

(c) Similarly, the Local Cess/Local Cess Surcharge is collected by the Revenue Department under the Tamil Nadu Panchayats Act, 1994, along with the land revenue. State Government is empowered to levy one rupee as Local Cess on every rupee of land revenue. The Local Cess so collected will be assigned directly to the village panchayats concerned. Local Cess Surcharge is levied on a scale ranging from rupees five at the minimum and rupees ten at the maximum on every one rupee collected as land revenue. The Local Cess Surcharge, so collected will be assigned directly to the panchayat unions. As per the recommendation (May 2002) of SSFC, approved (August 2002) by State Government, 50 *per cent* of Local Cess and Local Cess Surcharge has to be adjusted every year in February and the balance in May.

(d) As per Rules 7, 8, 12 and 19 of Tamil Nadu Mines and Minerals Rules, 1959, the Seigniorage charges were collected by the Director of Geology and Mining Department and assigned in entirety to the related PRIs.

The assigned revenues are credited to the General Fund of the PRIs kept in treasuries as interest bearing Local Fund Deposits (LF-I).

Perusal of connected records revealed that the percentage of assigned revenues to total revenues ranged between 13 and 19 *per cent* for village panchayats and 1 and 4 *per cent* for panchayat unions during 2003-07. However, audit found that this resource base has been eroded by deficiencies like non/belated assignment, short assignment, incorrect assignment, etc., by the related departments as detailed in the succeeding paragraphs.

### 5.3.2 Audit Coverage

Records relating to assigned revenues to PRIs were test checked in the Directorate of Rural Development and Panchayat Raj Institutions besides covering the related records in three districts *viz.*, Coimbatore, Kancheepuram and Tiruvallur. The review was conducted to ascertain

- whether the entitled assigned revenues were correctly assigned as per the existing norms, and
- whether the revenues had reached the PRIs in time.

### 5.3.3 Revenue assigned to PRIs during 2002-07

The details of revenue assigned to the PRIs in the State as a whole during 2002-07 are given below:

(Rupees in crore)

	Year	ET	SSD	Local cess	Local Cess Surcharge	Seigniorage Fees	Other assigned revenues <sup>1</sup>	Total
<b>Village Panchayats</b>	2002-03	(NA)	(NA)	(NA)	Not Due	(NA)	(NA)	(NA)
	2003-04	2.99	143.72	3.21	-do-	18.14	17.52	185.58
	2004-05	3.18	104.74	2.31	-do-	26.30	12.50	149.03
	2005-06	1.74	144.77	2.15	-do-	27.08	23.03	198.77
	2006-07	0.94	148.36	3.30	-do-	25.27	31.56	209.43
<b>Panchayat Unions</b>	2002-03	(NA)	Not due	Not Due	(NA)	(NA)	-	(NA)
	2003-04	2.07	-do-	-do-	18.39	8.97	-	29.43
	2004-05	1.21	-do-	-do-	2.02	1.57	-	4.80
	2005-06	0.99	-do-	-do-	6.41	1.35	-	8.75
	2006-07	0.84	-do-	-do-	15.63	2.01	-	18.48

NA: Not Available

The above table indicated that ET assigned to village panchayats and panchayat unions showed a declining trend. This was because Government had changed the collection of ET from a compounding pattern to collection on

<sup>1</sup> Includes 2C tree patta fees, cable TV fees and lease amount from mines and minerals.

gross admission with effect from October 2004, which had resulted in substantial fall in income from ET in subsequent years. The rate of SSD on the transfer of property was reduced from five to two *per cent* with effect from November 2003, resulting in decline in revenue assigned towards SSD during 2004-05. However, the decline was marginal in subsequent years due to increased transactions on transfer of property. No specific reasons were furnished for the decline in Local Cess Surcharge during 2004-06 and for Seigniorage Fees to panchayat unions during 2004-07. The increase in other assigned revenues to village panchayats was mainly due to increased collection of lease amount from mines and minerals during 2005-07 and cable TV fees during 2006-07.

### 5.3.4 Major Audit findings

#### 5.3.4.1 Seigniorage charges

##### (a) Pending assignment

Seigniorage charges collected during 2002-07 in Kancheepuram District was not fully assigned.

Seigniorage charges collected during 2000-05 in the State was not apportioned in full.

Sl.No.	Name of the District	Year	Amount pending assignment (Rupees in crore)	Remarks
1	Kancheepuram	2002-07	1.52	Perusal of records of Assistant Director (AD) of Mines and Minerals, Kancheepuram revealed that out of Rs 27.45 crore collected during 2002-07, only Rs 25.93 crore was assigned to the PRIs in the district. The remaining amount of Rs 1.52 crore, being the Seigniorage charges pending assignment on account of sale of sand to Executive Engineer, Tamil Nadu Slum Clearance Board, Chennai-17 and Divisional Engineer (H), Tamil Nadu Road Sector Project in Kancheepuram district. The AD, Mines and Minerals stated (October 2007) that the amount would be assigned after identification of the related PRIs.
2	All districts in the State	2000-05	46.92	The Third State Finance Commission (TSFC) mentioned (September 2006) in its report that out of Rs 226.80 crore payable to PRIs during the period 2000-05, only Rs 179.88 crore was paid and the remaining amount was not apportioned. Of the remaining Rs 46.92 crore, being the Seigniorage Fees collected for removal of minor minerals commonly used like jelly, gravel and earth, pending apportionment, Rs 17.90 crore related to litigation. Government in their Action Taken Report (May 2007) accepted that the pending amount except those covered by litigation would be adjusted.

(b) *Delayed assignment*

(Rupees in lakh)

Delayed assignment of Seigniorage charges.

Sl. No.	Name of the District	Year	Amount collected and assigned belatedly	Period of delay in assignment	Loss of interest (worked out at 4.5 per cent)	Remarks
1	Tiruvallur	2002-07	1,297.63	3 to 15 months	31.47	Assistant Director (Geology and Mining), Tiruvallur stated (November 2007) that necessary reply would be sent after perusal of the concerned records.
2	Coimbatore	2003-04	8.87	24 months	0.80	-

The belated assignment besides depriving the PRIs of interest accruable on such funds, also led to non-availability of funds for development works.

5.3.4.2 *Local Cess Surcharge*

(a) *Non-adoption of enhanced rate of Local Cess Surcharge*

With a view to increase the assigned revenue to panchayat unions, the SSFC recommended (May 2002) that the rate of Local Cess Surcharge be enhanced from the existing Rs 5 to Rs 7 along with increase from the existing rate of Rupee one to Rs 2 for Local Cess also. State Government also accepted this revision and passed orders (August 2002). Perusal of records in three districts viz., Coimbatore, Kancheepuram and Tiruvallur revealed that the increased rate was not adopted for calculating the Local Cess Surcharge by the Assistant Director (Panchayats). The department replied (October 2007) that the revised rate was not adopted for want of necessary amendments under Sections 167 and 168 of the Tamil Nadu Panchayats Act, 1994 for both Local Cess and Local Cess Surcharge and the proposal for amendment of the Act was pending with Government.

Thus despite Government having approved the recommendation of SSFC in this regard as early as in August 2002, no follow up action was taken by the Rural Development and Panchayat Raj Department to give effect to the recommendation by approving the proposal for the amendment suggested by DRDPR.

Audit also observed that the TSFC recommended that (i) ceiling on Local Cess may be enhanced from Rupee one to Rs 3 with a minimum of Rs 2 by amending Section 167 of Tamil Nadu Panchayats Act, 1994 and (ii) minimum Local Cess Surcharge may be enhanced from Rs 5 to Rs 10 and further enhancement of Local Cess Surcharge may be left to the panchayat unions by suitably amending Section 168 of Tamil Nadu Panchayats Act, 1994. But the State Government had not accepted (May 2007) both these recommendations and stated in their Action Taken Report that except social forestry receipts and minor minerals, assigned revenue such as Local Cess/Local Cess Surcharge on land revenue, SSD and ET should be pooled at the State level and apportioned



among village panchayats and panchayat unions on the same lines of SFC devolution.

Test check revealed that in the three sample districts the non-collection of Local Cess Surcharge due to non adoption of revised rate of surcharge worked out to Rs 2.91 crore during the period 2002-06 as shown below:

(Rupees in lakh)

Name of the District	Local Cess Surcharge collected (at the rate of Rs 5)	Local Cess Surcharge collectable (at the rate of Rs 7)	Short realisation
Coimbatore	395.10	553.14	158.04
Kancheepuram	276.39	386.95	110.56
Tiruvallur	55.87	78.21	22.34
<b>Total</b>	<b>727.36</b>	<b>1,018.30</b>	<b>290.94</b>

The Commissioner of Revenue Administration had instructed (November 2004) the District Collectors of Dindigul and Ramanathapuram not to give effect to the enhancement till the Act was amended for this purpose.

#### 5.3.4.3 Entertainment Tax

##### (a) Wrong assignment of tax to a different entity

ET assigned to a wrong entity.

Instead of assigning Rs 25.22 lakh, being the ET collected from a theatre (Mayajal Theatre) for the period from April 2002 to December 2002 to Kanathur Reddikuppam Village Panchayat under which the theatre was functioning, the tax was incorrectly assigned to Tirupporur Town Panchayat. The Assistant Commissioner (CT), Kancheepuram stated (October 2007) that since the ET assignment for the referred period was already encashed, revised ET assignment proceedings could not be made and further instructions in this regard were called for (October 2007) from the Deputy Commissioner (CT), Chennai (South) Division.

##### (b) Non-adjustment

The ET of Rs 0.71 lakh due for the period ended 31 March 2006, 30 June 2006 and 30 September 2006, to Kadambattur Panchayat Union in Tiruvallur District has not yet been adjusted by the Commissioner of the Panchayat Union, though the AC(CT), Kancheepuram had issued necessary orders. The Assistant Director (Panchayats), Tiruvallur stated (November 2007) that action will be taken to instruct the Commissioner to obtain revalidation orders from AC(CT), Kancheepuram.

#### 5.3.5 Delayed release of assigned revenues

Delay in release of various assigned revenues to PRIs.

Despite the SSFC/State Government having stipulated specific time of adjustment of the assigned revenues to the concerned PRIs, test check revealed

that the connected departments delayed the adjustment as shown below in the sample districts.

Sl. No.	Name of the assigned revenue	Sample District	Period to which the assigned revenue related to	Period of delay in release of assigned revenue
1.	Surcharge on Stamp Duty	Coimbatore	2002-07	1 to 4 months
		Kancheepuram	2002-07	5 to 16 months
		Tiruvallur	2002-07	3 to 11 months
2.	Entertainment Tax	Coimbatore	2002-07	2 to 7 months
		Kancheepuram	2002-07	2 to 6 months
		Tiruvallur	2002-07	1 to 10 months
3.	Local Cess and Local Cess Surcharge	Coimbatore	2002-07	10 to 22 months
		Kancheepuram	2002-07	12 to 36 months
		Tiruvallur	2004-05	25 months

The Local Cess Surcharge for the year 2006-07 was not yet assigned in these three sample districts (November 2007). Though the delayed release was attributed (October 2007) by the Assistant Director (Panchayats), Kancheepuram to administrative reasons, the continuous delay in release of assigned revenues during all the years, in violation of Government orders revealed that the system needs to be improved immediately since delays postponed the receipt of revenues of the PRIs and affect their functioning in general and postponement of development work to be undertaken by them.

### 5.3.6 Monitoring

#### 5.3.6.1 Poor monitoring of the adjustment of Local Cess Surcharge

(a) The SSFC recommended that the assignment and release of Local Cess and Local Cess Surcharge needs to be monitored by constituting monitoring committees both at State and District levels. Government also passed orders (May 2006) accepting the recommendation. Further, the Government ordered that at district level, the District Collectors should review the collection of land revenue and ensure the proper assignment of Local Cess and Local Cess Surcharge to the PRIs. The TSFC also reiterated this point (September 2006) and recommended that

(i) there should be a half yearly meeting at district level to sort out the issues relating to adjustment of dues in time and

(ii) there should be an annual meeting of Commissioner of Revenue Administration in October every year to review the adjustment of Local Cess and Local Cess Surcharge.

However, Government in their Action Taken Note (May 2007) had not accepted the above recommendation regarding conduct of review meetings at district and State levels as the issue would not arise in view of proposed

pooling at the State level and apportioning of this assigned revenue in respect of PRIs.

**State level monitoring committee not formed.**

(b) Test check of records revealed that no such monitoring committee at State level was formed so far (October 2007). In the three sample districts of Coimbatore, Kancheepuram and Tiruvallur, District Monitoring Committees were formed in April 2007, July 2006 and July 2006 respectively. Though one meeting was conducted by Tiruvallur District Committee in June 2007, the committees of the remaining two districts are yet to meet clearly indicating that the envisaged monitoring mechanism in this regard is yet to commence. This resulted in belated adjustment of assigned revenues lying unmonitored as evident from para 5.3.5.

### **5.3.7 Observations of Third State Finance Commission**

#### **5.3.7.1 Observations on Local Cess Surcharge**

(a) The TSFC had requested (February 2006) the Secretary to Rural Development and Panchayat Raj Department

- to issue necessary instructions to all the District Collectors explaining the provision under Section 168 of Tamil Nadu Panchayats Act, 1994 for the revision of Local Cess Surcharge within the maximum ceiling of Rs 10 by adopting necessary resolutions in the Panchayat Union councils and publish the revised rate in the District Gazette and
- to give necessary instructions to all the Assistant Directors (Panchayats) through the District Collectors to closely monitor the adjustment of all assigned revenues including Local Cess and Local Cess Surcharge in time.

However the Assistant Directors (Panchayats) of two sample districts Kancheepuram and Coimbatore reported (October 2007) to Audit that no such resolutions were passed by the Panchayat Union councils in their districts.

#### **(b) Variation in Local Cess Surcharge figures of Revenue Department and District Collectors**

**Variation in the figures furnished for Local Cess Surcharge by the Revenue Administration Department and District Collectors.**

The TSFC had mentioned in their report (September 2006) that the amount adjusted towards Local Cess Surcharge was far less than the entitled amount and the figures furnished by the Commissioner of Revenue Administration (CRA) and the District Collectors showed wide variation, as mentioned below for the two faslis<sup>2</sup> 1410 (2000-01) and 1411 (2001-02).

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<sup>2</sup> Fasli year commences from 1 July of each calendar year and ends on 30 June of the next calendar year.

(Rupees in crore)

Sl. No.	Year	Local Cess Surcharge	
		Adjusted as per CRA	Adjusted as per District Collectors
1.	Fasli 1410 (2000-01)	31.05	29.96
2.	Fasli 1411 (2001-02)	30.56	27.76

The Government/Department is yet to reconcile these figures and to take action for arriving at the correct amount to be assigned towards Local Cess Surcharge. The TSFC also stated that the formula outlined in Government order issued in June 1982 should be adopted without fail to avoid under adjustment.

**Revenue loss to PRIs due to remission of land revenue.**

The TSFC further reported that during the next three faslis<sup>3</sup>, the PRIs suffered revenue loss towards Local Cess Surcharge to the tune of Rs 57.40 crore due to remission of land revenue by Government on account of the prevailing drought situation in the State. The recommendation of SSFC that such Local Cess Surcharge remission in the period of calamity be compensated was not adhered to by Government. The TSFC again recommended that such remission should atleast be partially compensated to avoid loss of income to PRIs. However, Government had not accepted this recommendation stating that in a year of drought/flood, the distress to the farmers should be shared both by Government and PRIs.

The TSFC had also mentioned in their report (September 2006) that there had been inordinate delay in adjustment of Local Cess/Local Cess Surcharge, despite the fact that revenue wing and panchayat development wing were functioning under the direct control of the District Collectors. Such delay eroded the resource base of the village panchayats and panchayat unions. This clearly indicates the absence of proper monitoring.

**5.3.7.2 Decline in assigned Entertainment Tax revenue due to Government policy**

The TSFC in their report (September 2006) recommended that the PRIs should be consulted whenever any reduction in ET rate is contemplated and the loss in income should be compensated till the end of the award period of the Commission. The Government stated that though the question of consulting PRIs before making any reduction in ET rates does not arise, it had

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Fasli 1412 (2002-03)	Rs 26.03 crore
Fasli 1413 (2003-04)	Rs 24.30 crore
Fasli 1414 (2004-05)	<u>Rs 7.07 crore</u> (Partial remission in 6 districts)
<b>Total</b>	<b>Rs 57.40 crore.</b>

agreed (May 2007) in their explanatory memorandum to compensate the loss. Further action taken in this regard is awaited (January 2008).

### **5.3.8 Conclusion**

A review of records relating to assigned revenues of PRIs revealed cases of partial assignment of Seigniorage charges, non-adoption of enhanced rate for collecting Local Cess Surcharge, wrong assignment of Entertainment Tax and non adjustment of assigned revenue towards Entertainment Tax thereby depriving the related PRIs of their legitimate share of revenue, which in turn eroded their resource base. Delayed assignment of all assigned revenues *viz.*, Seigniorage charges, Surcharge on Stamp Duties, Entertainment Tax and Local Cess and Local Cess Surcharge resulted in loss of interest that would have accrued on such revenues had it been given in time and deposited in the General Funds of the concerned PRIs. Such deficiencies remained uncorrected despite formation of District Monitoring Committees as there were no representatives from the Panchayat Raj Institutions in the committees for putting forth their views. Despite Government's acceptance of recommendation of the Second State Finance Commission for the formation of a State Level Monitoring Committee in May 2006 itself, no such committee was constituted to advise the district committees and to take remedial action.

### **5.3.9 Recommendations**

- Government should issue instructions to all the related departments to assign the legitimate revenues to the PRIs in time.
- All the pending and unassigned revenues as of date should be assigned to the PRIs without any further delay.
- State Level Monitoring Committee should be immediately formed and function effectively for monitoring the prompt assignment of Local Cess Surcharge.
- Inclusion of some representatives of PRIs, the recipients of this assigned revenue, in the district committees would lead to meaningful monitoring.

The above points were referred to Government in December 2007; reply had not been received (April 2008).